

7th January 2026

Water PR24 Redetermination Panel,
The Competition and Markets Authority,
The Cabot,
25 Cabot Square,
London,
E14 4QZ

By e-mail: waterpr24references@cma.gov.uk

Dear Panel,

RE: Water PR24 references – Base Cost Modelling Working Paper

I am writing on behalf of Pennon Group, the FTSE 250-listed environmental infrastructure group focused on the UK water sector, to provide a third-party response to the Competition and Markets Authority's (CMA) Base Cost Modelling Working Paper.

Pennon Group serves around 4.3 million people across the South West of England and the South East through South West Water, Bristol Water, Bournemouth Water and SES Water, supported by our c.4,000 colleagues. We are also active in the Water Business market through Pennon Water Services, SES Business Services, and a minority shareholding in the retailer Water 2 Business.

We welcome the opportunity to provide observations on the CMA's updated approach to determining base costs. We recognise that the CMA are reviewing base models for the specific purpose of redeterminations, rather than seeking to recalibrate base allowances for the water sector as a whole.

In the Base Cost Modelling Working Paper, the CMA has updated its econometric approach to determining base cost allowances, designed to identify the economic and engineering cost drivers that most accurately predict routine year-on-year costs incurred in the normal running of the business. If applied across the sector, this approach would generally imply a reduction of around 7% in base allowances relative to Ofwat's PR24 Final Determination, and around 2% reduction to the CMA's October Provisional Redetermination.

We agree that the CMA should consider company specific adjustments to the defined set of base models, and the consultation sets out a clear and logical framework for doing so. In our view, such adjustments should be limited to genuinely unique circumstances, or to cases where excluding a variable that applies widely, materially improves the performance of the model as a whole.

The treatment of coastal population in section 5.12 of the consultation provides a good illustration. Depending on the final model specification, we would expect this factor to have an impact on wastewater allowances for South West Water. We agreed with Ofwat's approach to this issue at PR24, including the treatment of coastal claims and the associated cost adjustment decisions.

Taking a step back, and considering base allowances in the round, we believe it is a valid question whether lower allowances than those set by Ofwat at PR24 are in customers' long-term interests. This is an issue the CMA may wish to explore further with Ofwat and other stakeholders. While lower base allowances may be offset by other factors in individual determinations, it is important that both the level of allowances and the choice of models properly reflect the wider context, including stakeholder concern about whether the water sector is sufficiently funded to sustain base operations, asset health and maintenance.

As set out in our response to the CMA's Provisional Redetermination, any approach to determining base cost allowances must ensure sufficient baseline funding to operate, maintain, and replace assets, particularly in light of the cost and service pressures experienced across the sector in recent years. Ofwat's PR24 base models have been extensively tested, both statistically and in terms of their engineering and operational logic, and we consider that they continue to represent a robust and useful reference point.

We hope these comments are helpful as the CMA finalises its redeterminations.

Yours faithfully,

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Sarah Heald

Chief Strategy, Regulatory Affairs & Investor Relations Officer

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