



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's 2025-30 Draft Price Determination for Affinity Water

28 August 2024

1. Introduction

The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's Draft Determination for Affinity Water.

2. Executive Summary

Overall view

Affinity Water has an ambitious Draft Determination that will help protect the environment, improve the resilience of water resources (by working with other companies to transfer water to its area) and improve customer services. It is also positive to see that the company will continue to improve its provision to support customers who need additional support. However, Affinity Water has not committed to eradicating water poverty in line with Water UK's public commitment¹.

We are assured that due to Ofwat's efficiency challenges customers will not pay more than is necessary for the service they receive and are not charged twice for work which should have already been delivered.

We recognise that in order to improve service performance for customers and the environment, the draft determination has to balance delivering for customers and the environment efficiently whilst securing the capital investment that is required to make this happen.

If bills are to increase, it is vital that the outcome sees Affinity Water deliver the commitments in its price determination and demonstrates to customers what they are getting that is tangibly better than now in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys², and Ofwat's recent research³ has found that only 38% trust their water company to provide them with good value for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment⁴.

¹ [Water industry reaffirms pledge to work in the public interest \(Water UK, 2019\)](#)

² [Water Matters 2024 - CCW](#) shows significant shifts across nearly every metric that we use to measure people's views. In many cases, these were the lowest scores recorded in the thirteen years of Water Matters.

³ [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

⁴ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

The outputs of PR24 must be a strong lever for Affinity Water to address these worrying trends. We want all companies to demonstrate a culture of transparency and regularly update customers on their progress against this in order to improve customer satisfaction and trust.

We are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions. Although the overview documents are an improvement on previous years, they should be improved further so that customers can see the targets companies should meet each year compared to current performance, and the expenditure they have been allowed to deliver these improvements.

CCW recognises that Ofwat grades water companies' business plans to incentivise them to deliver strong evidence and propose efficient costs. CCW believes companies already have enough incentives through actual delivery of their plans. We want to see business plans assessed so that companies are penalised for poorly evidenced plans rather than rewarded for the basic company responsibility to write a decent business plan. Although Ofwat has measures to claw back money if plans are not delivered, CCW does not believe there should be a financial reward taken out of bill payers' pockets for merely writing a robust business plan.

What we support and why

- Bill increases are lower at £203 (-£25) compared to the bills presented at business plan stage (£217, average water-only bill)⁵, which we support. This is due to a challenge on Affinity Water's costs and the speed at which revenue will be collected from customers. We are also supportive of the bill profile, as the increases will be phased over the five-year period.
- The proposed plans to increase the provision of social tariff support from 6% of households to 9%.⁶ This is positive, as it will result in an increase of customers on social tariffs to around 149,000 by 2030⁷.
- The demand reduction targets that support the delivery of the statutory targets set in the Environment Improvement Plan. The company also has good or above average ambition (according to CCW's analysis) which is key in an area of serious water stress.

⁵ Page 8: [AFW01.pdf \(affinitywater.co.uk\)](#) (page 8)

⁶ Page 12: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁷ Page 57: [AFW01.pdf \(affinitywater.co.uk\)](#)

- We support the company's bespoke performance commitment (average time properties experience low pressure), which has been supported by customers.
- We welcome Ofwat's challenge for the company to maintain the number of contacts it receives about drinking water quality.
- We support the level of investment in water resources to help increase the company's resilience by working with neighbouring companies and one further afield. Improving the resilience of water resources is supported by the company's customers.
- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
- Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much up front.
- The reduction of notional gearing to 55%⁸ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁹, as it allows for greater transparency and governance in the company's financial structure.
- The introduction of BR-MeX to incentive better customer service for business customers.
- The use of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.
- The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.

What we have concerns with and want to see in the Final Determination

⁸ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

⁹ In the same way that FTSE index companies have listed equity

- Affinity Water is one of the six companies that has been requested to provide Board assurance and supporting evidence that they will maintain adequate levels of financial resilience in the context of Draft Determinations and beyond. We would like to see how the company has updated the assessment of financial resilience in this context.
- The Draft Determination is unclear on the consequence of not lifting all customers out of water poverty by 2030. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that Affinity Water (and the industry) aims to meet the Water UK commitment to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty¹⁰.
- Bill rises will increase the number of customers struggling to pay. Whilst the Business Plan and the Draft Determination allow for an increase in financial support, we would like Ofwat to push the company to invest profits into supporting the social tariff, not just make shareholder contributions to the hardship fund.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints. We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.
- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high-risk gearing.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.
- Proposed enhanced Outcome Delivery Incentive (ODI) rates, which could see customers paying more for areas of service they may view as a company's basic responsibility.

¹⁰ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

2. Our detailed comments

Customer acceptability and affordability

CCW will undertake research to test the package of bill changes, service improvements and investments in the Draft Determination for customer acceptability and affordability.

We will be using surveys to test the Draft Determination with a sample of around 500 Affinity Water household customers, and will conduct in-depth interviews with a small sample of non-household customers.

The household customer surveys will follow the same CCW and Ofwat guidance companies used for testing their business plans with household customers. This will ensure there is consistency and comparability in the results from the business plan testing.

Our research will provide a definitive measure of customers' views of the Draft Determination.

While the results are not available in time for this response (as discussed and agreed with Ofwat), when Affinity tested its business plan in 2023 it revealed only 17% of household customers found the plan affordable, while 72% found the package of improvements acceptable¹¹.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Affinity need to achieve (and at a lower price) are more acceptable and affordable for customers.

We will provide the results of the research to Ofwat in September 2024, as the results are not available in time for inclusion in this consultation response.

Bill profile

The Draft Determination proposes an increase of 6% on the average water bill over the 2025-30 period. This increases to 15% over 2025-30 when forecast inflation is taken into account¹².

This is substantially lower than the 13% (before inflation) increase proposed by Affinity in its revised Business Plan from spring 2024¹³.

¹¹ Page 2: [Microsoft Word - Affinity Water Acceptability & Affordability Testing Quantitative Fieldwork Final Report V1`](#)

¹² Based on Office of Budget Responsibility economic forecast March 2024

¹³ [Key facts and data from water company plans - Ofwat](#)

We welcome Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.

Bills will also be lower than originally proposed in the business plan due to Ofwat's challenge on the speed that revenue will be collected from customers.

The proposed bill increases are phased over the five-year period. This suggests that Ofwat took into consideration CCW's assessment of the company's Business Plan, where we called for a smoother bill profile.

Affordability support

We are disappointed to note that Ofwat has not challenged the company on the fact that it does not expect to have eradicated water poverty by 2030. All companies in England are signed up to a public interest commitment to achieve that by 2030.

Despite this Ofwat has simply noted the company's plans on affordability despite the fact that under your Draft Determinations these are likely to leave customers in the region in water poverty at 2030.

We believe companies should make direct contributions to funding their social tariff. In this context we welcome the company's shareholders contribution of £0.3m to hardship funds and £1.49m matching payments made by customers repaying debts¹⁴.

While we support the increase in assistance for customers who need it, Affinity Water should continue to monitor water poverty levels and increase support further, using its own funds if necessary, if predictions on water poverty are accurate¹⁵.

In the Draft Determination Ofwat has highlighted levels of company funding for non-social tariff support. However we note that in doing so it has not distinguished between funding which is specifically committed from profits and that which is being funded as a choice within cost-to-serve allowances, and so paid for by customers. In the interests of transparency we would welcome Ofwat being clear about this in the final determination, and ensuring company commitments can be compared and tracked on a like-for-like basis.

We also would like to see Affinity step up and meet the Water UK public interest commitment that it has signed up to, to eliminate water poverty by 2030, because even with the cost efficiency

¹⁴ Page 12: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹⁵ In its Business Plan, the company estimates that by 2030 there will still be c.1.2% customers in water poverty.(see page 57 of the main Business Plan document)

challenges and resulting lower bill increase proposed by Ofwat, many customers may still struggle to pay.

Customers in water poverty will continue to be an issue from 2025 onwards. The draft determination has set a lower bill profile than proposed by the company, but CCW will continue to challenge Affinity Water to ensure that its range of support measures address the potential level of water poverty and is flexible enough to adapt to changing economic factors over the price control period.

Costs and financing

Cost efficiency challenge

Ofwat reduced Affinity's proposed expenditure by £308m to £1.9bn¹⁶.

This is still higher than the £1.8bn allowance received at PR19 and includes £415m to be spent on new assets and service improvements to benefit the environment, resilience and customer services¹⁷.

As confirmed in the section above on bill profile, customers expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

Where investment delivers benefits in the long term, the recovery of these costs should also be spread over the long term. However, the 'pay as you go' (PAYG) rates in the Draft Determination are slightly higher than the proposed rates in the business plan¹⁸, and higher than the PR19 rate for the 'water network plus' price control¹⁹.

With around 27% of the allowed totex covering enhancement costs²⁰, we do not think that the right balance has been struck between short- and long-term cost recovery. Affinity Water has also been allowed to recover capitalised infrastructure renewal expenditure through PAYG. Their allowed RCV run-off rate is higher than the sector average, which appears to put a higher 'load' on cost recovery in the short term²¹.

¹⁶ Page 2: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹⁷ Page 5: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹⁸ Pay as you Go Figures: [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#)

¹⁹ Pay as you Go Figures: [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#)

²⁰ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (proportion of water enhancement costs when base and enhancement are added)

²¹ Page 30: Pay as you Go Figures: [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#)

We would like to see a clearer assurance in the final determination that the right balance has been struck to ensure current and future customers are paying a fair share while making sure the company's commitments are deliverable.

In its Business Plan, Affinity Water submitted two cost adjustment claims²² which were rejected by Ofwat because they failed the 'the need for adjustment' and the 'cost efficiency' assessment criteria. We support Ofwat's decision, given that most other companies face comparable financial pressures and did not ask for similar exceptions.

Affinity Water is one of the six companies that has been requested to provide Board assurance and supporting evidence that they will maintain adequate levels of financial resilience in the context of Draft Determinations and beyond. Ofwat is not requiring financial resilience plans, but the company will need to show how it has updated the assessment of financial resilience in the context of the Draft Determinations. CCW will monitor this closely, given the potential implications for customers.

Energy costs

We support Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher.

This protects customers from paying too much up front for what is a significant base cost driver (approx. 15% of base costs are for energy) in what is a volatile wholesale energy market. Ofwat's use of the Government index should also incentivise companies to achieve cost efficient deals from their suppliers.

Assumed Rate of Return and Weighted Average Cost of Capital

Ofwat has increased the allowed rate of return to 3.72% (compared to the 3.23% initial view in the final methodology). We recognise that with a high cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

The bill impact this can lead to is a concern for CCW given customer affordability pressures, but its effect has been mitigated by the totex efficiency challenges Ofwat has applied.

It is in this context that we support the reduction of notional gearing to 55% as higher leveraged capital structures have risks for customers.

²² Regional wages (£42m), to reflect the need for higher wages, and transience (£4m), because the company considered that higher population results in higher costs.

A lower notional gearing assumption increases the weight of the more expensive equity component in Ofwat's notional capital structure, while a higher cost of equity directly increases the cost associated with equity financing.

Together, these factors can lead to higher allowed returns and may appear to be giving some assistance to less financially resilient companies that may have a greater challenge in raising the required equity.

If customers are being asked to pay more to secure the financing needed, it is essential that companies deliver the improvements set out in the Draft Determinations and customers see tangible improvements in their local environment and the service they receive.

Ofwat must also provide assurance that the company can deliver efficiently and demonstrate to customers that they will see and experience improvements in return for paying higher costs to enable this investment.

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed²³.

For the Final Determinations Ofwat needs to consider both the need to attract finance to allow companies to deliver for customers and the environment, and safeguard against risk of high outperformance caused by unexpected changes to inflation, interest rates or other factors by ensuring customers receive a share of any possible windfalls in the future.

Supporting new equity issuance

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing²⁴, as it allows for greater transparency. This will be welcome as equity raised from private ownership structures can be opaque and complex. This is particularly a concern when dividends are paid.

We agree that non-listed companies should not be disincentivised from obtaining an equity listing because of the costs involved, and agree that in order to receive funding companies must

²³ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

²⁴ In the same way that FTSE index companies have listed equity

demonstrate that any costs associated with obtaining listed equity are efficient and ensure the delivery of customer supported investment.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations²⁵. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing²⁶, but Affinity still has gearing at over 70% which may carry financial risks²⁷.

The presence of the sharing mechanism coupled with the notional gearing of 55% may help discourage excessive gearing by reducing the financial incentives for companies to take on high levels of debt, and therefore adds to the range of options Ofwat has to protect financial resilience. Ofwat should reintroduce this mechanism, calibrated to account for changes in forecast inflation that were unforeseen when it was last set at PR19.

Customers should also benefit from the lower costs associated with high gearing, especially since they bear some of the risks if a highly geared company encounters financial difficulties.

Cost sharing rates

We accept Affinity's standard cost sharing rate of 50/50 for any future out- or underperformance, given the company's 'standard' categorisation in Ofwat's quality assessment of the business plan.

Customer influence

The company's Quality and Ambition assessment appendix suggests that Affinity Water met Ofwat's minimum expectations for customer engagement and how customers' views were used to inform the development of the plan. Outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the level of customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations.

²⁵ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

²⁶ Confirmed in separate correspondence from Ofwat to CCW.

²⁷ Page 16: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

In the main ‘*Delivering Outcomes for Customers and the Environment*’ document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

There is also a line in the ‘Your Water Your Say’ report that suggests that a larger suite of evidence has been considered:

“Evidence from ‘Your water, your say’ surveys forms part of the suite of evidence of customers’ and stakeholders’ views that we have considered for our Draft Determination.”

However, we cannot find the larger suite of evidence in the supporting published documents.

Given the scale of research and engagement that took place to inform the company’s business plan, including the work of the ICG in pushing the company to go further, summarising this effort in a few lines sends a signal that customers’ views have not been adequately considered by Ofwat.

This is particularly disappointing considering the requirements placed on companies in relation to transparency about the use, or otherwise, of evidence from customer engagement in its decision making. In its 2022 position paper “*PR24 and beyond: Customer engagement policy*” Ofwat stated in its section on board assurance of customer engagement under the Transparent heading that “*companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case.*”²⁸

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future investment. However, the lack of information about how Ofwat has considered this evidence could lead companies to question whether the extensive engagement they carried out was worthwhile.

Customer experience

C-MeX

We support the Customer Experience measure (C-MeX) to measure and incentivise improvements in customer satisfaction with both contacts and non-contacts through the use of surveys and cross-sector comparators. We support the increase in the financial value of this incentive for 2025-30, so it is comparable to other ODIs, and the greater weighting in the satisfaction of customers who have had reason to contact the company.

²⁸ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

Ofwat's move to set C-MeX targets based on the UKCSI all-sector upper quartile as a benchmark for a company's customer satisfaction should see every company incentivised to improve to a level comparative with customer satisfaction with other sectors.

However, the Draft Determinations lacks specific annual targets for companies, to show the level of stretch needed from current C-MeX targets to reach the UKCSI benchmark, so we would like Ofwat to confirm that it will consult CCW further on this.

We are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components.

Our annual complaints reports²⁹ show a continued increase in customer complaints in the last three years. High volumes of complaints are evidence of a poor experience by many customers and can be an indicator of more fundamental problems.

Measures of customer satisfaction alone may not adequately incentivise companies to resolve customer issues first time to prevent complaints and address the causes of complaints. As such, we want to see 25% of the value of C-MeX based on a measure of the volume of complaints a company receives.

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report³⁰. By the start of the 2025 period, we will have three years of complaints information, which includes telephone and other ways to contact. Written complaints data has, of course, been reported on for many years.

The Draft Determination also says that Ofwat has ongoing concerns about data quality across all PCs, and commits to greater scrutiny to ensure data is robust and can be trusted. We fail to see how complaints data quality represents a greater risk of data inconsistency than other data sources, and would like Ofwat to reconsider including a complaints volume metric in C-MeX. Otherwise this is a missed opportunity to address the trend of rising complaints to incentivise poor performing companies to improve, because complaints volumes can be seen as evidence of the wider decline in customers' trust with the sector.

²⁹ [Household customer complaints report 2023 - CCW](#)

³⁰ [Household customer complaints report 2023 - CCW](#)

Alternatively, Ofwat could consider a separate performance commitment on the volume of complaints. Ofwat could signal its intention to include this from 2026 onwards in the Final Determination, if it needs time to develop targets for each company.

Business customer experience

We support the introduction of BR-MeX to incentivise companies to deliver a better customer service experience for business customers. We are pleased to see the associated rewards and penalties align with the value of other ODIs.

The 50/50 balance between the retailer and business customer experience in England is appropriate as both elements should reflect how wholesale companies are directly and indirectly serving customers (via the retailer).

However, we note that an alternative model could be 50% customer experience, 25% retailer experience, and 25% retail market performance (MPF) metrics.

In this scenario, we agree it is appropriate for the customer experience element not to be diluted, and remain at 50%. With respect to the inclusion of the current MPF metrics, we agree that these have a clear customer impact given the importance of good quality asset data, and bilateral requests being responded to on time.

However, other MPF metrics outside of BR-MeX could be subject to change in terms of the performance levels and targets set. We believe Ofwat should apply the same flexibility to the metrics included in BR-MeX.

We support BR-MeX being a relative incentive for 2025-30 as it has little performance data. However, it may be appropriate to move towards an absolute target for future periods once there is more performance data available. Setting an absolute target may also be warranted if the current incentive has not proved stretching enough for wholesalers.

Operational incidents

The household and business customer experience measures for England and Wales no longer include a proposal to include a separate component for non-contact operational incidents due to concerns over how to define the scope of customers and survey them.

We recognise that this is a risk, but suggest that the proposed new common PC for serious supply interruptions may mitigate this. As well as measuring the volume and frequency of 12 hour+ incidents, we suggest that this should be an opportunity to survey customers' experiences as part of

this. In this way it will also be a measure of customers' experiences with the companies in the context of longer supply interruptions.

Statutory investment programme

Environment programme

Under the totex allowance it is unclear what costs are allowed for statutory and discretionary investment, and Ofwat has requested additional information from the company on a number of areas relating to its statutory commitments, which we agree with as allowed investment must be based on robust evidence:

- Water Industry National Environment Programme (WINEP): The company proposed a number of schemes to address abstraction issues to comply with Water Framework Directive returns in its business plan. There was not enough evidence that these schemes do not overlap base allowances or previously funded schemes. As a result, Ofwat will award £88m³¹ of the proposed £141m³². Ofwat has also challenged the company because there is limited information about how the WINEP aligns with the long-term delivery strategy.
- Drinking water quality: raw water deterioration – there are proposals for improvements at two water treatment sites. However, these overlap with base maintenance spend and there is not enough evidence in the Draft Determinations about cost efficiencies. Subsequently, we are unable to determine if the costs awarded are reasonable from the information given. Affinity Water will be awarded £69m³³ of the £93m proposed expenditure³⁴.

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Affinity's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver³⁵.

However it is important that there is clarity on what will be delivered and when. We support Ofwat's challenges to Affinity to provide the information needed and we expect to see a clear explanation of what will be delivered under the statutory drivers in the final determinations.

³¹ Page 7: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

³² <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsx> (water enhancement allowances)

³³ Page 2: [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

³⁴ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsx> (water enhancement allowances)

³⁵ Page 4: [PowerPoint Template \(affinitywater.co.uk\)](#)

Nature based solutions

Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term³⁶. Our recent research³⁷ on river quality also shows that people have become more concerned about supporting nature and no longer relying entirely on built solutions. Protecting and restoring biodiversity is a generally well supported concept, and a high priority for customers who see the wider benefits of working with nature.

It is important for companies to trial new approaches to identify and share successful new innovations that may be lower cost and more sustainable in the long term.

However, there is limited consideration of catchment and nature based solutions in this Draft Determination, and the appraisal of alternative options. We accept the reasons for Ofwat's challenge and expect that during the assessments, Ofwat has taken into consideration the potential impacts of the reduced allowances to the reliability of water supplies.

We would have liked to see Ofwat requiring companies to share good practice in delivering Nature Based Solutions, and we are disappointed that Affinity has comparatively fewer nature based solutions than other companies.

If the reason for this is due to evidence of risk in terms of costs and delivery, Ofwat's gated process for developing schemes should be considered as this reduces the risk of customers paying twice to solve the problem if an NBS scheme does not deliver the outcome it aims for.

Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and public health risks. The industry is going to be doing more to co-ordinate lead reduction trials in 2025-30 so they can share learnings on what has most success in terms of customer engagement and uptake of lead reduction schemes, particularly in properties and private supply pipes. This should be a good basis for making further significant progress in PR29.

The other allowances under the drinking water quality programme, while higher than the equivalent at PR19, appears to be a pragmatic approach to addressing risks and offers protection for customers through the use of the PCD mechanisms.

³⁶ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁷ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

We welcome the programme also seeking to address the causes of customer contacts about drinking water. This should be an area that directly improves the service so customers will hopefully see the improvement delivered.

Security and Emergency Measures (SEMD)

Water supply security is a primary statutory responsibility for companies. We support setting a common security (SEMD) non-delivery PCD to protect customers. Failure to deliver in this area is failing customers who expect their companies to deliver resilient services. The PCD covers both physical security and emergency planning, which are both key aspects of ensuring these essential services are resilient.

Customer protections

We support the combination of Performance Commitment penalties, Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay.

Discretionary investment programme

Discretionary investment is limited in this determination due to the higher priority given to statutory investment programmes.

In this context, Ofwat must ensure companies provide assurance that discretionary investment not included in this price settlement does not lead to risk to service delivery in the intervening period, and indicate what future bill impacts may be when companies have to 'catch up' at a later date. We also have a concern that deferred investment may be more urgent and costly when it comes time to deliver them.

Mains renewal

The Draft Determination allows Affinity's expenditure to increase the water main renewals rate from 0.14%³⁸ (at Business Plans) % to 0.30%³⁹ over 2025-30. Affinity's business plan shows that over the previous two investment periods, the company had the third highest rate of mains renewals of any water company in England and Wales, having renewed 5.5% of its network⁴⁰. Given this level of performance the company proposed a lower rate of 0.14% for 2025-30, and Ofwat has changed this to 0.30% in the draft determination.

³⁸ Page 74: [AFW01.pdf \(affinitywater.co.uk\)](#)

³⁹ Table 6 [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴⁰ Page 74: [AFW01.pdf \(affinitywater.co.uk\)](#)

We support this intervention as the benefit of mains renewal from reduced leakage and water supply interruptions provides benefits that align with customers' priorities.

We also support the customer protections Ofwat has applied to ensure costs are efficient, and the PCDs and other mechanisms in place to return money to customers in the event of failure or delay.

Net zero

Companies in England made a public commitment to achieve net zero carbon emissions by 2030⁴¹. As far as we can tell, this is not reflected in the Draft Determinations, but the net zero commitment is still in the public domain. If water companies are no longer pledging to achieve this, companies need to be clear with customers on what progress will be made to 2030, how this lines up with the Government's overarching goal to achieve Net Zero by 2050, when net zero (from operational emissions) will be achieved, and what the cost and bill impact implications will be of delivering this commitment.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement Affinity carried out to inform its business plan, so we support the £207 million allowed to invest in its water resources over 2025-30⁴².

This should help protect the region from drought, build new sources of water supply, and help customers save water, and aligns with the company's Water Resources Management Plan.

We support the proposed investment in supply interconnectors to help address risk to the supply-demand balance for customers. While the proposed costs are higher than the efficiency benchmark used by Ofwat, they are still lower costs than the business plan proposed. The company will receive 62% of what was requested (£42m against £69m)⁴³.

Water Resource Management Plan

Company research shows that customers place a priority on the security of their supplies, so we support the twin track approach in the WRMP of increasing and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage.

⁴¹ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

⁴² Table 20, WRMP allowances [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴³ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (water enhancement allowances)

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if demand reduction isn't delivering, supply schemes can be fast tracked and vice versa). This will be needed if companies' limited control over how their customers choose to use water (particularly during droughts and reference the huge peaks in demand during 2022) means there are limits on how far they can go with demand management.

Overall, we are satisfied with the level of investment (£207m⁴⁴) in water resources to help increase the company's resilience. This will enable new resource development and support customers to reduce their water use. The company is part of some interesting, yet challenging, programmes working with neighbouring water companies (and one further afield, requiring the use of the Grand Union Canal to transfer water into Affinity Water's supply area) to increase the resilience of its water resources. Improving the resilience of water resources received support from customers during the development of the business plan.

We support the added protection for customers through the use of Price Control Deliverables to incentivise delivery, which also avoids the risk of companies benefitting from external factors such as more favourable weather conditions etc. or other contributing risk factors changing.

Smart meters

The company appears to have the largest smart metering programme (including new meter installations and meter upgrades) of the water-only companies⁴⁵. This means that nearly 400,000 customers will have a smart meter by 2025, at a cost of £53m.

We wish to see further clarity about how this smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

While it is positive to see that Ofwat has provided minimum expectations about what companies should consider (i.e. optimal technologies, rather than low cost and reduced functionality), and the frequency for data to be collected, more detail is required to show how this will be rolled out in a way that benefits the areas more at risk of water scarcity first, as the Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered.

⁴⁴ Table 20 WRMP allowances [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴⁵ Table 25 Metering costs and number of meters to be delivered [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

We have called for universal smart metering for businesses to give customers better information and control over their usage. However, Ofwat appears to have set a single unit cost for metering to cover household and non-household. This seems likely to lead to companies avoiding large meters or those where installation is difficult as they would not be cost effective to tackle and would result in less money to deliver the rest of the programme.

There is an issue with long unread meters in the non-household retail market, often due to their inaccessible location. Replacing these meters could be costly but failing to do so, and choosing simpler installations instead, would fail to address a major issue for non-household customers.

Water Efficiency Fund

We fully support the establishment of the Water Efficiency Fund. CCW strongly believes that to deliver the step change in water efficiency necessary to help solve the supply demand balance over the next 25 years, we need a corresponding step change in effort in this area.

With climate change and population growth looming large we need new thinking, better and broader engagement with the public, as well as more research into what works and doesn't so we build a much better evidence base and share the learning.

We'd welcome further engagement with Ofwat to explore this further, as a follow up to its earlier consultations on the proposed fund.⁴⁶

Performance Commitments and Outcome Delivery Incentives

Performance Commitments (PCs) need to show evidence of significant improvements on current performance for a range of measures that matter to both customers and the environment.

It is positive to see that, considering the company is in an area of serious water stress, the demand reduction PCs are at a better-than-average level compared to other companies.

We welcome Ofwat's challenges to the company's PC targets to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan.

Affinity Water is being challenged to reduce interruptions to water supply which are inconvenient to customers. We support Ofwat's challenge, given that our [Water Mark 2023](#) report indicates that Affinity Water were among the worst performers for supply interruptions (hours/property served longer than 3 hours) among water-only companies, at 12:53 average minutes lost per customer. In

⁴⁶ [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#) and [Ofwat's consultation response on Scoping the Water Efficiency Fund: High Level - CCW](#)

this context, we welcome the new target of 5 minutes across 2025-30. It also aligns with the increased spend and targeted improvement on mains renewal.

Comparing the company's [performance commitments](#) between Business Plans and Draft determinations, we support more ambitious targets in the following areas⁴⁷:

- The compliance risk index
- Per capita consumption (PCC). The expectation is that the company achieves 124.1 litres/person/day by 2030⁴⁸, compared to 160.6 lpd in 2022-23 (the latest information available).
- Operational greenhouse gas (GHG) emissions for water (tonnes of CO₂e). The targets proposed for the company in this PC demonstrate high ambition.
- The average time properties experience low water pressure (bespoke commitment)

We support the addition of the bespoke PC surrounding average time properties experience low pressure - average time per property that pressure is below 15 m per year⁴⁹. This commitment was also supported by customers⁵⁰.

The other two bespoke commitments (abstraction incentive mechanism and the whole-life carbon reduction against the baseline) did not offer sufficient evidence of benefits to customers or the environment. The company's business plan showed that there was customer support for these two commitments, but we believe this must also be supported by sound technical evidence that the benefits will be achieved, which is currently lacking.

Serious Supply Interruptions

We support Ofwat's proposal for a new 2025-30 PC to track serious supply interruptions (of 12 hours or more). This should provide added transparency of company performance and an added incentive for companies to reduce lengthy supply interruptions which can have considerable impacts on businesses and households.

Leakage

Leakage reduction is a customer priority⁵¹. As such we welcome companies' efforts to continue to reduce it as it helps to improve the resilience of water resources, to protect the environment and also supports companies in reducing their GHG emissions from treating and pumping water.

⁴⁷ Shown in draft determination key dataset 1 (outcomes)

⁴⁸ Table 26: [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁴⁹ Page 5: [PR24 draft determinations: Affinity Water - Outcomes appendix section 5](#)

⁵⁰ [AFW01.pdf \(affinitywater.co.uk\)](#) page 157

⁵¹ Page 5: [Summary-of-research-on-customer-preferences-1.pdf](#)

The scale of investment to reduce leakage is higher at PR24 than it was at PR19, so there needs to be clear correlation between the allowance given and the level of ambition in the company's leakage reduction PC.

For Affinity we support the challenge to deliver a 15% reduction in leakage, compared to the target set for 2024-25.⁵²

Business demand

This is the first time there has been a PC on water wholesale companies to specifically reduce business water demand. It reflects the inclusion of business water demand in the Environment Act water demand reduction target.

We are pleased to see that separate targets have been set for businesses and welcome the introduction of measured collaborative working between retailers, wholesalers and other parties to achieve the reduction in business demand.

Affinity's PC targets an 11% reduction to 2029-30⁵³ which we support as it shows greater ambition than Defra expectation of an overall reduction in business usage of 9% by 2037.

Drinking Water Quality customer contacts

We also welcome Ofwat's challenge for the company to maintain the number of contacts it receives about drinking water quality⁵⁴. Although the reward/penalty associated with this target⁵⁵ (over £25 million) appears excessively high (it is the largest for any water only company). We would welcome clarity on the reasons for this decision.

We are aware that some companies have challenged the use of the Drinking Water Quality customer contact PC as they rely on customer contacts to alert them to drinking water taste, odour and appearance issues, which they otherwise may not know about. In this context, it may lead to companies discouraging customer contacts.

However, a high level of drinking water quality customer contacts can be viewed as evidence of the level of drinking water quality issues affecting customers (as customers are most likely to contact a company only if there is a problem), so we support this PC to give transparency and incentivise companies to address customer issues effectively.

⁵² Table 24: [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

⁵³ See key dataset 1 (outcomes)

⁵⁴ Page 11 [Overview-of-Affinity-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁵⁵ See key dataset 1 (outcomes)

Ofwat could develop a separate metric in this PC to track repeated contacts from the same customer and/or location, so there is greater distinction between overall contacts and those where the company has failed to respond effectively.

Outcome Delivery Incentives

Outcome Delivery Incentives (ODIs) should drive companies to improve in areas of service where they are currently comparatively poor and/or where robust evidence shows customers want to see improvement.

In this context we support:

- ODI rates that are proportionate to the size of the company's regulated capital value, so incentives are sufficiently strong to prevent failure but not disproportionate to the allowances needed to deliver customer supported investment.
- The top-down approach to setting rates which means the eight PCs that more directly affect customers⁵⁶ have a higher value, which we support.
- The removal of caps and collars for more established PCs, with an aggregate sharing mechanism in place to ensure any higher rewards for outperformance beyond PC targets are shared with customers. Established PCs have more historical performance data to inform target setting which means more confidence in the level of stretch and ambition set, so the protections from caps and collars are not needed to mitigate against uncertainty.
- The new reporting methodology Ofwat proposes, which will provide greater transparency, accuracy and assurance on how companies are performing.

We do not support the use of enhanced ODI rates for six PCs⁵⁷, to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customers will still be asked to pay more for areas of service they may view as a company's basic responsibility.

⁵⁶ Water supply interruptions, Customer contacts about water quality, Leakage, Per capita consumption, internal sewer flooding, External sewer flooding, total pollution incidents, Storm overflows – these PCs have ODI rates of +/- 0.6% of RoRE (compared to +/- 0.5% for 'standard' ODIs).

⁵⁷ Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

While this may encourage companies to go further and set the bar higher for others to follow, asking customers to pay more for an area of company performance that customers may regard as a basic responsibility by companies does not justify bigger rewards.

Long term context

Affinity Water produced a Long Term Delivery Strategy, in line with Ofwat's requirements for PR24. In this strategy, the company set out how the proposals for 2025-30 contribute towards achieving long-term goals for the company's customers and the environment.

Also, many of the PCs (for example PCC, leakage, and reductions in business water use), as well as plans to increase the number of smart meters and the proposals to work with other companies in the region to improve the resilience of its water resources are framed within the expectations set in the WRMP, which has a long-term vision.

However, we cannot find strong evidence of how Ofwat assessed the Long Term Delivery Strategy and how it was used to support the decisions to fund the company's proposals.

Enquiries

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