



The voice for water consumers  
Llais defnyddwyr dŵr

# **CCW's response to Ofwat's 2025-30 Draft Price Determination for Anglian 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 Anglian Water.

## 2. Executive Summary

### Overall view

Overall, we find the Draft Determinations to be a balanced approach to Anglian Water's Business Plan submission.

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 Anglian deliver the commitments in its price determination and demonstrates to customers what they are getting that is tangibly better in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys<sup>1</sup>, and Ofwat's recent research<sup>2</sup> 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 environment<sup>3</sup>. PR24 must be a strong driver for Anglian to address these worrying trends. We

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<sup>1</sup> [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.

<sup>2</sup> [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

<sup>3</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

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**

- 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. This is especially the case with mains replacement that should come out of day to day base costs.
- Shareholder contributions to help those struggling to pay, given Anglian Water's average charges will be the fourth highest in the industry<sup>4</sup>.
- The stretching targets for the reduction in greenhouse gases to support the drive to net zero and the challenge of climate change.
- The introduction of a PC for storm overflow monitor uptime to ensure environmental data is robust.

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<sup>4</sup> Page 17: [PR24-DD-sector-summary.pdf \(ofwat.gov.uk\)](#)

- The funding to complete the rollout of its smart metering programme to support demand reduction in this water-stressed region.
- 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%<sup>5</sup> as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing<sup>6</sup>, 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**

- The business water use reduction target is not as large as the company put forward in their Business Plan. Given the water-stressed status of the region, we want to see the company's targets accepted in the Final Determinations.
- The support that Anglian is offering its customers who are struggling to pay needs to go further to lift everyone out of water poverty and this has not been addressed in the Draft Determinations. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that Anglian 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 poverty<sup>7</sup>.

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<sup>5</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>6</sup> In the same way that FTSE index companies have listed equity

<sup>7</sup> [Water industry reaffirms pledge to work in the public interest | Water UK](#)

- Whilst we understand Ofwat’s decision on allowing greater cost allowances for nutrient removal, the company proposed delivering the same for less. We do not want customers to be paying more for something the company has said it can deliver for less.
- We want to see Ofwat accept the company’s business plan targets for water supply interruptions accepted in the Final Determinations. Whilst we understand Ofwat’s decision on allowing greater water supply outages targets than the company proposed in its business plan, a safe and reliable supply of water has consistently been customers’ number one ask<sup>8</sup>.
- 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.
- In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent harm to rivers and bathing water.
- 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.

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<sup>8</sup> [anh01-our-plan-2025-2030.pdf \(anglianwater.co.uk\)](#) page 58

### 3. Our detailed comments

#### **Customer acceptability and affordability**

CCW is delivering 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 Determination with a sample of around 500 of Anglian's 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.

Our research will provide a definitive measure of customers' views of the Draft Determination and how Ofwat's decisions have impacted customer views.

While the results are not available in time for this response, when Anglian tested its business plan in 2023, it revealed only 19% of customers found the plan affordable, while 69% found the package of improvements acceptable<sup>9</sup>.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Anglian 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 £66 (13%) from 2024-2025 to 2029-30<sup>10</sup>. This increases to 23% over 2025-30 when forecast inflation is taken into account<sup>11</sup>.

This is lower than the £80 (16%)<sup>12</sup> (before inflation) increase proposed by Anglian in its revised Business Plan from spring 2024. While this places Anglian in the lower end of price

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<sup>9</sup> [anh91-aa-survey.pdf \(anglianwater.co.uk\)](#)

<sup>10</sup> [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>11</sup> Based on Office of Budget Responsibility economic forecast March 2024

<sup>12</sup> Page 4: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

increases in percentage terms, their customers will still have the fourth highest average bill across the industry.

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.

### **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 welcome Anglian Water's shareholders' contribution of £8 million to hardship funds and other support measures, and £6 million on matching payments made by customers repaying debts<sup>13</sup>.

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.

As Ofwat have made no changes to Anglian's business plan commitments, initial feedback on their business plan submission remains, namely:

- We support the increase in the volume of households receiving affordability support rising from 104k to 230k (through increased cross subsidy to its social tariff to £12) by 2030<sup>14</sup>.
- We support the new Medical Needs Discount funded by shareholders, aimed at customers who have a specific medical condition which drives higher water usage and isn't covered by the existing Watersure scheme<sup>15</sup>.

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<sup>13</sup> Page 12: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>14</sup> Page 24: [anh01-our-plan-2025-2030.pdf \(anglianwater.co.uk\)](#)

<sup>15</sup> Page 24: [anh01-our-plan-2025-2030.pdf \(anglianwater.co.uk\)](#)

However, the plan is unclear on how many customers will be lifted out of water poverty, and over what timescale, to meet the public interest commitment.

As the scale of bill increases is unaffordable for a high number of customers, it remains a concern that the increase in support will not match the level of water poverty that may emerge over time as bills increase.

We would like to see Ofwat push the company go further to measure the level of water poverty and consider further assistance if the increases in its proposed assistance funding cannot fully accommodate it.

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 Anglian 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 Anglian's proposed totex by £424m, to £9.4bn<sup>16</sup>. 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, so we support Ofwat's challenges.

Ofwat has allocated £5.6bn to running the business and £4.1bn<sup>17</sup> on new assets and services.

None of the requested base expenditure cost adjustments were supported by Ofwat except energy and phosphorous removal, both of which were subject to industry-wide adjustments by Ofwat. We agree that requests for additional cost allowances which were not supported by sufficient evidence were rejected.

Much of the investment delivers benefits in the long term so we agree that the recovery of these costs should be spread over the long term. The total 'pay as you go' (PAYG) rate for Anglian Water has been reduced from the company's Business Plan of 44.7% to 43.0%,<sup>18,19</sup>

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<sup>16</sup> Page 3: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>17</sup> Page 5: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>18</sup> Anglian Business plan – [anh03-data-tables---march-2024-update.xlsx \(live.com\)](#)

<sup>19</sup> Ofwat's PAYG rates set out on key dataset 2



meaning slightly more of the cost recovery is in future years, reflecting the long-term benefits of the planned work.

### 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)<sup>20</sup>. 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.

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies<sup>21</sup>, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%<sup>22</sup> as higher leveraged capital structures have risks for customers.

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.

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<sup>20</sup> Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>21</sup> As per Ofwat's 2022-23 Financial Resilience Monitoring report (page 16), 11 companies are above Ofwat's notional gearing level

<sup>22</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

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 assumed<sup>23</sup>.

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<sup>24</sup>.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing<sup>25</sup>, 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. We agree that in order to receive funding companies must demonstrate that any costs associated with obtaining listed equity are efficient and ensure the delivery of customer supported investment.

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

<sup>24</sup> Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>25</sup> In the same way that FTSE index companies have listed equity

### Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations<sup>26</sup>. 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 gearing<sup>27</sup>.

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 agree with Anglian’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**

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. Ofwat’s comments on Anglian’s specific engagement is limited to four lines, stating that it is “in line with our minimum expectations” but commenting that while research materials were published, some could be more accessible for customers.

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.

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<sup>26</sup> [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

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

There is also a line in the 'Your Water Your Say' report that suggests 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 business plan, including the work of the Independent Challenge Group (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.”*<sup>28</sup>

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.

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<sup>28</sup> [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 reports<sup>29</sup> 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 report<sup>30</sup>. 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

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<sup>29</sup> [Household customer complaints report 2023 - CCW](#)

<sup>30</sup> [Household customer complaints report 2023 - CCW](#)

incentivise poor performing companies to improve, because complaints volumes can be seen as evidence of the wider decline in customers' trust with the sector.

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 an absolute target for 2025-30 as it has no past performance data. However, it may be appropriate to move towards relative targets for future periods to more strongly incentivise poor performers once there is more data available.

#### 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

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Anglian's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver<sup>31</sup>.

Given Anglian's poor environmental performance<sup>32</sup> - an area where customers have clearly shown they expect better performance - it is encouraging to see that there has been no reduction in targets set by Ofwat.

The environmental issues the Water Industry National Environmental Programme (WINEP) will address are in good alignment with what customers want and we support Anglian's focus on using on environmentally friendly, sustainable solutions.

We recognise that Anglian's Draft Determination includes 'advanced' WINEP schemes, which should see them go above and beyond basic statutory requirements. Given the customer support for the programme, and the use of more sustainable solutions to deliver parts of it, we support this added benefit as it may help to mitigate costs at future price reviews.

However, under the totex allowance it is unclear what costs are allowed for statutory and discretionary investment and this needs to be clearer in the Final Determination.

### Storm overflows

As the performance commitment to track the reduction of storm overflow spills does not include a measure of the harm caused by spills, we want to see assurance from the company that in its delivery of the storm overflow reduction programme it is prioritising the spills that cause most frequent cause harm to rivers and bathing water. Such a prioritisation plan should be transparent to customers so they can be assured that the worst storm overflows are subject to improvements first.

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<sup>31</sup> [anh90-aa-testing-qualitative.pdf \(anglianwater.co.uk\)](#)

<sup>32</sup> <sup>3232</sup> [Anglian Water EPA data report 2023 - GOV.UK \(www.gov.uk\)](#)

To enable this, the company needs to address any 'gaps' in its evidence<sup>33</sup> and may need to carry out further assessments of sites at risk. Ultimately, companies should comply with their licence and make sure no spills occur unless there is exceptional weather.

We support the requirement for companies to report data on when event duration monitors are working, along with total spills per total number of storm overflows. This should incentivise timely maintenance of monitors.

We support the level of base costs allowed for addressing reductions in storm overflow spills and the harm they cause. We consider that companies can deliver improvements in storm overflow spills by preventing or removing blockages, undertaking investment to ensure existing permits are met and maintaining assets well. The Environment Agency identified in 2021-23 that 18% of high-spilling overflows are due to operational issues including maintenance<sup>34</sup>.

Anglian has been allowed a bespoke PC to track embedded carbon in its operational activities. In the Final Determinations we want to see a link between its increase in storm overflow spill reductions and the related impact on emissions, particularly as the company will use a range of lower carbon solutions.

### Nature based solutions

We support Anglian's use of nature based solutions to help manage the flow of source water in catchments to prevent issues at source<sup>35</sup>. Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term<sup>36</sup>.

Our recent research<sup>37</sup> 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.

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<sup>33</sup> The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.

<sup>34</sup> [Event Duration Monitoring - Storm Overflows - Annual Returns - data.gov.uk](#) (see table 5 2022 EDM Storm Overflow Annual Return

<sup>35</sup> Page 7: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

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

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



### Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. The industry will 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.

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 high cost of the statutory investment programmes, as trade-offs have been made to protect customer affordability.

However this has meant that some customer-supported investment proposals have been delayed, reduced or cut, so we remain concerned that some issues such as net zero compliance and asset resilience may not be fully addressed until PR29 or beyond.

In this context, Ofwat must ensure companies provide assurance that any deferred investment 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 schemes may be more urgent and costly when it comes time to deliver them.

### Mains renewal

The Draft Determination increases the water main renewals rate from 0.13% to 0.30% over 2025-30<sup>38</sup>, but does not go far enough as it will take hundreds of years for the network to be fully renewed.

Customers may question why Anglian was allowed to build up a backlog of required asset replacement and maintenance due to a lack of investment in the past. However, as catch-up is needed and the company's research shows customers want to see the service improvements new and renovated assets should deliver<sup>39</sup>, we support the allowance in the draft determination.

A higher mains renewal rate should see the company deliver other benefits such as leakage reduction and drinking water quality improvements, so the final determination needs to set out clearly the wider benefits to address customer priorities this investment should deliver.

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.

### **Water resources and demand management**

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement<sup>40</sup> Anglian carried out to inform its business plan, so we support the £794<sup>41</sup> million allowed to invest in its water resources over 2025-30.

Anglian Water is expected to increase its ability to source and deliver water through transfer and storage schemes - £101m to continue its rollout of smart meters (47,478 new installations and 1,074,034 upgrades) to customers together with £23m to deliver water efficiency measures and advice<sup>42</sup>.

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.

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<sup>38</sup> Table 6: [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

<sup>39</sup> [anh01-our-plan-2025-2030.pdf \(anglianwater.co.uk\)](#) page 48

<sup>40</sup> Page 13: [ANH 55 of ANH Business Plan](#)

<sup>41</sup> Page 9: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>42</sup> [Ofwat key data set 2 V3](#)

Anglian Water has also proposed some major water supply projects. The delivery of these projects may span a longer period than the next five years and is likely to be delivered by a competitively appointed third party, under either Ofwat's Direct Procurement for Customers (DPC) model or under Specified Infrastructure Projects regulations (SIPR). Ofwat has set an allowance of £371 million to progress development of these projects<sup>43</sup>.

CCW supports the use of third parties to deliver large investment with separate pricing controls. However, Ofwat and the company must provide assurance that any large projects put out to tender will be more cost efficient than 'in house', are fully deliverable, and customers are protected from any risks.

Anglian customers showed high levels of support for securing water supplies for the future<sup>44</sup>, so we are pleased Ofwat has agreed funds to continue the development of the two reservoir and one desalination plant schemes.

Anglian Water under-delivered against its leakage reduction targets<sup>45</sup> during the 2020-25 period. Most of the leakage benefits it identifies are from mains renewals and metering that were funded under their respective enhancement categories. So CCW welcomes Ofwat's decision not to include further leakage enhancement costs (as proposed by Anglian) to ensure that customers do not pay twice for these improvements.

There has also been a £15.6m reduction<sup>46</sup> in enhancement allowances for metering. Given the region is under water stress, we would like to understand more fully how Ofwat reached this decision.

### Water Resource Management Plan

The Draft Determination is in alignment with the latest version of Anglian's Water Resource Management Plan (WRMP)<sup>47</sup>.

Company research shows that customers place a priority on the security of their supplies<sup>48</sup>, 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.

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<sup>43</sup> Page 10: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>44</sup> Page 13: [ANH 55 of ANH Business Plan](#)

<sup>45</sup> [Annual Performance Report 2024 \(anglianwater.co.uk\)](#)

<sup>46</sup> [Ofwat key data set 2 V3](#)

<sup>47</sup> [PR24-draft-determinations-Anglian-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

page 6

<sup>48</sup> Page 13: [ANH 55 of ANH Business Plan](#)

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.

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

We wish to see further clarity about the £101million on smart metering<sup>49</sup> to 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.

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<sup>50</sup>. 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.

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<sup>49</sup> Page 2: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>50</sup> [Our review of five years of the water retail open market - CCW](#)

## Water Efficiency Fund

CCW supports the aims of Ofwat's proposed Water Efficiency Fund - we agree there is an urgent need for a new approach to increase the focus on demand management.

We have submitted responses to both of Ofwat's consultations<sup>51</sup>.

## **Performance Commitments and Outcome Delivery Incentives**

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

As such, we welcome Ofwat's challenges to ten of the company's PC targets to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan<sup>52</sup>.

Compared to other companies, Anglian now has stretching targets for water supply interruptions and customer contacts about water quality (in terms of improvement on current performance), which we welcome.

Anglian Water has a bespoke PC for lower carbon concrete assets.<sup>53</sup> This is welcomed to help contribute towards combating climate change and progression to Net Zero.

We also welcome the addition of a performance commitment for the uptime of storm overflow monitors to ensure data on company performance is readily available. Without reliable data collection, progress in improving environmental water quality will be more difficult to assess.

Despite Ofwat's intervention, Anglian's commitment to greenhouse reductions in both water and wastewater is still unambitious, despite being a stretching target for the company. In terms of emissions, it will see them in the lower quartile by the end of 2030.

## Leakage

Leakage reduction is a customer priority 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.

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<sup>51</sup> Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

<sup>52</sup> As shown in key data set 1 (outcomes) compared to [Anglian's business plan data table](#) – water supply interruptions, internal sewer flooding, external sewer flooding, GHS emissions (water and wastewater), leakage, business demand, total pollution incidents, bathing water quality, unplanned outages

<sup>53</sup> Page 7: [Overview-of-Anglian-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

Anglian are currently lagging in their targeted performance on leakage<sup>54</sup>. But despite Ofwat raising the target from 20% to 21.8% by 2029-30, Anglian's starting position means they are not targeted with sufficient 'stretch' to reach a level of performance that compares well to others by 2030<sup>55</sup>. The targets place them in the lower quartile for both leakage and the new business demand measure by 2030.

As a region that risks water scarcity, this is unacceptably unambitious and needs to be improved, particularly when taking into account the company's proposed programme of rolling out smart meters to around half of the households it serves. This investment should ensure that leaks are found quicker, so a more ambitious target should be set.

### 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.

### Sewer flooding

The absolute target of 13% reduction applied to the internal sewer flooding PC is lower than the equivalent target set at PR19. While we accept trade-offs have been made to protect customer affordability in the light of a high cost environment programme, Ofwat's joint research with CCW<sup>56</sup> clearly shows the impact sewer flooding can have on households, businesses and communities, so we think this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

We support Ofwat's exclusion of exceptional weather in the sewer flooding PC design as including it may disincentivise companies from addressing sewer flooding risks in periods of exceptional rainfall.

### 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 the business water demand reduction target in the Environment Act 2021.

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<sup>54</sup> [Page 5: PowerPoint Presentation \(ofwat.gov.uk\)](#)

<sup>55</sup> See key dataset 1 (outcomes) compare to current performance in [Ofwat's Service Delivery Report 2022-23](#)

<sup>56</sup> [Customer experiences of sewer flooding - CCW](#)

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.

PCs show a reduction of 7.5% for business demand by the end of the AMP compared with 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by 2037 but companies have varying Business Demand targets with some set modest reduction targets or a small increase by 2030. This raises questions of whether Anglian is being sufficiently incentivised to meet the Defra target, given the potential growth of businesses operating in the Anglian region.

#### Drinking Water Quality customer contacts

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.

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.

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 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 with alignment to evidence of customer valuations of levels of priority for different areas of service. This means eight PCs that more directly affect customers<sup>57</sup> 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 PCs<sup>58</sup> to provide additional outperformance payments to companies at the frontier of performance. Even with the aggregate sharing mechanism in place, customers will still be asked to pay for higher rewards than under rather 'standard' rates in this scenario.

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**

The five-year package of investment and PC targets should act as a milestone towards delivering a longer term set of outcomes.

Anglian Water has provided Ofwat with core and alternative pathways for delivery. This included trigger points that can be measured and monitored, in line with Ofwat guidance, and how activity in 2025-30 will contribute to meeting long-term outcomes. There is some

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<sup>57</sup> 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).

<sup>58</sup> Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents



evidence that the five-year determination acts as a milestone towards longer term outcomes (for example, through the allowance of development costs for long-term investment projects and progress towards carbon emissions reduction). But it's unclear to what extent the company's Long Term Delivery Strategy and adaptive planning informed decisions and the investment costs (and subsequent bill impacts for customers) that may follow in PR29.

## **Enquiries**

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August 2024