



The voice for water consumers
Llais defnyddwyr dŵr

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

2. Executive Summary

Overall view

With a 7% reduction¹ in requested expenditure², Ofwat's Draft Determination finds efficiencies for customers, whilst challenging the company to make better inroads into water efficiency through its large metering programme.

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.

It is vital that the outcome sees Portsmouth delivers 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 surveys³, and Ofwat's recent research⁴ 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

¹ [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#) table 38 p59

² The overview refers to a 6% reduction². Presumably the difference is because of rounding; the true figure being a 6.59% reduction.

³ [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.

⁴ [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

environment⁵. PR24 must be a strong driver for Portsmouth 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

- 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.
- We welcome the stretching targets on reducing household and business water use, reflecting the gains that should be expected from the metering programme and the fact that Portsmouth is a water-scarce area.
- We support the company playing its own part in protecting water supplies, through challenging leakage reduction targets, and protecting the environment through greenhouse gas reduction.

⁵ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

- 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%⁶ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁷, as it allows for greater transparency and governance in the company’s financial structure.
- The introduction of BR-MeX to incentivise 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

- We would like to see the company contribute more towards social tariffs to ensure all its customers are out of water poverty by 2030. We would like Ofwat to push the company to go further on this ahead of the Final Determination.
- The investment in Havant Thicket, at £85 million⁸, is significant. Whilst the project is mostly funded by, and for, customers of Southern Water, Portsmouth Water’s customers are directly affected by its development. We know customer are already uncertain about the effect of water recycling on the reservoir and we would like to see Ofwat push Portsmouth Water to better address its customers’ concerns on this.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer

⁶ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

⁷ In the same way that FTSE index companies have listed equity

⁸ [Key dataset 2 \(water enhancement allowances\)](#)

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.

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 Portsmouth'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 from the business plan testing.

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 (as discussed and agreed with Ofwat), when Portsmouth tested its business plan in 2023, it revealed only 25% of customers found the plan affordable, while 75% found the package of improvements acceptable⁹.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Portsmouth 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 18% on the average combined water bill from 2024-5 to 2029-30. This increases to 29% over 2025-30 when forecast inflation is taken into account¹⁰.

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.

Overall, the Draft Determination means customer bills will rise from the 2024-25 average of £114 to an average of £135 by 2029-30¹¹. This is the same as the overall increase proposed in Portsmouth Water's business plan. These costs are before inflation.

Because of that, it is imperative that Portsmouth Water customers understand what they will get for their money, and that the company has robust affordability support available for those who fall from just about managing bills into water poverty.

⁹ [PRT03 Engaging and Understanding Our Customers and Communities.pdf \(portsmouthwater.co.uk\)](#) p69 fig 32 affordability, page 70 fig 33 acceptability

¹⁰ Based on Office of Budget Responsibility economic forecast March 2024

¹¹ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) figure 1.1, p4

The bill profile shows a marginally steeper increase in year one of the period¹². Customers may find a steady bill profile preferable to front- or back-loading the increase, but with all of the increases being relatively small, we are content with the profiling over the period.

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 even though the affordability support planned under the Draft Determinations could leave customers in the Portsmouth region in water poverty at 2030.

We believe companies should make direct contributions to funding their social tariff. Portsmouth Water shareholders will contribute £0.9 million to payment matching schemes to help customers who are in debt¹³, and the company will share ODI rewards with customers through the hardship fund¹⁴. The value of future ODI rewards is unknown and no minimum ODI reward is guaranteed by shareholders.

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.

In its affordability and acceptability testing, only 25% of Portsmouth Water customers felt that its plan would be affordable¹⁵. The bill increases over the period will lead to more customers falling into water poverty. While CCW welcomes the expansion of the assistance packages, we remain concerned that it will help people in water poverty but not lift them out of it altogether. We would like

¹² [Key dataset 2 tab RR14](#)

¹³ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 11

¹⁴ [Portsmouth Business plan appendix on affordability and vulnerability page 43](#)

¹⁵ [PRT03_Engaging_and_Understanding_Our_Customers_and_Communities.pdf \(portsmouthwater.co.uk\)](#)
p69 fig 32 affordability

to see Ofwat push Portsmouth Water (and other companies) to go further on supporting customers struggling to pay.

Costs and financing

Cost efficiency challenge

Ofwat's headline Draft Determination figures for Portsmouth Water include the costs for Havant Thicket. Much of Portsmouth Water's Business Plan documentation gives totex costs excluding Havant Thicket. This can make comparison difficult, with initial reading suggesting Portsmouth Water asked for £347m¹⁶ in totex but has been given £413m¹⁷ (a 19% increase). This seems at odds with Ofwat's statement that this is 6% less than requested¹⁸. When Havant Thicket costs are included, Ofwat's allowance of £413 is actually £27 million less than Portsmouth Water requested. In the Final Determination, we would like Ofwat to highlight this distinction so that customers can be clear on what it has done with Portsmouth Water's totex request, as well as making clear that Portsmouth Water customers do not pay for Havant Thicket, despite it being part of the company totex.

The Draft Determination outlines that Portsmouth Water had been excessively ambitious in its base cost efficiencies for this element of spend and gave a greater allowance than the company requested (£254m¹⁹ allowed versus a base cost requested of £218m²⁰). It is important that Portsmouth Water has enough revenue to ensure no decline in the day-to-day standards of service it delivers.

The remaining £171 million is for enhancement expenditure, new assets, service improvements and environmental, customer service and resilience gains²¹. Ofwat's benchmarking exercise led it to determine Portsmouth Water could make further efficiencies in this expenditure so it has given less of an allowance than requested for these costs²².

¹⁶ [PRT01 Excellence in Water. Always.pdf](#) p2

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

¹⁸ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 3

¹⁹ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 5

²⁰ [PRT01 Excellence in Water. Always.pdf](#) p5

²¹ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 5

²² [Key dataset 2 \(water enhancement costs\)](#)

We expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously. Customers must not pay over-the-odds prices for enhancement to its provision. We therefore welcome Ofwat's efficiency challenge on enhancement expenditure.

We are content that the Draft Determination sets an acceptable balance between customers paying now and customers paying in the long term. Much of the investment delivers benefits in the long term so we agree that the recovery of these costs should also be spread over the long term.

We note that Ofwat has excluded Havant Thicket from the price control, and set the project a Regulatory Capital Value (RCV) run-off rate of 2.57% in the Draft Determination (compared to 4.16% for the rest of the plan)²³. We support Havant Thicket being subject to separate price controls to limit the impact on customer bills and to reflect the long-term nature of the project.

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). It has also allowed Portsmouth an additional 0.35% premium on its assumed cost of debt financing due to the constraints it may face as a smaller company.

²³ P45 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf>

Ofwat say that the company's customer research to support this premium is '*compelling*'^[1]. Customers are being asked to pay higher financing costs (and the draft determination say this uplift will cost approximately £0.90 per household per year^[2]), and will expect to see Portsmouth Water continue to be a strong performer for their money. The premium should ensure Portsmouth is able to deliver its commitments and demonstrate to its customers tangible improvements in the quality of service they receive.

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.

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

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. It is in this context that we support the reduction of notional gearing to 55%²⁴ 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.

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 demonstrate how they are delivering the improvements set out in the Draft Determinations, and that customers see tangible improvements in their local environment and the service they receive.

[1] [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#) page 94

[2] [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#) page 95

²⁴ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

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.

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

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 environment²⁵.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing²⁶, 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.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations²⁷. 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 gearing²⁸.

²⁵ Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁶ In the same way that FTSE index companies have listed equity

²⁷ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

²⁸ Confirmed in separate correspondence from Ofwat to CCW.

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 Portsmouth'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.

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, 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.*"²⁹

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.

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.

²⁹ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

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 reports³⁰ 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 report³¹. 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.

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 in England

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

³¹ [Household customer complaints report 2023 - CCW](#)

We support the introduction of BR-MeX in England 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 programme is driven by legislation, and Portsmouth Water has been allowed £4 million to undertake investigations in line with the WINEP and WFD directives³². Its customers' priorities showed customers want a high-quality, reliable and sustainable secure water supply³³, and they care about increasing biodiversity³⁴. These investigations across Portsmouth Water's catchments should achieve those aims.

Drinking Water Quality programme

An enduring priority for customers is a safe, secure supply of drinking water³⁵. We support investment in reducing lead pipes as this addresses both water quality and a public health risk. Consequently, we welcome Portsmouth Water's commitment to replacement of lead pipes across the period, noting its targeted approach (focusing on customers most at risk from exposure to lead). Portsmouth Water has a target to replace the lead pipes at 60 schools and nurseries from 2025 to 2030, alongside a continuing commitment to replace any lead found on its network³⁶. Customers will be pleased at the reduced cost Ofwat has suggested this programme can be delivered for.

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, appear to be a pragmatic approach to addressing risks and offers protection for customers through the use of the PCD mechanisms.

We welcome the programmes also seeking to address the causes of customer contacts about drinking water quality. Portsmouth Water has historically been a top performer in this measure, and Ofwat's target of 0.40 contacts per 1000 residents³⁷ would see it retain this position across the

³² [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Page 7

³³ [PRT01 Excellence in Water. Always.pdf](#) p4

³⁴ [PRT01 Excellence in Water. Always.pdf](#) p2

³⁵ [PRT01 Excellence in Water. Always.pdf](#) Page 4

³⁶ [PRT01-excellence-in-water-always.pdf \(portsmouthwater.co.uk\)](#) page 6

³⁷ [Draft determinations models - Ofwat](#), key data set 1 (towards bottom of page), "view by PC" tab.

period. It is also a goal Portsmouth Water has achieved in the past³⁸, so should be stretching but attainable.

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 in delivering.

Discretionary investment programme

Mains renewal

A sufficiently paced mains replacement programme is important in avoiding disruption to supply. We felt the company's mains repairs targets could show more ambition and we welcome Ofwat's challenge for Portsmouth to achieve a base rate of 0.3% renewal, against its proposed ambition of 0.24%³⁹.

Customers may question why Portsmouth 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, we support the allowance in the Draft Determination.

³⁸ [PRT05_Delivering_Outcomes_for_Our_Customers.pdf \(portsmouthwater.co.uk\)](#) p28 table 14

³⁹ P36, [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](#)

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 Portsmouth carried out to inform its business plan⁴⁰, so we support the investment in its water resources over 2025-30.

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 challenge to Portsmouth to deliver a 26% reduction in leakage⁴¹ as keeping water in the network is important in managing the supply/demand balance. The company's metering programme should allow it to make improvements in identifying leakage quickly.

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 investigating options for alternative sources of water, whilst also reducing the demand for water through reduced consumption and leakage.

We support the added protection for customers through the use of PCDs 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

CCW wants further clarity about the £44 million to be spent on smart metering⁴² to help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development. Portsmouth Water's metering programme roll-out extends over ten

⁴⁰ [PRT01 Excellence in Water. Always.pdf](#) "secure and deliver water supplies which are high quality, reliable and sustainable", p4.

⁴¹ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p9.

⁴² [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#), p9.

years⁴³, but the Draft Determination does not address the need to prioritise the roll-out, such as starting with customer groups who would most benefit, or at-risk areas.

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. However, more detail is required to show how smart metering will be rolled out in a way that benefits the areas more at risk of water scarcity first. The Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered. There should also be sharing of good practice within the industry on how smart meters have been rolled out to homes and businesses, so that companies can learn from each other.

We have called for smart metering for businesses to give customers better information and control over their usage⁴⁴. 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 location⁴⁵. 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

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 consultations⁴⁶.

Havant Thicket

⁴³ [PRT01-excellence-in-water-always.pdf \(portsmouthwater.co.uk\)](#) page 68

⁴⁴ [Our review of five years of the water retail open market - CCW](#)

⁴⁵ [Our review of five years of the water retail open market - CCW](#)

⁴⁶ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

Portsmouth Water asks for - and Ofwat's Draft Determination allows - £85 million for the Havant Thicket scheme⁴⁷. We recognise Havant Thicket is funded by, and a source of water for, Southern Water customers, and that Ofwat has subjected the project to a separate price control.

In research, customers have been cautious about the water recycling element of the project⁴⁸. We are wholeheartedly supportive of water companies working together to find regional solutions to water resource challenges. This one will help reduce abstraction from - and thereby protect - the Test and the Itchen chalk streams.

However, it is important that Portsmouth Water continues to work with Southern Water on explaining water recycling and its impacts, and addresses customer concerns around the volumes and quality of recycled water that will enter the reservoir. In future research we expect to see customer concerns about the scheme lessening and support growing.

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.

As such, 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. Most notably we welcome Ofwat's challenge to reduce household water consumption⁴⁹.

Ofwat has noted that Portsmouth Water is already a leading performer on supply interruptions and should maintain its performance in this area⁵⁰. We agree with this assessment. Ofwat's comparisons also identified Portsmouth Water to have been sector-leading in its net zero ambition, and moderately ambitious in its leakage targets⁵¹.

⁴⁷ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (water enhancement tab)

⁴⁸ [PRT01 Excellence in Water. Always.pdf](#) p64

⁴⁹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V3.xlsb>

⁵⁰ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p10.

⁵¹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V3.xlsb>

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

Portsmouth Water customers want to see the company go faster on reducing leaks⁵². As such we welcome companies' efforts to continue to reduce leakage 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.

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 Portsmouth Water the 26% leakage reduction against the 2020-23 baseline⁵³ is moderately stretching and in line with customers' priorities.

Per Capita Consumption (PCC)

We welcome the challenge in the Draft Determinations to reduce household water consumption by 16% across the period compared to the 2020-2023 average⁵⁴. However, we note that this results in average usage of 135 litre per person per day, which is still above the industry-wide target of reducing people's daily water consumption to 110 litres a day by 2050. So significant focus will need to be placed on this metric across future periods.

Business demand

⁵² [PRT01 Excellence in Water. Always.pdf](#) p2.

⁵³ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p9.

⁵⁴ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p9.

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.

PCs show a reduction of 9% for business demand by the end of the AMP compared with 2019/20 baseline. This is more ambitious than the Defra expectation of an overall reduction in business usage of 9% by 2037.

Drinking Water Quality customer contacts

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.

Portsmouth Water has historically been a top performer in this measure, and Ofwat's target of 0.40 contacts per 1000 residents⁵⁵ would see it retain this position across the period.

⁵⁵ [Draft determinations models - Ofwat](#), key data set 1 (towards bottom of page), "view by PC" tab.

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 with alignment to evidence of customer valuations of levels of priority for different areas of service. This 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, customer will still be asked to pay higher rewards than under rather 'standard' rates in this scenario.

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

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

We were satisfied that Portsmouth Water had clearly shown how its five-year plan is a milestone towards its long-term delivery strategy in its business plan, using an adaptive planning approach to model how its long-term outcomes can be achieved, taking into account evidence of customers' views.

Ofwat comments that the plan met its minimum expectations⁵⁸ in regard to being consistent with the long-term delivery strategy. We are satisfied with the long-term nature of Portsmouth Water's business plan. We note that whilst the long-term plans are consistent with customer feedback obtained through research⁵⁹, there will be a requirement for this research to be repeated, as external factors, such as climate change and population growth, may have an impact on customer priorities.

Enquiries

Enquiries about this consultation should be addressed to:
Catherine Jones
Head of Company Engagement
CCW
catherine.jones@ccwater.org.uk
Telephone: 07918 607787

⁵⁸ [Overview-of-Portsmouth-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) page 15

⁵⁹ [PRT01-excellence-in-water-always.pdf \(portsmouthwater.co.uk\)](#) page 4