



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's 2025-30 Draft Price Determination for South East 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 South East Water.

2. Executive Summary

Overall view

We welcome Ofwat's decision to impose significantly more stretching targets on the company so that customers, who have suffered poor performance in recent years, will see improvements¹.

We welcome Ofwat only allowing funding for enhancement schemes where the company has made a convincing case that it is required.

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.

Where customers need to pay more to invest in service or environmental improvements, it is vital that customers see South East Water deliver the commitments in its price determination. South East Water must also demonstrate to customers that the outcomes they see are tangibly better than now in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys², and Ofwat's recent research³ has found that only 38% trust their water company to provide them with good value

¹ [Ofwat: Overview of South East Water's Pr24 Draft Determination \(page 2\)](#) 13% leakage reduction, 94% reduction in water supply interruptions, 9% reduction in mains bursts, 9% reduction in water quality contacts

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

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

for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment⁴.

The outputs of PR24 must be a strong lever for South East 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

- We support the increase in the stretch of the performance commitments targets across all service areas to drive immediate service improvement⁵.
- We support reduced funding for the lead programme where the company has not sufficiently justified expenditure and missed the opportunity to carry out work in the past⁶. We expect the company to consider the learnings from other companies' Green Recovery work on lead and other trials to find cost-effective solutions to addressing its lead issues.
- 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.

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

⁵ [Ofwat PR24 Draft Determinations: Key dataset 1 Outcomes Data](#)

⁶ [Ofwat: Pr24 Draft Determinations Expenditure allowances \(page 110\)](#)

- 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%⁷ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁸, 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

- We are supportive of the company’s ambition to reduce water poverty in its area through a financial support package including a new social tariff and additional support aimed at those in water poverty⁹. But the business plan was not clear if South East Water aims to eradicate water poverty or to reduce water poverty (the plan wording talks about making “*water poverty a thing of the past*” but also of “*reducing the level of water poverty*”) by 2030. We support Ofwat’s Draft Determination challenge for the company to provide further clarification on what it intends to provide so that it can be held accountable¹⁰. We would like South East Water to confirm that its ambition will result in water poverty being eradicated by 2030.

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

⁸ In the same way that FTSE index companies have listed equity

⁹ [PR24 Business plan main document.pdf \(southeastwater.co.uk\)](#) p23

¹⁰ [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p11

- It is disappointing that there is no company contribution to affordability support. Shareholders should play their part in supporting South East Water customers and we support Ofwat’s challenge for South East Water to improve on this¹¹.
- South East Water made clear how customers had influenced its plans in its “*Engaging with Customer Communities and Stakeholders*” document¹². However, CCW did raise in our response to the business plan that we had a concern at the lack of opportunity the ICG had to quality assure some research materials or view the synthesis report. Ofwat makes short acknowledgement of this, saying the company did not meet the minimum expectations for challenge and assurance but that “*as the quality of the research produced was consistent with our minimum expectations, the impact of this was not material.*”¹³ We would like Ofwat to make clearer in the Final Determination how, if the materials were not robustly challenged and assured, it can be content that they were good quality.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.

We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.

- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high-risk gearing.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.
- Proposed enhanced Outcome Delivery Incentive (ODI) rates, which could see customers paying more for areas of service they may view as a company’s basic responsibility.

¹¹ [PR24-draft-determinations-South-East-Water---Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#) page 3

¹² [Engaging with Customers Communities and Stakeholders.pdf \(southeastwater.co.uk\)](#)

¹³ [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix table 3, p6.](#)

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 South East'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 South East tested its business plan in 2023, it revealed only 18% of customers found the plan affordable, while 71% found the package of improvements acceptable^{14, 15}

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what South East needs 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 early September 2024, as the results are not available in time for inclusion in this consultation response.

¹⁴ [South East Water Business Plan \(Page 186\)](#)

¹⁵ Figure 11 & pg. 4 [South East Water Affordability and Acceptability testing Quantitative Fieldwork September 2023](#)

Bill profile

The Draft Determination proposes an increase of 8% on the average water bill from 2024-25 to 2029-30 (or £18, £230 to £248)¹⁶. This increases to 17% over 2025-30 when forecast inflation is taken into account¹⁷.

This is substantially lower than the 22% (before inflation) increase proposed by South East in its revised Business Plan from spring 2024¹⁸.

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.

The year-on-year bill profile that Ofwat has put in the draft determination has smoothed the bill increases over the price control period. This is noticeably different from the profile in South East Water's business plan, which included a much steeper first-year increase.

Customers have also told us¹⁹ they are struggling to afford their bills in the current cost-of-living crisis. We therefore believe that Ofwat's imposition of a smoother bill profile to spread the investment costs across the period is more appropriate than one which frontloads price increases on customers' bills.

Affordability support

South East Water is increasing its social tariff provision to support 10% (currently 6%) of its customers by 2030.²⁰ It also plans to introduce a new social tariff from 2025 that will cap bills, and a water poverty support scheme that will cap bills at no more than 2.5% of household income after housing costs. We welcome the introduction of these new schemes. But the business plan was not clear if South East Water aims to eradicate water poverty or to reduce water poverty (the plan wording talks about making "*water poverty a thing of the past*" but also of "*reducing the level of water poverty*") by 2030. We support Ofwat's Draft Determination challenge for the company to provide further clarification on what it intends to provide so that it can be held accountable²¹. We would like South East Water to confirm that its ambition will result in water poverty being eradicated by 2030.

¹⁶ [Ofwat: Overview of South East Water's Pr24 Draft Determination \(page 4\)](#)

¹⁷ Based on Office of Budget Responsibility economic forecast March 2024

¹⁸ [South East Water Business Plan Data Table Tab RR14](#)

¹⁹ [CCW: Water Matters 2024](#)

²⁰ Page 11: [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

²¹ [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) p11

Although Ofwat states that the company met its minimum requirements on affordability support, there were issues with the Acceptability and Affordability research that the company carried out. The company's Independent Challenge Group raised concerns about 'comprehensive, informed and timely processes' and Ofwat was required to seek additional information from the company in order to make its assessment²².

Although the new social tariff schemes are welcome, these are being funded entirely through customer contributions. No funding is being provided by the company shareholders. We believe companies should make direct contributions to funding their social tariff. As South East Water does not currently offer such a contribution, we agree with Ofwat's comments that the company needs to improve this²³. We will press the company to align with some of its peers in assigning a shareholder contribution and/or a portion of future outperformance to fund its social tariff.

Costs and financing

Cost efficiency challenge

Ofwat reduced South East's proposed totex by 30% (£2bn, to £1.4bn)²⁴. The regulator said that the company had demonstrated poor ambition on both base and enhancement cost efficiency. South East Water's requested costs were found to be significantly higher than Ofwat's view of efficient costs in both cases.

CCW expects Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

The most notable reductions relate to investment in Resilience and Water Industry National Environment Programme (WINEP) enhancement schemes. Ofwat stated that South East Water has failed to provide sufficient evidence that all of this investment is enhancement spend and that it has not been clear that the most cost-efficient approach has been selected²⁵. We are supportive of Ofwat's interventions in these areas.

Ofwat has intervened to amend South East Water's 'pay as you go' (PAYG) rates, a decision that we support as much of the investment delivers benefits in the long term.

²² [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix \(page 6\)](#)

²³ [PR24-draft-determinations-South-East-Water---Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#) page 3

²⁴ [Ofwat Pr24 Draft Determinations Total expenditure allowances – by company \(page 62\)](#)

²⁵ [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#) p62-64.

South East Water had stated that its PAYG was set as operating costs as a proportion of totex. However, Ofwat found that the company had not taken into account developer services, diversions and other contributions in its calculations. This omission would have seen bills rise £3.31 per year higher by 2030 without Ofwat's intervention²⁶. CCW is supportive of Ofwat's position on this issue.

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 upfront for what is a significant base cost driver (approx. 15% of base costs are for energy²⁷) 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)²⁸. 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 companies²⁹, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%³⁰ as higher leveraged capital structures have risks for customers.

²⁶ [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix \(page 11\)](#)

²⁷ Confirmed in separate correspondence from Ofwat to CCW.

²⁸ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁹ Page 16 of Ofwat's Financial Resilience Monitoring Report 2022-23 shows 11 companies are above the notional gearing level,

³⁰ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

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

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

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

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

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed³¹.

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 environment³².

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing³³, 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

³¹ For example, the financing windfalls highlighted in the National Audit Office review of economic regulation I the water sector (2015) see [here](#)

³² Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

³³ In the same way that FTSE index companies have listed equity

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

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations³⁴. 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 gearing³⁵, but South East Water still has gearing at over 70% which may carry financial risks³⁶.

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 rate

We support Ofwat's proposed 45/55 cost sharing rates which will see the company bearing a higher proportion of any overspends against cost allowances, or returning more of any underspends back to customers.

Customer influence

Outside of some mentions 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 Ofwat's main *Delivering Outcomes for Customers and the Environment* document the only mention of customer engagement

³⁴ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

³⁵ Confirmed in separate correspondence from Ofwat to CCW.

³⁶ Page 16: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

Ofwat's summary within the QAA document showed that South East Water's engagement with its customers did not meet minimum expectations in two of the five expectations, although the impact on Ofwat's ability to conduct the price review was not material. While the initial approach set out for its engagement programme was sound, the company's ICG, whose role was to provide independent assurance on the quality of customer and stakeholder engagement, was unable to comprehensively fulfil its role³⁷:

“Based on the information shared with the CCG as of 14th September (the cut off point for receipt of evidence), the CCG partially assured Part 1. We were not able to provide full assurance due to the lack of evidence provided and as some engagement was still in progress or had not been reported to the CCG.

“The CCG did not assure Part 2 as we had not seen a draft of the Business Plan (BP) (only four very early draft chapters within it), nor any draft of the Long-term Delivery Strategy (LTDS). However we provided feedback to the company and the board based on what we had been able to review. The company continued to develop its business plan (BP), LTDS and accompanying documentation beyond this date.”

We find this overall process disappointing, as customers' input into the company plans over the AMP8 period are of key importance. If customers do not agree with or cannot see where their money is being spent, it is unlikely that trust in the company and the wider sector will improve. Whilst the lack of independent assurance did not, in Ofwat's opinion, affect its ability to conduct its business, we are surprised that it did not make further comment on the lack of assurance given to gathering customer views. From the start of PR24, consistent, cross-sector customer research to ensure that customers from all companies are heard was one of Ofwat's ten proposals.³⁸

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

³⁷ [South East Water Customer Challenge Group: Assurance Role](#)

³⁸ [PN 25/22 Price Review 2024: Ofwat sets out framework to deliver better outcomes for customers and the environment - Ofwat](#) notes to editors

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.

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 reports³⁹ 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 report⁴⁰. 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

³⁹ [Household customer complaints report 2023 - CCW](#)

⁴⁰ [Household customer complaints report 2023 - CCW](#)

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

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from South East's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver⁴¹.

Ofwat has applied a 64% reduction to South East Water's enhancement expenditure request, resulting in a programme costing £275m⁴². This represents the largest cost gap in the sector.

One aspect of the funding gap relates to resilience spend on water treatment and storage. Ofwat acknowledges that South East Water needs to improve its service resilience. However, it comments that the company has failed to provide convincing evidence that it has a coherent overall strategy or demonstrated how this new investment builds on the funding it received at PR19⁴³.

We agree with Ofwat's view that the company needs to revisit its approach to cost assessment ahead of Final Determination. Customers will expect South East Water to deliver a substantial improvement service performance over the next five years, after suffering poor service in recent years with the company lagging behind most of the rest of the sector in many areas. Customers must be reassured by Ofwat that costs are fair where they are being asked to pay more and also that the company is not seeking additional costs to deliver improvements it has already received funding for.

Nature based solutions

We welcome in principle increased allowances for the company to use nature based approaches to some of the solutions needed to improve environmental standards and reduce pollution.

Our research show that customers broadly support nature based solutions as they can be more sustainable in the long term⁴⁴. South East Water has been allowed £17m for catchment and nature

⁴¹ [South East Water Business Plan \(Engagement Section Page 24 onwards\)](#)

⁴² Page 63: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁴³ [PR24-draft-determinations-South-East-Water---Quality-and-ambition-assessment-appendix.pdf](#)

[\(ofwat.gov.uk\)](#) page 64

⁴⁴ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

based solutions⁴⁵ . Our recent research⁴⁶ on river quality 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.

However it is not clear what the company is expected to deliver for this investment both in terms of schemes and outputs. It is also unclear how this compares with what South East Water was seeking in its business plan, which stated it “...*prioritises long-term nature based solutions over engineering alternatives whenever possible.*”⁴⁷

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.

Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. Ofwat has allowed South East Water only £4m of the £24m requested as part of its lead programme⁴⁸, which covers the costs of two phosphate dosing trials. We agree with the regulator’s assessment that funding to allow a survey of the pipework at all the properties South East Water supplies is not justified given the company failed to use the opportunity presented by its compulsory metering programme to carry out this work. Customers should not be expected to pay to compensate for the company’s poor planning.

More widely, 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.

⁴⁵ [Ofwat: PR24 Draft Determinations Expenditure allowances \(page150\) Table 33](#)

⁴⁶ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

⁴⁷ [South East Water Business Plan Main document page 7](#)

⁴⁸ [Ofwat: Pr24 Draft Determinations Expenditure allowances \(page 110\)](#)

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.

Water resources and demand management

Customers placed a high priority on the reliability and resilience of water supplies⁴⁹ in the customer engagement South East carried out to inform its business plan. So CCW supports the £98 million allowed to invest in its water resources over 2025-30⁵⁰.

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, but there are unexplained differences in costs associated with supply schemes.

£34m⁵¹ is allowed for the company's leakage reduction measures, including monitors and sensors to detect leakage. Once again, Ofwat has noted that the company's costs are significantly higher than its models for non-mains renewal measures and has reduced the allowance accordingly, which we support.

For Broad Oak Reservoir, South East Water is allowed £21m of the requested £62m⁵² development costs as it has provided no evidence to justify the funding at the level requested. CCW agrees with this intervention as customers should only be paying for well evidenced and justified schemes.

Water Resource Management Plan

Company research⁵³ shows that customers place a priority on the security of their supplies, so we support the twin track approach in the Water Resource Management Plan (WRMP) of increasing

⁴⁹ [South East Water Business Plan Main document page 18](#)

⁵⁰ [Ofwat: Overview of South East Water's Pr24 Draft Determination\(page 2\)](#)

⁵¹ [Ofwat: Overview of South East Water's Pr24 Draft Determination\(page 8\)](#)

⁵² Table 6: [Ofwat: PR24 Draft Determinations Major projects development and delivery \(page21\)](#)

⁵³ [South East Water Business Plan Main document page 18](#)

and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage.

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if drought plan demand reduction isn't delivering results fast enough, allowing for supply schemes to be switched on). This will be needed if companies' limited control over how their customers choose to use water (particularly during droughts or if there are huge peaks in demand, such as in 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 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

We wish to see further clarity about the £23 million on smart metering⁵⁴ 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 smart metering for businesses to give customers better information and control over their usage. However, Ofwat appears to have set a single unit cost for metering to cover household and non-household. This seems likely to lead to companies avoiding large meters or those where installation is difficult as they would not be cost effective to tackle and would result in less money to deliver the rest of the programme.

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

⁵⁴ Page 2: [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

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 consultations⁵⁵.

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 the company's PC targets to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan⁵⁶.

The PC levels (PCLs) set in the Draft Determination for South East Water are a stretching set of targets for the company that should deliver improvements for customers across a range of important measures. Ofwat has made interventions across almost all of the PCLs in South East Water's business plan to push the company to deliver much more significant progress.

These targets will clearly be challenging for the company to meet, but CCW supports Ofwat's decision to set stretching ambition for the company. The water supply interruptions target of 5 minutes would be a 94% reduction, a significant improvement on current performance⁵⁷. This is an area where the company's customers have suffered significant issues in recent years so it is important that the company works to improve its performance immediately.

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.

⁵⁵ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

⁵⁶ Mains repairs, water supply interruptions, drinking water quality contacts and unplanned outages

⁵⁷ [Ofwat: Overview of South East Water's Pr24 Draft Determination\(page 10\)](#)

Leakage

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.

Ofwat's draft determination targets South East Water to reduce leakage by 13% by 2029-30⁵⁸. This will make the company average performers in leakage reduction across the sector. We think the company should be challenged to go further given its investment programme and water scarcity risks in this area of supply.

Per Capita Consumption (PCC)

South East Water is expected to deliver an 8% reduction in household consumption, and a 13% decrease for non-household customers, by 2030⁵⁹. We support this stretching target that will drive down PCC from the company's current quite high levels.

Long term context

South East Water's plan failed to meet Ofwat's minimum standards both in terms of its overall Long Term Delivery Strategy (LTDS)⁶⁰ and in ensuring consistency between the business plan and other statutory plans.

Although South East Water's plan is said to be generally consistent with the WRMP and WINEP, there were issues with the company's supply schemes and uncertainty with the WINEP due to ongoing discussion with the Environment Agency (EA).⁶¹

Also of concern is the list of issues Ofwat has found with the overall LTDS. A series of recurring errors were identified and the decision points for potential alternative pathways were not clear.

⁵⁸ Page 2: [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁵⁹ Page 8: [Overview-of-South-East-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁶⁰ [PR24-draft-determinations-South-East-Water---Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#) page 4

⁶¹ [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix \(page 8\)](#)

Ofwat found no evidence of a monitoring plan to allow the company to review the appropriate metrics and determine if a change of focus is required⁶².

In addition, Ofwat found that the company failed to provide sufficient and convincing evidence that the company will remain financially resilient over the long term.⁶³

Ofwat has said that these factors were not material in terms of allowing it make its Draft Determination, but we are concerned that the company's LTDS has been found lacking in so many areas. It does not give CCW confidence that the service improvements South East Water proposed had been appropriately considered over the long term.

Enquiries

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⁶² [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix \(page 5\)](#)

⁶³ [Ofwat Pr24 Draft Determinations: South East Water Quality and ambition assessment appendix \(page 11\)](#)