



The voice for water consumers  
Llais defnyddwyr dŵr

**CCW's response to  
Ofwat's 2025-30 Draft Price Determination  
for South Staffordshire and Cambridge  
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 Staffordshire and Cambridge Water (SSC).

## 2. Executive Summary

### Overall view

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.

South Staffordshire and Cambridge Water is one of the top performers for water supply interruptions and is currently meeting its targets for leakage, drinking water quality and limiting unplanned outages. However, it did not meet targets for reducing the number of bursts on its water mains and reducing per capita consumption<sup>1</sup>. CCW supports Ofwat in pushing the company to improve in these areas by improving mains bursts by 13%<sup>2</sup> and reducing household consumption by 14%<sup>3</sup>.

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 Staffs Water deliver the commitments in its price determination. South Staffs Water must also demonstrate to customers that the outcomes they see are tangibly better than now in terms of service performance and environmental improvements.

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<sup>1</sup> Page 7 and 19: [PowerPoint Presentation \(ofwat.gov.uk\)](#)

<sup>2</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 14\)](#)

<sup>3</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 10\)](#)

Customer trust in the sector has declined in CCW's annual Water Matters surveys<sup>4</sup>, and Ofwat's recent research<sup>5</sup> has found that only 38% trust their water company to provide them with good value for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment<sup>6</sup>.

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

### **What we support and why**

- We support the stretching targets to deliver sector leading performance on water quality contacts and improvements in leakage and water supply interruptions.
- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
- Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much 'up front'.

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<sup>4</sup> [Water Matters 2024 - CCW](#) shows significant shifts across nearly every metric that we use to measure people's views. In many cases, these were the lowest scores recorded in the thirteen years of Water Matters.

<sup>5</sup> [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

<sup>6</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

- The reduction of notional gearing to 55%<sup>7</sup> as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing<sup>8</sup>, as it allows for greater transparency and governance in the company's financial structure.
- The introduction of BR-MeX to incentive better customer service for business customers.
- The use of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.
- The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.
- Ofwat's interventions to ensure the company is compliant with the regulator's policies around Dividends and Executive Bonuses.

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

- The Draft Determination is unclear on the consequence of not lifting all customers out of water poverty by 2030. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that South Staffs Water (and the industry) aims to meet the Water UK commitment to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty<sup>9</sup>.
- Sector-worst ambition in reducing emissions to achieve Net Zero.
- 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.

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

<sup>8</sup> In the same way that FTSE index companies have listed equity

<sup>9</sup> [Water industry reaffirms pledge to work in the public interest | Water UK](#)

- 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 SSC'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 SSC tested its business plan in 2023, it revealed only 11% of customers found the plan affordable, while 70% found the package of improvements acceptable.<sup>10</sup>

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<sup>10</sup> Page 4: [South Staffs Water Affordability and Acceptability Testing Quantitative Fieldwork September 2023](#)

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what SSC 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 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 14% on the average combined water and wastewater bill from 2024-5 to 2029-30<sup>11</sup>. This increases to 23% over 2025-30 when forecast inflation is taken into account<sup>12</sup>.

This is slightly higher than the 13% (before inflation) increase proposed by SSC in its revised Business Plan from spring 2024<sup>13</sup>. Ofwat has made a higher allowance for financing costs, reflecting more recent market data and the company's higher costs from being a small company.

If customers are being asked to pay higher financing costs, customers are entitled to expect a benefit in return. This means it is imperative that SSC delivers its commitments efficiently and demonstrates to its customers a tangible improvements in the quality of service they are receiving

The bill increase is also front loaded into year one of the five-year period. Affordability pressures and bill shocks are likely to be at their highest for customers at this point given continuing cost-of-living pressures. So CCW wants to see the increase "smoothed" across the five years to ease the pressure on customers in the first year of the five-year price control without increasing the overall increase. Messaging and clarity on affordability support offerings for people struggling to pay also needs to be stronger.

## **Affordability support**

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<sup>11</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 4\)](#)

<sup>12</sup> Based on Office of Budget Responsibility economic forecast March 2024

<sup>13</sup> [South Staffs Water Business Plan 2025 – 2030 \(page 14\)](#)

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 signed up to a public interest commitment to achieve that by 2030.

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

Water poverty in SSC's areas of supply is expected to rise by 2030<sup>14</sup> but the Draft Determination offers little explanation of how the support offered to customers by the company will help the increasing numbers of customers that they predict will struggle to pay their water bills.

The Draft Determination implies existing 'business as usual' affordability support through to 2030. There is only a limited proposal to expand its social tariff (currently funded through an £8 cross subsidy<sup>15</sup>) to support 8% of its customer base compared to the 7% currently supported. There are no proposals to introduce any new affordability support initiatives, besides its trial of a new Essential Use Discount scheme<sup>16</sup>. The company has advised CCW that it is considering innovative tariffs in the future based on better customer data the company has gathered, though this is uncertain.

Given current cost-of-living pressures on households and how most other companies are ramping up their affordability support, the poor progress on eradicating water poverty is unacceptable. Only 11% of SSC<sup>17</sup> customers say they could afford the bill increase proposed in the company's plan (and the Draft Determination bill impact is slightly higher). CCW expects Ofwat to push SSC to do more to offer greater support for those who may struggle to pay in the Final Determinations.

South Staffs is proposing a shareholder contribution of £2.22m (0.16% of RoRE). But this isn't sufficient to lift substantially more households out of water poverty. We note Ofwat's view that this shows moderate ambition. We believe that it does not go beyond the bare minimum that we would expect companies to offer in support for their customers<sup>18</sup>.

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<sup>14</sup> [South Staffs Water Business Plan 2025 – 2030 Page 48](#)

<sup>15</sup> [South Staffs Social Tariffs Research September 2023 \(Slide 19\)](#)

<sup>16</sup> <sup>16</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page5\)](#)

<sup>17</sup> Page 4: [South Staffs Water Affordability and Acceptability Testing Quantitative Fieldwork September 2023](#)

<sup>18</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page2\)](#)

## Costs and financing

### Cost efficiency challenge

Ofwat reduced SSC's proposed totex by £27m, to £863m.<sup>19</sup> As confirmed in the section above on 'bill profile', we expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

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.

### 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 was also allowed SSC an additional 0.35% premium on its assumed cost of debt financing due to the constraints it may face as a smaller company.

SSC carried out customer research<sup>20</sup> to support its request for this premium. CCW was generally happy with the standard of the research, and had the opportunity to comment on the materials before the fieldwork commenced. However, if customers are being asked to pay higher financing costs, they are entitled to expect a benefit in return. This means it is imperative that SSC delivers its

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<sup>19</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 5\)](#)

<sup>20</sup> [South Staffs Water: Company specific adjustment \(CSA\) research October 2023](#)



commitments efficiently, demonstrates to its customers a tangible improvements in the quality of service they are receiving, and improves affordability support it offers.

We recognise that with a large 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.

In this context, CCW supports 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<sup>21</sup>, as well as reflecting market conditions.

However the Draft Determination indicates that SCC's gearing level will be 70.5% by 2030<sup>22</sup>, above Ofwat's notional level. That may carry risk that could affect customers. CCW supports Ofwat's decision to require SSC to provide board assurance and further supporting information to explain how they will maintain adequate levels of financial resilience.<sup>23</sup>

The difference between the initial view of the assumed rate of return in the final PR24 methodology and the Draft Determinations has added an average of 2.7% to the average household bill in England and Wales (ranging from 1.2% to 6.6% depending on company size). This causes concern for CCW given customer affordability pressures, but its effect has been mitigated by the totex efficiency challenges Ofwat has applied.

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

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<sup>21</sup> Page 16 of [Ofwat's Financial Resilience Monitoring report 2022-23](#) shows that 11 companies are above the notional gearing level

<sup>22</sup> [Ofwat PR24 Draft Determinations Aligning risk and return appendix Table 13 \(Page 63\)](#)

<sup>23</sup> [Ofwat PR24 Draft Determinations Aligning risk and return appendix \(Page 65\)](#)

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

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing<sup>24</sup>, as it allows for greater transparency. This will be welcome as equity raised from private ownership structures can be opaque and complex. This is particularly a concern when dividends are paid.

We agree that non-listed companies should not be disincentivised from obtaining an equity listing because of the costs involved, and agree that in order to receive funding companies must demonstrate that any cost associated with obtaining listed equity are efficient and ensures 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 Determinations. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, and that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing.

The sharing mechanism discourages 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.

#### Dividends and executive pay

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<sup>24</sup> In the same way that FTSE index companies have listed equity

We are very concerned that Ofwat has found that SSC has not addressed many of the key factors in their dividend guidance<sup>25</sup>.

In addition, SSC's proposed policy for executive pay does not meet all Ofwat's minimum expectations, particularly regarding the link between bonuses and delivery of improvements for customers and the environment<sup>26</sup>.

Dividends and bonuses are, quite rightly, high-profile issues and subject to increased media scrutiny. They have, and will continue to be, the subject of customer concern. We are disappointed that SSC has not taken sufficient action to address both issues which are key to improving transparency and rebuilding consumer trust. We would expect the company to respond to Ofwat's concerns ahead of Final Determinations and ensure its dividend and pay policy is clearly aligned to delivery of service and environmental improvements for customers.

#### Financial resilience

Ofwat requires SSC to provide board assurance and supporting evidence to confirm and explain how they have assessed that they will maintain adequate levels of financial resilience in 2025-30<sup>27</sup>. We agree that given its gearing position, SSC needs to assure its customers that it can deliver its commitments at an efficient financing cost at low risk.

#### Cost sharing rates

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

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<sup>25</sup> Page 10: [PR24-draft-determinations-South-Staffs-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

<sup>26</sup> Page 10: [PR24-draft-determinations-South-Staffs-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

<sup>27</sup> Page 65: [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#)

## 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, including the work of South Staffs and Cambridge Water Independent Stakeholder Challenge Group in pushing the company to go further, summarising this effort in a few lines sends a signal that customers' views have not been adequately considered by Ofwat.

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

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future

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

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.

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

Our annual complaints reports<sup>29</sup> show a continued increase in customer complaints in the last three years. High volumes of complaints are evidence of a poor experience by many customers and can be an indicator of more fundamental problems.

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

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means

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

a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report<sup>30</sup>. By the start of the 2025 period, we will have three years of complaints information, which includes telephone and other ways to contact. Written complaints data has, of course, been reported on for many years.

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

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

#### Business customer experience

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

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

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

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

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

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

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

Under its 2025-30 Water Industry Environmental Programme (WINEP), SSC has a £19m programme that needs to deliver<sup>31</sup>:

- Biodiversity improvements across its region, including restoration of chalk streams and providing grants to local projects that will create or restore habitats
- Investigations to determine the most appropriate ways to maintain long-term sustainable water supplies and improve the environment
- Installation of eel and fish screens to prevent aquatic life getting trapped at Chelmarsh reservoir

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from SSC's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver<sup>32</sup>.

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<sup>31</sup> Page 7: [Overview-of-South-Staffs-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>32</sup> Page 13: [South Staffs Water: Customer Priorities Tracker](#)

## Nature based solutions

We welcome increased allowances for the company to use nature based approaches to improve environmental standards and reduce pollution. Our research shows that customers broadly support nature based solutions as they can be more sustainable in the long term<sup>33</sup>. South Staffs Water has been allowed £10m for catchment and nature based solutions<sup>34</sup> but it is not clear what the company is expected to deliver for this investment both in terms of schemes and outputs.

Our recent research<sup>35</sup> on river quality also shows that people have become more concerned about supporting nature and no longer relying entirely on built solutions. Protecting and restoring biodiversity is a generally well-supported concept, and a high priority for customers who see the wider benefits of working with nature.

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

## Drinking Water Quality programme

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. The industry will be doing more to co-ordinate lead reduction trials in 2025-30 so they can share learnings on what has most success in terms of customer engagement and uptake of lead reduction schemes, particularly in properties and private supply pipes. This should be a good basis for making further significant progress in PR29. South Staffs Water has been allowed £4m in its Draft Determination to replace around 10,000 lead communication pipes. This level of activity is similar to its delivery between 2020 and 2025, where it expected to replace c 11,000 lead pipes.<sup>36</sup> However, we question why costs have risen from £1.5m to £4m for a similar level of activity.

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<sup>33</sup> [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

<sup>34</sup> Table 33: [Ofwat: PR24 Draft Determinations Expenditure allowances \(page150\)](#)

<sup>35</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

<sup>36</sup> [Ofwat PR24 Draft Determination Models Water lead enhancement expenditure model\(Tab CP Unit costs analysis\)](#)



Ofwat has allowed SSC £38m<sup>37</sup> to improve the quality of drinking water. CCW supports this as a pragmatic approach to addressing risks to raw water deterioration and offers protection for customers through the use of the PCD mechanisms.

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

### Security and Emergency Measures (SEMD)

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

### Customer protections

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

### **Discretionary investment programme**

Discretionary investment is limited in this determination due to the high cost of the statutory investment programmes, as trade-offs have been made to protect customer affordability.

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

In this context, Ofwat must ensure companies provide assurance that any deferred investment does not lead to risk to service delivery in the intervening period, and indicate what future bill impacts

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<sup>37</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 12\)](#)

may be when companies have to 'catch up' at a later date. We also have a concern that deferred schemes may be more urgent and costly when it comes time to deliver them.

### Mains renewal

CCW welcomes South Staffs Water's approach to mains renewal – delivering the programme entirely through its base allowance and adopting a renewal rate of 0.56%<sup>38</sup> that represents a continuation of its position at the front of the sector on this measure<sup>39</sup>. Customers want to see a reliable and secure supply of water and seeing the company do its part in strengthening the reliability and security of its network will be important in helping to deliver the behaviour change required from customers to contribute to water efficiency targets.

### Net zero

We have concerns about South Staffs Water's commitment to reaching Net Zero. Ofwat has said the company proposed the least ambitious proposal for achieving net zero emission from its water activities across the entire sector<sup>40</sup>. Companies in England made a public commitment to achieve net zero carbon emissions by 2030<sup>41</sup>. This is not achievable under allowances in the draft determination, but the net zero commitment is still in the public domain. If this pledge is no longer achievable, companies need to be clear with customers on what progress will be made to 2030, when net zero will be fully achieved, and what the cost and bill impact implications will be of delivering this commitment.

## **Water resources and demand management**

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<sup>38</sup> Table 6: [Ofwat PR24 Draft Determinations Expenditure Allowances](#)

<sup>39</sup> [Ofwat PR24 Draft Determinations Mains renewal cost adjustment model \(Rates summary tab\)](#)

<sup>40</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 2\)](#)

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

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement SSC carried out to inform its business plan<sup>42</sup>. So CCW supports the £79 million allowed to invest in its water resources over 2025-30<sup>43</sup>.

This should help protect the region from drought, build new sources of water supply, and help customers save water, and it aligns with the company's Water Resources Management Plan. We support the challenge to SSC to deliver a 23% reduction in leakage<sup>44</sup>.

Ofwat noted that the company failed to include information about the development of the Fens reservoir for the Cambridge area within its plan and that further engagement was required with both South Staffs Water and Anglian Water to assess the impact of this scheme.<sup>45</sup> CCW expects further detail of this scheme to be provided ahead of Final Determinations so customers can fully understand the costs - which are expected to be in the region of £70m for 2025 to 2030<sup>46</sup> - and the benefits of the scheme, which include the ability to reduce the need to abstract water from the chalk aquifer in the Cambridge region.

### Water Resource Management Plan

Company research shows that customers place a priority on the security of their supplies<sup>47</sup>, so we support the twin track approach in the WRMP of increasing and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage. Ofwat highlights some misalignment between the business plan and WRMP which we would expect to be resolved ahead of Final Determinations<sup>48</sup>.

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if demand reduction isn't delivering, supply schemes can be fast tracked and vice versa). This will be needed if companies' limited control over how their customers choose to use water (particularly

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<sup>42</sup> Page 13: [Microsoft PowerPoint - 3410PRE07\\_YEAR 3 QUANT INSIGHTS\\_V15 \(south-staffs-water.co.uk\)](#)

<sup>43</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 10\)](#)

<sup>44</sup> [Ofwat: Overview of South Staffs Water's PR24 Draft Determination \(page 10\)](#)

<sup>45</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(Table 1\)](#)

<sup>46</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 6\)](#)

<sup>47</sup> Page 13: [Microsoft PowerPoint - 3410PRE07\\_YEAR 3 QUANT INSIGHTS\\_V15 \(south-staffs-water.co.uk\)](#)

<sup>48</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 6\)](#)

during droughts and reference the huge peaks in demand during 2022) means there are limits on how far they can go with demand management.

We support the added protection for customers through the use of 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 agree with investment to install 185,000 smart meters<sup>49</sup>. Customers support the benefits of the proposed reduction of household water use by 14% and business use by 7% from its average 2020-23 levels.<sup>50</sup> However it is not clear to us why the level of investment is stated as £51m in the South Staffs Water overview but £61.6m in the Expenditure Allowance appendix.

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

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

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

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<sup>49</sup> [Ofwat PR24 Draft Determination Expenditure Allowances Table 25 \(page 104\)](#)

<sup>50</sup> [Overview-of-South-Staffs-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) (page 10)

## Water Efficiency Fund

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

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

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

Performance Commitments (PCs) show evidence of significant improvements on current performance for a range of measures that matter to both customers and the environment. Ofwat highlights that South Staffs Water has shown ambition in its targets for water supply interruptions, leakage, water quality contacts and per capita consumption. CCW supports these as they are all areas that are priorities for customers.<sup>5253</sup>

## Serious Supply Interruptions

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

## Leakage

Leakage reduction is a customer priority. 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.

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

<sup>52</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 2\)](#)

<sup>53</sup> Page 13: [South Staffs Water: Customer Priorities Tracker](#)

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.

By 2029-30, SSC is required to deliver a 23% reduction in leakage from its average 2020-23 levels<sup>54</sup>. This will maintain the company's recent improvement in this area and help it catch up to the rest of the industry. South Staffs is currently rated as below average by CCW's Water Mark assessment of company performance for leakage<sup>55</sup>.

### Per Capita Consumption (PCC)

Ofwat rates South Staffs as having moderate ambition in this area but concerns are also raised about its ability to meet the 110 litres per person per day target by 2050 due to inconsistencies between the business plan and the WRMP<sup>56</sup>. In view of this, CCW questions whether the company is doing enough to drive down customer usage.

### Business demand

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

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

PCs show a reduction of 16% for business demand by the end of the AMP compared with 2019/20 baseline for the Cambridge area, but only 3.2% for South Staffs<sup>57</sup>. Defra expects an overall reduction in business usage of 9% by 2037. This shows that the Government requirement is being

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<sup>54</sup> Page 10: [Overview-of-South-Staffs-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>55</sup> [CCW Water Mark 2023](#)

<sup>56</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 6\)](#)

<sup>57</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-1-V4.xlsb>

met in the Cambridge area, but we question whether the company is being sufficiently incentivised to meet the Defra target in South Staffs.

### Drinking Water Quality customer contacts

South Staffs has shown considerable ambition in setting a stretching target for reduction of water quality contacts which, according to our analysis, should see it providing sector-leading performance if delivered. We welcome this approach because safe, reliable drinking water is always a top priority for customers.

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

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

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

### Outcome Delivery Incentives

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

In this context we support:

- ODI rates 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 customers<sup>58</sup> have a higher value, which we support.
- The removal of caps and collars for more established PCs, with an aggregate sharing mechanism in place to ensure any higher rewards for outperformance beyond PC targets are shared with customers. Established PCs have more historical performance data to inform target setting which means more confidence in the level of stretch and ambition set, so the protections from caps and collars are not needed to mitigate against uncertainty.
- The new reporting methodology Ofwat proposes, which will provide greater transparency, accuracy and assurance on how companies are performing.
- We do not support the use of enhanced ODI rates for six PCs<sup>59</sup> to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customers will still be asked to pay higher rewards than under rather 'standard' rates in this scenario.
- While this may encourage companies to go further and set the bar higher for others to follow, asking customers to pay more for an area of company performance that customers may regard as a basic responsibility by companies does not justify bigger rewards.

## Long term context

The five-year package of investment and PC targets should act as a milestone towards delivering a longer term set of outcomes. While there is some evidence that the five-year determination acts as a milestone towards longer term outcomes (for example, through the allowance of development

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<sup>58</sup> Water supply interruptions, Customer contacts about water quality, Leakage, Per capita consumption, internal sewer flooding, External sewer flooding, total pollution incidents, Storm overflows – these PCs have ODI rates of +/- 0.6% of RoRE (compared to +/- 0.5% for 'standard' ODIs).

<sup>59</sup> Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents



costs for long term investment projects and progress towards carbon emissions reduction), it's unclear to what extent the company's Long Term Delivery Strategy and adaptive planning informed decisions and the investment costs (and subsequent bill impacts for customers) that may follow in PR29.

The quality and ambition assessment comments state that Ofwat considers that its long-term delivery strategy (LTDS) adaptive plan was "*in line with our guidance*" and included appropriate alternative pathways on climate change and technology<sup>60</sup>

We note that Ofwat has identified discrepancies between the company business plan and the latest version of the WRMP and will look to understand more about the company's plan when the final WRMP is published in the summer.

## Enquiries

Enquiries about this consultation should be addressed to:  
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<sup>60</sup> [Ofwat PR24 Draft Determinations South Staffs Water Quality and ambition assessment appendix \(page 4\)](#)