



The voice for water consumers  
Llais defnyddwyr dŵr

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

## 2. Executive Summary

### Overall view

In the main, CCW supports Ofwat's Draft Determination for Yorkshire Water.

Overall, to deliver its performance commitments and legal obligations, Ofwat's draft decision provides Yorkshire Water with a total expenditure allowance of £7.3 billion over the 2025-30 period, which is 11% lower than the company requested<sup>1</sup>.

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

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

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

Customer trust in the sector has declined in CCW's annual Water Matters surveys<sup>2</sup>, and Ofwat's recent research<sup>3</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

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<sup>1</sup> Pages 2 & 3: [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>2</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>3</sup> [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

(23%) of people trust their water company to do what's right for the environment<sup>4</sup>. PR24 must be a strong driver for Yorkshire Water to address these worrying trends. We want all companies to demonstrate a culture of transparency and regularly update customers on their progress against this in order to improve customer satisfaction and trust.

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

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

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

- Ofwat's intervention to reduce first-year bill increase down from £85 to £52<sup>5</sup>
- Ofwat's intervention to reduce the speed at which Yorkshire Water recovers costs over time<sup>6</sup>. This means that Yorkshire Water will recoup more costs from customers in future periods when improved services have been delivered and is a fairer reflection of the benefits those customers will enjoy.
- The 60% decrease in addressing properties at risk of sewer flooding due to the company comparatively lagging behind others in the past<sup>7</sup>.
- The increase in Yorkshire Water's performance commitment ambition level for<sup>8</sup>:

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

<sup>5</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsx> tab RR14

<sup>6</sup> Page 13 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>7</sup> Page 10 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>8</sup> Page 3 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf> and the targets from Yorkshire Water's business plan page 121 [https://www.yorkshirewater.com/media/3tjnwuih/yky01\\_pr24-business-plan.pdf](https://www.yorkshirewater.com/media/3tjnwuih/yky01_pr24-business-plan.pdf)

- Leakage
  - Water supply interruptions
  - Internal sewer flooding
  - Repairs to bursts on its water mains
  - Customer satisfaction.
- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
  - Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much 'up front'.
  - The reduction of notional gearing to 55%<sup>9</sup> as higher leveraged capital structures have risks for customers.
  - The move to encourage more companies to have an equity listing<sup>10</sup>, as it allows for greater transparency and governance in the company's financial structure.
  - The introduction of BR-MeX to incentivise better customer service for business customers.
  - The use of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.
  - The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.

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

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<sup>9</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>10</sup> In the same way that FTSE index companies have listed equity

- We are disappointed to see Ofwat decrease the ambition of performance commitment levels for biodiversity<sup>11</sup>. In Yorkshire Water's acceptability testing<sup>12</sup> of its plan, customers supported the company target and its proposal to go further than what Ofwat have now determined.
- 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 Yorkshire 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>13</sup>.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.
- We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.
- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high risk gearing.
- In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent harm to rivers and bathing water.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

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<sup>11</sup> P122 [yky01\\_pr24-business-plan.pdf \(yorkshirewater.com\)](#) has Yorkshire Water's target and Ofwat's PC's can be found [here](#).

<sup>12</sup>This acceptability testing tested customers views on the companies proposed targets <https://www.yorkshirewater.com/media/xakh4i4e/ofwat-acceptability-and-affordability-testing-quantitative-final-report.pdf>

<sup>13</sup> [Water industry reaffirms pledge to work in the public interest | Water UK](#)

- 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 will undertake research with household and non-household customers 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 Yorkshire Water household customers, and will conduct in-depth interviews with a small sample of non-household customers.

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

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

While the results are not available in time for this response, when Yorkshire Water tested its business plan in 2023 it revealed only 17% of household customers found the plan affordable<sup>14</sup>, while 72% found the package of improvements acceptable<sup>15 16</sup>.

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Yorkshire Water needs to achieve 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.

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<sup>14</sup> Page 1 <https://www.yorkshirewater.com/media/xakh4i4e/ofwat-acceptability-and-affordability-testing-quantitative-final-report.pdf>

<sup>15</sup> Page 2 <https://www.yorkshirewater.com/media/xakh4i4e/ofwat-acceptability-and-affordability-testing-quantitative-final-report.pdf>

<sup>16</sup> This is based on Yorkshire Water's business plan testing on the basis of the CCW and Ofwat research guidance. When the company tested their plan using a variant of the Ofwat/CCW guidance the level of acceptability was 78%

## Bill profile

Ofwat's draft decision allows Yorkshire Water to collect £7.2 billion<sup>17</sup> through bills from both households and businesses over the 2025-30 period.

This will recover a share of the cost of historical expenditure, as well as a portion of the £7.3 billion<sup>18</sup> expenditure planned for 2025-30.

Overall, this will increase average household bills by £107 from 2024-25 to 2029-30 for Yorkshire Water customers before inflation, versus the £111<sup>19</sup> proposed in Yorkshire Water's business plan. This includes an average rise of £52.20 between 2024-25 and 2025-26 with the remaining £54.71 spread over the remaining four years (£16.74, £12.02, £13.11, £12.84).

Customers expressed a slight preference<sup>20</sup> for a "natural bill profile" (which increases in line with programme costs), lessening the initial impact of bill increases in the early years of the 2025-2030 period. Affordability and bill shocks are likely to be at their highest during 2024-25 and 2026-27 given continuing cost-of-living pressures for many customers. So this approach will go some way to help with this.

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

## Affordability support

Yorkshire Water plans to increase social tariff provision from 2% of households in 2020-25 to 3% in 2025-30<sup>21</sup>, and reduce the number of customers below the water poverty threshold by more than 50% by 2030<sup>22</sup>.

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<sup>17</sup> Page 4 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>18</sup> Page 3 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>19</sup> Page 42 [https://www.yorkshirewater.com/media/3tjnwuih/yky01\\_pr24-business-plan.pdf](https://www.yorkshirewater.com/media/3tjnwuih/yky01_pr24-business-plan.pdf)

<sup>20</sup> Page 7 <https://www.yorkshirewater.com/media/uidfokph/billing-profile-research-report-final-project-report-pdf.pdf>

<sup>21</sup> Page 11 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>22</sup> Page 46 of [yky01\\_pr24-business-plan.pdf \(yorkshirewater.com\)](https://www.yorkshirewater.com/media/3tjnwuih/yky01_pr24-business-plan.pdf) "this business plan aims to reduce the number of customers below the water poverty threshold by more than 50% by 2030".

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 approximately 15% of customers unable to afford their water bills throughout this price control period<sup>23</sup>.

We believe companies should make direct contributions to funding their social tariff. In this context we welcome the company shareholders' contribution of £12.5 million towards social tariffs, £6 million to hardship funds and £30 million matching payments made by customers repaying debts<sup>24</sup>.

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

While we welcome the increase in assistance for customers who need it, Yorkshire Water should continue to monitor water poverty levels and increase support further, using own funds if necessary. We also would like to see Yorkshire Water align with the Water UK public interest commitment to eliminate water poverty by 2030, because even with the cost efficiency challenges and resulting lower bill increase proposed by Ofwat, many customers will still struggle to pay.

## **Costs and financing**

### Cost efficiency challenge

Overall, to deliver its performance commitments and legal obligations, Ofwat's draft determination reduced Yorkshire Water's proposed total expenditure allowance (totex) over the 2025-30 period by £909m, to £7.3bn<sup>25</sup>. This is £1.9 billion more than the company's cost allowance in the current price review period (2020-25).

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<sup>23</sup> [Yorkshire Water 2025-30 business plan](#) page 11: 'Water poverty modelling shows that more than 85% of our customers can afford water bills throughout this plan period'.

<sup>24</sup> Page 11 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>25</sup> Page 5 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>



Ofwat considers that Yorkshire Water can deliver its performance commitments and obligations for less cost than it requested, and as such the proposed allowances are 11% lower than the company's plan<sup>26</sup>. Customers expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

Ofwat's total allowance includes £2.5 billion<sup>27</sup> which should be spent on new assets and service improvements that will provide benefits to the environment, resilience and customer service. It also includes £5.1 billion<sup>28</sup> for Yorkshire Water to run the business from day to day. This includes the costs of operating and maintaining the company's assets.

### Energy Costs

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

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

### Assumed Rate of Return and Weighted Average Cost of Capital

Ofwat has increased the allowed rate of return to 3.72% (compared to the 3.23% initial view in the final methodology)<sup>29</sup>. We recognise that with a high-cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

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

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<sup>26</sup> Pages 2 & 3 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf) (ofwat.gov.uk)

<sup>27</sup> Page 5 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>28</sup> Page 5 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>29</sup> Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf) (ofwat.gov.uk)

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>30</sup>, as well as reflecting market conditions.

It is in this context that we support the reduction of notional gearing to 55%<sup>31</sup> as higher leveraged capital structures have risks for customers.

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

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

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

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

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed<sup>32</sup>.

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

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<sup>30</sup> Page 16 of [Ofwat's Financial Resilience Monitoring Report 2022-23](#) shows that 11 companies are above the notional gearing level.

<sup>31</sup> Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>32</sup> For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

### Supporting new equity issuance

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment<sup>33</sup>.

Companies will need to raise new equity and we agree that there are potential benefits to customers if companies have an equity listing<sup>34</sup>, as it allows for greater transparency. This will be welcome as equity raised from private ownership structures can be opaque and complex. This is particularly a concern when dividends are paid.

We agree that non-listed companies should not be disincentivised from obtaining an equity listing because of the costs involved. We agree that in order to receive funding companies must demonstrate that any costs associated with obtaining listed equity are efficient and ensure the delivery of customer supported investment.

### Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations<sup>35</sup>. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing<sup>36</sup>.

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

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

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<sup>33</sup> Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

<sup>34</sup> In the same way that FTSE index companies have listed equity

<sup>35</sup> [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

<sup>36</sup> Confirmed in separate correspondence from Ofwat to CCW.

## Cost sharing rates

We accept Yorkshire Water'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.

## **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 Yorkshire Water Forum for Customers 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>37</sup>

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<sup>37</sup> [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

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

## **Customer experience**

### C-MeX

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

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

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

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>38</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

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<sup>38</sup> [Household customer complaints report 2023 - CCW](#)

reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report<sup>39</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.

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<sup>39</sup> [Household customer complaints report 2023 - CCW](#)

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**

The Draft Determination proposes £2 billion expenditure allowances<sup>40</sup> for Yorkshire Water to undertake a significant investment programme to improve the environment over the 2025-30 period. It includes:

- £1.1 billion to reduce the use of storm overflows. Yorkshire Water will invest in increasing storage capacity in the wastewater network, including in sustainable drainage solutions, to relieve the pressure on sewers.
- £367 million to prevent nutrient pollution in rivers. Yorkshire Water will invest in chemical and biological phosphorus removal at wastewater treatment works to protect biodiversity and improve the health of Yorkshire's rivers and coasts.

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<sup>40</sup> Page 8 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

- £240 million to monitor river water quality. Yorkshire Water will install the first phase of enhanced river water quality monitors, providing continuous real-time information on the impact of its activities on watercourses.

Ofwat's decisions include all the outputs and outcomes proposed by Yorkshire Water within its Water Industry National Environment Programme (WINEP) but with an efficiency challenge of £260 million on the costs put forward by the company<sup>41</sup>.

We recognise that the £2bn environment programmes is driven by legislation, but we have seen from Yorkshire Water's customer engagement and the research to test the business plan<sup>42</sup> that customers broadly want to see the improvements this programme should deliver.

### Storm overflows

Ofwat felt that Yorkshire Water's target for decreasing storm overflows was unambitious<sup>43</sup>. It has responded and set a challenging target to achieve a 43% decrease in storm overflow spills by 2030<sup>44</sup>. We are supportive of the requirement for the company to do more on this.

In the absence of a performance commitment to track the harm caused by storm overflow spills, we want to see a clear plan from the company which demonstrates its delivery of the storm overflow reduction programme prioritises the spills that cause most frequent cause harm to rivers and bathing water.

Such a prioritisation plan should be transparent to customers so they can be assured that the storm overflows causing most harm are subject to improvements first. Yorkshire Water must commit to publishing its prioritisation plans to show how it will deliver work to address storm overflows.

To enable this, the company needs to address any 'gaps' in its evidence<sup>45</sup> and may need to carry out further assessments of sites at risk. Ultimately, companies should comply with their licence and make sure no spills occur unless there is exceptional weather.

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<sup>41</sup> Page 8: [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](https://www.yorkshirewater.com/media/z4uka1h2/independent-affordability-and-acceptability-report-fv.pdf)

<sup>42</sup> <https://www.yorkshirewater.com/media/xakh4i4e/ofwat-acceptability-and-affordability-testing-quantitative-final-report.pdf>

<https://www.yorkshirewater.com/media/z4uka1h2/independent-affordability-and-acceptability-report-fv.pdf>

<sup>43</sup> page 1 [PR24-draft-determinations-Yorkshire-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](https://www.yorkshirewater.com/media/z4uka1h2/independent-affordability-and-acceptability-report-fv.pdf)

<sup>44</sup> page 2 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](https://www.yorkshirewater.com/media/z4uka1h2/independent-affordability-and-acceptability-report-fv.pdf)

<sup>45</sup> The EA's Reasons for not achieving Good (RNAG) data may provide such evidence.



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

We support the level of base costs allowed for addressing reductions in storm overflow spills and the harm they cause. We consider that companies can deliver improvements in storm overflow spills by preventing or removing blockages, undertaking investment to ensure existing permits are met and maintaining assets well. The Environment Agency identified in 2021-23 that 18% of high-spilling overflows are due to operational issues including maintenance<sup>46</sup>.

### Nature based solutions

We welcome the proposed £4m allowance<sup>47</sup> for the company to use nature based approaches to some of the solutions needed 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>48</sup>.

Our recent research<sup>49</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.

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.

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<sup>46</sup> [Event Duration Monitoring - Storm Overflows - Annual Returns - data.gov.uk](https://data.gov.uk) (see table 5 2022 EDM Storm Overflow Annual Return

<sup>47</sup> page 80 [PR24-draft-determinations-Expenditure-allowances-to-upload.pdf \(ofwat.gov.uk\)](https://ofwat.gov.uk)

<sup>48</sup> [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](https://ccw.org.uk)

<sup>49</sup> [Customer Spotlight: People's views and experiences of water 2024 - CCW](https://ccw.org.uk)

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.

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

### Mains renewal

The Draft Determination allows Yorkshire Water expenditure to increase the water main renewals rate from 0.21% to 0.66% over 2025-30<sup>50</sup>. The allowance includes a cost adjustment for asset health. We think that this allowance should be used solely to target the worst condition mains, i.e. those with the highest burst rate, defined as condition grade 4 (poor) and 5 (very poor) mains.

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

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<sup>50</sup> Table 6: <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Expenditure-allowances-to-upload.pdf>

## **Water resources and demand management**

Ofwat proposes to allow Yorkshire Water to invest £225 million<sup>51</sup> to invest in its water resources over 2025-30. This investment should help protect the region from drought, build new sources of water supply, and help customers save water.

It allows:

- £153 million for smart meters to encourage customers to use water efficiently
- £16 million to reduce leakage by investing in more advanced pressure management methods and adopting advanced analytics to detect leaks more quickly

Customers placed a high priority on the reliability and resilience of water supplies in the customer engagement Yorkshire carried out to inform its business plan<sup>52</sup>, so we support this investment water resources over 2025-30.

### 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>53</sup>.

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

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

As such, we welcome Ofwat's challenges to the company's PC targets to deliver more stretching improvements than it proposed in areas where we highlighted as key customer priorities in our

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<sup>51</sup> Page 9 <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf>

<sup>52</sup> [yky01\\_pr24-business-plan.pdf \(yorkshirewater.com\)](#) page 91 'Customer priority: Providing a continuous supply of water that is safe to drink'

<sup>53</sup> Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

assessment of the business plan<sup>54</sup>. We believe that the increased ambition in these areas will result in improved outcomes for customers.

We are pleased to see Ofwat address the areas where Yorkshire Water is lagging<sup>55</sup> behind by increasing the performance commitment ambition level for:

- Water supply interruptions
- Internal sewer flooding
- Repairs to bursts on its water mains
- Customer satisfaction

We are also pleased to see Ofwat increase targets for storm overflow spill reduction and leakage where it felt the company was unambitious<sup>56</sup> in its targets.

We are disappointed that Ofwat has set a less stretching target than the company proposed for total pollution incidents. As the more stretching target was supported by Yorkshire Water's customers<sup>57</sup>, we believe the company's ambitions for this PC should be upheld by Ofwat in Final Determinations.

### 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 medium customer priority for Yorkshire Water customers<sup>58</sup>. As such we welcome the company's efforts to continue to reduce leakage. It helps improve the resilience of water resources, protect the environment and also supports companies in reducing their GHG emissions from treating and pumping water.

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<sup>54</sup> Water supply interruptions, internal and external sewer flooding, business demand and storm overflow spills, leakage and per capita consumption

<sup>55</sup> Page 2 [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

<sup>56</sup> page 1 [PR24-draft-determinations-Yorkshire-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

<sup>57</sup> <https://www.yorkshirewater.com/media/xakh4i4e/ofwat-acceptability-and-affordability-testing-quantitative-final-report.pdf>

<sup>58</sup> Page 67 [Slide 1 \(yorkshirewater.com\)](#)

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

For Yorkshire, the 12%<sup>59</sup> absolute target for leakage reduction against the 2024-25 baseline is a welcome challenge to apply a more stretching target than proposed by the company.

### Sewer flooding

Sewer flooding is a high customer priority for Yorkshire Water customers<sup>60</sup>. Ofwat's joint research with CCW<sup>61</sup> shows the impact sewer flooding can have on households, businesses and communities. So this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

Ofwat's absolute target for reducing internal sewer flooding will lead to a 61% reduction from Yorkshire Water's current level of performance<sup>62</sup>. The target for external sewer flooding will lead to a 17% reduction. This reflects a customer priority, but it is unclear how Ofwat has reconciled the 13% absolute target for all companies into the level of percentage 'stretch' needed over 2025-30. CCW would like to see this presented more clearly in the final determination.

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

### Business demand

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

Yorkshire's draft determination requires a 4.8%<sup>63</sup> reduction in business demand by the end of the AMP, compared with a 2019/20 baseline. Defra expects an overall reduction in business usage of 9% by 2037. But companies have varying business demand targets, with some set modest

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<sup>59</sup> Page 9 <https://www.ofwat.gov.uk/publication/overview-of-yorkshire-waters-pr24-draft-determination/>

<sup>60</sup> Page 64 [Slide 1 \(yorkshirewater.com\)](#)

<sup>61</sup> [Customer experiences of sewer flooding - CCW](#)

<sup>62</sup> [Overview-of-Yorkshire-Waters-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) page 10

<sup>63</sup> [Key-Dataset-1-V3.xlsx \(live.com\)](#)

reduction targets or a small increase by 2030. This raises questions of whether companies are being sufficiently incentivised to meet the Defra target.

#### Drinking Water Quality customer contacts

Providing a continuous supply of water that is safe to drink is the highest priority<sup>64</sup> for customers. Providing water that is aesthetically pleasing (clear and clean with no odour or unusual taste or colour) is a medium priority<sup>65</sup> for customers. So we are pleased that Ofwat has proposed an additional stretch to the target and allowed Yorkshire Water an enhancement allowance<sup>66</sup> to achieve this. We are aware the 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 CCW supports:

- 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.

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<sup>64</sup> Page 64 [Slide 1 \(yorkshirewater.com\)](#)

<sup>65</sup> Page 67 [Slide 1 \(yorkshirewater.com\)](#)

<sup>66</sup> Page 118 [PR24-draft-determinations-Delivering-outcomes-for-customers-and-the-environment.pdf \(ofwat.gov.uk\)](#)

- 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>67</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>68</sup> to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customer will still be asked to pay higher rewards than under rather 'standard' rates in this scenario.

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.

The £7.3 billion allowed in this price period has been considered in line with Ofwat's requirement<sup>69</sup> for companies to position their near-term plans in the context of a 25-year delivery strategy.

Yorkshire Water's long-term strategy<sup>70</sup> didn't fully meet<sup>71</sup> Ofwat's minimum expectation. However, Ofwat felt that it could feasibly be used for long-term delivery.

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<sup>67</sup> Water supply interruptions, Customer contacts about water quality, Leakage, per capita consumption (PCC), 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>68</sup> Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

<sup>69</sup> Page 5 [https://www.ofwat.gov.uk/publication/overview-of-yorkshire-waters-pr24-draft-determination/yky09\\_long-term-delivery-strategy.pdf](https://www.ofwat.gov.uk/publication/overview-of-yorkshire-waters-pr24-draft-determination/yky09_long-term-delivery-strategy.pdf) (yorkshirewater.com)

<sup>71</sup> Page 4 [PR24-draft-determinations-Yorkshire-Water-Quality-and-ambition-assessment-appendix.pdf](https://www.ofwat.gov.uk/publication/pr24-draft-determinations-yorkshire-water-quality-and-ambition-assessment-appendix.pdf) (ofwat.gov.uk)

This price control period has uncertainties around impacts of new requirements from the Environment Agency, which may result in an in-period determination being needed.

There is also potential for other price control re-openers with from ODIs, delivery costs mechanisms and energy cost adjustments.

CCW is concerned about this as there could be further affordability concerns for customers within this price period.

### **Enquiries**

Enquiries about this consultation should be addressed to:

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