

12 June 2025

PR24 redetermination team
Competition and Markets Authority
25 Cabot Square
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By email:

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Dear PR24 redetermination team,

Water PR24 price redeterminations: Approach and prioritisation: call for views

Thank you for setting out the Competition and Markets Authority's (CMA) proposed approach to the PR24 redeterminations and providing the opportunity to comment.

We fully recognise the need for the CMA to focus its work and resources in order to complete the PR24 redeterminations fairly, efficiently and at proportionate cost within the statutory timeframes. The unprecedented scale and complexity of the PR24 redeterminations require a streamlined and pragmatic approach and clear prioritisation of the areas the CMA should re-examine.

We welcome the CMA's intention to carry out an independent assessment of the **cost of capital and enhancement allowances, and to scrutinise Ofwat's approach to setting cost allowances as part of an assessment of the overall calibration of risk and return**. These issues are of fundamental importance to many of our members. They have raised serious concerns that the determinations that, if left uncorrected, are likely to have significant and lasting consequences for the sector's ability to deliver for customers and the environment. As part of any redetermination, the CMA is right to say that *"we do not consider that the current legal framework for our redeterminations allows us to disregard relevant, available and robust data."*¹. We agree with CMA's proposals on reviewing the cut-off data points for its final redetermination to ensure the latest available evidence is reflected in its decisions.

¹ [PR24 Approach and prioritisation 28 May 2025](#), p.24

Whilst it will consider specific companies' projects that relate to main renewals, meter replacement, network reinforcements and selected company-specific cost adjustment claims (paragraphs 47 and 48) we are concerned by the CMA's decision to deprioritise overall **asset health** on the basis that Ofwat's ongoing 'roadmap' review provides an alternative route to consider these issues. Indeed, the recent Interim Report of the Independent Water Commission has dedicated an entire chapter to asset health, demonstrating the critical importance in addressing the current challenges in the sector.

The CMA argues that *"...consideration of more fundamental changes to the regulatory framework are best addressed through industry-wide policy work, outside of these redeterminations."* To be clear, the industry is not seeking fundamental changes to the regulatory framework as part of the redetermination. On the contrary, it is our firm view that price reviews should provide companies with sufficient allowances to ensure their assets can be kept in good health. Indeed, Ofwat itself agrees with that position and has recognised that its methodology has failed to deliver. However, since the CMA first pointed out the manifest failures of Ofwat's methodology as part of its redeterminations of PR19, Ofwat should have found the time in the intervening years to make the necessary corrections in time for PR24.

The industry thinks it wholly reasonable to conclude that Ofwat has had ample time to address the very clear and reasonable challenges identified by the CMA at PR19. It is not acceptable that Ofwat allowed an entire control period to come and go without addressing these issues.

Whilst Ofwat has said that it **may** provide additional allowances within this price control (AMP8), there is no guarantee. History would suggest any reasonable adjustment is not likely to happen. Indeed, Ofwat's so-called "Roadmap for enhancing asset health understanding in the water sector" is precisely that. It is a possible means by which the mere understanding of asset health may be enhanced. It is no more than that and it is certainly not a guaranteed route to the provision of greater allowances to enable sufficient asset health.

Ofwat's roadmap, such that it is, risks repeating Ofwat's mains renewal error by introducing retrospective expectations as to how much companies should have spent in the past on a specific asset class, ignoring their capital maintenance needs in the round and whether those were adequately funded. This increases the risks to companies and customers that arise from the underfunding of capital maintenance, including that asset failures will occur which could have been prevented.

More specifically, we would argue that it is abundantly clear that:

- 1) The pace and progress of work to date to develop a robust asset health approach is too slow. The CMA notes that, *"... following the CMA's suggestion in its PR19 redeterminations and wider recognition of this issue, Ofwat has accepted the need to incorporate a 'forward-looking' element when setting base cost allowances. While Ofwat is reviewing its approach to asset health, it told us that the complexities involved meant it was unable to install a comprehensive solution prior to PR24"*. We recognise it is not necessarily straightforward to develop a 'forward looking' approach to asset health. However, over four years after the CMA's suggestion, and following publicly voiced

concerns from organisations such as the National Infrastructure Commission², it is very unfortunate that such limited progress has been made. Whilst the roadmap process is very welcome, Ofwat's progress within that work should not be overstated. For example, contrary to Ofwat's statements, there has been no material improvement in the amount of information available on asset condition and it is simply not the case that 70% of assets are in better condition than they were in 2009³. The roadmap process has set out a taxonomy of over 250 asset types; we do not believe that Ofwat will be able to consider many of these during AMP8 - there are practical limits to what can be achieved in the time available, given Ofwat's approach of examining each asset group separately.

- 2) The scope to revisit funding for asset health in AMP8 remains uncertain. We note the CMA's suggestion that, *"Ofwat's approach may also provide additional allowances to companies within this price control period (AMP8)"*. However, at this stage of Ofwat's 'roadmap' review and in the absence of any uncertainty mechanisms relating to assets health (as Ofwat has introduced for other areas, e.g. bioresources), it is far from clear that Ofwat would be well-placed to revisit its PR24 funding decisions on asset health over AMP8 in a way that could begin to make a discernible difference to asset health condition. The absence of a formal mechanism to adjust allowances limits the confidence that companies can have in the roadmap process. It would be relatively straightforward for the CMA to introduce, for example, a notified item to increase that confidence.

In the context of a full redetermination, it is difficult to see how the CMA can discharge its legal function without examining the relevant asset health issues. Indeed, even just looking at the specific investment cases it has highlighted in the approach document would still require the CMA to give a view on the existence, or otherwise, of a capital maintenance problem in the sector. At the same time, whilst the CMA's time and administrative pressures are well understood, as an expert economic regulator, the panel is uniquely placed to give views on these matters. Indeed, the CMA is arguably the only body that is able to hold the independent economic regulator to account. If these decisions are delayed, then the real consequences for customers are simple and clear - it will cost customers more to fix these issues in the future and customers will be facing greater risk of disruption to the essential water and wastewater services they receive.

The sector continues to invest significant effort in mapping and assessing their asset base to inform the development of a more robust and forward-looking regulatory approach. We also remain fully engaged with, and supportive of, Ofwat's work. However, we are keen that Ofwat's work does not unduly focus on the collection of asset condition data without also thinking (in parallel) about the design of appropriate funding mechanisms. The sector has already done much work in this area (including consideration of

² [Letter to National Infrastructure Commission re: Water Company Asset Management - Ofwat](#)

³ [Disputing companies' joint reply to Ofwat's responses.pdf](#), pp.2-3

approaches in Scotland and the energy sector) and is keen to engage with Ofwat and wider decision-makers on this.

On the **setting of social tariffs**, we recognise that the setting of social tariffs is not within CMA's powers to determine. Across the 2025-30 period, companies are committed to doubling the proportion of customers receiving social tariff support, from around 4% in AMP7 to 9% in AMP8. This equates to support for over two and a half million customers⁴. This commitment sits alongside wider affordability measures including debt support, hardship funds and targeted financial assistance. In addition, the sector is working closely with Defra and wider stakeholders on the development of a new, national social tariff that would help to standardise the eligibility criteria and levels of support across the country, ensuring low-income households receive the support they need.

Finally, we wanted to reiterate the strongly held position of the clear majority of our members in relation to the **investability and stretch** in the PR24 determinations. This is as outlined in our previous submission, namely:

- We remain concerned about the investability of the PR24 settlement and the regulatory framework more broadly for the long term. These concerns were raised consistently throughout the price review process, both by us⁵ and companies directly⁶. The sector does not consider that these were adequately addressed in the setting of the allowed return in the Ofwat Final Determination or the overall balance of risk and return; and
- We also have significant concerns about the extent to which the settlement is stretching but achievable, in stark contrast to the comments made that the settlement represents a balanced package in the round. Data for the full AMP7 period (2020-25) is not yet available, but we already know from Ofwat's latest performance report⁷ that all companies have significantly overspent on their combined water and wastewater allowances, and that 13 out of 17 are facing service performance penalties. This does not appear consistent with a PR19 settlement being 'balanced' or 'achievable', and it is therefore very reasonable for companies to be concerned about this mistake being repeated in PR24.

We wanted to ensure that the CMA is clear on the collective view of the vast majority of companies operating in the sector.

Once again, we appreciate the opportunity to comment and look forward to engaging further as the CMA finalises its approach.

⁴Water UK publication: *Water companies to triple customer support, but further reforms needed*, January 2025

⁵David Henderson to David Black - 28th August 2024.pdf

⁶As shown by the company responses to the Draft Determinations.

⁷*Water Company Performance Report 2023-24 - Ofwat*, p.29

Yours faithfully,

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Director of Regulation