The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

PR14 Review – CCW's response to Ofwat's call for input

Date: 8 January 2021

1. Introduction

1.1 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 provide input to Ofwat's review of the 2014 Price Review, to inform the framework for the next price review in 2024.

2. Executive Summary

2.1 PR14 represented change in the approach to economic regulation of the water sector. It introduced a number of innovations, many of which have carried forward into PR19. Whilst 2014 seems a long time ago, the opportunity to examine the value and the customer benefit from these changes is to be welcomed, with an associated willingness to go further and build on the aspects that served customers well.

2.2 In summary, CCW considers the following changes introduced at PR14 to have been beneficial for customers:

- A focus on outcomes and Performance Commitments (PC) that reflect evidence of customers' priorities and expectations. Performance data from commonly applied PC's should, over time, allow Ofwat to set more stretching and challenging performance targets to ensure companies keep improving.

- The introduction of total expenditure (totex) as a basis for setting cost assumptions, as this equalised the incentive for companies to propose the best opex or capex based solutions to meet customers' expectations.

- The step change in the quantity and quality of customer engagement companies carried out for PR14. In the best instances this saw companies starting to move from customer engagement being seen as a "once every five years" activity to business as usual. This is having a positive impact on day to day decision making and services and not just price reviews.

2.3 We have concerns with the following changes introduced at PR14 as they have negatively impacted customers:

- The complexity of the price setting process. While separate price controls can reveal more detailed costs to inform regulatory efficiency challenges, this added complexity and can be hard for stakeholders to engage with.

- The introduction of Outcome Delivery Incentives, which while intended to drive company performance, had a lack of support from many customers. As some PC targets were easier to achieve in 2015-20 than anticipated, some companies gained ODI rewards that in hindsight indicated that the PC targets could have been higher.

- While the initial long term context introduced by identifying outcomes at the start of the price setting process was welcome, it could be argued that the price review had less focus on the long term in the latter stages of the PR14 process. At this point, the longer term strategic context in which business plans were developed was lost as the more short term effects of the 2015-20 price settlement received more focus.

- Introducing an incentive for companies to deliver high quality and well-evidenced PR14 business plans has, in hindsight, showed that ambitious business plans and subsequent determinations did not necessarily lead to actual good performance for customers over the price control period.
- Company financial performance in 2015-20 saw customers pay more than they should have in terms of how companies were able to outperform Ofwat's PR14 assumptions with particularly strong outperformance on the cost of debt. The balance of risk and return was balanced more in companies' favour, as shown by the companies' outperformance illustrated in CCW's annual reports analysing the companies' financial performance.[1].

3. Responses to the consultation questions

Separate controls

Q1: To what extent did separating controls improve understanding and transparency of costs in different parts of the value chain (i.e. wholesale water and wastewater; retail business and residential)?

The introduction of separate retail and wholesale controls was welcome as it led to greater clarity of the costs associated with different parts of the value chain. This can inform greater regulatory efficiency challenges and more accurate cost assumptions that benefit customers.

Unfortunately, this has also led to greater complexity in the price setting process, which can make it harder for stakeholders to engage with it, an issue we suggest Ofwat needs to consider as the methodology for PR24 is developed.

Q2: How effective were the controls at supporting the development of the business retail market for customers of companies operating wholly or mainly in England?

The separation of retail and wholesale controls was also necessary in order facilitate price controls for the non-household retail market in England that opened in April 2017. The wholesale price control led to the 'pass though' of wholesale charges to non-household customers, while the non-household retail price control and margin was used to set the default tariffs in the market. This was effective in that it established the 'base price' for retailers in the market.

While the separation of price controls was necessary, so was a separation of data on non-household retail assets and usage, in particular meters. This separation was incomplete and in cases inaccurate which has contributed to the subsequent underperformance of the business retail

[1] CCW's annual reports analysing companies' financial performance can be found here

market. The separation of price controls and the separation of data both needed to be done well to enable the market to operate well.

Q3: Do you have any other feedback on this objective?

As part of Ofwat's review of separated price controls, CCW would not welcome an increase in the non-household price control margin as a way of attracting more retailers into the market. This is because the resulting price increase for customers could be seen as a lever to force customers to switch, in a market that is already beset with a high number of customer complaints and customer service problems.

Focus on delivery

Q4: To what extent did PR14 performance commitments reflect outcomes rather than outputs?

The outcomes approach is a welcome innovation as it focuses on the 'end result' for customers. The Performance Commitments set for 2015-20 broadly reflected the outcomes companies identified as priorities in their business plans based on customer evidence and led to a focus on what matters for customers rather than technical outputs. The set of PCs for each company had targets that drove companies to work towards achieving higher-level outcomes (e.g. PC's on reducing water supply interruptions and leakage were part of the actions needed to achieve an outcome based on reliable water services).

Q5: To what extent did the PR14 outcomes reflect customer priorities throughout the period?

Customer priorities can change over time as customers' expectations can evolve or be informed by factors such as greater awareness of the effects of climate change[2]. Customer opinion of companies' performance may also change once comparative information is available to show how an individual company is performing compared to others. While the 2015-20 outcomes for companies reflected customer evidence based outcomes, customers' changing expectations may mean outcomes need to change and customers views asked frequently

However, customer evidence at PR19 shows that the highest priorities for customers (reliable water supply, reliable sewerage service) remain unchanged, though the specific asset health PCs that measure the delivery of such priorities are technical and not 'customer friendly'.

The decision at PR14 to offer each company the opportunity to propose their own outcomes and their own measures of performance and ambition led to a complex and confusing series of proposals.

[2] CCW Water Voice research (June 2020) on customers' views on how climate change can affect water companies shows that customers understand how climate change can affect the services they receive from water companies and that, eventually, there could be an impact on the price we pay.

The result was a large set of PCs proposed by each company that used different measures and lacked the benefits of comparability. Many PC's were also informed by the results of 'willingness to pay' research to measure customers' priorities, which was also inconsistent with a wide variation of customers' valuations of different aspects of service. Ofwat had to address this late in the process with the introduction of common PCs that enabled some comparability.

Q6: Did the outcomes framework impact on the way companies contracted with the supply chain during 2015-20?

No comment. This question is aimed at the water companies.

Q7: Did the outcomes approach affect the way companies operated during 2015-20 in other ways?

From CCW's perspective, the outcomes approach allows CCW and other stakeholders to track company performance. This influenced how companies operate in that their poor performance could be seen by customers and stakeholders, allowing for challenge where appropriate.

Q8: To what extent did the performance commitment levels set accurately reflect the stretch that could be achieved with allowed totex? Did you observe any differences between comparable and bespoke performance commitments (or any other performance commitments)?

CCW's annual analysis of companies' financial performance shows that several companies were able to achieve their PC targets (and thus earn ODI outperformance payments). This shows that in many cases the totex allowance was sufficient for the required performance commitment to be achieved.

A comparison of Ofwat's efficiency rankings of water companies with our WaterMark rankings shows that three companies (Portsmouth, SSC and Yorkshire) come out in the upper quartile for both cost and service in 2015-20, showing that companies can be both cost efficient and deliver required service levels. CCW's annual reports analysing companies' financial performance also show that companies that have achieved ODI rewards for meeting or exceeding their targets have often also outperformed their totex allowance.

At PR19, as PCs had been in place for five years, Ofwat would have had performance data from the new measures set at PR14 to make more stretching and ambitious performance targets for the 2020-25 period.

Q9: Were financial incentives effective in incentivising companies to improve performance? Where were financial incentives:
a. most effective and why; and
b. least effective and why?

Outcome Delivery Incentives were effective in driving company performance, but can be seen to be over-generous in hindsight where companies were more easily able to achieve what was initially seen as a challenging target and thus earn outperformance rewards. For example, Severn Trent's cumulative performance from 2015 to 2019 saw it outpace its RoRE assumption by 1% through ODI rewards generated by outperforming sewer flooding PC targets. The average ODI performance during this period was 0.2% (weighted average RoRE). This indicates that, in hindsight, the PC targets may not have been sufficiently challenging.

This also shows evidence that companies may have pursued ODI rewards that were more lucrative at the expense of less lucrative performance commitments.

The customer perception of ODIs should also be considered. In much research, customers are far from convinced that they should see increases in their bill because a company has improved performance in an area (even if it is an area customers view as a priority). They repeatedly express the view that they do not want to see companies rewarded for doing what they consider to be "the day job". They are even sceptical about the levying of penalties; both about whether they will actually notice the penalty being returned to them through a bill reduction when so many other moving parts affect their bill, but also as to whether to penalise the company will lead to better performance.

Q10. Were reputational incentives effective in incentivising companies to improve performance? Where were reputational incentives:
a. most effective and why; and
b. least effective and why?

CCW has seen companies improve in response to their comparatively poor performance being highlighted in public domain reports, which customers, stakeholders and the media can access. For example, CCW's reports on companies' complaints handling performance.

However, reputational incentives alone may not be sufficient to drive performance improvements, but are a useful tool when they work alongside regulatory incentives that apply penalties and/or sanctions for failure or deteriorating performance.

Q11: What impact did caps, collars and deadbands have on the management of risk and performance? Where were they:
a. most effective and why; and
b. least effective and why?

At PR14, ODI deadbands were applied to protect companies and customers from small variances in performance that may drive a reward or penalty. This means that fluctuations that may be the result of events outside of management control are not financially rewarded or penalised. This would be most relevant for areas of performance that are influenced by weather such as sewer flooding. However, for PCs where companies have greater control and fewer external factors, the use of deadbands can weaken the incentive. This led to Ofwat reducing the use of deadbands at PR19.

Caps and collars help protect customers from exposure to unlimited rewards and penalties on individual ODIs and allowing companies to have higher reward or penalty rates focussed over a smaller performance range. Caps and collars were needed at PR14 as so many of the performance measures were new which meant there was less comparative or historical information on performance so it is hard to know that the performance commitment level is stretching. This meant greater customer protection was needed.

Overall, given the evidence from CCW and company research that many customers do not support ODIs, the use of cap and collars put a suitable limit on the potential bill impact.

Q12: To what extent did CCGs ongoing involvement during the PR14 period help companies to focus on delivery for customers?

The additional challenge from CCGs in terms of delivery can be helpful in holding companies to account, but that is dependent on the quality of that particular CCG.

Some CCGs, taking the lead from their Chairs, saw their role as confined to those described as mandatory in Ofwat's methodology, arguing that this in itself was demanding enough for small teams with largely voluntary members.

Others took on a broader role, including challenging performance. Irrespective of the approach of CCGs, CCW continually challenged company performance through its regular engagement with all companies on behalf of customers and was able to make cross company comparisons to inform our challenges.

Q13: Overall, to what extent did PR14 encourage a greater focus on delivery of outcomes customers wanted, during 2015-20 and longer term?

There was an initial focus on required long term outcomes in the early stages of the PR14 process. A clear link between the PC's proposed by companies and the higher level of longer term outcomes could be seen. However, in the latter stages of the PR14 process, the longer term strategic context in which business plans were developed was lost as the more short term effects of the 2015-20 price settlement received more focus.

Q14: Do you have any other feedback on this objective?

No further comments.

Value for money

Q15: To what extent did the move to a totex approach at PR14 encourage more efficient delivery solutions? Was there a more efficient balance of capex and opex expenditure during the 2015-20 period? How did it compare with what was forecast?

The introduction of totex appears to have reduced the perceived 'capex bias' seen at earlier price reviews as it equalised the incentive for companies to propose capital or operational based solutions. This is helpful for CCW in its challenge to companies to identify the right solutions for customers and the wider environment.

There is a risk that this benefit can be undermined, particularly for significant schemes that may fall into a bespoke or “enhancement” category, if regulatory judgments and the tools used to facilitate them are not adapted for solutions that do not rely on a built asset. Natural Capital valuation is in its infancy and needs to develop, with a need to consider the fact that the scale and pace of the improvement in an outcome will not have the same precision with a nature based solution as can be attributed to a hard engineering alternative. Assessment tools and methods for nature based solutions need to be more robust and consistent to ensure that they are considered on an equal footing with traditional “end of pipe” solutions.

CCW’s analysis of companies’ financial performance has shown that many companies were able to outperform their totex assumption for 2015-20. Seven companies reported outperformance on expenditure in the 2015-20 period, ranging from +0.48 per cent (Severn Trent) to +2.60 per cent (South West).

Ofwat applied a tougher efficiency challenge at PR19 due to the benefits of having more detailed data from separate price controls set at PR14. .

Q16: Did companies make use of the option to bring forward investment to 2014-15? Was this option helpful?

In the past, year one of the price control period typically had low spend which ramped up later i.e. programmes back-end loaded. Allowing an ‘early start’ for agreed investment a year before the price control period has helped mitigate this, and can help reduce the risk of bill spikes for customers.

Companies are best placed to provide details on whether any investment was brought forward successfully, but if the evidence Ofwat receives in response to this consultation demonstrates that well evidenced investment can be started earlier, in order to benefit customers, then this should be retained for PR24.

Q17: How well did the PR14 econometric models assess the efficient level of base costs for water and wastewater?

CCW is not best placed to consider the technical nature of the econometric models used for price setting. However, the introduction of the totex based approach to setting cost assumptions required a different methodology from Ofwat, and the companies’ totex outperformance referred to in our response to Q15 shows that companies were able to consistently outperform the assumptions Ofwat made.

While the econometric models are technical in nature and not generally accessible to non-experts, the principle of regulatory transparency is important. Publishing the econometric models used at an early stage in the process helps remove some of the opacity surrounding the use of “black boxes” to set prices and helps build greater trust.

Q18: How well did the PR14 approach to assessing enhancement costs work? Were there any notable differences for different categories of expenditure?

At PR14, Ofwat challenged some companies in cases where proposed enhancement expenditure was not sufficiently demonstrated to offer service delivery or innovation above and beyond the base cost allowance. This avoided customers paying twice through allowances in base and enhancement costs. Ofwat challenged both the scope of the proposed investment and its cost, which customers would expect a regulator to do in order to avoid paying for investment or service delivery that companies may already be funded for. This was in the context of Ofwat applying a risk based approach so that bigger or higher value schemes received greater scrutiny.

Companies are better placed to comment on the details of Ofwat's cost assessments.

Q19: Overall, to what extent did PR14 deliver value for money for customers?

The PR14 Final Determinations were generally viewed by CCW as a positive outcome for customers, with real term price reductions and outcomes that reflect evidence of customers' priorities and expectations. CCW's Water Maters research[3] shows that customers' view of the value for money of water and sewerage services has gradually increased over this period.

However, the Weighed Average Cost of Capital (WaCC) did turn out to be higher than was necessary, leading to companies being more profitable than appropriate given the low risk of the industry.

As mentioned above, evidence from CCW research (and from some companies' research[4]) shows that customers do not support the principle of incentivising what is seen as basic service delivery through the introduction of Outcome Delivery Incentives (ODIs). This means that ODI rewards achieved by companies during 2010-25 may not be seen as value for money by customers, especially if they could not directly see any benefit in return.

The two companies with 'enhanced' business plans (Affinity and South West) had Ofwat determinations that broadly reflected their business plans, albeit with a higher cost of capital than Ofwat set more generally at Final Determinations. Both companies received a financial reward for attaining this status, but were immune to most challenges later in the process. In hindsight, this can be seen a not delivering value for money for customers as Affinity did not deliver many of its commitments to customers in the subsequent five years.

Q20: Do you have any other feedback on this objective?

No further comments.

Sustainable use of water resources

Q21: To what extent did the water trading incentives encourage companies to look for opportunities to trade water?

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[3] Water Matters highlights report
[4] Outcome Delivery Incentives – the customer view (SPA research for CCWater, March 2014) http://www.ccwater.org.uk/wp-content/uploads/2014/03/Outcome-and-Delivery-Incentives-Report-FINAL.pdf

Despite the introduction of water trading incentives at PR14, Ofwat's analysis shows that water trading of bulk supplies had remained at 4% to 5% of distribution, which shows that the incentive did not lead to the increase in trading Ofwat may have hoped for.

Q22: To what extent did the abstraction incentive mechanism encourage companies to reduce abstraction in water stressed areas?

Defra's policy paper on its water abstraction plans (updated in September 2020)[5] shows that unsustainable abstraction from the environment is gradually decreasing and credits Ofwat's abstraction incentive mechanism (AIM) as one of the 'tools' for making this happen. However, relatively few companies had significant and material schemes that were supported by the AIM. The Defra paper highlights there that there is still much to do to reduce unsustainable abstraction from sources that are more sensitive to water stress. This shows that there is a need to review the effectiveness of the AIM (and whether it should be retained or improved) ahead of PR24.

Q23: To what extent did the water efficiency performance commitments encourage companies to make better use of water?

CCW's report on the resilience of water and wastewater service from 2018[6] shows that 2017-18 saw a slight increase in the amount of water that each person uses each day (+0.23%), an increase of +1.14% over two years. Additionally, 2017-18 has seen a slight increase in water consumption for unmetered (+1.17%) consumers and a more significant increase for metered (+1.59%) consumers. This would suggest that not enough was done to incentivise greater water efficiency

Leakage has also stagnated for most of AMP6 – though some reductions in leakage were seen at the end of AMP6 only after Ofwat confirmed it wanted a 15% reduction in 2020-25.

This indicates that more needs to be done to challenge companies to increase water efficiency and reduce leakage (which, at 21% of public water supply, is also often a higher customer priority and is seen by customers as a wasteful activity, affecting their behaviour towards water saving).

Water efficiency performance commitments are important, but they need to be meaningful, to be measured accurately and in a standard way. The new standard definitions introduced at PR19 should help address this.

Water efficiency PCs can be a particularly troublesome example of the ODI regime, in which customers, who reduce consumption, helping to deliver a much-needed improvement in water efficiency and resilience of water supplies, could be faced with an increased bill as the company are financially rewarded for this improved water efficiency performance.

Q24: Overall, to what extent did the PR14 approach encourage more sustainable use of water resources?

[5] Defra water abstraction plan September 2020
[6] Water Water Everywhere – Delivering resilient water and wastewater services 2017-18

Our responses to questions 21 to 23 shows that Performance Commitments, incentives and allowances at PR14 had limited success in encouraging a more sustainable use of water. While PCC increased, leakage and unsustainable abstraction reduced gradually (as per our response to Q23, leakage did not see a notable decrease until the 15% challenge arrived). Water trading incentives did not lead to the increase in bulk supply in trading Ofwat may have hoped for.

Q25: Do you have any other feedback on this objective?

No further comments.

Balance of risk and return

Q26: Do you think PR14 struck the right balance of risk and return between customers, companies and their investors?

Given the evidence submitted by CCW in the run up to PR19, it is our clearly held view that the balance of risk and reward, as in preceding price reviews, was too generous to investors and to the disadvantage of customers.

CCW believes that prevailing market evidence and a more realistic appraisal of sector risk through a less generous equity beta was justified in 2014. It seems from the approach taken by Ofwat in PR19 that this perspective is now accepted by Ofwat at least to a large extent, if not yet by the CMA.

Company financial performance in 2015-20 saw customers pay more than they should have in terms of how companies were able to outperform Ofwat's PR14 assumptions with particularly strong outperformance on the cost of debt. The balance of risk and return was balanced more in companies' favour.

Q27: How, if at all, did the new approach to setting the cost of debt affect company financing decisions over 2015-20?

While CCW and its consultant's analysed companies' financial performance since 2015, companies are better placed to explain their debt financing decisions in relation to Ofwat's PR14 assumed cost of debt.

Independent analysis by Economic Consulting Associates (ECA) for CCW in May 2017 found that while Ofwat's Final Determination for PR14 set a WaCC that was lower than many stakeholders had anticipated, water companies raised debt at costs generally around the level of market benchmarks and below Ofwat's allowance. This has been a consequence of a general downward trend in debt costs, which has persisted for longer than many (including regulators) expected.

Q28: Was greater flexibility around cost recovery (PAYG or RCV run off rates) beneficial in terms of promoting financeability – or more widely?

Companies are better placed to explain how decisions around cost recovery (PAYG and RCV run-off) benefited their financeability. However, CCW raised concerns in its review of PR14 ("A Step in the Right Direction")[7] and in response to Ofwat's draft PR19 framework and methodology that the PAYG ratio should not be used as a mechanism (by Ofwat or companies) to offset a lower WaCC by increasing short-term revenue.

The PAYG ratio should only be increased if there is robust evidence that customer detriment may be caused by financing constraints if a company's short-term revenue allowance is not increased. PAYG ratios should not be re-adjusted at the expense of customers at a later date.

Q29: How did our approach to financeability impact on company behaviour during the PR14 period?

While we do not have specific examples where companies may have cut back on investment or made redundancies to accommodate financeability challenges, the companies' financial performance over 2015-20, as highlighted elsewhere in this response, does show that many companies were able to finance their required investment, meet performance targets and outperform Ofwat's assumptions on capital financing and expenditure. .

Q30: Was the PR14 RoRE analysis helpful in understanding the overall balance of risk and return? Was the information reported by companies and Ofwat in 2015-20 on actual performance on a RoRE basis an effective way of measuring and understanding company performance against the final determinations? Could it have worked better?

We welcomed the transparency of the RoRE analysis as a means to understand the drivers of companies' out or underperformance.

Q31: Were there any ex-post areas of PR14 where companies were assigned risks inappropriately or were exposed to too much or too little risk?

In the context of the overall risk and return package, we felt that companies were over compensated on the WaCC. From the customer perspective, the absence of a regulatory mechanism to share any cost of debt outperformance clearly favoured the companies.

Q32: To what extent did the introduction of the financial monitoring regime at PR14 reduce the risks posed to customers by financial structures?

We welcomed the financial monitoring regime and the publication of Ofwat's monitoring financial resilience reports. We supplemented this with our own reports on companies' financial performance, which aimed to provide a more customer focussed view. It is difficult to say whether risk reduced because of the monitoring regime. Some companies' decisions to reduce gearing over the period, for example, could have occurred in the absence of the monitoring regime. The introduction of the gearing outperformance sharing mechanism at PR19 is perhaps indicative that risks persist notwithstanding the monitoring regime.

Q33: Do you have any other feedback on this objective?

[7] A Step in The Right Direction – CCW's review of PR14

No.

PR14 reconciliation mechanism

Q34: How well did the PR14 reconciliation mechanisms work?

The mechanism is, perhaps inevitably, complex and its impact can be significant. It did appear to have operated more effectively than in the transition between previous AMPs.

General PR14 questions

Q35: What do you think the main successes of PR14 were?

PR14 had a positive outcome for customers with more focus on customer supported outcomes and Performance Commitments, and a high level of acceptability (74% uninformed, 72% informed) of Ofwat's Draft Determinations as shown in CCW's research[8].

The outcomes approach allowed for (initially at least) a focus on the priorities for customers and the environment, and although, this was less so in the final stages of the process, it meant PR14 at least commenced with a longer term outlook.

The introduction of Performance Commitments means areas of service that are important for customers could be targeted – albeit the use of Outcome Delivery Incentives were not supported by the majority of customers.

The introduction of separate retail and wholesale price controls would in the longer term allow Ofwat to apply more efficiency challenges through the availability of more detailed data of costs in each part of the value chain.

Whilst it is the subject of a separate consultation, it is important to signal here that one of the most important successes of PR14 was to cause companies to begin improving the quantity and quality of customer engagement that they have undertaken. In the best instances this moved customer engagement from being a "once every five years" activity to business as usual. This is having a positive impact on day to day decision making and services and not just price reviews.

Q36: Are there any specific areas of PR14 that you think should be improved for future price reviews?

The four main areas for CCW of PR14 initiatives that carried on into PR19, which we would like to see improved are:

- The use of Outcome Delivery Incentives. While we recognise the rationale for incentivising companies to deliver commitments, the current model lacks customer support. We would

[8] Customer acceptability of Ofwat's PR14 Draft Determinations

like to see if and how incentives can be applied, that could attract greater customer 'buy in'. Our PR19 'lessons learned' report explores this issue in more detail[9].

- While we support the use of Performance Commitments, there is a need to periodically review PCs to ensure they reflect evidence of customer priorities, avoid complexity and retain challenging and stretching targets to areas of service customers' value. We are pleased that ahead of PR24 Ofwat is engaging with stakeholders with this aim in mind.

- Customer engagement has evolved considerably since PR14, in terms of scope and techniques. However, it remains unclear how far evidence of customers' views influenced decision making at PR14 and PR19. We are keen to work collaboratively with you on this for PR24.

- PR14 saw the introduction of CCGs. Our PR19 'lessons learned' report highlights issues with the lack of comparable information available to CCGs, these group's independence and limited influence at PR14 and PR19. CCW supports a review of how customers' views are represented at future price reviews. We are actively discussing this with you and considering options for the future.

Q37: Based on your experience of PR14, are you aware of any unintended effects (positive or negative) from the policies implemented?

The use of Outcome Delivery Incentives has the risk of companies focusing on areas of service delivery that offer the strongest rewards, possibly at the expense of other (equally important) Performance Commitments.

Company financial performance since 2015 also shows that the Weighed Average Cost of Capital set at PR14 was, in hindsight set too high as companies' were able to raise finance at a lower rate than Ofwat assumed.

Q38: What elements of the PR14 objectives are still relevant for future price reviews?

Ofwat's PR14 objectives on regulating for efficiency and growth, focus on customers, and ensuring sustainable water use are all still relevant for PR24 and beyond

Q39: Are there wider considerations that require a change in regulatory approach from PR14?

The changing landscape in terms of customers' expectations and affordability and the increasing prominence of the climate crisis and environmental impacts means there has been (and there is a need to continue) an evolution in how the sector is regulated. There is a greater need to consider regulation in a longer term context, taking in account future challenges and risks associated with climate change, and a constant need to understand how customers' expectations (influenced by

[9] CCW Lessons Learned from PR19

the wider social and economic situation) can change over time and the views of different generations. Regulation needs to adapt to this.

Q40: Do you have any other additional information or data that you would like to share with us to assist with the PR14 review?

CCW has a wealth of customer research evidence from PR14, including our research on customers' views on ODIs and Draft Determination customer acceptability research, as well as our customer satisfaction tracking research from over the PR14 period. All of this has been shared with Ofwat previously, but CCW can provide copies if required.

Q41: If time allows, would you be happy for us to get in touch to discuss your feedback on PR14 in more detail?

Yes.

Enquiries

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