



The voice for water consumers  
Llais defnyddwyr dŵr

**CCW's response to  
'PR24 and Beyond:  
Creating Tomorrow Together'**

**Ofwat's high level design for the 2024  
Price Review**

July 2021

# 1. Introduction

- 1.1 The Consumer Council for Water (CCW) is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators.
- 1.2 We welcome the opportunity to provide input to Ofwat's proposed high level design for the 2024 Price Review (PR24).

## 2. CCW's priorities for PR24

- 2.1 Given the imbalance in power in the sector it is critical that an independent consumer voice is strengthened. To place our response of the high level design in context, CCW has the following priorities for the 2024 price review:
- CCW should lead on collaborative centralised research where appropriate and beneficial to do so. We believe that we are best placed to do this.
  - CCW can provide support for local challenges to companies in the development of their business plans by sharing data and information, supporting the Chairs of local stakeholder groups, and providing a new independent assurance role of companies local challenge processes.
  - CCW can ensure the customer voice is heard by Ofwat and others, through the PR24 Challenge Panel or our own Central Oversight Group (COG) proposal, set out in our response to Chapter 6 on Customer Preferences.
- 2.3 We want high quality customer evidence to be used and that can be achieved by:
- Broadening engagement so we understand views as citizens, consumers and customers, where these agree and where there are differences, both for this generation and the next.
  - Centralising research giving company specific insights in areas where there are obvious benefits from comparability; engaging companies on all research activities
  - Building on what we already know about consumers views (from complaints, contacts and third party evidence)
- 2.4 Plans should only be fast-tracked where companies have:
- Excelled at delivering the promises they previously made to customers. Considering past delivery alongside the quality of business plans, and evidence showing how customer views have been reflected in it, will help strengthen the customer voice in the price review.
  - Demonstrated that the company has shared its good practice on customer engagement and any new innovation in how its delivers its services, with the rest of the sector. This

will how show a company has effectively 'raised the bar' for others to follow, to customers' benefit.

- 2.6 Ofwat should also make it clear how the views of consumers can influence decisions across the PR24 / business planning end-to-end process. We want a Price Review that clearly and unambiguously responds to the needs and priorities of customers.

### **3. Creating Tomorrow Together – Summary of CCW's response**

- 3.1 We are in agreement with much of what Ofwat has proposed in the '*Creating Tomorrow Together*' paper and have welcomed the openness with which Ofwat has been willing to share its early thinking with CCW and to seek our views on its proposals, particularly in relation to the areas of customer engagement. We also welcome the focus on long term goals and the early consideration of reconciling some of the competing priorities the sector faces.
- 3.2 In this summary we highlight some of the areas where we either have a different view to Ofwat, or have our own thoughts on what is needed for customers at PR24:
- The sector should fully adopt the recommendations from the Independent Review of Affordability. Getting these support measures in place now will allow investment decisions at PR24 to be taken in knowledge that customers are being protected.
  - CCW should lead on the collaborative nationwide research programme so we have one version of the truth on key questions about customers' priorities, willingness to pay and customer acceptability/affordability of business plans and draft determinations.
  - Local groups must be provided with better comparative information to support their challenges to companies. CCW's Central Oversight Group (COG) model, or Ofwat's PR24 Challenge Panel, could be a way of delivering this information and performing a benchmarking role to drive up standards.
  - Any 'fast-track' procedural incentive must have a focus on past delivery, high quality engagement and the sharing of good practice as key qualifying conditions.
  - Ofwat should apply Outcome Delivery Incentives (ODIs) to actual Outcomes, rather than individual Performance Commitments.
  - C-MeX performance should be used as a gateway for access to ODI outperformance payments. Companies that fail to perform to their customers' satisfaction should not be receiving rewards.

## 4. Responses to Ofwat's questions

### **Chapter 2: Ambitions for PR24**

#### **Q2.1: Do you agree that the themes we have suggested for PR24 are appropriate for England and for Wales?**

We agree with Ofwat's high level themes for PR24. In our 'lessons learned' assessment of the 2019 price review<sup>1</sup>, CCW recommended that future price settlements should act as a milestone towards delivering longer term strategic aims, and that there is an opportunity for a stronger and clearer customer influence in the price setting process through evolving customer engagement (and how evidence from it is used) across the sector. Ofwat's themes reflect this.

#### **Q2.2: Do you have comments on the considerations we've identified as relevant to the design of PR24?**

The sector needs to fully adopt the recommendations in the Independent Review of Water Affordability led by CCW. The measures that the review identifies to help customers who are financially vulnerable will ensure that adequate support is in place ahead of the price review period.

Knowing that support is being provided to help those customers who may struggle to pay their bills will allow Ofwat and companies' greater confidence to plan for the short, medium and longer term without the concern that additional investment will exacerbate existing affordability problems.

We agree that the wider environmental pressures resulting from climate change will also be an overarching consideration for decisions made by companies and Ofwat through PR24. This is one of the reasons why the long term context of PR24 is important. While setting price determinations for five years that form part of a longer term aim would be positive, there needs to be some flexibility to account for future uncertainties so that the sector can respond to new and emerging evidence (e.g. climate impacts) quickly and effectively.

Finally, CCW support streamlining the process to reduce some of the complexity in the price setting process (one of the recommendations in our PR19 'lessons learned' paper). However, this should not be at the expense of losing detail about how evidence of customers' views has influenced decisions.

Our 'lessons learned' highlighted the need for Ofwat's determinations to show more clearly the extent to which customer evidence informed decisions (and if customer evidence was not used, or disregarded, Ofwat should explain why).

CCW's framework for customer engagement<sup>2</sup> at PR24 builds on our review of research and other engagement applied by companies at PR19. The framework should be followed to provide more detailed evidence of the needs, priorities and expectations of different customer groups. We are pleased that the high level design highlighted that understanding the diversity of customers' views and responding to them will be an important consideration in this price review.

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<sup>1</sup> [Lessons Learned from the 2019 Price Review - CCW, October 2020](#)

<sup>2</sup> [CCW - Framework for water company research, November 2020](#)

### **Q2.3: How should we evaluate our progress, and how can we best develop or use appropriate metrics to do so?**

We agree that Ofwat should evaluate its progress towards meeting its aims for PR24. We would like to see Ofwat develop metrics that measure how well its decisions and actions are reflecting customer evidence.

For example, metrics based on evidence of customers' priorities resulting from the centralised collaborative research can show to what extent Ofwat's decisions are reflecting those priorities. This would show to what extent the price review is driven by customers.

We suggest that Ofwat could use its PR24 Challenge Panel as a forum for periodically reporting on how it is faring against these measures.

### **Chapter 3: How we regulate**

#### **Q3.1: How can we best regulate the water sector to deliver value for customers, communities and the environment? Do you agree, or have comments on, our proposal to maintain our 'building block' approach based on outcomes, costs and risk and return?**

We agree that Ofwat should be regulating the sector with the aim of ensuring essential environmental and social needs are identified and met, especially in the context of water and wastewater being a largely monopoly sector.

We agree with the following building blocks to regulation that Ofwat sets out, though the ways in which these building blocks are applied is important:

- **Price controls.** While we agree price controls should determine the revenue and investment companies need to deliver for customers, five year price controls should be set in a longer term context, as highlighted in our response to Q2.2.
- **Outcomes** should reflect evidence of what customers expect and need from water and wastewater services. Performance Commitments and other deliverables required of companies should contribute to the achievement of these high level and long term outcomes. To reduce complexity, we agree that there should be fewer Performance Commitments at PR24.
- **Cost assessments** should continually challenge the sector to deliver greater efficiencies. We agree that Ofwat should continue with the 'totex' approach to setting expenditure. We are aware that some companies have challenged Ofwat with their belief that it is not possible to increase cost efficiency while applying more challenging performance targets. Our analysis has found that a number of companies have been able to achieve both requirements<sup>3</sup>.
- **Risk and reward** is an important building block as this should incentivise companies to finance themselves efficiently and deliver their commitments to customers. However, Ofwat

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<sup>3</sup> Comparison with CCW's WaterMark measures and Ofwat's efficiency rankings shows that Portsmouth, Yorkshire, and South Staffs achieved this in 2018-19.

should avoid over-estimating risk to companies and their investors at the expense of customers, as has been seen in past outperformance by companies. The use of incentives should also have customer support, which has not always been the case in the past with Outcome Delivery Incentives.

- **Markets.** The introduction of bio-resource and water resource markets has added a layer of complexity to regulation and has not delivered the level of benefit Ofwat may have envisioned (e.g. water trading has not developed to the extent it should have when this market was introduced). We support further analysis to identify whether and to what extent independent system operators could improve how well these markets deliver, learning from how similar processes work in other sectors.
- We agree **resilience** is an important building block given the long term challenges we set out in our response to Q2.2. Cross sector collaboration, sharing good practice and encouraging innovation should be ways in which long term resilience is effectively delivered for customers and the environment. We believe that incorporating these attributes into the assessment for fast-tracking of plans will encourage companies to deliver them. (See answer to question 5.5)

**Q3.2: To what extent is greater co-ordination required across the sector? In what ways might we promote better co-ordination across companies and with other sectors, and how might this benefit customers?**

CCW is supportive of greater coordination across the sector where this can deliver benefits for customers and the environment. Initiatives such as RAPID, and the development of regional planning frameworks such as DWMPs and WRMPs have benefits that should encourage innovation, good practice sharing and (in some cases) can lead to more efficient and effective outcomes.

We think there is scope to do more coordination on customer research (which we explore in more detail in our response to Chapter 6). We also think Ofwat should incentivise companies to share their good practice, to benefit the sector as a whole. This could be part of a new 'fast track' incentive for company business plans, an idea we expand upon in our response to Chapter 5.

**Chapter 4: Focus on the long term**

**Q4.1: What are your views on the need for greater focus in companies' regulatory business plans on how they will deliver for the long term?**

In our 'PR19 lesson learned' paper, we called for Ofwat's framework for PR24 to encourage companies to produce business plans that are considered in the context of a longer -term strategic plan (as with the Strategic Direction Statements required at PR14).

We welcome Ofwat's proposal that companies should:

- Place their delivery plans for the price review period clearly in the context of long term strategies; and
- Long term strategies being developed as part and parcel of the five year business plan submission

Ofwat will need to be more explicit about how it will trade off short and long term requirements in service performance, resilience, affordability and investment needs in the PR24 methodology.

**Q4.2: What should long-term strategies seek to cover and what details should we expect companies to set out in business plans? Would common requirements help us and other stakeholders to understand each company's approach?**

Companies' long-term strategies should address future challenges such as asset resilience and the effects of climate change on delivering the service customers expect. This will mean future price controls are more clearly seen as part of a longer term strategy.

These strategies should be presented as a set of long term outcomes informed by customer evidence. The strategies should also show:

- The long term risks to service delivery and how they will affect customers and the environment if unaddressed; and
- The actions needed to remove or mitigate these risks and over what timeframe.

Business plans can then clearly show how the companies' actions over the five years acts as a milestone toward achieving the longer term outcomes.

Companies should be required to refer back to their existing long-term plans (set at PR19) and set out the evidence to justify any significant deviation. Companies need to be held to account for previous commitments and not simply allowed to present a new 'long-term strategy' every five years which ignores what they have promised to deliver for customers in the past.

**Q4.3: How could this build on the work completed in strategic planning frameworks?**

The development of a long term strategy, as set out in our response to Q4.2, should also be in the context of strategic frameworks from the UK and Welsh Governments to address some of the long term risks (e.g. carbon reduction) and related strategic frameworks that are in development.

Examples of these are the new outcome-based WINEP (Environment Programme) from the Environment Agency and the Defra and Welsh Government led forums and taskforces to identify required actions to address long term risks (e.g. pollution from storm overflows).

**Q4.4: How can we allow such strategies and plans to adapt to new information at future reviews while continuing to hold companies to account to deliver expected benefits into the future?**

We agree with Ofwat that company business plans and their long term strategies should clearly show where there are areas of uncertainty and how the company may need to do more (or change direction) when new evidence emerges.

This could mean that some company commitments will need to be revised in the light of new information or evidence. We expand on how this can be carried out in our response to Q4.8.

**Q4.5: Would providing our views on comparable aspects of companies' plans in advance of Business Plan submission streamline the price review process?**

Yes. We agree with Ofwat's proposals to provide an early view of its thinking in the following areas:

- Baseline cost allowances
- Common Performance Commitment Levels (PCLs) and their associated Outcome Delivery Incentives (ODI) rates.

The early 'reveal' of these base requirements would give companies and their stakeholders clarity earlier in the process, informing what companies need do to engage with customers on their proposed PC targets , and help companies and stakeholders see more accurate costs and subsequent bill impacts earlier in the process. Early clarity on the scope and timings of the collaborative nationwide research will also help companies to plan their own engagement programmes.

This would help reduce some of the complexity and allow companies and their stakeholders to:

- Focus on what the 'discretionary' part of the plan needs to do in order to meet customers' requirements (informing 'enhancement' costs and investment); and
- Where customer evidence shows to what extent companies may have to go beyond the baseline performance to meet customers' expectations in terms of operational performance.

**Q4.6: Should we adopt a collaborative approach to developing Welsh companies' plans at PR24? If so, how should we go about doing this?**

Yes. We recognise that the Well-being of Future Generations (Wales) Act 2015 requires certain public bodies to promote sustainable development. This could present companies with opportunities to work collaboratively with these public bodies, enabling them to jointly develop certain aspects of their plans.

We agree that bringing together Welsh companies and their stakeholders to identify high-level outcomes and long-term objectives for the future would be beneficial as long as such a collaborative approach ensured that evidence of the needs and expectations of Welsh customers are 'front and centre' of the development of required outcomes and objectives.

**Q4.7: What are your views on how we could provide clarity over the long-term regulatory framework?**

We agree with the Ofwat paper that companies' focus on the long term can be improved if long term PC targets and ODI parameters are set at an early stage at PR24.

These targets and parameters should be reflective of evidence of customers' required outcomes, and should be sufficiently ambitious to meet the long term challenges the sector faces.

Overall, this would help to more clearly show how five year plans fit within a longer term strategy – and how stretching and ambitious the short term and long term plans are.

In England, the Environment Agency's moves toward a longer term outcome based WINEP (Environment Programme) will also help this approach.

**Q4.8: Are there barriers to water companies changing how they deliver their core functions to deliver greater environmental and social value? How can we address any barriers?**

Setting long term targets and parameters come with risks due to future uncertainties which can be a barrier, so the parameters and targets should be set with some flexibility that they can be periodically reviewed as when new evidence or information (such as changes to Government policy) arrives that may justify a change.

Periodic re-assessment of the targets and parameters should be carried out transparently with stakeholders and customers consulted.

We also feel that the competitive nature of the price review process at PR19 stifled collaboration within the sector. Ofwat should seek to address this at PR24 as we explain in our answer to question 5.5.

**Q4.9: Do you have any further suggestions for increasing the focus on the long term? If so, what are these?**

In our response to questions 4.2 and 4.5, we mention how customer evidence has a role in identifying long term outcomes and setting performance targets.

Companies' customer engagement on future outcomes (i.e. the needs and expectations for future customers) has evolved over PR19. Evidence from this customer engagement should inform the trade-off between current and future needs, and what the appropriate pace of delivery (and associated bill impacts) for service improvements and Performance Commitments would be to achieve the right balance. We expand on this further in our response to Chapter 6.

**Chapter 5: Strengthening Incentives**

**Q5.1: Should we undertake an initial assessment of plans at PR24? If so, what areas should we focus on in this assessment?**

**Q5.2: Should we consider adopting a more light touch approach at PR24 for companies with a strong track record of delivery during the PR19 price review period? If so, what factors should we consider in our assessment and why?**

**Q5.3: Should we streamline the price review by combining different steps in the process? If so, which of the three options outlined in this paper should we consider? And are there other options we can usefully consider?**

In answer to all three questions, we think it is worth retaining the initial assessment of plans (IAP) stage of the price review as it is helpful in getting an early indication of Ofwat's view of business plans and identifying which companies need to make significant improvements.

We are in favour of simplifying the price review process as it has become too complex and unwieldy. The best option is to combine IAP and early Draft Determinations. This would retain the early view delivered by the IAP and the procedural benefit for companies who had well put together plans. We think it is important that companies that are lagging behind have additional time to improve their plans and test them for customer acceptability.

There needs to be more of a focus on past performance when assessing a company's future plans. A company that has failed to deliver on its previous commitments should have its future promises viewed with more scepticism and be subject to greater scrutiny to ensure it is not, once again, over promising.

Ofwat should consider a mechanism to claw back any financial incentive that a company is allowed on the basis of presenting a good plan if it then lets customers down and fails to deliver on the targets it set itself.

**Q5.4: Is a different approach needed for the initial business plan assessment for companies in England and in Wales?**

This will depend on the parameters of the collaborative approach to business planning that is proposed for adoption in Wales. If a negotiated settlement approach is used then the value of an IAP assessment for Welsh companies may be limited.

**Q5.5: What incentives should we provide for high quality plans at PR24? If we don't make use of early draft determinations, how else might we strengthen incentives to table high quality plans on first submission?**

Making past performance for customers a stronger part of the assessment for determining high quality plans could incentivise companies to focus on customers right through the price control period, before their business plan is developed.

CCW wants to see companies demonstrate the embedding of a culture that prioritises the delivery of the best possible service for customers and wider society. Measuring staff buy-in through regular surveys, and being open about the results of these surveys and the actions taken to address any concerns or suggestions raised by staff, would be a good way of demonstrating this commitment.

Ofwat should look at companies' customer service performance and how well it has delivered against customer priorities in the previous five years. Strong evidence of sector-leading performance against these measures, alongside a well evidenced and ambitious business plan, could justify fast-track status.

Requiring evidence of high quality customer engagement and demonstrable evidence of its impact on company business plans should be a pre-requisite to obtaining 'fast-track', or whichever procedural benefit Ofwat decides upon. Companies could decide they just need to meet the minimum standards for engagement unless they see and understand the clear benefits in going further. Ofwat needs to send a clear signal that it expects companies to continue to improve and innovate in their understanding of customer priorities and produce plans shaped around this evidence.

The competitive nature of the PR19 process, coupled with the commercial sensitivities that some companies (notably those who are publically listed) had around their plans, stifled the opportunities for the sharing of good practice during the process. Ofwat should make sharing of good practice and innovation a condition of getting a fast track assessment. This will help raise the bar across the sector and help with the achievement of minimum good standards, and beyond.

We are pleased to note Ofwat's intention to ensure that, "*rewards for companies must be commensurate with the benefits customers receive through improved plans*". It cannot be right that a company can gain a financial incentive for submitting a great plan if the penalties it incurs for failing to deliver this plan do not outweigh the rewards it received for proposing it.

**Q5.6: How might we set cost sharing rates at PR24? Should we consider an approach based on our ability to monitor companies' asset health status?**

We think it is right for Ofwat to adopt an approach that looks differently at the cost-sharing rates associated with companies' asset health expenditure given the concerns about the time it will take to observe the effects of potential under investment.

This is an area where customers are likely to look to the regulators to put in place appropriate protections because we have seen at PR19 the difficulties in meaningfully engaging customers on this issue. Customers want safe and reliable water and wastewater systems, but may not be best placed to comment on what investment is required to maintain and replace these assets.

**Q5.7: Which areas should we be considering targeted challenges for at PR24, and why?**

Targeted challenges can be a useful way to drive overall industry improvement. However, they may be more effective, and less arbitrary, if challenges are more tailored to different company circumstances and do not drive investment above the level customers are comfortable with.

We recognise that the approach on leakage at PR19 focussed company attention on an area of clear customer importance in which many companies were performing poorly, but the blanket nature of the 15% reduction target meant the same level of improvement was required for companies who were well below the industry average and those who were already excelling. This also disregarded the evidence of what customers were actually prepared to spend to fund improvements.

If Ofwat goes ahead with targeted improvements at PR24 we believe that companies whose performance has been consistently below the industry average should be required to fund any additional expenditure required above what customers are prepared to fund from their own pockets.

We think the areas of water efficiency and harm from discharges from the wastewater network are good areas to consider for targeted challenges since they address areas which are also of importance to customers.

In general we think that there should be a greater focus on addressing the issues faced by the worst served customers of each company. This is an area CCW tried to get companies to focus on at PR19, with limited results. The nature of the price review process means that companies are judged on their overall performance which can mask the long-standing problems of a small number of customers who experience repeated failures of service. These can often relate to sewer flooding, low water pressure or supply interruptions. We would like to see a requirement for companies to identify these customers and develop solutions to resolve their problems once and for all.

**Q5.8: Should we use innovation specific incentive mechanisms at PR24? If so what would these be, and what would they add in addition to the other mechanisms outlined in this chapter?**

No comments.

**Q5.9: In what ways might we promote the themes of EBR through PR24?**

We think customers would welcome an alignment with the themes of Ethical Business Regulation (EBR) at PR24. The principles of promoting an ethical approach, wider collaboration to deliver improvement for consumers and sanctions for wrongdoing are all positives. Companies should be encouraged and incentivised to collaborate more, with each other, with consumers and with wider stakeholders to identify the best approaches for delivering their plans.

In order for EBR to be successful, the relationship between the companies and Ofwat should show evidence that both parties have an ongoing commitment to EBR principles and that the regulator recognises and encourages that commitment. Ofwat could promote the principles of EBR<sup>4</sup> in the PR24 methodology and require companies to demonstrate how they are aligning with the principles in their business plan. Ofwat's assessment of plans can take this into account.

While the Scottish water sector has embraced EBR successfully, this is in the context of a state-owned incumbent wholesale company and regulators in Scotland. The ownership of the seventeen incumbent companies in England and Wales is a very different context for applying EBR, but nonetheless, the themes of EBR should be principles all parties could agree on through the PR24 process.

## **Chapter 6: Reflecting customer preferences**

**Q6.1: What are your views on the merits of our proposals for a collaborative approach to standardised and/or nationwide customer research to inform company business plans and our determinations?**

**Q6.2: Do you have any suggestions for how we best implement the collaborative approach to customer research for the price review?**

CCW is best placed to lead on centralised research at PR24. We have experience in delivering nationwide research programmes, both as part of price reviews and outside of them. Our role of the independent consumer representative is unique in the water sector and will bring credibility to the research.

Effective collaborative nationwide research can deliver high quality comparative research that companies can use as a key component in their business plans. Collaborative research that delivers meaningful results at a company level will allow any differences between the views of customers of different companies to be identified. This will also allay concerns that these may be the result of methodological variances rather than true reflections of divergent priorities.

It is imperative that the outputs from the research result from true collaboration between CCW, Ofwat and companies (in particular, input from wider stakeholders should also be sought and valued) if it is to deliver for consumers. There needs to be buy in from both companies and the regulator to make the results of the collaborative research a central pillar of business plans. If companies feel that the outputs from the research will not deliver results of the same or greater value than they can deliver themselves it will create the potential for damaging and wasteful challenges that could derail the engagement programme.

Examples of best practice from PR19<sup>5</sup> need to be considered in the design of the PR24 collaborative research. It is important that the research builds on what is already known and is not a step back to less effective approaches due to the scope and scale of the collaborative research programme.

Delivering the collaborative research in a timely manner will be the key to its success. Companies need the outputs from the research at the right time to help them build their plans but, as well as this

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<sup>4</sup> This includes businesses' social purpose and a commitment to transparency.

<sup>5</sup> [CCW - View on Consumer Engagement at PR19, November 2020](#)

alignment, it is important that there is enough time to properly pilot the research and test how far consumers understand what they are being asked and why.

A large-scale collaborative nationwide research programme would naturally lend itself to quantitative research but we feel it would be helpful to carry out a programme of qualitative testing alongside this. Deliberative workshops which test the outputs from quantitative research to ensure they are understood and agreed with by customers in the deliberative groups will both give greater assurance of the results and help provide a deeper understanding of the results and any differences that may have arisen between customer groups or company areas.

Having an extra layer of qualitative testing can be used as part of the triangulation process, potentially adjusting the outputs of the quantitative research by adding in the perspective of more informed consumers. As stated in CCW's Triangulation Review<sup>6</sup>, any judgements of this nature would need to be clearly explained within a robust decision making framework

Although we understand the calls for standardised research to form a part of the programme for PR24, we have some concerns that no matter how prescriptive the standardisation is, individual company research programmes will be susceptible to factors such as the timing of the research and the framing of the questions when they are presented to consumers. This could lead to the same questions about the outputs of the research that saw Ofwat intervene at PR19. CCW issued principles for companies doing acceptability testing of plans at the last two price reviews but we still found that companies' outputs were not comparable.

However, we do accept there will be limitations to the scope of the centralised research in order for it to be delivered effectively within the price review timetable. There will also be some areas where it is more appropriate for research to be carried out locally by companies. We think testing of business plan acceptability may be best delivered by companies but using a standardised format to allow comparisons and deal with some of the inconsistencies we saw at PR19.

There are a number of questions outstanding around the governance, budget, scope and timings related to centralised research. We look forward to working with Ofwat and companies to resolve these issues.

**Q6.3: Are there aspects of negotiated settlements that could be reflected in our price review framework?**

We have doubts that a negotiated settlement approach would work when dealing with the price determinations for seventeen individual water companies in England and Wales. There is also the question of whether such an approach would see a strengthening of the consumer voice, or potentially side-line consumer views in favour of negotiations with other stakeholders who would be pushing for issues of specific importance to their organisations.

Strengthening the quality of customer evidence and giving it a clearer defined influence in the PR24 methodology - i.e. what aspects of business plans and Ofwat decisions it should drive - would help

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<sup>6</sup> [Triangulation: A review of its use at PR19 and good practice, May 2021](#)

make sure plans and determinations reflect credible evidence of what customers want and expect now and in the future.

**Q6.4: What are your views on our proposals for customer challenge of business plans and assurance of customer engagement?**

**Q6.5: What are your views on whether we should develop minimum standards or provide guidance in other areas?**

We continue to believe that local challenge of companies' plans plays an important role in the price review process and needs to continue. But we also believe it is right to consider if the Customer Challenge Group (CCG) model delivers the most effective way of delivering this challenge.

It is important to consider the scope of local challenge in the context of the national arrangements. The shift to more collaborative centralised research at PR24 should not mean that the level of challenge to business plans is diluted but it will require a change in the way local challenge operates.

There was a wide variance in the scope of CCGs at PR19 and it is not clear whether some of the areas on which groups commented were given consideration by Ofwat in their decisions or if they were ignored due to Ofwat considering them beyond the remit of the groups. Ofwat should make it clear to companies and local challenge groups how it will consider the outputs from local challenge when making its determinations so efforts can be focussed on aspects of business planning where there is real opportunity to influence the regulator's decisions.

We think there are opportunities to rationalise the governance arrangements for the collaborative research and to create a stronger link between the centralised research programme and the wider elements of customer engagement that will take place at PR24.

Combining the centralised research Steering Group and Delivery Group that Ofwat proposes – by making the Delivery Group a sub-group that reports to the Steering Group - would help to prevent any confusion about the roles of the respective groups.

The creation of a PR24 Challenge Panel provides the opportunity to put in place the comparative analysis role that CCW advocated (through our Central Oversight Group, or COG, proposal) in our recent Future Consumer Representation Models discussion paper<sup>7</sup>.

This also provides an opportunity to learn from the energy sector; notably Ofgem's Enhanced Engagement approach for RII02. The Citizens Advice Bureau (CAB) review of the process recommended that the RII02 Challenge Group was given greater scope to challenge Ofgem on its decision making (rather than discussing decisions after they had been made). It also said the group should focus on benchmarking between proposals rather than analysing each company plan, which risked delivering only superficial analysis due to the amount of work involved and duplicated the role of the Customer Engagement Groups run by the Distribution companies.

We believe the PR24 Challenge Group should provide a similar benchmarking role for PR24. CCW can lead in delivering this function and are well placed to use the work of our Evidence and Insight team to deliver information to local groups to help with their challenge to companies. The scope of the RII02 group was extensive and there were concerns it was overstretched, despite having fewer

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<sup>7</sup> [Future consumer representation models, June 2021](#)

companies to deal with than would be the case in water. In view of this, the scope of a benchmarking role in water would need to be carefully considered to ensure that the outputs were meaningful, timely and had real impact.

One of the difficulties CCGs faced at PR19 was their reliance on companies to provide the context for their business plan proposals. Many groups also had Non-Disclosure Agreements (NDAs) which prevented good ideas from being shared to help deliver improvements across the sector. Ofwat should prevent companies from putting restrictive practices such as NDAs in place at PR24.

Ofwat also needs to actively require companies to share good practice during PR24 in order to drive sector wide improvements in engagement. This will mean carefully designing incentives so that they do not discourage collaboration because companies see the sharing of good ideas as meaning they would lose a 'competitive advantage'. We discussed this idea further in our response to question 5.5.

Attendees at CCW Future Consumer Representation workshops could see real benefits in the provision of comparative information to support the work of the local challenge groups and strengthen their challenges to companies. It was felt that the provision of this information would be needed early enough in the process for it to allow the groups to push their companies to improve where they were lagging behind relative to other companies.

There was also support among attendees at the workshop, more notably those attending the workshop for CCG members (and other interested parties), for CCW to deliver an independent assessment function for the local challenge arrangement the companies put in place. This would provide Ofwat with information about the strength of the local challenge arrangement, provide an extra layer of assurance alongside any other local arrangements and help local challenge groups understand where there may be gaps in their memberships, remits or governance arrangements.

#### **Q6.6: How well does our proposed approach to customer engagement take appropriate account of the different regulatory frameworks in England and Wales?**

Allowing companies to develop local challenge and assurance solutions to reflect their particular circumstances will allow companies in Wales the flexibility to fit with the regulatory framework in Wales. It is important that engagement is carried out so that it can identify where there are differences in the views and priorities of consumers – or where the priorities of the governing bodies may also be different.

### **Chapter 7: Planning together**

#### **Q7.1: How can we ensure that companies bring together the outputs of the strategic planning frameworks in the most coherent and effective way for business plans?**

Planning frameworks can help companies to understand and take action on key issues and priorities. As well as strategic direction from UK and Welsh Governments, WRMPs and other frameworks such as RAPID can help ensure priorities and risks are addressed. The forthcoming climate change adaptation reports are an additional framework for PR24 that can help pull together key themes from WRMPs and DWMPs and that should aid business planning.

It is important that these strategic frameworks and policy requirements integrate with the PR24 process so that companies and their stakeholders can clearly see what the sector is required to do,

and take this into account when business plans are developed and subjected to scrutiny and challenge.

We support Ofwat's intention to set the PR24 methodology in a way that takes account of these strategic frameworks at appropriate stages of the process. We think that streamlining the number of stages in the assessment process can help Ofwat achieve this aim.

The PR24 methodology should also require companies to bring together the outputs of all of these planning frameworks into one coherent plan. This could be facilitated by the fact that many of the planning frameworks (such as WRMPs) are developed as a collaborative exercise with multiple stakeholders, which should provide transparency and lead to 'no surprises'. The outputs from centralised collaborative research will also need to be factored in at appropriate stages through the PR24 process.

Care should be taken in the methodology's timeline to ensure that there is opportunity for assessment and (if necessary) challenge by stakeholders as each planning framework emerges through the process (e.g. the implications of WRMPs).

**Q7.2: What are your views of our thinking on our and companies' roles in engaging with other regulators between business plan submission and our issuing of the final determinations?**

We support the use of company level stakeholder groups through the process to act as a forum for scrutiny and challenge of business plans. This blend of local stakeholders and representatives from regulators such as the DWI and EA, along with CCW, provides a platform for transparency, exchange of views on information, and to address the trade-offs that may be need to settled in the plan so that it meets the requirements of customers and regulators.

We explored this model for local stakeholder engagement further in our response to Chapter 6.

**Q7.3: How could we best involve a 'PR24 Challenge Panel' in the price review process to help ensure that our decisions best reflect the interests of customers, communities and the Environment?**

In our response to Chapter 6, we explain how the PR24 Challenge Panel could have a benchmarking role led by CCW, to help inform the scrutiny and challenge by local stakeholder groups.

We agree with Ofwat's view that such a Panel can also act as a platform for CCW and regulators to exchange views on business plans as they develop, to help guide Ofwat's decision making. This can also act as a platform for Ofwat's emerging thinking or decisions to be subject to discussion and challenge ahead of formal consultation (e.g. before Draft Determinations are issued).

**Chapter 8: Design of price controls**

**Q8.1: Do you agree with, or have any comments on, our general approach to the design and implementation of controls, i.e. to retain separate controls with the same broad structure as at PR19, but with improvements to our implementation?**

We agree with retaining the same structure of separate price controls as PR19. The separation of controls across the retail and wholesale chain, while adding complexity, has the benefits of greater transparency of cost allocations which strengthens Ofwat's benchmarking and efficiency challenges.

While this is an area of complexity that should be beneficial for customers, it is important that companies and Ofwat show how the various price controls come together in terms of the overall revenue allowances and customer bill impacts. This is important for understanding the overall impact on customers and to inform research to test customer acceptability and affordability.

**Q8.2: Do you agree with, or have any comments on, our proposals for specific parts of the value chain, i.e. for water resources, developer services, residential retail and business retail in Wales?**

We have comments on the following elements of the value chain that Ofwat propose to change:

- **Water resources.** We agree that Ofwat needs to take account of RAPID's regional solutions and we would like to see the PR24 methodology show how the results from the RAPID partnership will be clearly shown in the draft and final price determinations. We also agree that costs associated with raw water distribution assets and treatment should be incorporated into the water resources control. We offer further comments on this in our response to the Water Resources appendix at the end of this response.
- **Developer services.** We agree that further information about companies' cost allocations for developer services would be beneficial. This should be with the aim of setting more cost reflective charges for developer services that will benefit this group of customers.
- **Residential retail.** We support the proposal on how actual costs are reconciled at future price reviews compared to the assumption made in a price control. We agree that basing this on revenue rather than a forecast of customer numbers is preferable as the Ofwat paper demonstrates how this could lead to reduced uncertainty for customers due to customer number forecasts turning out to be inaccurate.
- **Business retail Wales.** We agree that in the absence of a competitive market, business retail controls should be more tightly regulated in Wales. We agree that a cost to serve approach to setting should offer price protection to businesses in Wales.
- **Bio-resources.** We agree with the proposed changes to the cost allocations and benchmarking that should encourage more trading in this market. Ofwat should demonstrate how these improvements could lead to greater efficiencies that will benefit customers.

**Q8.3: Do you agree with, or have any comments on, our proposals spanning multiple parts of the value chain, i.e. for major projects and future reconciliations?**

We support the use of Direct Procurement if it can be demonstrated that putting large investment schemes out to tender offers customers benefits from greater efficiency and innovation.

The long-term context for PR24 should encourage companies to look at longer term multi-AMP schemes. We'd like to see the PR24 methodology encourage greater collaboration between companies on mutual schemes that could offer customers more efficient solutions. Consideration will also need to be given on how costs for multi-AMP investment will need to be reconciled so that customers avoid over-paying for long-term schemes that may have a degree of cost uncertainty.

## **Chapter 9: Outcomes**

### **Q9.1: What kinds of performance commitments should we include in the price review? What outcomes require financial incentives for all companies for the foreseeable future?**

CCW support the outcomes approach to measuring and incentivising company performance. The higher level outcomes (e.g. good customer service, resilient services) should be informed by evidence of customer views and, by their nature, should be long-term aims.

Companies should be focused on achieving customer-supported outcomes, so we would like to see incentives applied to outcomes rather than individual PCs. For example, an outcome to achieve service resilience could be measured by a set of PCs that relate to asset health and operational performance, but these measures come together to provide a clearer picture of how well a company is achieving the overall outcome (or a milestone toward achieving a long term outcome).

This could also prevent companies from focussing on certain PCs at the expense of the others if a requirement of achieving the overall outcome incentive was for the company to have met its PCL target for all of the composite PCs

The exception to this may be leakage reduction, which is often a higher priority for customers and as such continues to require an incentive of its own, should PR24 customer engagement reveal that this remains an important issue for customers.

We agree with Ofwat that the number of PCs' should also be reduced. For this current price control, there are over 600 PCs which adds complexity. The volume of PCs should be pared back to essential common PCs that reflect common customer priorities companies should deliver (e.g. leakage reduction, water supply interruptions, sewer flooding), with a minimal number of 'bespoke' PCs for individual companies. Bespoke PCs should reflect specific local priorities that reflect customer expectations, and are not covered by the commonly applied PCs.

We support Ofwat's ongoing work with its Outcomes Working Group to identify and improve measures for the commonly applied PCs. We look forward to Ofwat consulting on the results of this engagement in due course.

### **Q9.2: How do you think we should monitor outputs that are not clearly linked to the outcomes incentivised in the price control? Would it help to distinguish between PCs that monitor outcomes and PCDs that monitor outputs? What other options could we consider?**

We agree that Ofwat should adopt the PCD (Price Control Deliverables) approach used by Ofgem as this will separate the delivery of large schemes or statutory programmes (e.g. the statutory requirements in the WINEP<sup>8</sup> from other PCs and ODIs and allow for the delivery of these schemes to be tracked separately.

This would have the benefit of added transparency for customers and stakeholders, informing challenges if such schemes or programmes fall behind.

As it was unclear at PR19 what cost allowances were being specifically made for asset maintenance, Ofwat could also set a PCD for each company to track the delivery of required

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<sup>8</sup> While the Environment Agency is moving towards a longer term and more outcomes based WINEP for PR24 and beyond, it will still have at its core the 'baseline' statutory requirements companies need to deliver. It is this element of the 'new' WINEP that could be tracked using PCDs.

maintenance. This would give customer and stakeholders added transparency on what companies need to do to maintain their assets.

**Q9.3: Do you consider there are aspects of company performance where it would be better not to set expectations as part of the price control? What approaches should we consider in these cases, so that companies act in the interests of customers?**

Some areas of company performance do not have to be set as part of the price review. Performance measures relating to customer affordability and vulnerability are not solely dependent on cost allowances set in price controls.

Measures to track company performance in how they are responding to the needs of vulnerable customers or those struggling to pay will need to evolve over time as the recommendations from the Independent Affordability Review led by CCW are enacted. It will not require a price review process to put any new measures in place.

It is important that the required changes in these areas are made and tracked. This can be done through companies Annual Performance Reports so that the information is presented publically in a consistent manner.

**Q9.4: What should be our aim in setting the levels of performance commitments? Do you agree with the suggestion that performance commitment levels should be set, as a starting point, at what can be achieved by an efficient company with base costs and that deviations from this are proposed in company business plans? If not what alternative proposals should we consider?**

We agree that Performance Commitments levels (PCLs) should be set based on a minimal level of improved performance for each measure. Ofwat can identify PCLs through analysis and benchmarking of the preceding five years of performance. The baseline PCL should still be stretching and ambitious and should be informed by customer evidence so that PCLs take into account customers' priorities. Companies may find that their customer engagement shows that customers expect (and are willing to pay for) an increased level of performance above the baseline minimum, and can propose this in their plans. If the evidence to support this is sound, Ofwat should allow for increased ambition.

In our response to Ofwat's draft methodology for PR19, we suggested that Performance Commitment targets could be more dynamic. If it is apparent 'in period' that all companies are outperforming the PCLs that have been set, Ofwat could intervene and propose an increased minimum PCL. This could act as a safeguard against customers paying ODI outperformance payments where, in hindsight, it could be said the minimum level of performance required from companies was not set to a sufficient standard.

**Q9.5: What approach should we take to setting ODIs? How should we take account of marginal costs and marginal benefits in setting ODI rates? What are the risks and benefits of the approaches that we set out, or any others that you propose?**

While we recognise Ofwat's rationale for incentivising companies to deliver or exceed their commitments to customers, company research at PR19 showed that many customers did not support the concept of paying outperformance rewards (and in some cases, did not support the use of penalties for underperformance).

Any revised approach to setting ODIs should strive to increase customer support for the model. This could be achieved by applying ODIs to the over-arching outcomes that customers want (as per our response to Q9.01).

Our 'lessons learned' report from PR19 suggests using the C-MeX measure as a gateway for companies to access outperformance payments for other areas of performance. This would mean that in order to collect rewards for outperformance, companies would need to have a high C-MeX score (i.e. strong complaint handling performance and customer satisfaction).

We also suggested that C-MeX should be strengthened in terms of its potential financial value and its target for complaint handling performance. This could focus companies on how well they are serving customers and increasing customer satisfaction, having to reach a benchmark before having access to ODI outperformance payments for areas of their operational activities.

While we agree that Ofwat should review how to calculate ODI rates, the principle underpinning this should be that any reward paid by customers is reflective of the value of the improvements received in return. If the C-MeX incentive acts as a gateway to other ODIs, and has a larger financial value itself, this effectively moves some of the potential rewards from other ODIs over to C-MeX. This could give greater confidence that if a company achieves ODI outperformance payments for its operational performance, customer satisfaction is high and complaints numbers are low before customers are asked to pay for rewards.

Conversely, it reduces the likelihood of companies with high levels of complaints or lower customer satisfaction receiving rewards for areas of operational performance where they have excelled. It would send a potentially negative message to customers if they are required to pay rewards for a company that is comparatively poor at handling complaints and customer service.

Customer engagement would provide some evidence from customers of what areas of service they value and their views on incentive rates, but this should be based on outcomes not individual technical PC's (such as those relating to asset health), which is an additional reason why ODIs applied to the over-arching outcome would be preferable (as we set out in our response to Q 9.1).

## **Chapter 10: Cost assessments**

*(We are providing an overall response to the issues raised in this section, rather than addressing Ofwat's individual questions)*

Regardless of whether costs are modelled, unmodelled, base or enhancement, customers expect to pay for efficiently incurred costs and that the outcomes they fund, through price controls, they value. It is for Ofwat to determine how this is best achieved in view of the tools open to it whether this is based on econometrics underpinned by cost drivers, simple unit rates, forward looking benchmarking etc.

We were supportive of Ofwat's econometric assessment at PR19. To this end, it is important that the cost drivers underpinning this approach are appropriate. If more cost drivers could be identified that cover a greater proportion of cost we would welcome this approach. This would negate, or perhaps mitigate, the need for cost adjustment claims.

If Ofwat changes its approach it would be useful to understand how the efficiency challenges might differ between the existing approach and any alternative to it. We agree with Ofwat that it will be important to ensure that customers do not pay twice.

There needs to be more transparency and clarity in the price review process of what is classified as base costs (and the outcomes these base costs are expected to achieve) and what has been allowed as enhancement (and the stepped change in service that this brings).

We therefore see merit in Ofwat forecasting the performance level that could be delivered by an efficient company from its base funding. We think that this forecast performance level should represent stretching performance and an expectation that companies will continuously improve. Critical to this will be the evidence the companies are able to submit which justifies service above or below that expected of an efficient company through base costs.

With regard to cost adjustment claims, our view is that there must be compelling evidence of unique operating circumstances or legal requirements with a firm basis for cost. They should only be used in exceptional circumstances. We have no qualms with a high evidential test on cost adjustment claims despite Ofwat's paper outlining that concerns had been expressed about this. It would not be in the customer interest to effectively dampen legitimate efficiency challenges through spurious cost adjustment claims

We support Ofwat making greater use of symmetrical adjustments so customers don't over pay for service improvements where Ofwat makes cost adjustments based on company specific circumstances at PR24.

### **Chapter 11: Risk and return**

We firmly support the aspiration that there is better alignment at PR24 between the interests of companies and investors with those of customers. While we agree that it is right that companies can only earn high returns from great performance we would add that the 'great performance' is commensurate with customers' wishes/preferences and that the improvements/rewards are underpinned by robust evidence of customer support. It would not be in customers' interests to reward companies and their investors for performance levels that are not aligned with customers' preferences.

#### **Q11.1: Are there areas of our risk allocation framework where mechanisms could be added, simplified or removed in a way which would benefit customers?**

As the Ofwat paper notes there are a lot of reconciliation mechanisms which add complexity and run the risk of introducing error. Our research shows that certainty and stability of bills is a key consideration for customers. We support any simplification of reconciliation mechanisms and would welcome any consideration being given to materiality tests. This would minimise the number of interventions and avoid unnecessary bill volatility that we know consumers do not like.

#### **Q11.2: How should we improve our use of RoRE risk ranges to provide insights into the balance of risk and reward, and improve comparability across companies?**

No comment

#### **Q11.3: Should we index the allowed return on equity, and if so, how ought this to be implemented?**

We believe that an indexation approach can have its merits.

In its RII0-2 price controls Ofgem considered a method for updating the risk-free rate to reflect changes in UK Government bond yields (“equity indexation”).

Ofgem considered three approaches to indexation:

- a) indexing to the risk-free rate only
- b) indexing to the risk-free rate and equity risk premium
- c) indexing to the risk-free rate and Total Market Return (TMR).

Ofgem concluded that indexation of the risk free rate was preferable as the risk-free rate is readily accessible and relatively uncontroversial, whereas there is more debate about the nature of the equity risk premium. TMR, when estimated with long-run averages, would be expected to change very little over the price control

From the consumer perspective it is arguably more risky to adopt an approach using forward curves and aiming up. Ofgem noted that one of the primary benefits of indexation is to remove the need to forecast using yield curves or aim up. Its analysis showed that forecast vs outturn 20 year gilt yields were on average 59 basis points higher. Given the long-term cost to consumers of an inaccurate forecast, we welcome any consideration given to whether indexation may be a better approach.

**Q11.4: To what extent should we place weight on a) balance sheet data; and b) index data when setting the allowed return on debt?**

We supported the approach adopted at PR19 where Ofwat based its Final Determination on using the benchmark index approach to derive a point estimate with the balance sheet approach used as a cross-check. We think both approaches should continue to be used.

From our perspective we would not want inappropriately high costs being passed to customers. From the CMA’s re-determinations of price controls for four companies in 2021, there was reasonable alignment between the benchmark and balance sheet approach. Should there be a material divergence between the two approaches it will be key to be transparent why a particular approach is considered a superior basis on which to set the cost of debt allowance particularly if it results in customers paying more.

**Q11.5: Should we allow adjustments to the sector allowed return based on company size - and how should this be assessed?**

We remain supportive of the evidential tests that Ofwat applied at PR19 notwithstanding the CMA’s decision to award Bristol Water with a premium on embedded debt and issuance/liquidity costs in its 2021 re-determination.

With regard to whether the circumstances of some companies warranted an additional return we do not believe that any company should receive a small company premium (SCP) in the absence of value added to offset the impact on bills.

Equally, we do not think a company should get an adjustment simply because it is small. This would look perverse to customers and would fail to incentivise companies to find ways of adding value or of mitigating any additional costs caused by their scale

**Q11.6: Should we make different assumptions for the PR24 notional structure compared to PR19, and how should such a change be implemented?**

Ofwat should determine the notional capital structure in the light of the emerging industry picture with regard to gearing. Given that some companies have committed to reduced gearing over the course of the 2020-25 price control period, it may be that it is more appropriate to consider a notional gearing that is lower than the 60% assumed at PR19. This would, all things being equal, also offer some mitigation against the potential financeability constraints for the notional company.

Ofwat would need to consider the trade-offs – the extent to which notional gearing could be reduced and any impact it sees would be needed as per the Ofgem approach for equity issuance allowance.

With regard to the assessment of financeability, we supported Ofwat's approach of advancing cash flow where this was felt appropriate in view of the level of a company's financial metrics. We do not agree with CMA's approach to effectively aiming up the Weighted Average Cost of Capital (WaCC) to offset financeability constraints as, at the industry level, we do not consider this to be in the customer interest.

If Ofwat's approach to financeability of the notional company is to be reviewed we would support consideration being given to assuming a higher proportion of index linked debt on the notional company's balance sheet.

**Q11.7: Do you have any suggestions for mechanisms which could incentivise financial resilience within the price control process?**

We remain supportive of the gearing outperformance sharing mechanism even though this was rejected by the CMA in its 2021 re-determinations. At the most basic level where companies have committed to reduce gearing over the course of a price control period, monitoring and reporting of progress towards that commitment is paramount.

We have been long concerned about high levels of gearing from a financial resilience perspective and in the past where gearing up has been used to benefit shareholders. We support the standardisation of ring-fencing provisions within companies' licences, although we remain disappointed that Wessex Water has not adopted the provisions that all other companies have.

We are also disappointed that CMA removed a valid customer protection mechanism without consideration of an alternative. We think that mechanisms that make companies consider the financial choices they make, from the customer perspective, are legitimate and to be welcomed.

**Q11.8: To what extent should we further increase the share of the notional company RCV which is indexed to CPIH in our assumptions for the period 2025-30, and how should this be implemented**

In response to the PR19 methodology we were supportive of indexation of 50% of the RCV by CPIH. However, in view of the Johnson review recommendations that regulators should as soon as practicably end the use of RPI, and that other regulators have already fully transitioned, it makes sense for Ofwat to explore its own pace of transition and the consequence of different options.

We recognise that CPIH is a better inflation measure. It is more stable than RPI which leads to less bill volatility. We recognise that the consequence of indexing price controls to CPIH is that it brings cash flow forwards. While this could help with financeability constraints it would result in higher customer bills in the current price control period and reduce them later on.

We think that decisions about transition ought not be taken in isolation of other key determinants on price – i.e. the expected level of WaCC, the size of the investment programme, the extent to which affordability pressures for customers can be mitigated and the extent of customer support for the variables that can impact bill profile.

## **Chapter 12 – Next Steps**

### **Q12.1: What are your views on the draft timetable for PR24?**

We have no significant concerns with the proposed timetable, but note that further additions to it will need to be made. If Ofwat agrees to issue early indications of minimal PCLs and baseline costs, this would have to be factored in early enough for companies and stakeholders to have time to explore whether evidence shows customers want companies to go beyond these levels. We suggest that baseline PCLs and costs could be issued soon after the final methodology in December 2022.

The timetable does not currently show when the outputs from centralised collaborative research would be issued. We will work with Ofwat to determine the most appropriate timings for the centralised research. The research should be delivered at a time when companies can make strong use of it, and have enough time to follow it up with local level research and engagement with customers, ahead of business plans being finalised.

## **Appendix – Water Resources**

We support Ofwat's proposal to extend the water resource price control to include raw water distribution *and* treatment, as a 'price control for distributing treated water', as this would better reflect how companies view the treatment and delivery of water resources and its associated costs.

We wish to see or support:

- Measures taken to ensure costs are reported consistently and accurately so customers can be confident that the resulting price control reflect strong efficiency benchmarking.
- Companies incentivised to be efficient across their water 'value chain'.
- Evidence to show that the revised price control supports and facilitates the increasing likelihood of more transfers and jointly developed new shared water resources.

## **Enquiries**

Enquiries about this consultation should be addressed to:

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