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By email: [PR24@ofwat.gov.uk](mailto:PR24@ofwat.gov.uk)

Dear Colleagues

## **PR24 AND BEYOND: CREATING TOMORROW, TOGETHER**

Thank you for the opportunity to comment on Ofwat's initial views on the framework for PR24 and future price reviews. We are broadly supportive of the proposed goals set out in the consultation and recognise the part that water retailers need to play in order to meet government and regulatory ambitions for the sector.

PR24 focuses predominantly on wholesaler activities and affordability for household customers but non-household customers are affected by the regulatory regime as they are end users of wholesaler activities and therefore impacted by any decisions regarding levels of allowed investment and recovery of revenue through wholesale charges. Focusing on the long term, delivering greater environmental and social value, reflecting a clearer understanding of customers and communities, and driving improvement through efficiency and innovation are all areas that impact non-household customers, and in embedding a sharper emphasis on creating value we would like to see more recognition of the non-household customer and ensuring their views are considered within the price review.

We would like to see greater commitment to the long-term future of the non-household market to ensure that the original objectives of market opening are realised, 'Markets can help every part of the sector meet the strategic challenges we face. Markets can deliver better value for society, and the environment in the form of innovation, improved competition, greater choice, and quality of service as well as lower prices', which are all key goals of PR24. Working in collaboration with Ofwat we would like to see a clear vision set out with specific goals and appropriate delivery mechanisms in place – this will stabilise the market to enable it to fulfil its potential and ensure financial resilience, allowing participants to fully recover costs and make a return to ensure financial viability that allows ongoing investment into the market.

Pennon Water Services (PWS) has always tried to encourage business customers to think about how they use water and have had some successes with offering water audits with tangible savings for customers, however within the current regulatory framework the role of wholesaler and retailer with regards to water efficiency specifically is not clear and therefore the current framework is at odds with itself.

For example, the Wholesaler has the investment, incentives, and the challenge for driving water efficiencies within the sector including NHH. The Retailer has the relationship but no incentive to adopt measures to reduce consumption, as retailer margins, for the majority of customers, are critically linked to the amount of water used. In the long term, Ofwat may need to consider that retail prices need to be delinked from consumption in full or in part or develop another incentive mechanism. Therefore, the anticipated water savings and innovation in this area haven't necessarily materialised to the detriment of the end customer.

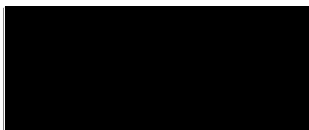
Work to understand a potential future model is already underway through the Retailer, Wholesaler group (RWG), which we are actively involved in, and this work should be considered in any methodology to support delivery against greater environmental and social value goals. Any future framework should recognise that the landscape has changed and that the current regime for delivering water efficiency will not deliver the challenges the sector faces with regards to long term water resilience.

Collaboration is key to ensuring better outcomes for customers and the communities that we all serve, greater co-operation between wholesalers and retailers to do the right thing by our joint end customers will see wider market benefits, which was a key finding of Ofwat's RISE report. Greater collaboration is happening through the RWG, market issues are being raised and addressed for the greater good and we would ask Ofwat to continue to encourage greater wholesaler support for the NHH market.

We believe there are further improvements that can be made to drive greater efficiency and innovation in the NHH market through collaboration as above but also by reducing complexity and costs, for example simplifying tariffs, quicker access to more in-depth data which will need to be facilitated by the move to smart meters and moving towards a single market rather than fragmented regional markets to the extent this is possible.

I hope that you find these comments helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely



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Pennon Water Services