

Creating tomorrow, together

**Delivering UK government  
priorities for the English  
water sector through  
our 2024 price review  
final methodology**

Ofwat

## About this document

UK government has set out strategic priorities for Ofwat in its strategic policy statement (SPS), published on 28 March 2022.<sup>1</sup> We are required to act in accordance with the SPS in carrying out our relevant functions relating wholly or mainly to England.<sup>2</sup>

The UK government's SPS covers a wide range of issues, many of which relate to the natural environment and water quality, and to the resilience of water company operations to long-term trends, including those flowing from climate change and population growth.

**These are set out under four strategic priorities which are to:**

- **protect and enhance the environment;**
- **deliver a resilient water sector;**
- **serve and protect customers; and**
- **use markets to deliver for customers.**

While we have a range of regulatory tools, and the price review is not the only means of delivering the strategic priorities the UK government has set out, these themes are central to our final methodology.

This document sets out how our final methodology addresses each of the priorities that the UK government has set for us in the SPS.

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<sup>1</sup> Defra, ['The government's strategic priorities for Ofwat'](#) 28 March 2022

<sup>2</sup> For these purposes, "relevant functions relating wholly or mainly to England" means the functions mentioned in section 2(1) of the Water Industry Act 1991 so far as they relate to appointment areas wholly or mainly in England. An "appointment area" is the area for which a company holds an appointment as a water and/or sewerage undertaker.

# 1. Protecting and enhancing the environment

**UK government's SPS sets a strategic priority for us to protect and enhance the environment.** We must do this through priorities to:

- get the basics right; and
- encourage environmental ambition.

We summarise below how our PR24 final methodology will contribute to the delivery of each.

## 1.1 Getting the basics right

**UK government's priority is for us to work with other regulators and government to challenge water companies to improve their day-to-day environmental performance to enhance the quality of the water environment.**

Water companies play a key role in protecting and enhancing the environment. We expect companies to prioritise actions to reduce pollution and considerably improve their environmental performance, while delivering long-term value for customers.

Our PR24 final methodology requires companies to adopt a package of common environmental performance commitments for 2025-30, including:

- biodiversity;
- operational greenhouse gas emissions reductions;
- water demand;
- storm overflows;
- river water quality;
- pollution incidents (serious and total);
- discharge permit compliance; and
- bathing water quality.

We expect companies to propose service levels which meet the UK government's targets and Environment Agency requirements. We will encourage companies to be ambitious and go beyond these expectations by setting stretching service level requirements across all companies, reflected in their potential performance payments. These common performance commitments will also promote transparency and improve comparability across companies so that we can better hold companies to account.

Companies must make rapid progress to reduce the frequency and volume of sewage discharges from storm overflows by 2025. We expect this progress to draw on and coordinate

with the work undertaken as part of the Drainage and Wastewater Management Plan (DWMP) process. PR24 will drive further improvements in line with the UK government's Storm Overflows Discharge Reduction Plan.<sup>3</sup>

Specifically, we will:

- challenge all wastewater companies to reduce serious pollution incidents to zero by 2025-26;
- expect all wastewater companies to reduce their use of storm overflows and go further where their legal obligations require; and
- where appropriate, challenge companies to go beyond the proposed annual average target of 20 spills per overflow by 2025, without additional expenditure allowances.

We will provide extra funding allowances to reduce harm from storm overflows where government targets demonstrably go beyond current legal requirements.

## 1.2 Environmental ambition

**UK government's priority is for us to drive water companies to be more ambitious in their actions to protect and enhance the environment, in particular by taking appropriate action to improve water quality.**

We want companies to deliver ambitious plans that protect and enhance the environment. Our PR24 final methodology is consistent with the Water Industry Strategic Environmental Requirements (WISER), Water Industry National Environment Programme (WINEP) and river basin management planning. In particular, we:

- expect water companies to demonstrate how they will meet the ambitions set out in the WISER, delivering the requirements where they have a legal duty to do so, and the wider expectations where these have customer support and remain affordable;
- support a move towards a more outcomes-focused WINEP and will work with the Environment Agency to achieve this, ensuring consistency with the approach that we take for other enhancement expenditure;<sup>4</sup> and
- expect companies to take account of river basin management plans when developing their WINEP programmes and enhancement proposals.

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<sup>3</sup> Defra, '[Storm Overflows Discharge Reduction Plan](#)', August 2022

<sup>4</sup> Under this approach we set the outcomes we expect companies to deliver and then the efficient totex allowances needed to support the delivery of these outcomes. This will help companies choose the best approach to deliver the outcomes required in the WINEP, facilitating the use of nature-based solutions.

## 1.2.1 Encouraging ambition

We will encourage companies to submit quality and ambitious business plans at PR24 through a combination of reputational, financial and procedural incentives. Our goal is for companies to provide PR24 plans that include stretching levels of service at efficient cost which will deliver affordable wider value for customers, communities and the environment.

We expect companies to continue to reduce greenhouse gas emissions and move towards net zero through their ongoing activities funded through base expenditure allowances. Where appropriate, we will encourage companies to go further, faster, to reduce emissions by:

- introducing a net zero challenge that will allow enhancement expenditure to reduce operational greenhouse gas emissions on a competitive basis for those companies that propose stretching improvements through base expenditure; and
- introducing new operational greenhouse gas emissions performance commitments to encourage companies to deliver further reductions in emissions during 2025–30.

We also expect companies' PR24 business plans to include proposals to reduce phosphorus pollution and make progress towards the UK government targets in their WINEP programmes. We will introduce a river water quality performance commitment to encourage companies to go further than these targets. We intend for this to encourage reductions in the amount of phosphorus discharged at wastewater treatment works and entering rivers, including by using wider partnership working, nature-based solutions and catchment management.

Our PR24 final methodology will also encourage companies to enhance the water environment by:

- incentivising reductions in water demand through separate performance commitments for leakage, per capita consumption (PCC) and business demand;
- considering whether local circumstances – for example the need to reduce abstraction from priority habitats such as chalk streams – require a bespoke performance commitment to provide appropriate incentives; and
- expecting WINEP programmes to take account of river basin management plans, so that an integrated approach for the protection and sustainable use of water is taken across both.

## 1.2.2 Delivering value for money

Our PR24 final methodology places greater emphasis on best value in our assessment of enhancement expenditure.<sup>5</sup> As part of our approach to assessing costs for environmental improvements at PR24 we:

- expect companies to assess a wide range of options to meet a defined need, including nature-based solutions, operational actions, innovative and modular schemes;
- encourage company proposals for additional investment to focus on addressing environmental harm from high-priority sites;<sup>6</sup> and
- set out an approach for funding upgrades to wastewater treatment works to support nutrient neutrality.

At PR24 we want companies to deliver wider environmental and social benefits in the course of carrying out their statutory functions. Companies should do this where this is best value for customers, the environment and society, taking into account the impact on affordability of bills. To support companies delivering best value, we will take into account wider environmental and social benefits more robustly and extensively in our assessment of enhancement expenditure. Companies should engage with their customers to inform such proposals.

We will support companies to make a step change increase in the use of nature-based solutions at PR24 by:

- considering the wider environmental and social benefits more robustly and extensively in our assessment of enhancement proposals;<sup>7</sup>
- introducing new environmental performance commitments where companies can secure outperformance payments by delivering more for the environment;
- providing a more level playing field between traditional and non-traditional solutions. We will do this by setting a ten-year ongoing operating expenditure allowance for non-traditional solutions which are wholly or primarily based on ongoing operating expenditure (eg catchment management solutions); and
- benchmarking the costs of catchment and nature-based solutions separately from the costs of more traditional solutions to better capture the cost drivers of the former solutions and hence avoid inadvertently disadvantaging them relative to other solutions.

We will also allow timely and proportional pilot schemes to enable companies to test nature-based solutions for which there is a high degree of uncertainty on their deliverability, but which could bring significant benefits to customers and the environment in future. For us to

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<sup>5</sup> Best value schemes are those that generate the greatest long-term economic benefit for customers, the environment and society, taking into account the cost of the scheme.

<sup>6</sup> High priority sites, as defined in Defra, '[Strom Overflows Discharge Reduction Plan](#)', August 2022

<sup>7</sup> Benefits that influence most the choice of solution need to be measurable and robustly demonstrated.

consider these schemes companies need to set out how they propose to monitor and report the progress and outcomes of the scheme, including how the data will be shared with other companies.

## 2. Delivering a resilient water sector

**UK government sets us a strategic priority to deliver a resilient water sector.** We must also meet this priority through the following expectations:

- meeting long-term water resources needs;
- managing water demand;
- delivering resilient drainage and wastewater services;
- greater resilience to flooding;
- asset health; and
- security, corporate and financial resilience.

We summarise below how our PR24 final methodology will contribute to the delivery of each.

### 2.1 Delivering a resilient sector

**UK government's priority is for us to challenge the industry to plan, invest in, and operate its water and wastewater services to secure the needs of current and future customers, in a way which delivers value to customers, communities and the environment over the long term.**

Challenges to resilience are increasing from climate change and population growth. We expect companies to identify and manage a complex range of risks to meet the long-term needs of customers, communities and the environment. Our PR24 final methodology requires companies to:

- set their five-year business plans in the context of a 25-year long-term delivery strategy, representing a significant shift towards adaptive planning in the sector;
- take account of all relevant statutory targets, as well as wider environmental and social benefits, costs, risks and affordability of customers' bills when developing their proposals;
- work in collaboration with other parties so that the delivery of wider benefits does not have to cost more to customers; and
- use innovation to drive improvements by more strongly incentivising performance through enhanced incentives on key performance commitments, such as sewer flooding, water supply interruptions, leakage, per capita consumption and pollution incidents.

We will also work closely with partner regulators, such as the Environment Agency and the Drinking Water Inspectorate, to make sure expenditure allowances are appropriate to cover the efficient costs of providing sufficient water supplies that deliver to drinking water quality standards and deliver environmental requirements.

## 2.2 Meeting long-term water resources needs

### **UK government expects us to support and challenge water companies to meet long-term water resources needs in a sustainable way, including increasing water supply and reducing demand.**

Our draft and final determinations will recognise the justified need set out in the final water resources management plans (WRMPs). We are challenging water companies to meet the need in a way that provides wider benefits – such as flood resilience as well as social and environmental improvements – while representing the best value for money over the long term.

For PR24, we expect:

- companies to meet the long-term ambitions identified in the Environment Agency's National Framework for water resources, including those for leakage, per capita consumption and resilience to a one in 500-year drought;
- company business plans to deliver statutory targets for water demand reductions;
- companies to have regard to the key areas we expect to be incorporated through regional water resources planning and WRMPs;<sup>8</sup>
- company business plans and long-term delivery strategies to reflect their final WRMPs and address the challenge and feedback we will provide during the WRMP process;<sup>9</sup> and
- challenges identified through regional plans and WRMPs to be addressed collaboratively where this is applicable and appropriate to do so to identify efficient best value solutions.

We will consider whether companies have adequately addressed our feedback and if there are any differences between final WRMPs and business plans when we assess expenditure and performance proposals in their business plans.

To support companies to address water resources challenges including supporting reducing abstraction from the environment we will also:

- continue to fund the development of strategic regional water resource solutions during 2025–30 through a streamlined gated process;<sup>10</sup>
- require Direct Procurement for Customers (DPC) to be the default delivery approach for large scale discrete infrastructure over £200m whole life total expenditure (totex);
- retain the bid assessment framework that supports third parties to bid into company plans to meet and/or manage future demand for water;

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<sup>8</sup> Ofwat, ['Ofwat's expectations for strategic planning frameworks at PR24'](#): letter to Regulatory Directors, November 2021.

<sup>9</sup> Ofwat, [Ofwat's engagement on WRMP24](#), to be updated in line with the iterations of the WRMP24 process.

<sup>10</sup> Water resource solutions are progressing through the Regulators' Alliance for Progressing Infrastructure Development (RAPID) gated process. RAPID is a partnership made up of Ofwat, the Environment Agency and Drinking Water Inspectorate.

- retain the current water trading incentive for PR24 and commit to putting in place a revised trading incentive at PR29 which will support trading from strategic water resource solutions; and
- allow companies to propose bespoke performance commitments to provide appropriate incentives in local circumstances which could, for example, relate to the reduction of unsustainable abstraction from priority habitats such as chalk streams.

## 2.3 Managing water demand

### **UK government expects us to support and challenge companies to reduce demand for water in a way that represents long-term value for money.**

We want to encourage the sustainable and efficient use of water resources by companies and customers. Our final methodology for PR24:

- sets separate performance commitments for leakage, per capita consumption (PCC) and business demand with stretching but achievable service levels that are consistent with relevant industry commitments and statutory targets;
- sets enhanced incentives for leakage and per capita consumption;
- expects companies to set out how they will reduce leakage by a minimum of 50% (from 2017-18 levels) and personal water consumption to 110 l/h/d by 2050 in their long-term delivery strategies;
- incentivises reductions in business consumption through a new performance commitment;
- expects companies to consider smart meter solutions as the standard meter installation; and
- requires companies to report progress in reducing overall water demand in their annual regulatory reporting.

We intend to introduce a new water efficiency fund of up to £100 million across England and Wales to facilitate the development of transformative improvements to water efficiency at a regional and national level to help to reduce demand for water.

When assessing draft WRMP24 we will review companies' proposed approaches to addressing leakage on customers' own pipes. We will also support and encourage water companies to develop a consistent approach to address leakage on customers' own pipes.

## 2.4 Delivering resilient drainage and wastewater service

### **UK government expects us to take into account the aims of the drainage and wastewater planning process, encourage the sector to collaborate during their**

## **development and implementation and deliver resilience in a way which represents best value.**

We have provided consultation responses to companies' draft drainage and wastewater management plans (DWMPs) and will continue to engage proactively during their development.

We expect companies' DWMPs to:

- take into account relevant legislation and regulatory guidance and feedback, including the DWMP technical framework and the DWMP guiding principles;<sup>11,12</sup>
- deliver long-term best value, consider wider costs and benefits, and short- and long-term risks following an adaptive pathways approach;
- fully consider partnership working opportunities, including co-funding and co-delivery; and
- consider a wide range of options that mitigate the risks identified in their DWMPs, including nature-based solutions, catchment-scale schemes and traditional grey infrastructure interventions.

For PR24, we expect companies' business plans and long-term delivery strategies to reflect their final DWMP. We will assess how companies have reflected our expectations and the guiding principles in their final DWMPs, and how they have responded to our feedback provided throughout the planning process.<sup>13</sup> We propose to take this into account, together with any differences between final DWMPs and PR24 business plans, when we assess the expenditure proposals in their business plans. Changes between final DWMPs and business plan submissions will need to be supported by compelling evidence.

## **2.5 Greater resilience to flooding**

### **UK government sets a priority that we challenge water companies to deliver greater flood resilience for their own infrastructure and services.**

We expect companies to systematically assess risk from a broad range of hazards, including fluvial and coastal flooding through their integrated resilience frameworks. This includes regularly reviewing and fully understanding the current and long-term flood risk to their

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<sup>11</sup> Ofwat, '[Ofwat's expectations for strategic planning frameworks at PR24](#)': letter to Regulatory Directors, November 2021

<sup>12</sup> Defra, '[Guiding principles for drainage and wastewater management plans](#)', February 2022

<sup>13</sup> To include Ofwat's industry overview of draft DWMPs - '[Letter to CEOs - DWMP consultation response industry view.pdf](#)', October 2022.

infrastructure and systems, identifying opportunities to increase resilience, and delivering greater flood resilience for their own infrastructure and services.

We and the Environment Agency have developed a joint approach for how water companies should consider flood (and coastal) resilience in the context of their statutory roles and duties.<sup>14</sup> Through DWMPs, we expect water companies to assess the short, medium and long-term risks of internal and external sewer flooding and surface water flooding. The DWMP process also provides the basis for collaborative and integrated planning with others within and beyond the sector to increase resilience to flooding and coastal change, reflecting the needs of the areas in which they operate.

At PR24 we will incentivise companies to manage the risk of flooding from their sewers by setting common performance commitments on internal and external sewer flooding with strong financial incentives to deliver reductions over time. We will also monitor the risk of properties flooding in a storm as part of our wider operational resilience monitoring.

## 2.6 Asset health

**UK government expects us to promote good asset management and challenge companies to better understand the health of their assets, adopting a strategic and long-term approach.**

We promote good asset management both within and outside the price review process. Outside of the price review, we have undertaken an asset management maturity assessment to understand how companies are monitoring and managing asset health and highlight best practice and innovation.<sup>15</sup> We are also developing an integrated monitoring framework to form a holistic and complete view of asset health and operational resilience going forward.

At PR24 we will encourage companies to maintain the health and resilience of their assets by:

- using key asset health performance commitments, such as mains repairs, unplanned outage and sewer collapses with financial incentives to maintain and improve service levels – on top of other customer-facing performance commitments that can also be indicators of asset health;
- collecting additional data on water mains and sewer condition to enable us to check whether renewal rates are keeping pace with deterioration;
- requiring companies to set out expected improvements in performance from base expenditure over the next 25 years as part of their long-term delivery strategy; and

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<sup>14</sup> Environment Agency and Ofwat, '[A joint approach for how water companies should consider flood and coastal resilience in the context of their statutory roles and duties](#)': letter to Regulatory Directors, June 2022

<sup>15</sup> Ofwat, '[Asset management maturity assessment – insights and recommendations](#)', October 2021.

- providing resilience enhancement expenditure for companies to manage increasing risks, or changing acceptance/acceptability of risk, from hazards that are beyond their control and not covered by other enhancement areas.

Companies have made improvements to asset health within their base expenditure allowances in the past and we expect them to continue to do so in the future. At PR24 we will:

- aim to include more of a forward look in our base expenditure modelling; and
- collect additional data where treatment complexity might increase in the future so we can take this into account when setting efficient expenditure allowances.

We will also consider company evidence on additional exogenous factors or cost drivers that require a step change in efficient maintenance expenditure through the cost adjustment claim process.

## 2.7 Security, corporate and financial resilience

### 2.7.1 Security

**UK government expects us to support companies in the delivery of the Security and Emergency Measures Direction (SEMD) outcomes.**

We will continue to ensure our regulatory approach, including PR24, promotes the efficient delivery of companies' obligations as defined by the SEMD.

Expenditure on the delivery of the SEMD outcomes will contribute to resilience to security threats and operational incidents. We are working closely with Defra and the Drinking Water Inspectorate to ensure efficient delivery of companies' legal obligations to protect against the wide range of new security threats and meet preparedness requirements. We expect maintenance and replacement of existing security assets and systems to modern equivalent standards to be delivered from base allowances. We will provide additional enhancement allowances to cover new designations and step changes to a new improved level of service.

### 2.7.2 Corporate and financial resilience

**UK government expects us to encourage companies to meet objectives on board leadership, transparency and governance.**

Water companies provide an essential public service and are accountable for their actions and performance delivered to customers and the environment. At PR24 we will:

- expect each water company to be financially resilient in the long term;
- expect each company to provide a board assurance statement and supporting evidence to demonstrate that the company is financially resilient over the period 2025–30 and beyond under its business plan;
- only allow companies to take revenue from customers that is reasonable for the control period, reflecting efficient cost allowances and a reasonable allowed return;
- challenge companies to ensure proposed levels of cost recovery do not store up financing challenges for the future;
- expect companies to ensure dividend policies and dividends paid take account of company performance in delivering obligations and commitments to customers, communities and the environment, as well as long-term financial resilience;
- expect companies to ensure that performance related executive pay reflects stretching performance delivery, and we are considering the additional measure of adjusting revenue allowances so that customers do not fund performance related pay awards if companies are unable to demonstrate their decisions reflect our expectations;
- adopt a lower level of notional gearing which signals to companies a need to consider if their own capital structure will deliver long term financial resilience; and
- expect companies to fund new investment that results in real RCV growth through a mix of debt and equity.

We will ensure companies remain accountable for their performance in delivering against our final determination, for their financing choices and their financial resilience.

Companies and their Boards will also be required to:

- own and be accountable for their business plans and the business planning processes that underpins all aspects of the plan; and
- provide assurance and satisfy themselves that the systems, risk management and processes used to inform this assurance are appropriate and effective.

We will also utilise our tools outside of PR24 to incentivise corporate and financial resilience. Separate to the PR24 final methodology, we are carrying forward work on options to strengthen customer protections from the risks related to companies' actual financial arrangements.<sup>16</sup> Our ambition is that these protections will be achieved through the licence and through regular company monitoring. However, we may apply an incentive-based mechanism within the price review if we are not satisfied with progress achieved through other means.

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<sup>16</sup> Ofwat, '[Consultation under sections 13 and 12A of the Water Industry Act 1991 on proposed modifications to strengthen the ring-fencing licence conditions of the largest undertakers](#)', July 2022

## 3. Serving and protecting customers

**UK government sets us a strategic priority to serve and protect customers by pushing water companies for better and fairer services for all as well as meeting the needs of vulnerable customers.**

This includes expectations to:

- provide effective and timely services for all customers; and
- protect small business customers.

We set out below how we propose at PR24 to meet this priority and expectations.

### 3.1 Serve and protect customers

**UK government sets a priority that our price determinations should secure a fair deal for all customers now and in the future and we should challenge companies to meet the needs of vulnerable customers.**

To deliver the UK government's priority that water bills remain affordable, we will draw on our toolkit both inside and outside of the price review. We have been clear that companies should not wait until PR24 to act on affordability challenges.<sup>17</sup> While PR24 is our primary tool for regulating companies to deliver overall affordability, we also use our wider toolkit outside of PR24, particularly to support customers in vulnerable circumstances.

We expect companies to support affordability in PR24 through:

- delivering a step-change in efficiency while transforming performance;
- innovating and working in partnerships to deliver more for customers;
- taking a long-term focus to reduce lifetime costs and phase investments over time;
- clearly understanding customers' views, including their expectations about paying for improvements now or in the future;
- clearly understanding and supporting customers' diverse needs on a day-to-day basis, not just simply for a price review;
- demonstrating their plans are affordable, including for those struggling to pay; and
- considering the best way to achieve fairness between current and future customers.

We expect companies to offer a range of assistance options and be more proactive getting customers who struggle, or are at risk of struggling, to pay their bills onto those assistance

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<sup>17</sup> Ofwat, CCW '[Supporting customers through cost of living pressures](#)', October 2022

options. We will be examining each company's ambition in this area as part of our assessment of its business plan.

Following on from the recommendation made by the Consumer Council for Water's (CCW) Affordability Review,<sup>18</sup> the UK and Welsh governments are considering the role for, and potential form of, a single water affordability discount scheme for the water and wastewater sector. To better fit in with the timing of the sector's work on this, we plan to specify requirements for social tariffs in companies' business plans alongside a later version of the PR24 data tables which will be issued in 2023.

We have already been using our wider regulatory toolkit to encourage companies to implement the recommendations of CCW's Affordability Review.<sup>19</sup> For example, our published Paying Fair guidelines set minimum expectations for supporting customers in debt.<sup>20</sup> In October 2022, in a joint letter with CCW, we requested more information from water companies on plans for supporting customers through cost-of-living pressures. We will report on these plans in early 2023.

For PR24 we expect companies' business plans to reflect the needs and priorities of customers and communities, with a focus on the acceptability and affordability of bills. Companies will need to demonstrate that their plans have considered the acceptability of discretionary elements of their plan as well as affordability overall. This applies to current and future customers, and for residential customers who may struggle to pay their bills. We will also challenge companies to ensure proposed levels of cost recovery are fairly allocated across current and future customers.

Our ambition is that residential and business customers' voices are heard more directly and more effectively in PR24 than ever before. In particular, we require companies to:

- engage with their customers about how to strike a fair balance between current and future generations to inform their long-term delivery strategy; and
- hold open challenge sessions at which customers and other stakeholders will be able to question the company about key themes in its draft and proposed plans.

We have developed a common approach to researching customers' views of the affordability and acceptability of plans. This will ensure that customers' views are comparable across companies. Working with the companies and CCW, we are also undertaking collaborative customer research to understand customers' relative priorities and views on the outcomes

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<sup>18</sup> CCW, '[Independent review of water affordability](#)', May 2021

<sup>19</sup> CCW, '[Independent review of water affordability](#)', May 2021

<sup>20</sup> Ofwat, '[Paying fair – guidelines for water companies in supporting residential customers pay their bill. access help and repay debts](#)' May 2022.

that companies need to deliver. This will ensure that companies are financially incentivised to deliver outcomes that customers most care about.

We hope that higher quality, more transparent engagement will help further foster the relationships needed to make greater progress on the big challenges like responding to climate change, speeding up environmental improvements and responding to the pressures on people's finances. This is particularly the case where delivery of outcomes will benefit from companies working in partnership with their customers and communities to deliver ambition at pace.

We will continue to support affordability and vulnerability outside of the price review by:

- developing a customer focused licence condition to help increase companies' customer focus and incentivise the very best service, while ensuring that we have the right mix of regulatory tools to effect change when service falls short;<sup>21</sup>
- consulting on charging innovation to support the affordability of water bills;<sup>22</sup> and
- challenging companies to improve the reach and accuracy of their priority services registers, including through data sharing with the energy industry and others.

## 3.2 Effective and timely services for all

**UK government expects us to push companies to provide excellent services for all, by improving customer services and complaints handling.**

We expect companies to provide excellent services for all of their customers. At PR24, we will:

- continue to incentivise companies to improve customer service using our customer measure of experience (C-MeX), with stronger financial incentives than at PR19, subject to further review, which should lead companies to improve how they handle customer contacts and complaints;
- continue to incentivise companies to improve service to property developers and other developer services customers through the developer services measure of experience (D-MeX);
- introduce a new common performance commitment for the English water companies (BR-MeX) to improve their performance in relation to the wholesale services they provide to retailers and business customers; and
- we will back performance commitments with strong financial incentives.

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<sup>21</sup> Ofwat, [Customer focussed licence condition](#), 2022.

<sup>22</sup> Ofwat, ['Consultation on charging innovation to support affordability'](#), September 2022.

Outside of the price review process we will continue to work closely with CCW to improve companies' complaints handling and the complaints system as a whole.

### 3.3 Protecting small business customers

**UK government expects us to protect the interests of micro- and small business customers and to improve the value available to all customers from the business retail market.**

We primarily address these priorities outside of price reviews, through our use of markets. At PR24, we are promoting greater collaboration between water companies and retailers to improve value in several ways, including through the introduction of new performance commitments on business water efficiency and the business customer and retailer measure of experience (BR-MeX).

Most common performance commitments also apply to the wholesale services provided to end business customers, such as water supply interruptions and sewer flooding.

## 4. Using markets to deliver for customers

**UK government sets a priority that, wherever it is appropriate, we should consider promoting competition in markets.**

We must meet this priority by focusing our efforts on the:

- business retail market;
- major infrastructure provision;
- the New Appointments and Variations (NAV) market;
- ecosystem services; and
- bioresources.

We primarily address this priority outside of price reviews through our use of markets. To meet this priority at PR24, we will:

- incentivise wholesalers to provide a good service to business retailers and customers, through the BR-MeX performance commitment;
- incentivise companies to provide a good service to developers, through the D-MeX performance commitment;
- use Direct Procurement for Customers (DPC) by default for all discrete projects above £200m whole life totex;<sup>23</sup> and
- promote the bioresources market, for example by setting average revenue allowances based on the amount of sludge companies produce and assessing more bioresources costs within our cost benchmarking models, which is intended to mimic price setting by markets. We continue to set a clear expectation that companies should take a leadership role in developing the market.

We will also streamline how we regulate developer services, by:

- removing water and wastewater site-specific developer services from price review regulation for English water companies to encourage competition, whilst protecting customers using charging rules; and
- improving our approach where regulation remains necessary, ie where competition remains limited, such as in network reinforcement.

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<sup>23</sup> DPC is the process we have established whereby major infrastructure is designed, built, financed, operated and / or maintained by a competitively appointed provider.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.**

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