



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's draft decisions on the accelerated infrastructure delivery project

24 April 2023

CCW's response

1. The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to provide a response to Ofwat's draft decisions on the accelerated infrastructure delivery project.

Overview

2. CCW supports investment schemes that can deliver a clear and well evidenced benefit to people and the environment, at a cost that is proven to be efficient and is shown to be of value to bill paying customers.
3. As a monopoly sector, it is crucial that water company investment proposals are subject to regulatory scrutiny and approval. This helps to protect customers from over-paying for investment in water and wastewater services, or for investment that does not deliver best value solutions to the issues the industry needs to address.
4. We recognise that many companies face pressures to improve service delivery performance in areas that are priorities for customers (as shown by research into customer priorities carried out by CCW and Ofwat in 2021-22)¹. The evidence shows that people want to see water companies reduce pollution to the environment, protect and improve habitats and biodiversity, and address the increasing risk of water scarcity.
5. For this reason, the proposed acceleration of investment that could otherwise be considered during the 2024 Price Review (PR24) has the potential to realise benefits more quickly than would be achieved under the price review process, and help address issues that are becoming increasingly urgent.
6. However, the investment comes at a cost to customers. The package of 31 schemes for acceleration, valued at around £500 million over the 2023-2025 period

¹ [Understanding customers' preferences for Performance Commitments at PR24 \(CCW/Ofwat, April 2022\)](#)

(and over £1.6 billion overall) could have significant impacts on customer bills and affordability.

7. This increases the need for companies to do more to help those most financially vulnerable. Companies need to set out new proposals in their business plans for 2025-30 to show how they will improve assistance to customers struggling to pay as a result of this initiative and other investment costs that will affect bills.

Process

8. In order to give customers assurance that any proposals they are asked to pay for address their priorities and deliver value there needs to be:
 - Sufficient opportunities for regulatory scrutiny and challenge of companies' proposals. Companies need to provide clear evidence that their proposed solutions are the best value and most sustainable options, and can be delivered efficiently. The speed of this accelerated investment process means that the level of scrutiny may have been compromised.
 - Protections in place so that customers are not paying for improvements that companies should already have delivered, or can deliver within the cost allowances they have already received. We support the mechanisms in place to return customers' money if companies fail to deliver.
 - Customer input by using research and engagement to look at the extent to which proposed investment meets people's expectations, and that the cost is acceptable and affordable.
 - Clear evidence that allowed investment contributes to the long term outcomes the sector needs to achieve – reliable services protected from the risks caused by our changing climate.
9. There is a real risk that a fast track process may lead to:
 - Decisions that are later seen to be poor value;
 - A failure to deliver the outcome projected; and/or

- New investment that companies are already funded for, leading to customers paying twice.

10. CCW has been concerned that the speed and limited transparency of the accelerated investment delivery project has resulted in less scrutiny, gathering of evidence and customer input than would normally take place. It appears to have resulted in investment proposals which are focused on current 'hot' issues, rather than fully realised and evidenced investment that is delivered as part of a long term strategy to address current and future risks (which is the approach to investment planning and delivery recommended by the National Infrastructure Commission).

11. Companies do have the option to invest more quickly should they wish without the need for an additional process. The regulatory price setting process also allows companies to invest further and faster. Should they do this, companies can recover their additional costs at subsequent price reviews, with processes in place to ensure that such costs recovered from customers are justified, efficient, and deliver improvements that are seen to be of value.

Customer involvement

12. In our comments below we recognise some merit in fast-tracking investment that can protect customers from drought risks before 2025, or reduce pollution risks. Even though many of the proposed schemes may not achieve benefits until after 2025, the early start may see benefits sooner than originally planned.

13. CCW has received very limited information on the proposed investments, and there is a lack of clear evidence that customers support the investment. While all of the companies have evidence from customer research and engagement that shows that people view environmental protection, reducing pollution and the security and reliability of their water supply as an increasing priority, customers have not been asked about the potential bill impact of these schemes compared to the benefits they should eventually receive from them. This is a result of the short timescale and lack of opportunity for engagement resulting from this fast track exercise.

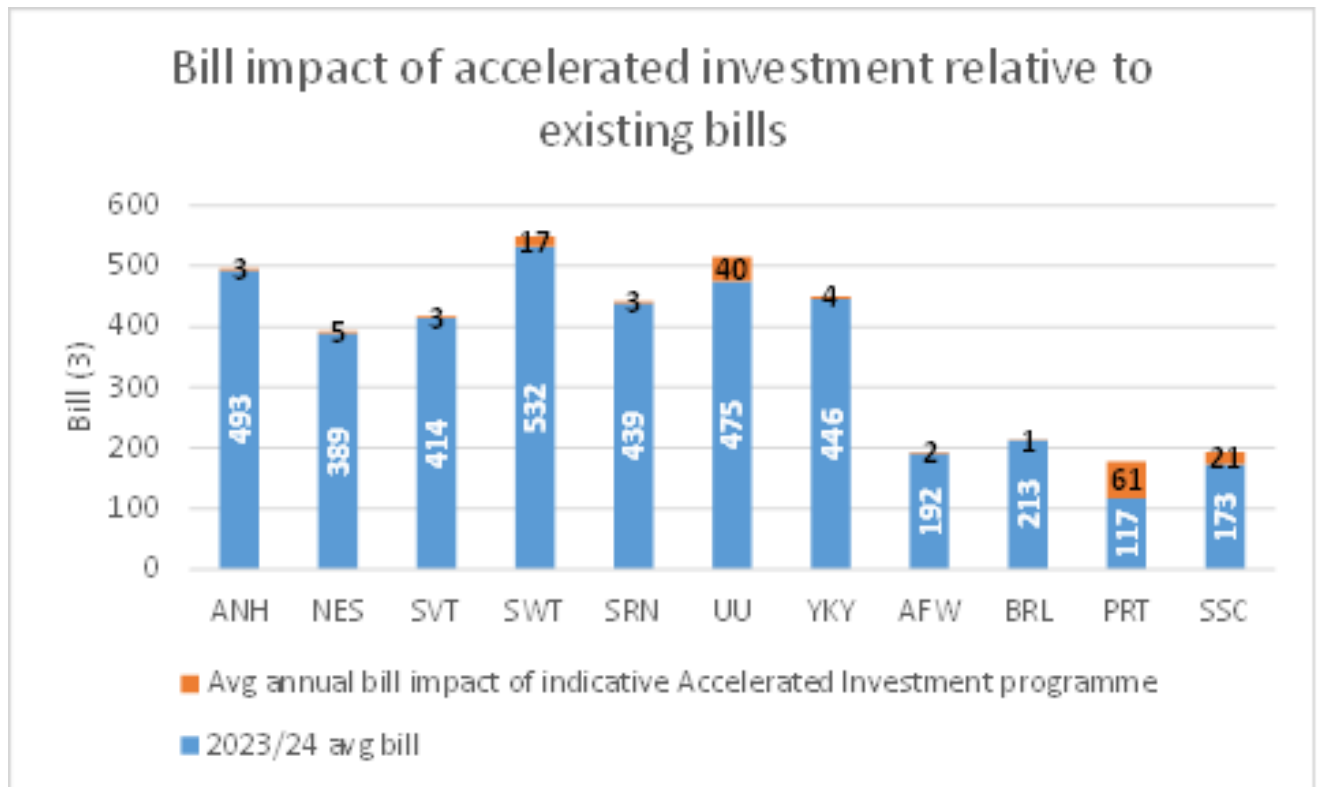
14. We therefore have to look to Ofwat, the Environment Agency and the Drinking Water Inspectorate, whose assessments of proposed costs and evidence has identified the best value schemes offering higher level benefits, cost efficiency and certainty in achieving the required outcomes. We are satisfied that Ofwat has compared the range of options companies modelled for achieving the same outcomes and selected the best value solutions. The assessment of costs vs benefits and supporting evidence has seen the initial 120 proposed schemes reduced to 31 in the draft decisions.

Affordability impacts

15. While the proposed accelerated investment costs would not be recovered by companies until the 2025-30 price control takes effect, there is a risk that the costs (along with PR24 costs for statutory programmes, other required investment and true-ups from the current price control) could contribute to a sharp increase in customers' bills in the early years of 2025-30, which would add to the increasing affordability burden for many customers.

16. Disappointingly, there are currently no estimated customer bill impacts in the draft decisions which means the full affordability impact of the schemes cannot be determined.

17. To get a picture of what these schemes may imply for customers' bills, we have modelled the proposed costs into bill impacts based on cost recovery across 2025-30 compared to the current average bill:



18. This is indicative only as the true impact will be subject to various factors², but shows that the potential impact is significant (ranging from £1 to £61), before any other PR24 cost drivers are added.

19. The most pronounced bill impact is for Portsmouth which would add around £61 to the bill. This is over 50% of the average 2023-24 Portsmouth Water bill. We are concerned that the quoted investment package cost in the draft decisions may be incorrect³.

² We recognise that companies will have choices over the phasing of investment delivery and cost recovery. Our indicative calculation assumes uniform annual investment, and PR19 'pay as you go' ratios, and RCV run-off. These may differ at PR24. We also used the Weighted Average Cost of Capital in Ofwat's final PR24 methodology (December 2022).

³ We question if there's an error in Ofwat's draft decisions document as there seems to be an inconsistency in the allowed costs for Portsmouth - £12m quoted on page 5 relative to £120m in Table 4.2. The accelerated investment package of £120m represents two thirds of the allowed totex at PR19 of £179m. Is the £120m the longer term 'life' cost of the investment, which means costs will be recovered over a longer period and the bill impact is spread further?

20. Investment programmes need to be delivered in a way that is parallel with the introduction of comprehensive customer affordability support - and takes into account customers' expectations around protections from failure. This will help increase customers' sense of value for money and satisfaction with the service they receive, while at the same time supporting those who struggle to afford their water bill. CCW is developing with almost all companies in England a baseline level of affordability support that will be part of the package towards providing comprehensive affordability support.
21. We need to see companies addressing the affordability pressures these projects (and other cost and investment drivers at PR24) will place on customers with improved affordability support for the customers who need it most. Ofwat's assessment of business plans needs to ensure companies rise to this challenge before price determinations are set in 2024.
22. Companies seeking fast track investment should offer to do more to protect those most vulnerable to the bill increases that will result from these costs, by demonstrating ambition to enhance overall affordability, including for residential customers struggling to pay. This should be a conditional requirement for any cost allowances given, so it aligns with the requirements for Ofwat's assessment of business plans in the final PR24 methodology⁴.

Assurance and protections for customers

23. We are satisfied that Ofwat's assessment of costs, evidence and options has led to schemes in the draft decisions that offer best value solutions. The Environment Agency has also provided assurance where schemes meet statutory requirements and are well evidenced proposals that offer the right solutions.
24. We support the regulatory mechanisms in place to return money to customers in the event of failure. If companies fail to deliver their commitments we expect Ofwat to use Price Control Deliverables to ensure that cost allowances are returned to customers in the event of failure, delay or part-delivery. This will also help track delivery.

⁴ [Ofwat PR24 final methodology Appendix 1: Affordability](#)

25. Any investment allowed in the accelerated investment initiative should be separately accounted for so that customers are not at risk of paying twice through totex sharing and any recognition of investment in price controls set at PR24.

26. In the final decisions, we would like to see Ofwat place a requirement on companies to clearly explain to customers what is being delivered early, why and what protections are in place.

Smart metering

27. Five of the companies with allowed accelerated investment are looking to fast track their smart metering programmes. CCW supports the water efficiency, leakage reduction and data quality improvements these initiatives should deliver. A recent study has also shown that 82% of businesses would support the rollout of smart water meters⁵.

28. However, companies need to explain to CCW and customers some additional information and context to show how their smart metering programmes will work in practice.

29. We would like Ofwat's final decisions to require companies to:

- Explain how the roll out of smart metering programmes will prioritise properties or areas that will gain the most benefit from smart meters including where customers are requesting these assets – particularly higher consumption business customers.
- How companies will communicate the roll out of the programme to their customers and address any transitional affordability concerns household customers may have if they are currently on rateable value charges.
- Confirmation that smart meters will enable real-time information to customers to encourage behavioural change and greater water efficiency.

⁵ An independent report commissioned by MOSL (Market Operator Services Ltd.) - see [here](#).

- How smart metering fits in the context of the longer term strategies companies should have for reducing leakage and increasing water efficiency.

Companies' proposed accelerated investment

30. We offer comments below on the specific accelerated investment package for each company:

Anglian

31. We support the smart metering roll out as it can deliver water efficiency benefits in the long term, but we want to see the company explain how it will roll out smart meters for household and non-household customers in a way that prioritises customer demand for smart meters, and increasing smart meter penetration in areas at greater risk of water scarcity where the enhanced data collection will be highly beneficial.

32. The fast tracking of storm overflows investment is likely to be supported in principle by many customers given the increasing public concern about pollution from these assets, but the lack of engagement with customers on these specific proposals and the bill impacts mean we do not know if customers would support this investment.

33. The company should also explain which of the worst polluting storm overflows will be prioritised. It should also be a requirement in the final decisions that Anglian should also share its good practice with its peers resulting from the new digital technologies it is using to deliver these schemes.

34. We also support the water re-use scheme in Colchester to increase water supply resilience for customers and the nutrient removal to protect river water quality in Fakenham, Dereham and Whitlingham. However, there is a lack of specific evidence to show that customers support these schemes.

Northumbrian

35. Similar to other companies we support Northumbrian's smart metering programme, but want to see the company explain how it will deliver the programme in a way that prioritises properties or areas that will gain the most benefits from smart meters.
36. With the storm overflow programme, we would like the company to show how it will deliver improvements to the 42 sites to ensure that the worst or most at risk storm overflows are prioritised, and share any good practice with its peers.
37. The fast tracking of storm overflows investment is likely to be supported in principle by many customers given the increasing public concern about pollution from these assets, but the lack of engagement with customers on these specific proposals and the bill impacts mean we do not know if customers would support this investment.
38. We support the increase in water supply resilience resulting from added water supply capacity in Essex and Suffolk to improve customers' water supply security, along with the two strategic pipelines in the North East.

Severn Trent

39. We support the acceleration of the smart metering programme, and would like to see the company provide us with further information about how the roll out will prioritise areas where smart metering will deliver the greatest benefits.
40. The increase in capacity of the Draycote Reservoir will deliver added water supply security, and the river flow monitoring scheme should provide better evidence of the environmental impact of the company's activities. While we support the company in gathering more data to see how its assets affect rivers, this does imply potentially expensive investment if problems are found. We expect Severn Trent to be transparent about what the flow monitoring reveals and the implications this may have for future investment.

Southern

41. We support the acceleration of storm overflow investment in an area of the country where the impact of storm overflow spills has been most prominent. The delivery of these schemes, *“will maximise learning by exploring innovative options and piloting sustainable interventions at scale to reduce spills”*. We are assured by Ofwat that the proposed improvements have not been previously funded for.
42. The fast tracking of storm overflows investment is likely to be supported in principle by many customers given the increasing public concerns about pollution from these assets, but the lack of engagement with customers on these specific proposals and the bill impacts mean we do not know if customers would support this investment. This is why it's important that the company communicates with customers to explain the eventual bill impact and the benefits this package will deliver.
43. It should also be a requirement in the final decisions that the learnings from these actions are shared across industry as this can only benefit all water and wastewater companies in their work to reduce polluting spills from storm overflows. This should be an explicit requirement in the final decisions.

South West

44. As per the comments on companies above, while benefits from the smart meter programme are clear, the company should demonstrate how it will roll out smart meters in a way that targets areas that would benefit more from these new assets.
45. We support the fast tracking of nutrient removal and storm overflow schemes as they have clear environmental benefits which address customer priorities.
46. In principle, we support the company's move to offering free customer pipe replacements (not just repairs) as a way of delivering greater leakage reduction and benefitting property owners who may find such solutions unaffordable. We look forward to the company explaining the bill impact from this initiative. We also would like to see South West explain how this initiative will work in terms of the process of offering pipe replacements and how this will be communicated to customers, especially to lower income households who will benefit most.

United Utilities

47. We support the schemes to improve water quality, ecosystems and wildlife through the improvements to a range of wastewater treatment works, and the fast tracking of storm overflow improvements across the region, as broadly, customer evidence shows that these issues are becoming increasing priorities for many. However, as with similar investment from other companies, there is a lack of evidence to show customer support for the specific schemes and their cost/bill implications, so the costs and benefits should be communicated clearly to customers.

Yorkshire

48. We support the early delivery of the bathing water quality improvement schemes to safeguard public health, and to meet new statutory requirements. Broadly, customer evidence shows that these issues are becoming increasing priorities for many. However, as with similar investment from other companies, there is a lack of evidence to show customer support for the specific schemes and their cost/bill implications. The company should communicate to customers the cost and bill impact of the package of schemes and the benefits that will be delivered.

Affinity

49. While we support the smart meter roll out, as with companies with similar schemes, Affinity should show how they will roll out the programme so that it improves customers' understanding of the benefits of smart metering in preparation for the planned roll-out at PR24.

50. We support the new treatment schemes to protect drinking water quality and supply resilience.

Bristol Water

51. We support the company's programme to install new supply pipes on household properties where there is either leakage or a risk from lead contamination. We look forward to the company explaining the bill impact from this initiative and how this will work in terms of the process of offering pipe replacements and how this will be

communicated to customers, especially to lower income households who will benefit most from this initiative.

Portsmouth and South Staffs

52. While we support both companies' acceleration of their smart metering programmes, we would like to see the companies provide detail on how they will roll out their programmes in a way that prioritises areas that are at greater risk of water scarcity or where customer demand for smart meters is higher.

53. As per paragraph 18 above, we question the total cost Ofwat has published for Portsmouth's smart meter programme.

Enquiries

Enquiries about this consultation should be addressed to:

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