Call for Evidence: Email and Postal Response Template

Independent Commission on the Water Sector Regulatory System

27 February 2025

Whilst we accept call for evidence responses via e-mail and post we strongly encourage respondents to use the Citizen Space Platform.

If you are going to send an email response, please either fill out this word document or copy and paste directly into the email to fill out before sending it to us.

Section 1: About You

Introduction

Questions 1-9 cover information that will be used for data management and processing. For further information about how personal and identifiable information will be used as part of this call for evidence, please see the programme privacy notice.

Confidentiality

The Independent Water Commission may publish the content of your response to this Call for Evidence in its interim and final reports. These reports will be publicly available, but your name and private contact details (e.g. email address) will not be included.

If there is any part of your response that you do not want to be published, please select 'Yes' below and specify which information should remain confidential along with your reasons.

Questions

Q1. Would you like your response to be confidential? (required)

☐Yes

☒No

Q2. If you answered yes, which information would you like to keep confidential and why? (optional)

Q3. Do you consent to being contacted by the Independent Water Commission about your response? (required)

☒Yes

☐No

Q4. If you consented above, please provide your full name. (optional)

Iain McGuffog – Director of Regulatory Finance

Q5. If you consented above, please provide your email address. (optional)

finreg@southwestwater.co.uk

Q6. In what capacity are you completing this consultation? (required)

☒As a representative of a water company

☐As a representative of a regulator or enforcement body

☐As a consultant/industry expert

☐As an academic or researcher

☐As a business or organisation

☐As a local authority

☐As an NGO or other non-profit public interest group

☐As a member of the public with an interest

☐As a public representative (for example, Councillor, MP, etc.)

☐As an investor

☐As a farmer or land manager

☐Other

Q7. What is the name of the organisation or interested group that you are responding on behalf of? (optional)

Pennon Group plc, the owner of South West Water, Bristol Water, Bournemouth Water, Isles of Scilly Water, and SES Water

Q8. Where do you live? (required)

☒England

☐Wales

☐Scotland

☐Northern Ireland

☐Outside the UK, within the EU

☐Outside the UK, outside of the EU

Q9. Where does your business or organisation operate? (required)

Check all that apply

☒England

☐Wales

☐Scotland

☐Northern Ireland

☐Outside the UK, within the EU

☐Outside the UK, outside of the EU

☐Not applicable

Section 2: Questions on Chapter 2 - Overarching Framework for the Management of Water

Introduction

We have one water system that is facing many pressures, competing demands and low levels of public trust. It requires integrated planning and coordination between different groups, and clear strategic direction from government on priorities and trade-offs.

The following questions seek views across the following five areas:

- Whether there is a need for further strategic direction to improve water planning, funding and implementation.
- Whether the geographical scales for planning and delivery in the water system are appropriate and provide sufficient accountability, including through democratic structures.
- Whether there should be an integrated water management framework to improve the management of the water system across sectors and outcomes.
- Whether the current environmental objectives and planning frameworks reflect the right outcomes and incentivise the action needed to deliver them.
- Whether the current water industry planning frameworks are effectively producing the desired outcomes, or whether changes could enable better planning in aid of delivery, at both a water industry, regulator and government level.

Water system outcomes

Understanding what society wants from the water system will help to inform the objectives that are pursued in future. As there are limited resources available across the water system, it is also important to understand how these objectives should be prioritised, and how trade-offs should be made between them.

Q10a. Thinking ahead to what you would like the water system to look like in the future (e.g. in 25 years' time), what outcomes from the water system are most important to you? (Please select your first priority here)

We have not included the core objectives of the water industry to provide a reliable supply of clean drinking water, and provide management and removal of sewage and wastewater, as we have assumed these are important. We would like your views on what further outcomes are most important to you.

*Please choose your **highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.*

☐Improved water environment (e.g. healthy habitats for aquatic plants and animals)

☐Resilient and reliable supply of water for businesses

☐Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)

☐Wider public health outcomes (e.g. limiting anti-microbial resistance)

☐A water system which contributes to net zero

☒**Resilience to climate change**

☐Reduced flood risk

☐Limiting increases to water bills

☐Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)

☐Recreational access to 'blue' (water body) spaces

☐None

☐Don't know

☒Other (please specify)

If you selected other, please specify below (max 100 words)

Our top priorities are:

- **Resilience to Climate Change**: Climate change is the greatest threat to water systems, and adapting infrastructure is essential for public health; the environment; and communities.
- **Wider Public Health Outcomes**: Safe and clean water is customer's number one priority, and therefore our number one priority. This is not just about what we do today, but also how we look at future risk such as anti-microbial resistance.
- **Water Bodies Safe for Recreational Uses**: In Devon and Cornwall preventing pollution and ensuring bathing waters are clean and safe for customers and tourism is critical to communities and the economy.

Q10b. Thinking ahead to what you would like the water system to look like in the future (e.g., in 25 years' time), what outcomes from the water system are most important to you? (Please select your second priority here)

*Please choose your **second highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.*

☐Improved water environment (e.g. healthy habitats for aquatic plants and animals)

☐Resilient and reliable supply of water for businesses

☐Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)

☒**Wider public health outcomes (e.g. limiting anti-microbial resistance)**

☐A water system which contributes to net zero

☐Resilience to climate change

☐Reduced flood risk

☐Limiting increases to water bills

☐Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)

☐Recreational access to 'blue' (water body) spaces

☐None

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Space for written response if selected other – max 100 words

Q10c. Thinking ahead to what you would like the water system to look like in the future (e.g., in 25 years' time), what outcomes from the water system are most important to you? (Please select your third priority here)

*Please choose your **third highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.*

☐Improved water environment (e.g. healthy habitats for aquatic plants and animals)

☐Resilient and reliable supply of water for businesses

☒**Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)**

☐Wider public health outcomes (e.g. limiting anti-microbial resistance)

☐A water system which contributes to net zero

☐Resilience to climate change

☐Reduced flood risk

☐Limiting increases to water bills

☐Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)

☐Recreational access to 'blue' (water body) spaces

☐None

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Space for written response – max 100 words

Q11a. To what extent do you believe the overall water framework already delivers the outcome you chose as your highest priority?

☐To a great extent

☒**To some extent**

☐Very little

☐Not at all

☐Don't know

Q11b. To what extent do you believe the overall water framework already delivers the outcome you chose as your second highest priority?

☐To a great extent

☒**To some extent**

☐Very little

☐Not at all

☐Don't know

Q11c. To what extent do you believe the overall water framework already delivers the outcome you chose as your third highest priority?

☐To a great extent

☒**To some extent**

☐Very little

☐Not at all

☐Don't know

Management of water

The Commission has heard while there have been efforts by the UK and Welsh governments to create plans and strategies with a long-term, holistic view of water planning and management, these appear to have limitations. These plans and strategies do not appear to communicate a holistic view of the outcomes society wants and expects from the water system. The Commission is interested to know what is and isn't working well in the strategic management of the water system, and how it could be improved.

The range of sectors that depend and impact on the water system, like local and regional governments, transport organisations, landowners, farmers, businesses, water companies, regulators, and others, do not seem to be consistently coming together to make decisions. While water planning and decision-making occurs at local, regional, and national levels, the Commission has heard that there is a lack of coordination, funding, and accountability at local and regional levels which makes it difficult to realise objectives. The Commission is considering where responsibilities for managing the water system should sit, and which authorities should lead on this management.

Q12. Who do you believe should be responsible for making decisions about what outcomes to prioritise from the water system?

When thinking about who should be responsible, you may want to consider the UK Government (in England) and Welsh Government (in Wales), local authorities, mayors, independent regulators (including the existing regulators, and/or new ones), water companies, and others.

This is not intended to be an exhaustive list. Apart from the above, please think about other bodies you consider to be relevant.

The water system serves a range of critical, and often competing, outcomes that need to be balanced. It exists to protect public health, ensure resilience to climate change, and support environmental quality, amenity, and economic growth. Yet the current framework is not designed to manage these trade-offs effectively. Responsibilities are fragmented, regulation is inconsistent, and water companies are held accountable for outcomes they cannot control. This limits delivery, drives inefficiency, and erodes public trust.

Public health remains the primary outcome—ensuring the supply of clean, safe drinking water and managing wider health risks such as microplastics, forever chemicals and antimicrobial resistance. The system must build resilience to climate change, and maintain ecological integrity, whilst delivering important social value through access to safe, clean bathing waters and recreational spaces. Water infrastructure underpins economic growth, supporting housing, business development, and sectors such as tourism and fishing/agriculture.

Our own experience is that outcomes interact at the local level. In our 2023 DWMP for Devon and Cornwall, we worked with over 20 partners to co-design catchment-based solutions—an approach that has proved essential in balancing environmental outcomes with growth and resilience.[1]

Balancing these outcomes requires clear decisions on prioritisation, trade-offs, and shared responsibility across sectors. Government should set long-term outcomes, affordability envelopes, and investment priorities, supported by regulators and delivered by companies.

This process should reflect the different nature of water supply to wastewater/environmental outcomes. Water supply (water resources, drought resilience and drinking water) is infrastructure-led and best governed through a national framework. Wastewater and environmental outcomes are shaped by local conditions and diffuse pollution sources: agriculture, highways, urban growth, and misconnections.

Water companies cannot tackle these challenges alone. In the last five years, we have investigated 1,200 potential pollutions not caused by our operations, including 300 illegal misconnections into the network. We also deal with c.230 third-party strikes on our water

[1] South West Water – Drainage and Wastewater Management Plan 2023

network each year. Water companies are liable for these outcomes, even when they lack the statutory powers to prevent or enforce against them.

We support Professor Dieter Helm's recommendation to split water and wastewater licences to reflect governance differences.[2] Alongside statutory powers equivalent to those held by energy infrastructure operators, ensuring that accountability and authority are aligned.

To maintain coherence between national targets and local delivery, we propose that the Government publish a Water White Paper setting out clear, long-term outcomes for water companies, regulators, government, public bodies, and other sectors. We also recommend an ongoing role for a Water Commissioner within government. This independent role would oversee the national plan for water, manage trade-offs, and hold all sectors accountable for their role in delivery. The Commissioner would also ensure that regulators operate to shared metrics and strategic priorities, resolving overlaps, and addressing underlaps where no party currently holds responsibility, including areas like bioresources, highways pollution, and third-party impacts.

Q13. Do you believe there should be changes to roles and responsibilities for water management across local, regional and national levels?

When thinking about roles and responsibilities for water management, you may want to consider setting targets, engagement with customers and the public, planning, decisions on funding, delivery, monitoring, enforcement and managing trade-offs with other sectors.

☐No changes are needed

☒Changes are needed

☐Don't know

If you selected changes are needed, please explain why. Consider how you believe roles and responsibilities should be better organised across local, regional and national levels, including who you believe should be the lead authority at each level and why.

Yes, we believe changes are needed to improve coordination, clarify roles, and rebalance powers and accountability across all levels of water management. A clearer, more coordinated structure is essential.

[2] Dieter Helm (April 2025), From the unsustainable to the sustainable: how to reform water and sewerage in England and Wales

Water supply is best managed within national frameworks—many of which already exist—but there remains room for refinement, particularly around integrating environmental outcomes and long-term resilience.

Wastewater and water quality, on the other hand, is inherently local and effective management happens at the catchment level. Water companies rely on local stakeholders including landowners and water users to co-develop plans. Pennon would support Dieter Helm's suggestion of catchment-level regulation to supervise this process and formalise the Catchment Partnership approach Pennon has pioneered.

Existing examples of well-governed partnerships show what's possible when roles are clear, and collaboration is strong. But this process would be better formalised rather than relying on goodwill to ensure a consistent approach.

At the national level, Government should set the affordability envelope, resolve trade-offs on bills, resilience, and service ambition—ensuring coherence across sectors. Government must also set the strategic priorities for regulators. Risk-based and proportionate regulatory oversight is essential. Efforts to build Cheddar 2 in the Bristol region commenced over a decade ago, however the case could not be made at the company level, and it was not until a more strategic planning approach was introduced that the case was made for the new reservoir to solve local deficits across the South West region.

In addition, government and regulators need to address the mismatch between liability and power, whereby companies are held strictly liable for outcomes — even when they have no statutory authority to act, such as in cases of illegal connections or third-party damage. Organisations like National Grid benefit from statutory duties and enforcement powers that allow them to manage risk proactively. Water companies need a similar framework to manage infrastructure effectively and equitably.

For the water environment, regional coordination bodies — such as mayors or designated authorities — should be empowered to deliver national outcomes locally, monitor cross-sector delivery, and hold all parties to account. Where formal structures do not yet exist, unitary authorities or county councils could fulfil this role.

Within this framework for the natural environment – at the local level, roles should focus on delivery. Catchment partnerships work well but need more formal backing and funding. Wastewater companies, local authorities, landowners, and communities should co-develop and implement solutions, supported by better data sharing, clearer lines of responsibility, and engagement with customers and communities. SWW's Plan for Water with Plymouth City Council and the EA, and the support for Falmouth's Charter of the Sea, illustrate how environmental water management can be community-led, integrated, and locally accountable.

As the evidence provided shows, effective management of water is crucial to achieving water systems outcomes and requires informed decisions and efficient delivery. Further, while long-term water supply planning is best handled at the national level, managing water environment outcomes requires a more localised approach to address specific regional needs and conditions.

Q14. Do you believe changes are needed to help reduce the siloed approach to water management across different sectors? If so, what changes do you believe would be beneficial? *(Please select up to 5 options)*

☐No changes are needed

☐Government providing clearer national strategic direction and targets on water

☐A national scale systems planning authority*

☐A regional or catchment scale systems planning authority*

☒Streamlining or aligning existing water plans and planning processes across the water system

☒Increasing the status of water plans to influence other sectors (e.g. farmers, businesses, planning and development)

☒Streamlining or aligning water management planning and other plans such as flood risk plans, local nature recovery strategies, and local plans for development

☐Aligning water management with democratic structures**

☐Pooling together existing funding streams at a spatial level***

☒Changes to how regulators regulate sectors involved in the water system (e.g. through monitoring, advice, enforcement, etc.)

☐Don't know

☒Other (please specify) [**Max 100 words]**

* Where options refer to a '**systems planning authority**', this refers to an authority which could act as a central planning authority, deciding on the best actions for the water system.

****'Aligning water management with democratic structures'** would involve providing local or regional governments with responsibility for managing the water system in their area of responsibility.

*****'Pooling funding at a spatial level'** would involve bringing together sources of funding from different sectors at that spatial level. This could include funding from the water industry, agricultural and transport sectors, local or regional governments and others. This could allow funding to be targeted towards areas in which it would have the greatest overall impact on the water system, irrespective of which sector it came from.

If you selected other, please specify below

Other - Move to a water commissioner, catchment regulation, and a separation of decision making and delivery by water supply and water environment.

As noted elsewhere, for water resources and drinking water quality, we favour a national framework for regulation. For wastewater and environmental services, we believe that there is an important role for regional authorities and believe that regulation should be locally-focused.

Funding would not be an issue in moving to catchment level management. Over £13 billion per year is spent on environmental outcomes across 50 organisations, through 30 funding streams and 20 plans – this is fragmented with little coordination[3]. In Devon and Cornwall, SWW received £33m match funding from Partners against our core investment of £43m, with match funding from EU, Defra schemes and other sources. Combining all sources of funding to address all forms of pollution – wastewater services, agriculture, highways drainage, and surface water management would enable a comprehensive, integrated and market-led approach to improving water quality and reducing environmental impact across the region. This could align with the government's devolution aspirations, reflecting the role of devolved bodies and their links to nature and river health.

[3] https://sustainabilityfirst.org.uk/publications/briefing-papers/the-case-for-reform-in-water-governance/

Q15. Do you believe there are barriers to money being spent more effectively and efficiently across different sectors to deliver the best outcomes for the water system? If so, what do you believe are the key barriers? *(Please select up to 3 options)*

When responding, please think about how money is spent in the water system now (e.g. money spent separately by different sectors, possible reliance on water industry investment etc.), and if and how it could be spent more efficiently in future.

☐There are no key barriers

☐Limitations of evidence on costs and benefits (including co-benefits, such as wider environmental or ecological outcomes)

☐Unclear targets and objectives

☒Limitations of understanding of the full set of pressures (e.g. which sector is responsible for a pollution source)

☒Limitations of alignment of existing funding pots (e.g. water company investment, agri-environment schemes, government funding for Catchment Partnerships)

☒The scale at which actions are developed (e.g. actions are developed at too large or too small a scale, lack of spatially targeted actions)

☐Planning timelines (e.g. timelines misaligned, too long, or too short)

☐The monitoring and classification system (e.g. how the quality of water bodies is assessed)

☐Barriers to partnership schemes (e.g. joint maintenance agreements, collaboration across sectors)

☐Don't know

☐Other

If you selected other, please specify below ***[Max 100 words]***

Max 100 words

Q16. In your opinion, is it more important that regional water system governance aligns with hydrological or local government boundaries?

The Water Environment (Water Framework Directive) (England & Wales) Regulations 2017 (referred to as the WFD Regulations) provide a framework for managing the water environment in England and Wales.

Planning under the WFD Regulations currently aligns with hydrological boundaries, such as river basins or catchments. This reflects the natural flow of water bodies and their environment but means that there is no existing democratic structure aligned to these plans to support and enforce their implementation.

Local government structures (such as district councils, unitary or combined authorities, and mayoral authorities) have democratic accountability and are linked into broader planning structures (such as town and country planning).

The final option, 'Welsh government boundaries', is available to those who live in Wales or have a business of organisation that operate in Wales.

☒Hydrological boundaries (e.g. water catchments, river basin districts)

☐Local government boundaries (e.g. strategic authority, district councils, combined authorities, and mayoral authorities)

☐Don't know

☐[For Wales Only]: Welsh government boundaries

☐[For Wales Only]: Welsh government boundaries

Management of the water environment

In England and in Wales, the Water Framework Directive Regulations (WFD) currently provide the overarching statutory framework for the water environment. Other regulatory frameworks, such as the Urban Waste Water Treatment Regulations 1994 and the Bathing Waters Regulations 2013, also drive action in the water environment. However, the WFD provides the overarching target condition for the water environment and the framework for achieving it.

Under the WFD Regulations, a River Basin Management Plan must be prepared for each river basin district. The plan includes environmental objectives and a summary of the programmes of measures required to achieve those objectives. The current River Basin Management Plans were published in December 2022.

The WFD requires governments to 'aim to achieve' Good Ecological Status (GES) for all surface water bodies by 2027. There is no published plan in place for these objectives beyond 2027. While the regulations implementing the WFD will not stop applying after 2027, they do not provide for a scenario beyond 2027. The UK and Welsh governments will need to decide what, if anything, should follow this objective after 2027.

Q17. Do you believe changes are needed to the WFD Regulations, including for 2027 onwards? If so, which areas would benefit the most from change? *(Please select all that apply) This could include, for example, strengthening, streamlining or clarifying the Regulations.*

☐No changes are needed

☒The targets and objectives (e.g. 'Good Ecological Status' water body objectives, the designation of Artificial and Heavily Modified Water Bodies, the deadlines for achieving environmental objectives, the scale at which objectives are set and applied)

☒River Basin Management Plans (e.g. spatial coverage, scope, the length of the planning cycle, the programmes of measures)

☒The classification system (e.g. chemicals, ecological, groundwaters)

☒The way economic evidence is considered (e.g. cost benefit appraisals of actions, use of economic analysis to justify exemptions)

☐The monitoring system (e.g. the evidence base, the use of technology, data sharing for monitoring, reporting)

☒Governance and accountability (e.g. the duties of governments and organisations)

☐Public participation and engagement (e.g. through consultations, delivery and investment planning)

☐Don't know

☐Other

Q18. If you feel the WFD Regulations would benefit from change, please expand on where you feel changes are necessary and the reasons why. [Max 500 words]

Achieving a high ecological standard is a significant challenge that will require all stakeholders to contribute and work together to deliver.

Currently, the national focus is heavily focused on the environmental impacts of water companies, with water company customers bearing the costs of addressing various issues in rivers and seas. Yet water companies can often have a minor impact compared to agriculture and highways. For example, across the South West, 12% of RNAGs relate to water company operations according to EA catchment data, with 88% attributed to other sectors or no sector attributable.

The current WFD approach does not sufficiently assess trade-offs between ecological objectives and wider societal needs like food security, energy supply, or housing. Unlike drinking water, where the DWI enables a risk-based approach, WFD implementation lacks the flexibility to prioritise interventions that deliver the greatest environmental benefit.

To make progress, WFD needs to evolve to be more forward-thinking, better able to address emerging threats like PFAS and microplastics. Updating the WFD must enhance our ability to monitor, regulate, and mitigate these impacts.

The framework should create long-term strategic plans that consider all impacts and needs related to water systems. These plans should provide a roadmap for all stakeholders involved in sustainable water management, setting out plans to address future challenges such as climate change, whilst ensuring resources are used efficiently and effectively. Water companies are vital components of this framework, and this approach would ensure that water companies and regulators are integrated into a comprehensive, holistic understanding and set of objectives.

The framework should also do more to engage the public and enhance the public understanding of the water environment. This is essential to promote a shift in consumer behaviour regarding water usage and to prevent sewer misuse.

The principle of "polluter pays" should apply. According to the OEP[4], 75% of investment in improving water quality is currently made by the water industry and there is limited evidence that other sectors will deliver their share of improvements. We need to see increased collaboration and investment across all sectors.

For example, to date catchment management has involved subsiding farmers to reduce pollution. And the impact of highways drainage on wastewater systems, particularly as an important cause of storm overflow discharges, is clear but highways do not pay for their use of the system, and there is no oversight from the EA of this important source of

[4] A review of implementation of the Water Framework Directive Regulations and River Basin Management Planning in England

pollution. The impact is a distortion in both who pays and the incentives to behave differently and find solutions.

Reform should deliver a smarter, integrated catchment approach, supported by improved monitoring, aligned cycles, and tools such as catchment markets. Institutions such as CREWW can support better understanding of systems and more adaptive decision-making. Above all, reform must move away from a narrow compliance model and towards a smarter, integrated catchment approach — grounded in robust monitoring, cost-benefit analysis, and shared accountability. All sectors must play their part, and all polluters must pay.

Measuring and assessing the water environment

The WFD Regulations currently drive water body monitoring in England and Wales. A range of chemical, biological and physical elements of water bodies are measured, and these measures are combined to classify water bodies. Their ecological status is classified as high, good, moderate, poor or bad. This classification is an indication of water body health, which is often used to report on the state of the water environment. Classification is produced at a water body scale.

We are interested in your views on whether this measurement framework provides the right data for informed decision-making on the water environment and how this data can be collected and collated in a more cost-effective way.

Q19. Do you believe changes are needed to improve how we monitor and report on the health of the water environment? If so, what changes do you believe could lead to improvements? *(Please select all that apply)*

☐No changes are needed

☐Using statistical modelling for state of environment reports (reducing monitoring inputs)

☒Reporting on wider outcomes than ecological status (e.g. public health)

☒Use of citizen science

☒Data sharing platforms for government and third-party evidence/data

☒Expanding out from the water body level to report on a whole catchment

☒Full or partial integration with wider environmental/water monitoring

☐Don't know

☐Other (please specify)

If you selected other, please specify below ***[Max 250 words]***

Strategic direction for the water industry

Q20. What role do you believe the government can play in providing strategic direction for the water industry? [Max 500 words]

By 'strategic direction' we mean, for example: the Strategic Policy Statement / the Strategic Priorities and Objectives Statement; Government targets (e.g. in the Environment Act 2021 and the Plan for Water in England only); the Price Review Forum (Wales only). This is not an exhaustive list.

The government has a greater role to play than ever before in setting a clear, stable, and long-term strategic direction for the water industry — particularly given the scale of investment, cross-sector dependencies, and rising public expectations.

Our water infrastructure is critical for the UK's long-term economic growth and security. Strategic direction must be coordinated nationally, with government setting overarching strategies and priorities that guide regulators and companies alike. That includes setting the affordability envelope and the pace of investment. These trade-offs—between resilience, service levels, and what customers can afford—require cross-party legitimacy and cannot be resolved by regulators or companies alone.

However, there is currently misalignment between regulators' roles and expectations. For example, Ofwat has a sustainable development duty and is required to act in accordance with the Strategic Policy Statement (SPS), which includes environmental priorities. The EA has environmental duties, but too often is constrained by delivery dates and is unable to consider wider things such as cost benefit analyses and wider public benefits (such as food security or public sufficiency of supply during periods of drought) leading to different interpretations of what outcomes are affordable, desirable, or achievable. This lack of coherence creates inefficiencies and delivery risk.

At the same time, strategic direction must preserve the independence of regulators. Overly detailed instructions in the SPS can reduce Ofwat's ability to carry out independent economic regulation, particularly in areas like price control determinations. Government should focus on setting long-term, outcome-based priorities, rather than scheme-level direction.

From our experience in PR24, the framework has enabled us to plan around resilience and environmental goals—but gaps remain. For instance, bioresources lacks the same clarity of targets as other areas. These inconsistencies limit confidence and delivery capability across the sector.

Government targets should be coherent with wider national objectives, including Economic Growth. For example, it is important to consider whether certain targets may act as a disincentive economic growth. The target to reduce business water demand, as

an example, could prevent growth in water-intensive industries, even in regions where there is sufficient water.

A clear strategic direction from government is also essential to ensure the water industry remains investable. This includes providing fair and stable regulation to support long-term returns and deliver major infrastructure upgrades. A system once revered needs to regain credibility—and credibility starts with a government-led, outcomes-driven, and joined-up strategy.

Finally, the government has a vital role in better coordination across sectors and regions—ensuring that national goals are delivered through regional partnerships and local action. National frameworks should embed environmental outcomes more fully in water supply planning, while enabling catchment-scale collaboration on wastewater, where problems and solutions are inherently local.

In short, government should set the outcomes, priorities, and pace—while empowering delivery bodies with the tools, flexibility, and regulatory coherence to make it happen. A system once revered for its clarity and credibility must now evolve to meet the scale of today's water challenges.

Q21: What changes, if any, should be made to how the government provides strategic direction for the water industry? [Max 500 words]

☐No changes are needed

☒Changes are needed

☐Don't know

If you selected that changes are needed, please describe what changes you feel are needed and why.

We believe changes are needed to how the Government provides strategic direction for the water industry. There is currently no coherent framework for managing the critical trade-offs between affordability, environmental ambition, economic growth, and resilience. Instead, duties are fragmented across regulators, with inconsistent alignment between objectives, powers, and delivery.

Government should clearly define the national strategic objectives for the sector — setting the overall affordability envelope, investment pace, and priorities for regulators. This includes making explicit how trade-offs should be managed between competing demands such as water supply security, environmental quality, flood risk, housing growth, and decarbonisation.

In this model, Ofwat should be empowered as the lead regulator, with responsibility for coordinating across regulatory bodies, including the Environment Agency (EA) and the Drinking Water Inspectorate (DWI). Ofwat's sustainable development duty and its role under the Strategic Policy Statement (SPS) already position it well for this role, but effectiveness is limited by misalignment across regulatory remits. The EA has a clear environmental focus but insufficient duty to consider economic trade-offs or affordability, creating a mismatch between ambition and practical delivery.

The SPS should focus on three core priorities for Ofwat and the wider regulatory system:

- Security of Supply: Ensuring reliable, resilient water and wastewater services in the face of climate risks, growth, and emerging threats such as cyber-attacks.
- Affordability: Delivering services efficiently for all households, with support targeted to those who need it most.
- Market Development: Supporting the evolution of water markets, including integration with sectors such as energy and agriculture.

The SPS must strike the right balance between clear strategic steer and regulatory independence. Too much prescription risks undermining regulators' autonomy, but too little clarity leaves key trade-offs unresolved and weakens accountability. Direction should focus on the outcomes government expects, not the methods regulators use to achieve them.

There are also blind spots in current government strategy. Areas such as bioresources regulation lack clear policy frameworks, while housing and infrastructure planning decisions often fail to align with water system capacity. In our region, for example, 50% of applications for first-time sewerage are rejected, highlighting poor coordination between planning and water infrastructure.

We support the conclusions of the Corry Review, which recommends consolidating Defra's regulatory duties around a core set of priorities — including security of supply, affordability, and market development. We also recommend applying a shared 'value for money' principle across regulators to ensure environmental ambition aligns with economic realism.

Our water infrastructure is nationally critical. Government leadership must set clear priorities and the affordability envelope, while empowering regulators to deliver. Reform should create the conditions for better coordination, investment, and innovation — ensuring outcomes are achieved in ways that are affordable, resilient, and responsive to long-term national needs.

Q22. Do you believe there are barriers to effective long-term water industry planning? If so, what factors do you believe are preventing effective long-term water industry planning? *(Please select all that apply)*

We are interested in understanding the factors that limit effective planning within the water industry to meet its duties and deliver its functions both now and in the future.

When thinking about planning, please consider price review business planning, drainage and wastewater management plans, water resources management plans and planning as part of the water industry national environment programme (in England) or National Environment Programme (in Wales).

☐There are no barriers to effective long-term planning

☒Limited clear guidance from UK and Welsh Governments on priorities and how to manage trade-offs.

☐Limited timebound, specific and measurable targets (e.g. for water outcomes such as water quality and water supply, or wider outcomes such as net zero, nature-based solutions, circular economy).

☒Regulators are not adequately supporting effective planning (e.g. through guidance, scrutiny)

☒Unclear what duties and functions other stakeholders (e.g. local authorities) are expected to deliver to contribute to plans.

☐Issues with data and assumptions (e.g. inconsistent or inadequate scenarios and assumptions across plans, data on asset performance not adequately collected).

☐Engagement with customers and environmental or local groups (e.g. too much engagement, too little, engagement is not meaningful, engagement is not local)

☒Regulatory requirements don't support sufficient long-term certainty or respond well to emerging issues/policy changes

☒Plans don't interact well together (e.g. duplication, decisions/timelines/asks conflict, and/or decisions aren't sequenced in the right order across plans).

☐Don't know

☐Other – please specify below

If you selected other, please specify below ***[Max 100 words]***

100 words max if select other.

Q23: What changes, if any, would help water companies to use planning frameworks more effectively to fulfil their duties and deliver their functions?

Water companies need stronger powers and a more streamlined planning framework to meet long-term duties efficiently. National Grid offers a useful model—its statutory powers include permitted development, and protected infrastructure corridors. Equivalent tools could accelerate strategic schemes like reservoirs and regional transfers, which currently face delays due to land access and planning constraints.

Water companies face strict liabilities, so they are held responsible for harm regardless of negligence. This is designed to ensure problems are addressed promptly, but it means water companies are responsible for issues outside of our control.

Water companies should have statutory consultee status in local and regional planning. Developers can legally connect to networks without consent, leaving companies with obligations but few rights.

Licence reform could help by embedding clearer duties around resilience and long-term planning, while respecting the existing separation of economic and environmental regulation under the Water Industry Act 1991.

Planning frameworks must be better aligned. WRMPs, DWMPs and WFD targets are interdependent but overseen by different regulators to different timelines and assumptions. We support simplification, with high-level policy steer replacing overly detailed guidance.

Mechanisms for dynamic investment are needed. The Green Recovery Programme unlocked £82m for SWW to accelerate environmental. The fast-tracked projects of the Green Recovery show what's possible when regulatory frameworks support ambition. These should be the standard—not the exception.

By reforming powers, simplifying planning, and enabling more responsive investment, government can unlock faster delivery, greater resilience, and long-term value for customers and the environment.

Section 3: Questions on Chapter 3 – The Regulators -

Introduction

The water industry is responsible for providing clean drinking water and collecting and treating wastewater. This ensures the protection of public health and the environment. The regulatory model is designed to oversee water companies to ensure they deliver statutory requirements and government policies and targets. The regulatory model is made up of organisations including:

- The Environment Agency (EA) in England and Natural Resources Wales (NRW) in Wales - the principal environmental regulators
- The Drinking Water Inspectorate - the drinking water regulator who ensures the quality and sufficiency of public drinking water supplies
- Water Services Regulation Authority (Ofwat) – primarily the economic regulator who ensures consumer interests are protected, and that water companies properly carry out their statutory functions and are financed to do so.

The current regulatory model has evolved over time driven by changing public expectations in relation to the environment and concerns about the performance of water companies.

The commission is seeking views on potential changes to the overarching regulatory model. This includes but is not limited to:

- Whether it is necessary to review the respective statutory duties and responsibilities of regulators
- Whether government guidance to the regulators should be strengthened
- Whether new or expanded regulatory coordination mechanisms could be introduced
- Whether it is necessary to review the capability and funding arrangements and of the regulators
- Any views on options around merging regulators or establishing new authorities

Q24: How would you rate the performance of the water regulatory framework?

☐Performing very well

☐Performing well

☒Performing averagely

☐Performing poorly

☐Performing very poorly

☐Don't know

Q25: To what extent do water regulators coordinate effectively in the regulation of the water industry?

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don't know

Q26: What changes, if any, do you consider are needed to the framework of water regulators to improve the regulation of the water industry? Please consider both potential benefits and costs of any proposed changes. [Max 500 words]

Please answer and explain below, providing supporting examples or evidence, where possible

Economic regulation is a force for good. It has benefited the water sector since privatisation, driving over £236bn in modernising infrastructure, building resilience, facilitating technological advancements and better asset management practices. But the regulatory framework is now too complex, overlapping and inconsistent. Reform is needed to simplify, clarify and better align roles.

Other sectors show what's possible. Ofgem's RIIO model applies regulatory scrutiny proportionate to risk, giving high-performing companies more discretion. Water could learn from this.

While national regulators generally coordinate well, local and regional coordination often breaks down. This creates inconsistencies—particularly within the EA, where interpretations of guidance can vary. EA teams are capable, but the frameworks they operate within are too fragmented.

There are clear overlaps and underlaps in duties. This in turn means that regulatory reporting does not always give the full picture.

No regulator has clear responsibility for reconciling duties or managing cumulative burden. By contrast, other infrastructure regulators assess trade-offs and apply proportionate, risk-based approaches. These models demonstrate how clearer frameworks and statutory tools can support better coordination.

Water companies are accountable under the Water Industry Act but often are disempowered from interpreting requirements or designing how to deliver them. The system lacks transparency over who decides, how risk is shared, or how trade-offs are made.

The Drinking Water Inspectorate (DWI) provides a constructive model—combining rigour with risk-based oversight and working closely with companies on asset health.

The Water Industry National Environment Programme (WINEP) adds complexity. Companies must commit to schemes before they are fully scoped, increasing delivery risk. Our own analysis shows that across the AMP, reporting spans over 2,000 WINEP lines and 500,000 data cells—diverting resources from outcomes to administration.

Meanwhile, the regime has lost focus on asset condition. Historic methods used engineering condition data and current cost accounting. These were replaced by serviceability proxies, which can mask degradation. Sustained service levels often reflect operational resilience, not long-term sustainability. In wastewater, infrastructure that's now needed was never built—this isn't maintenance failure, but a shift in expectations.

We recommend:

- Clearer long-term outcomes, with joint tracking of asset health, to ensure that all stakeholders have a comprehensive understanding of the condition and performance of water infrastructure, which will identify issues early and support planning maintenance;
- Simpler, better-aligned regulatory roles, to ensure all aspects of water management are covered efficiently with no gaps or overlaps, promoting better coordination and more effective governance;
- Company-led delivery with flexibility to meet local needs, to tailor solutions to local conditions and requirements;
- High-level, flexible Price Control Deliverables (PCDs; and
- Space for innovation and long-term investment.

In this model, Ofwat should be empowered as the lead regulator, with responsibility for coordinating across regulatory bodies, including the Environment Agency (EA) and the Drinking Water Inspectorate (DWI).

Without reform, complexity will continue to drive cost and delay outcomes.

Q27: To what extent do you think the water industry regulators have the capacity, capabilities and skills required to effectively perform their roles? [Max 500 words]

Please provide information to support your views on the capacity and capability of regulators, including, where possible, supporting evidence and examples (max 500 words)

The primary issue is not capacity but rather the lack of focus and a unified vision among regulators that needs addressing. The regulatory framework for the water sector has developed in a fragmented manner since privatisation, leading to inconsistent objectives and priorities among different regulators. This fragmentation makes it difficult to achieve cohesive and comprehensive outcomes, and there are limited opportunities for the public to have a say and influence optimal outcomes in their communities.

Achieving the best-targeted investments in improvements requires a holistic evaluation of all impacts. A clear, long-term vision is essential for guiding the water sector towards sustainable and efficient practices. Without a unified vision, efforts to address critical issues such as climate change, population growth, and environmental protection are likely to become disjointed and less effective, with customers and the public continuing to receive incomplete and misleading information – and continuing to see views water companies as the main cause of water quality issues.

Long term plans are essential to set out the long-term direction for all stakeholders can align with. This is key, as water bodies are affected by various sectors, not just water companies – such as agriculture, and highways. Moreover, regulatory objectives for environmental outcomes and nature-based solutions currently can conflict with the rigid WFD deadlines and affordability.

Regulators need to have the flexibility to balance multiple outcomes, such as environmental protection, public health, and economic growth. They need to be able to embrace AI and new models of operating to enhance effectiveness. For example, the EA could leverage satellite technology for monitoring and assessments, reducing the need for in-person site visits. This shift towards technology-driven solutions would enable more efficient and accurate data collection, supporting nature-based and catchment-led solutions.

In summary, while capacity is important, the lack of focus and a unified vision among regulators is a more pressing issue that needs addressing. By establishing a clear, long-term vision and fostering collaboration, the water sector and stakeholders can better navigate its challenges and achieve sustainable, efficient, and equitable outcomes.

Section 4: Questions on Chapter 4 - Economic regulation

Introduction

The provision of water and wastewater services is, in the main, a natural regional monopoly, in which the scope for competition is very constrained. Economic regulation is in place to prevent any abuse of monopoly powers, such as high costs and poor service, and to incentivise the investment the water system requires.

Ofwat's Price Review process is intended to substitute for competition in the water sector. This is composed of 3 key building blocks: setting base and enhancement cost allowances for the amount water companies may spend; setting the Weighted Average Cost of Capital (WACC); and setting additional performance incentives e.g. Outcome Delivery Incentives (ODIs) and Price Control Deliverables (PCDs).

The following questions explore how effective Ofwat's economic regulatory measures are and what changes could be made to enhance their effectiveness in delivering core outcomes for the supply of drinking water and managing wastewater, as well as broader environmental, public health and economic growth outcomes.

When answering these questions, please provide supporting examples or evidence, where possible.

Q28. To what extent do you think the economic regulatory framework is delivering positive outcomes?

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don't know

Q29. How do you think the Price Review process should balance the need to keep customer bills low with the need for infrastructure resilience? (*Infrastructure resilience is the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with, and recover from disruption in its performance*) **[Max 500 words]**

Please answer and explain below, providing supporting examples or evidence, where possible

The Price Review process needs to strike a careful balance between maintaining affordability and enabling long-term resilience. We believe this balance can best be achieved through greater clarity on national affordability expectations and earlier strategic engagement across Government, regulators, companies, and local stakeholders.

The Government should set the overall affordability envelope, within which Ofwat operates. This would provide clearer direction for long-term investment planning. We also support longer price control periods—such as 10, 15, or even 20 years—which would allow companies to better manage delivery risk, smooth investment, and align more closely with the timelines required to build resilient infrastructure.

Societal expectations around performance and resilience are increasing. In past reviews, companies were often asked to meet ever more stretching targets for less money. This incentivised short-term operational fixes rather than longer-term infrastructure renewal, undermining resilience. At PR24, we sought to redress that balance. Our plan was developed based on customer priorities and accepted trade-offs. 92% of our customers supported investment in new and flexible water supplies, and most supported gradual bill increases over time—provided the benefits were clear and those least able to pay were protected.

That's why we welcomed the Government's proposal for a single social tariff, which would ensure support is targeted while enabling investment to proceed.

We acknowledge Ofwat's responsibility to ensure customers do not pay twice for the same outcomes. However, regulatory approaches should also recognise that earlier price controls incentivised and funded short-term solutions. The shift to long-term resilience now requires a different lens—one that does not inadvertently constrain future investment while also recognising that one third of investment is covered by customers compared to two thirds by investors.

We are supportive of national resilience standards—recommended by the National Infrastructure Commission—but these must take account of different starting points. For instance, creating second-source water supplies in a peninsula with limited interconnection is more complex and costly than in regions with existing grid infrastructure.

A one-size-fits-all approach risks disadvantaging customers in areas with more challenging geographies.

More broadly, the scale and structure of enhancement programmes vary significantly by company. This has implications for output regulation and the application of tools like PCDs. Standardised national outcomes can make it harder to reflect region-specific investment needs and customer priorities.

We believe the PR24 framework evolved positively during the process. While we made some swaps due to government priorities (e.g. on event duration monitoring), these were not material and reflected a shared direction of travel. Looking ahead, a more structured strategic conversation earlier in the process would be valuable—bringing Government, regulators and companies together to agree on the long-term outcomes, pace, and funding envelope.

Finally, our experience suggests that company-led engagement provided richer insights than centralised tools like “Your Water, Your Say.” As highlighted in the Gray Review, tailored engagement remains key to ensuring investment decisions genuinely reflect local customer needs and preferences.

Q30. What, if any, changes could be made to the Price Review process to better enable the water industry to deliver positive outcomes? [Max 500 words]

Please answer and explain below, providing supporting examples or evidence, where possible

Our key recommendation for the price review process centres around the importance of customer engagement alongside customer representation and challenge.

Customer research and the Independent Challenge Group (ICG) WaterShare+ significantly impacted the development and content of the South West Water PR19 Business Plan, driving the pace of investment, the balance of investment, and supporting business plan targets and incentives.

In PR24, customer input into targets and incentives was reduced. There was no requirement for Independent Challenge Group involvement, and overall given the size of the mandated environment programme there was less scope for non-discretionary investment and regional specific targets in our plans. Despite this, we worked intensively with our ICG – the Watershare+ Panel – and ensured robust customer engagement, as part of ensuring we had a high quality plan that meets the needs of our diverse customer base.

We believe this should be standard practice for all companies to engage with customers, ensure plans meet their needs, and for ICG to have a significant role in the price review process.

Furthermore, we stress that the RAB based economic regulation model continues to work well in many sectors as it historically did do in water–it works well for long-term solutions where there is consensus as to the high-level objectives and the investment required to achieve this. We would urge that this is maintained.

The risk profile for water and wastewater is different and may support different approaches. The RAB/RCV in water is already split into water, wastewater and bioresources, and so the licences and price review can be split further, potentially with different time frames, WACC and reopeners. For instance, there is likely to be more uncertainty on wastewater costs and deliverables. This should see more reopeners on wastewater, but with a longer price review timetable for water where there is greater certainty and national systems planning is developed. The report from Dieter Helm[5] provides a wide range of analysis and evidence in support of this.

The overall regulatory framework is complex, and its simplification alongside the introduction of more market mechanisms, and a strategic steer from Government on the bill/affordability envelope and on catchment and market strategies with companies would be welcome.

Q31. What, if any, changes could be made to the Price Review process on assessing and setting base expenditure to effectively support infrastructure maintenance?

Please answer and explain below, providing supporting examples or evidence, where possible

Water and wastewater are local networks, with their own historical drivers for capacity and what quality of service they were expected to support, external pressures, growth pressures and investment needs. There is not a “one size fits all” solution to asset health – older assets, and even those in worse condition, are not necessarily in the short-term delivering worse performance and resilience. Collecting more data may not be the answer for Ofwat’s regulation, using backwards looking cost assessment. A set of forward-looking indicators of asset health and resilience has also not been found, despite extensive efforts.

Ofwat have asked companies to stretch base cost efficiencies and the service outcomes from base efficiencies at both PR19 and PR24, but are now collecting more data to look at age and condition-based adjustments to the base cost models. Separating base and enhancement company data is unlikely to be informative of future asset health and resilience need, as the best solutions cover both for a local area, particularly for

[5] Dieter Helm (April 2025), From the unsustainable to the sustainable: how to reform water and sewerage in England and Wales

wastewater. Instead, the age and condition of assets provide a minimum underpin to the asset health allowances Ofwat set.

Ofwat should look beyond their historical base cost efficiency models. Prior to PR14, Ofwat used asset age and condition data as a test for allowed maintenance spend, and this could provide a floor for company asset allowances. This also builds investor confidence through the “RCV run-off” element of the building block of revenues, which Ofwat controversially adjusted at PR24 for some companies to postpone customer bill increases to the future. It is Ofwat’s adjustment to RCV run-off rates to reduce bills (or companies suggesting they should be adjusted from the asset life to support short-term financeability issues) or resolve financeability that is the issue, rather than RCV run-off being a focus of asset health. Reducing RCV run-off rates increases bills and the total cost to customers over the life of the asset. Reflecting the asset lives in the run-off rate, and not altering the rate from past investments, is consistent regulation and provides an underpin for maintenance funding.

Reflective of the entire regulatory framework, the current approach to infrastructure resilience and delivery has become increasingly complex. Historically, it was simpler. The 2009 Price Review followed a more straightforward methodology, focusing on the essentials of infrastructure resilience without overly complex mechanisms. It emphasized clarity in expectations and alignment of funding with basic infrastructure maintenance needs. At the time this reflected that many of the assets then had recently been enhanced, but the principles still hold. Asset health and condition data was used to set a baseline for maintenance expenditure bespoke for each company, that was consistent with the “RCV run-off” allowance included in revenues This link for investors builds their trust. Companies can make cases based on their asset knowledge with local engagement, including with DWI and EA. It can operate through strategic discussion at the start of the price review process that identifies the issues affecting each catchment and company.

Q32. What, if any, changes could be made to the Price Review process on assessing and setting enhancement expenditure to effectively support infrastructure improvements?

Please answer and explain below, providing supporting examples or evidence, where possible

At PR24, significant effort from regulators and companies went into the enhancement expenditure investment process. Where there was early clarity on the investment needs, and the affordability and bill impact of this had been tested with customers, there was little issue and the enhancement expenditure need and efficiency could be demonstrated. A positive example of this is SWW’s enhancement investment in lead pipe replacement,

which also has long-term resilience and sustainability benefits to asset health and public health. Both Ofwat and the DWI supported the ambition we showed, despite there being an option to postpone accelerating this investment beyond 2030.

We therefore suggest that early discussions between Government, regulators and companies on the affordability/bill envelope will help the sector to develop the best available solution, including for enhancement investment. As we note under Q31, the boundary between base and enhancement for the best plans is likely to be blurred in any case. This will build on the LTDS that companies developed as part of PR24.

For the water service, where national planning with the DWI and for water resources is possible, it may be possible to have a longer price review period. For wastewater, where local issues dominate, regional authorities can help ensure that enhancement solutions reflect catchment needs. Whilst Ofwat will inevitably need to use comparative tools to assess enhancement costs, for company plans that meet bill envelopes, are consistent with long term strategies, and have consensus through catchment level scrutiny, there will be less reliance on top-down efficiency models for enhancement. Ofwat have reflected this at PR24 with a lower 40% enhancement sharing rate and more reopeners for investment changes, but with separate licences for water and wastewater companies can go further to get better solutions with a lower risk

We know this solution will work as it has worked for past enhancement. For example, the flood resilience of our largest WWTW at Countess Wear in Exeter was protected through the wider flood defence work by the EA to protect Exeter, rather than just at the works. This type of innovation will never arise from data analysis across companies at a granular level alone. Ofwat should continue to incentivise water company plans that are well founded in data and evidence, and be more proportionate where they intervene. As we highlight elsewhere, local regulation and scrutiny is the core to this. Ofwat may still make higher level comparisons in order to protect areas with less well-developed plans, as well as using competitive market forces to bring new insights.

There should be mechanisms that allow for dynamic adjustment of enhancement plans during the price control period. The Green Recovery Programme and Defra's acceleration plans provide precedent for this more agile approach. A more flexible, proportional route for re-opening enhancement plans would support better value for customers and improve delivery under uncertainty.

Q33. What, if any, changes could be made to the Price Review Process on assessing and setting the Weighted Average Cost of Capital (WACC) to effectively attract investment in the water industry?

Please answer and explain below, providing supporting examples or evidence, where possible

To attract long-term, low-cost investment into the water sector, the Price Review process must be underpinned by a stable, transparent, and credible approach to setting the WACC. The regulatory framework needs to provide a clear and consistent basis for investment decisions, reducing regulatory risk. When the framework is perceived as unstable or politicised, this increases financing costs which ultimately results in higher bills for customers.

We describe in our answer to Q30 how the RAB model in water can be enhanced by considering water and wastewater separately because of the different risk profiles. This would also be supported by greater cross-sector consistency in how the WACC is set, so the sector regulator is focusing on the risks to that sector rather than investors navigating a separate WACC methodology for each regulated sector.

We support the principle of regulatory independence and believe this could be strengthened through requiring more consistency between regulators on the WACC methodology (something government asked the UK Regulators Network to do in 2021), but it needs more debate, such as open hearings with an independent body (like the CMA expert utility panel). This would support Ofwat in setting the cost of equity in a way that builds credibility, removes political influence, and enables a more stable and predictable investment environment.

Alongside a more independent WACC-setting function, the Price Review process should ensure that the overall regulatory framework presents a genuine opportunity for long-term investment. This includes a more balanced calibration of incentives and returns, including performance commitments and incentive rates, based on realistic assumptions. Greater use of adaptive tools—such as reopeners, gated funding mechanisms, or uncertainty allowances—would also provide necessary flexibility and risk mitigation. These tools could help ensure that price controls reflect changes in inputs and delivery conditions over time, rather than locking in rigid assumptions that quickly become outdated.

Historical performance indicators, such as serviceability, showed stable or improving trends over multiple price control periods, which created the impression that asset health was being maintained. However, this masked a deeper issue: the regulatory focus shifted away from direct assessment of asset condition and current cost accounting. While service outcomes remained strong on the surface, there was insufficient visibility into underlying deterioration. As a result, capital maintenance was not always funded at levels needed to ensure long-term sustainability—particularly in wastewater, where much of the

system requires not just maintenance but fundamental redesign to meet today's environmental and resilience expectations.

Finally, any changes to WACC setting must be aligned with broader sector guidance (e.g., from UKRN) and avoid unnecessary divergence between regulators. At PR24, Ofwat's WACC broadly aligned with our proposals, which is welcome and us good evidence that some cross sector WACC governance would improve this further. Future reforms should build on this consistency to avoid undermining investor confidence.

Q34. What, if any, changes could be made to the Price Review process on assessing and setting performance incentives to effectively secure infrastructure delivery? *This could be across Outcome Delivery Incentives (ODIs) to effectively deliver for customers, the environment and public health; and/or across Price Control Deliverables (PCDs), for example*

Please answer and explain below, providing supporting examples or evidence, where possible

Since 2014, the introduction of outcome-based regulation and financial incentives has been a welcome evolution in the sector. It has promoted transparency, accountability, and encouraged companies to continuously improve performance for customers, the environment, and public health.

However, the balance of incentives and obligations has shifted significantly at PR24. With the introduction of PCDs, Ofwat has moved back towards a more output-based model. While intended to provide clarity, the rigidity of this model risks undermining delivery and innovation.

There is also a growing risk of 'double jeopardy' where companies are held to account twice for the same issue. For example, asset health metrics, such as mains replacement, are subject both to PCD time-based outputs and Outcome Delivery Incentives (ODIs) for delivery outcomes. This layering creates conflicting incentives and adds unnecessary complexity.

We are also concerned that many PR24 metrics do not reflect regional circumstances or local customer priorities. At PR14 and PR19, outcomes were company-led, informed by robust research and engagement. At PR24, Ofwat sought to standardise outcomes, but ultimately moved away from that standardisation at final determination. In our case, we sought to continue funding for a locally supported initiative aligned with catchment priorities and a linked incentive, but this was rejected as not being within Ofwat's standardised framework. This undermines the principle of customer legitimacy and results in companies being incentivised to invest in things customers may not value.

We believe future Price Reviews should return to a company-led, outcome-focused approach—backed by transparent assurance and rigorous customer engagement. A smaller, more targeted set of PCDs should be retained, with greater flexibility in their delivery and recognition of interdependencies across programmes. Gated funding and adaptive planning mechanisms—already used successfully in areas like the Green Recovery programme—could support more responsive investment.

More fundamentally, incentives must be better calibrated. The current framework sometimes delivers penalties and rewards that are disproportionate to the actual impact on customers or the environment. This can distort investment decisions and reduce overall value for money.

A future framework should aim to simplify incentives, focus them on the outcomes that matter most to customers and the environment, and provide the flexibility needed to adapt delivery plans over time. One example key to growth is our plan for two regional bioresources facilities – government policy towards co-digestion of waste and the ability to accelerate investment that supports growth- in the regulatory framework would enable this,

This would help secure infrastructure delivery in a way that is investable, locally legitimate, and resilient to change—delivering better value and outcomes over the long term.

Customer bills

Customers need to know that their bills are acceptable, particularly for the most vulnerable in society. It is the responsibility of Ofwat to ensure the interests of customers are appropriately balanced with the needs of the water companies to be able to properly finance their functions. They do this through the Price Review process, where water and sewerage charges are set for 5-year periods.

Bills have reduced by 15% in real terms since 2014-15[6], however, the need for increased investment in infrastructure will result in larger bills over the period of Price Review 2024. These increases come at a time of declining public trust and satisfaction in water companies. There is also a regional variation in bills, with customers paying differing amounts for their water, depending on where they live. Whilst most households have a water meter and therefore pay for the water they use, a significant minority do not.

The Commission is seeking views on potential changes in relation to the fairness of water bills. This includes, but is not limited to:

[6] Ofwat bills data provided directly to the Independent Water Commission. The reduction is calculated between 2014-15 and 2022-23

- Improving transparency for customers to help improve trust, for example, by explaining how the money from bills is used by water companies and how bills are set.
- Increasing the use of smart water meters to help customers better understand their water usage and improve water efficiency.
- Exploring innovative water charging to support affordability and/or efficient use of water.

Q35. **To what extent does the economic regulatory framework deliver acceptable water bills for customers?**

(Please select one)

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don't know

Q36. **What, if any, changes would help ensure customers are paying fairly for the water they use?** *(Please select all that apply)*

☐No changes are needed

☒Improve transparency for customers on how money from bills is used

☒Increase the use of smart water meters

☒Explore innovative water charging (such as rising block tariffs or other innovative tariffs) to support affordability and/or efficient use of water.

☐Don't know

☒Other (please specify)

If you selected other, please specify below

In a market in which customers cannot choose their provider, providing customers with choice is fundamental. Choice can be presented in several ways, for example in metering, or in the tariffs they are on, or uniquely to Pennon, in how they share in our outperformance – whether through money off the bill or becoming a shareholder through WaterShare+.

Rolling out progressive tariffs through a national framework, with local implementation (working in conjunction with stakeholder groups, e.g. local MPs) should be a priority alongside the launch of a national social tariff.

We support the role of a consumer champion ombudsman, with legal powers to resolve disputes. This would bring the water sector into line with other sectors.

Customer protections

Customers also need to know that they will receive a good level of service in return for their money. Whilst the provision of an uninterrupted supply is a key expectation of customers, they also expect clear communication, the quick resolution of problems, and accurate billing.

In addition, there are a wide range of customers who may require financial or practical support from their water companies. This could include households with people of pensionable age, someone who is pregnant or has young children, people with a mental health condition or a disabled person, have difficulty in communicating, and those on low-income. Despite some recent improvements, the awareness and take-up of the various initiatives to support these customers remains low.

The commission is seeking views on potential changes in relation to customer protections on service provision and support for vulnerable customers. This includes but is not limited to:

- Ensuring that customer matters are investigated and, where necessary, enforcement action taken, to incentivise water companies to improve their service provision.
- Increasing the accountability of water companies' handling of complaints to drive an improved experience for customers.
- Introducing a single social tariff for England and Wales with the aim of providing a fair, consistent and sustainable support for customers who struggle to afford their water bill.
- Ensuring that water companies proactively offer support to customers who may be eligible.

Q37. **To what extent does the regulatory framework protect customers from poor service?**

(Please select one)

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don't know

Q38. To what extent does the regulatory framework ensure that vulnerable customers are effectively supported?

☒To a great extent

☐To some extent

☐Very little

☐Not at all

☐Don't know

Q39. **What, if any, changes to the regulatory framework would better incentivise water companies to deliver and maintain high customer standards?** *(Please select all that apply)*

☐No changes are needed

☐Ensure customer matters are investigated and, where necessary, enforcement action taken.

☒Greater accountability for water companies' handling of complaints.

☐Don't know

☒Other (please specify)

If you selected other, please specify below

A significant change that could positively impact outcomes for vulnerable customers is to advance more quickly towards principles-based regulation, taking inspiration from the approach adopted by the Financial Conduct Authority and Ofgem. Current approaches are towards the prescriptive. For example, Ofwat has recently set out very detailed requirements under the customer licence condition. This type of highly-prescribed regulation is incompatible with principles-based regulation

We also believe that competition in the household market should be introduced, learning from the NHH model where customer choice has driven up customer satisfaction levels comparative to best in class Trustpilot scores. According to the Institute of Customer Service's most recent UK Satisfaction Index 2025, providing an independent, objective perspective across 13 sectors, customers with the highest level of satisfaction tend to be prepared to pay more. With record levels of investment, this could also lead to improved customer outcomes across the sector.

Thirdly, given water companies are operating national critical infrastructure, expert complaint handling is critical, putting things right and quickly when things go wrong, as occasionally they will. Defra's new GSS payments are welcomed, and we would recommend Government go further and faster with the introduction of a Water Ombudsman, giving customers the confidence that they would have the same levels of protection as exists in energy, communications and rail. Those blueprints exist today. CCW is well positioned to evolve into taking on this leadership role.

Q40. What, if any, changes to the regulatory framework would improve support for customers in vulnerable circumstances? *(Please select all that apply)*

☐No changes are needed

☒Introduce a single social tariff for England and Wales.

☒Ensure a proactive approach by water companies in identifying customers eligible for additional support

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Financial resilience

Financial resilience is the ability of companies to weather shocks to capital structure, spending, revenue and liquidity. Some companies are experiencing challenges today with financial resilience.

A range of factors influence water company financial resilience. Companies appear to have been hit by recent cost pressures from inflation and regulatory fines. Historical decisions taken by water companies about debt levels also appear to have played a role in current challenges. The evidence on the relationship between debt raised and investment delivered is complex and contested.

The Commission is seeking views on potential changes to support water company financial resilience. This includes, but is not limited to:

- Changes to the Price Review process to support financial resilience
- Changes to the regulatory approach to companies' debt levels
- Changes to financial oversight, including a more supervisory approach
- Changes to the way in-distress companies are managed (for example, providing the water regulators additional discretion over how penalties are issued)
- Changes to the Special Administration Regime (for example, Ofwat providing guidance on SAR thresholds)

Q41. To what extent is change required to the economic regulatory framework to support water companies' financial resilience?

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don't know

Q42. Which of the following changes to the economic regulatory framework, if any, would improve outcomes for the water industry? *(Please select all that apply)*

☐No changes are needed

☐Changes to the Price Review process to support financial resilience

☐Changes to the oversight of water company debt (for example, 'capping' company debt levels)

☐Changes to financial oversight of companies (for example, moving to a more supervisory model as defined in the Call for Evidence)

☐Changes to the way in-distress companies are managed (for example, providing the water regulators additional discretion in their enforcement regime)

☐Changes to the Special Administration Regime (for example, providing guidance on the thresholds for the SAR)

☐Don't know

☒Other (please specify)

If you selected other, please specify below

The current RCV-based model remains robust and widely respected. Focus should be on improving the balance of risk and return to give investors confidence. Pennon has consistently delivered customer value within this framework.

Financial resilience should be assessed at a sector-wide level as part of the Price Review process, rather than through intrusive supervision of individual companies. A well-functioning market for corporate control could provide a natural corrective: new investors can step in where companies underperform persistently. Maintaining an active, contestable market is essential to enable renewal and fresh capital in the sector.

Restoring investor confidence in both the regulatory framework and wider governance arrangements is critical. Negative political and regulatory sentiment has contributed to declining investor interest, raising the cost of both debt and equity.

Regulatory complexity has compounded the challenge. We believe increasing complexity has contributed to reduced investor confidence. But this does not imply that Ofwat's comparative incentive regime should be abandoned — far from it. Comparative regulation remains a powerful tool. However, the current overlap between incentives and enforcement mechanisms should be addressed. Greater flexibility is needed for company-specific incentives where customer support is demonstrated and delivery is broadly efficient.

Local oversight by the EA can provide robust governance at this level. This would enable a simpler economic regime, focused on outcomes and supported by local legitimacy.

Q43. Do you think there is evidence on the historical relationship between debt, dividends, and expenditure at water companies that the commission should be looking at?

Please answer and explain below, providing supporting examples and evidence, where possible.

We do not believe this is an issue for listed companies such as Pennon. We have sufficient financial flexibility to respond to cost changes, supported by access to a range of funding options and forward planning. As costs evolve or where government or regulators accelerate expenditure, we can respond dynamically through the regulated business.

If the regulatory regime is well calibrated—rewarding cost and service performance and allowing returns to flow through dividends—equity remains attractively priced, risk is contained, and the cost of capital is kept low. This ensures investment can flow when needed. Importantly, customers only pay for a third of new investment during the five-year period.

Looking ahead, we expect diverging risk profiles for water and wastewater. We believe this should be reflected in future regulatory and governance reform, including licence structures aligned to the existing RCV split.

Listed models have generally delivered stronger long-term performance. We benefit from more flexible and diverse financing, better financial resilience—as shown by Ofwat's

supervisory assessments—and greater transparency, including regular reporting under listing rules. We have also typically been in the top quartile for efficiency in Ofwat's price reviews and have reinvested outperformance for customer benefit.

For example, mergers have delivered operational benefits: Bristol Water has improved in Ofwat's rankings from PR19 to PR24, and both Bristol and SES have realised efficiency gains. Each has its own strengths. SWW's past three business plans received Ofwat's top rating; other listed companies have achieved this once or twice. Our WaterShare+ framework further supports reinvestment and transparency, with CCW and the EA involved in local delivery planning.

We invest to deliver agreed plans—and beyond. Listed status, combined with a stable economic framework, allows us to go further where plans are well supported by stakeholders and customers. Outperformance provides a buffer for further investment in emerging priorities without short-term bill increases outside of the price control.

Historically, there has been a virtuous circle: efficient delivery and financing supported outperformance, which enabled reinvestment and maintained low customer bills. While this wasn't true across the board, Ofwat has noted that companies with high levels of financial engineering also tended to show persistent service underperformance.

PR19 disrupted this dynamic. Incentive calibration led to widespread underperformance across the sector—on cost, outcomes, and financing—alongside increased enforcement action. Ofwat recognised this at the tail end of PR24 and made company-specific adjustments to protect customers. In some cases, commentators have suggested a "doom loop" of underperformance may emerge.

However, this is not the case for listed companies like Pennon. The financial and operational resilience of our model, supported by transparency, strong delivery, and the ability to share benefits with customers, positions us to avoid this cycle.

Investment

In a given year, water company costs typically exceed revenues as investment is financed by debt and equity over time. The current and future investment need for the water sector is significant; Ofwat consider that £12.7 billion of equity will be required between 2025-2030, and companies forecast they will need to raise £45 billion in debt.

The attractiveness of the sector to investment is driven by the level and stability of returns investors can expect to get. These appear to have been declining since privatisation. At the same time, there are some public concerns that returns have been too high. Assessing returns in the sector is inherently challenging, and the Commission is seeking evidence on how returns compare between the water industry and other comparable sectors (for example, energy).

The Commission is seeking views on potential changes to support investment. This includes, for example:

- Changes to the Price Review process to support investment
- New mechanisms to underpin and/or constrain returns

The Commission is also interested in the impact public and political perceptions of the water industry have had on the attractiveness of the sector to investment.

Q44.To what extent does the economic regulatory framework support or hinder investment into the sector?

☐Significantly supports investment

☒Somewhat supports investment

☐Neither supports nor hinders investment

☐Somewhat hinders investment

☐Significantly hinders investment

☐Don’t know

Q45. How do financial returns in the water sector compare to other similar sectors (for example, energy)?

Please answer below and provide evidence and examples, where possible.

The cost of capital for the water sector has historically been lower than in the energy sector because of a perception of lower risk due to less likelihood of competition. Investor perceptions of the quality of water regulation has fallen recently. Ofwat have had to "aim up" to the top end of their possible range for the cost of equity at PR24 as a result.

However, this only reflects the notional returns assumed in price setting. More important is the actual returns, which is harder to compare because the different regulated sectors form part of the same value chain. The best measure is the "return on regulated equity." In recent years, water companies have underperformed due to overspends on cost, underperformance on outcomes and lower financing outperformance, due to rises in interest rates.

We expect the water sector financial returns to continue to underperform other sectors. For instance, equity analysts expect 8-11% nominal returns are possible for National Grid, which is the main listed company comparator. We are targeting delivery of a 7% real return on regulated equity in 2025-2030 (c.9.5% nominal), a c.1.5% outperformance on the level of Ofwat allowed, which then provides a financial flexibility to undertake further investment, and a stable real dividend yield of c.4% in the FD.

This will be challenging to deliver, and even if we do, it will be lower than the c.8-12% achieved in previous price reviews. A c.7% nominal allowed return (before our targeted outperformance) also provides very little to attract investors compared to a nominal cost of raising new debt of c.6%, given debt investors do not carry the performance risk to these returns. The restrictions on dividends that Ofwat originally proposed at PR24, but have temporarily withdrawn for further consultation, do not exist in the energy sector or other regulated sectors in the UK and abroad.

Another illustration is that dividends in the water sector have been declining, despite higher inflation and interest rates. RoRE returns 2020-2024 average 2.8% in real terms compared to the 4.1% Ofwat assumed at PR19, and dividend yields of 3.5%.

Financial returns in the water sector tend to be more stable but generally lower compared to the energy sector. There is higher volatility in the energy sector, particularly for renewable energy, but they also have higher returns. UK power is deemed the most preferred utility, whilst UK water is currently seen as the riskiest European regulated utility.

It is felt that in the water industry there is limited equity investment available. Other sectors are more attractive investment opportunities as they have better returns, although we believe we continue to outperform the sector as a whole with our model, as shown with our recent equity raise. However, better returns in the water sector are not necessarily

due to the WACC itself but due to the incentive and cost risk, including base maintenance allowances not increasing as assets age, and the overlapping enforcement and outcome incentives companies face.

Q46. What options, if any, would incentivise investment in the water sector? *Please answer below and provide evidence and examples, where possible.*

A recent Barclays annual investor survey confirms a deterioration in investor sentiment towards the UK Water sector. The majority of investors view the current regulatory framework as unhelpful, hindering their investment appetite for the UK water sector. Investors see Ofwat's willingness to increase water bills, but there is more focus on company performance and less on attracting investment. Additionally, there is a negative view on the ability of water companies to perform against regulatory contracts.

Regulation needs to be simplified to allow for water companies to perform against regulatory contracts, which will attract investment. We need to ensure ongoing investor confidence to deliver for customers, which can be achieved by having a framework that is simple and low risk. Investors seek stable and predictable regulation. We need coordination of how the government's strategic approach joins up with regulator policies.

It could be possible to split the licences of water and wastewater companies. This could mean that each company has different risk profiles and would be able to operate differently. For example, wastewater companies are deemed higher risk, whereas clean water would be lower risk. This could then attract different types of investors to each type of water business, increasing the attractiveness of investing the sector. If the licences were split, this could also lower the cost of equity in water and wastewater overall.

Additionally, if water had less risk than wastewater then we could have different lengths of price controls, with sufficient reopeners. This would allow separate water and wastewater licences to have more continuity on operating cost and capital investment. Overall, splitting the licence could reduce the cost of capital for water companies. Therefore, this could result in reduction in the cost of finance to consumers.

Q47. How does the public and political portrayal of water companies in the media and elsewhere affect the attractiveness of the water sector to investors?

☐Positively affects the attractiveness of the water sector to investors

☐Does not affect the attractiveness of the water sector to investors

☒Negatively affects the attractiveness of the water sector to investors

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Competition

Competition has been introduced into the water industry by Ofwat, and encouraged by successive governments, to help ensure private companies deliver investment and services for a fair price.

As the water sector is a natural monopoly, competition will always be constrained. The commission has heard varied feedback about how effective existing schemes have been and could be in the future. Some schemes appear to have delivered benefits (for example, enabling housing development), whilst others appear to face obstacles (for example, legal constraints, limited awareness).

The Commission is seeking views on potential changes that could be made to the competition regime. These include, but are not limited to:

- Changes to the New Appointments and Variations market to reduce administrative burdens (for example, relaxing requirements on Ofwat to consult on all New Appointments and Variations licensing applications)
- Changes to the business retail market, to focus on where it is most beneficial (for example, limiting the business retail market to large customers)
- Changes to the business retail market, to ensure efficient use of water (for example, updating water tariffs)

- Changes to Direct Procurement for Customers and/or Specified Infrastructure Projects Regulations, to ease and expand their use (for example, relaxing the criteria for Specified Infrastructure Projects Regulations usage)

Given different approaches historically between England and Wales, the Commission is also interested in where different approaches might be taken in England and Wales, as well as where there may be opportunities for convergence.

Q48. To what extent should further competition in the water industry be encouraged through regulation?

Please answer below and provide evidence and examples, where possible.

Competition for both customers and in developing infrastructure could produce better outcomes at a lower cost than relying on monopoly regulation alone.

It is an anathema for customers that there is no choice in household competition. Ofwat can also improve the speed with which it deregulates existing competitive markets, such as NAVs. We also see greater competition opportunities in bioresources, which would be boosted if the Government deregulated the current prohibition of mixing bioresources with other waste streams. Revised governance arrangements would allow for improved competitive market forces on the water service for new infrastructure provision when compared with the complicated individual scheme solutions required for Direct Procurement for Customers. Dieter Helm's suggestion of bundled negotiated contracts between a catchment planned in water and the incumbent, with split RAB and licence framework, would support this.

In 2017, the non-household market opened. The retail market has delivered excellent customer service and strong shareholder returns. And now is the time for household retail market. Customers want to have greater choice. Our customer research shows across England and Wales awareness and understanding of current market arrangements is high. 80% of customers are aware that they cannot switch water supplier, and 62% say they should have the option to switch. 62% say the benefits of switching are lower prices.

41% say the choice to save money by reducing their water consumption would be a benefit of switching, and 44% cite improved service quality. 80% say better customer service would be important in their decision.

Historically, retail margins in the water sector have been considered too low to drive switching. However, a lot has changed in recent years. Water bills in England and Wales are set to rise by 36% over the next five years, meaning that water will make up a greater proportion of household and business expenditure.

At the same time, with demand for water outstripping supply, Government has set new targets for the public to reduce water demand. Half of the gap in public water supply will

need to be delivered by changes in public behaviour. This will result in significant changes for our customers, and excellent customer interaction and innovation will be more important than ever.

In both the energy and water retail markets, competition has driven value-added services to drive behaviour change. Water retailers now offer specialist leak detection, water management solutions, upgraded meter reading schedules, and water efficiency advice and audits.

Water companies are already innovating to drive behaviour change. SWW have introduced four tariff trials focused on driving water efficiency. Our current trials have found higher water users responding to the trial by significantly reducing their water use (compared to the previous year), saving both money and water.

Innovative tariffs can ensure that customers are charged more fairly for the water they consume. Developing the Household retail market would create an even larger market for tariff innovation, with retailers seeking to differentiate themselves in the market and deliver value-added services.

Q49. Which of the following schemes, if any, have <u>failed</u> to provide effective levels of competition and efficiency? *(Please select all that apply)*

☐New Appointments and Variations (NAVs)

☐Self-Lay Providers (SLP)

☐Business Retail Market

☒Water bidding market

☒Bioresources market

☒Direct Procurement for Customers (DPC)

☐Specified Infrastructure Projects Regulations (SIPR)

☐None

☐Don’t know

Q50. Which of the following changes to competition schemes, if any, would improve outcomes for the sector? *(Please select all that apply)*

☐No changes are needed

☐Changes to the New Appointments and Variations market to reduce administrative burdens (for example, relaxing requirements on Ofwat to consult on all New Appointments and Variations licensing applications)

☐Changes to the business retail market, to focus on where it is most beneficial (for example, limiting the business retail market to large customers)

☐Changes to the business retail market, to ensure efficient use of water (for example, updating water tariffs)

☐Don't know

☒Other (please specify)

If you selected other, please specify below

We believe the time is right to introduce retail household competition. In parallel, more can be done to promote effective competition in existing markets, where persistent frictions and regulatory inconsistencies continue to hinder progress.

Pennon Water Services is now one of the leading water and wastewater retailers, supporting over 150,000 business customer accounts across the UK. While the business retail market has brought some success, significant barriers remain. These include overly complex market codes, inconsistent wholesaler engagement, and regulatory burdens that can disproportionately affect new entrants.

The Government's own post-implementation review cites policy design flaws and market frictions as contributing to lower-than-expected levels of market entry. However, the experience of other sectors—particularly energy—demonstrates that such challenges are solvable. Ofgem's frameworks have supported market entry through clear rules, proportionate regulation, and a stronger policy steer. Similar clarity and commitment are now needed in water.

In both the business retail and NAV markets, regulatory burdens are increasing—often exceeding those placed on incumbent wholesalers. This reflects a lack of real choice for customers and contributes to inefficiency. A clearer government position on the future of competition would help reduce this regulatory creep, as would targeted simplification of codes and more consistent decision-making by Ofwat.

Currently, Ofwat often relies on further reviews and data analysis, rather than setting clear expectations or making timely regulatory decisions. While voluntary measures by incumbents can be useful, they create complexity and uncertainty for new entrants, who are left to navigate multiple wholesalers and pursue competition complaints rather than having clear, enforceable standards. A shift to clearer, upfront rules—with the ability to refine over time—would encourage more consistent behaviour and reduce barriers to entry.

Pennon is actively engaging with Ofwat to explore reforms that would unlock competitive supply solutions. Our Flexible Local Supplies innovation project has looked at pricing

approaches in other regulated sectors, working with Ofwat's licensing team to identify learnings for application to the water sector. This work is feeding directly into ongoing Ofwat reviews.

Our collaboration with Castle Water and RWE in the redevelopment of the Didcot site is another case in point. A fair and transparent bulk supply price from Thames Water is central to the commercial case for both partners. The ability to unlock smaller water resource schemes through such partnerships depends on clear regulatory support, and we welcome Ofwat's engagement in this area.

In bioresources, the lack of spare capacity is a key barrier to competitive market development. A clear policy change from Defra to allow co-digestion of other organic wastes would unlock investment and scale in regional bioresources plants—particularly in growth areas like the South West. This would not only create environmental benefits but enable a more dynamic, investable market model with stronger third-party participation.

Q51: To what extent would greater market tendering of infrastructure delivery projects improve outcomes?

Please answer below and provide evidence and examples, where possible.

Market tendering of infrastructure delivery projects can play a valuable role in the sector, and we are actively exploring this with RAPID and Ofwat's Major Projects team. However, Direct Procurement for Customers (DPC) may not be the most appropriate route due to its complexity and the need to redesign the model for each individual project. Instead, we are working collaboratively to identify more flexible alternatives.

Between Pennon and Wessex Water, we have three major reservoir projects in the West Country that will significantly support economic and industrial growth across the region. These schemes raise broader questions around the alignment of infrastructure development with government and regulatory ambitions to reduce per capita consumption and overall water demand, particularly in the business sector. It is important that market tendering and competitive delivery mechanisms recognise and respond to these parallel objectives.

One current barrier is Ofwat's approach, which assumes that associated or parent companies of incumbents cannot participate in tenders. We believe these restrictions are unnecessary and risk excluding valuable expertise. Allowing incumbents to bring delivery capability into the market, while maintaining transparency and independence, could offer better value for customers. Ofwat is currently treating the three West Country reservoir projects as standalone schemes, but in reality their eventual delivery will reshape regional water efficiency and supply sharing.

We are at an early stage of working with Ofwat to develop a “Shared Resource Authority” model—drawing inspiration from system operation frameworks in the energy sector—that could enable better long-term planning and optimise value through shared regional delivery.

Separately, we are leading a pilot project with Castle Water, Binnies, the University of the West of England, and RWE through Ofwat’s Innovation Fund. With Ofwat’s support, the project has identified several regulatory barriers to effective market tendering and entry, including bulk water supply charging structures and clarity of commercial frameworks. Drawing lessons from other sectors, such as energy and telecoms, the project is developing proposals that could inform Ofwat’s future approach to market-led solutions.

We aim to conclude this work in 2025, with the ambition of feeding into the broader competitive framework and helping to signal to potential new entrants how local and spare water resources can be unlocked and turned into commercially viable opportunities.

Unlocking such investment opportunities—whether through market tendering or other flexible delivery models—requires a more enabling regulatory environment and a willingness to evolve legacy frameworks. With the right reforms, the sector can better balance growth, efficiency, and innovation while maintaining affordability and resilience.

Section 5: Questions on Chapter 5 - Water Industry Public Policy Outcomes

Introduction

Regulation has been introduced over the past 30 years to deliver government objectives in relation to drinking water, protecting the environment and securing long term water supplies. Requirements on water companies, particularly in relation to the environmental regime, have grown over the past 30 years and have become increasingly complex. We are interested to understand in which areas the legal and regulatory requirements placed on water companies are effective/ineffective and/or where they create perverse outcomes, and/or where there may be gaps. We are interested to know if, and if so how, these requirements could be improved.

When we say legal requirements on water companies, we mean statutory requirements related to their status as water companies (not including for example general duties under companies' legislation or public health legislation) and their duties under common law, including in relation to nuisance. When we say regulatory requirements, we mean requirements imposed on water companies by the various regulators. In some cases, the tools used by regulators are directly related to legal requirements on water companies (such as enforcement powers), whereas other tools used by regulators attempt to influence companies' behaviour but may not relate directly to a legal requirement on companies (for example, Ofwat's Outcome Delivery Incentives).

Q52. Do you believe that legal and/or regulatory requirements would benefit from review or consolidation? *If so, please explain your answer and provide evidence and examples, where possible*

We believe a legal and regulatory reset is needed to respond to the evolving demands on the water sector. Customer expectations have shifted significantly, with increasing public and political focus on wastewater services, particularly storm overflows. The result has been greater scrutiny of water companies, denting public confidence and creating uncertainty for investors. At the same time, current legal and regulatory frameworks are struggling to accommodate the regional variation in water systems and the complex, catchment-based challenges faced across England.

We see a clear case to elevate water company assets to the status of critical national infrastructure. This would modernise the legal framework and ensure that companies have the right powers and protections to manage and maintain essential services. At present, water companies carry full liability for issues like sewer blockages and third-party damage, but have limited legal recourse or enforcement powers to prevent them.

In parallel, we believe regulatory frameworks need to differentiate more clearly between clean water and wastewater. Drinking water systems operate as an integrated, national network, and should continue to be regulated at that level. Water companies can move supply across regions through careful planning and investment, and the DWI already applies consistent national standards to ensure water quality wherever you live.

By contrast, wastewater services are inherently local, shaped by geography, topography, land use, and development pressures. Regulation must better reflect the local nature of these networks to be effective. For example, the challenges faced by a coastal catchment with bathing water pressures are very different to those in an upland catchment dominated by agriculture or an urban area struggling with surface water runoff. Yet current wastewater regulation is largely removed from the local planning and governance systems that shape these pressures.

We propose that future regulation of wastewater should sit within local strategic governance structures, aligned with the government's wider devolution agenda. This could include oversight by Mayors, Combined Authorities or Unitary Councils or County Councils, with appropriate coordination across boundaries. Given the complexity of catchments, we propose the establishment of an independent water leadership role, appointed jointly by local authorities within a catchment. This Commissioner would report to a local Wastewater Committee made up of elected representatives, ensuring clear local accountability.

Such a devolved approach would strengthen public trust, support more joined-up decision-making, and help ensure that regulation reflects the specific needs and priorities of local communities. It would also complement the unprecedented investment now being

delivered across the country—ensuring that the benefits of that investment are maximised through regulation that is responsive, place-based, and outcomes-focused.

Protecting the environment

Environmental regulation for the water industry is in place to protect the environment from harm and mitigate damaging activities by water companies. Environmental standards have been introduced at the EU level and by the national governments. As the principal environmental regulators in England and Wales respectively, EA and NRW issue permits and licences setting rules and conditions to secure compliance with requirements.

In these questions we are interested in views on the regulatory framework specifically as it relates to water companies.

The Commission is seeking views on potential changes that could be made to the environmental regulatory regime for the water industry. These include, but are not limited to:

- A review and rationalisation of the environmental legislative framework for the water industry
- Changes to address emerging threats
- Enhanced monitoring, including reform of operator self-monitoring
- Expanded use of inspections and audits
- Swifter enforcement

Q53. Do you believe that the system of environmental regulation, monitoring and enforcement is ensuring water company compliance with environmental standards?

(Please select one)

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don’t know

Q54. Which of the following changes to water industry environmental regulatory requirements, if any, would improve outcomes from the sector? (Please select all that apply)

☐No changes are needed

☒A review and rationalisation of the water industry environmental legislative framework

☐Legislative reforms to address current and emerging threats

☐Don't know

☐Other (please specify)

If you selected other, please specify below.

Max 100 words

Q55. Which of the following changes to the water industry environmental regulation, monitoring and enforcement framework, if any, would improve outcomes for the sector? *(Please select all that apply)*

☐No changes are needed

☐Enhanced monitoring, including reform of operator self-monitoring

☐Expanded use of inspections and audits

☐Swifter enforcement

☐Don't know

☒Other (please specify)

If you selected other, please specify below.

Swifter enforcement also requires more effective enforcement. There should be no double or triple jeopardy with better alignment of EA and Ofwat incentives and enforcement. We provide a full assessment of regulator approaches to enforcement in our full response to this call for evidence.

Delivering clean drinking water

Securing clean drinking water is fundamental to public health. The DWI is responsible for assessing the quality of drinking water in England and Wales and taking enforcement action if standards are not being met. Water companies are consistently meeting the regulatory standards for drinking water with 99.97% of samples in England and 99.96% of samples in Wales complying with the regulatory standards in 2023. However, to ensure that the increasing pressures of population growth, climate change and challenges with ageing assets can be fully accounted for, stakeholders have raised a small number of areas where the system could perform even better. This includes water company risk management; a need to update water quality standards to ensure they remain world leading; approach to dealing with legacy contaminants such as lead; the extension of regulatory powers and tackling backlogs in product approvals to better support innovation in the sector.

The Commission is seeking views on potential changes that could be made to support the regulation of drinking water quality. These include, but are not limited to:

- Whether updates to drinking water quality standards are necessary to ensure that world leading standards are maintained
- Whether any changes to DWI's regulatory powers should be explored to better regulate new water supply mechanisms and approaches
- Addressing regulation 31 supply chain challenges to support innovation

Q56. What changes, if any, could be made to the drinking water regulatory system to maintain world leading drinking water quality? *(Please select all that apply)*

☐No changes are needed

☐Updates to drinking water quality standards

☒Changes to DWI's regulatory powers to better regulate new water supply mechanisms and approaches

☒Addressing regulation 31 supply chain challenges to support innovation

☐No changes needed

☐Don't know

☐Other (please specify)

If you selected other, please specify below.

We are open to the possibility of changes to water quality regulation. However, we believe the need for reform in this area is limited. The Drinking Water Inspectorate is well-respected and effective.

A great challenge is ensuring supply in the light of the growing population demand and the effects of climate change on that supply.

Looking ahead, we are concerned about nascent issues such as PFAS and microplastics, and ongoing challenges with lead. In our view, it is critical that there is rapid progress in solving these issues, and that all forms of regulation supports this.

Securing resilient water supply

In light of climate change and population growth, the security of long-term water supply is critical to the economy. We need secure and resilient supplies of water for people and the economy, whilst ensuring the environment is protected. There is projected to be a substantial water supply gap by 2050 if no action is taken. Water companies are responsible for the supply of water in their area and deliver their duty by developing Water Resources Management Plans and Drought Plans every 5 years. To deliver long term water supply, water companies need to reduce demand as well as increase supply.

The Commission is seeking views on potential changes that could be made to the water resources regulatory regime. These include, but are not limited to:

- integrated water management framework to improve the management of the water
- changes to regulatory responsibilities or introduction of new requirements or standards to oversee delivery of the water company supply and demand activity
- abstraction reform
- new water demand and efficiency policies

Q57. To what extent is the overall water regulatory framework securing resilient long-term supplies of water?

(Please select one)

☐To a great extent

☒To some extent

☐Very little

☐Not at all

☐Don’t know

Q58: What changes, if any, could be made to the overall water regulatory framework to ensure it can secure a resilient long-term supply of water? *(Please select all that apply)*

☐No changes are needed

☐Integrated water management framework to improve the management of the water system

☒Changes to regulatory responsibilities or introduction of new requirements or standards to oversee delivery

☒Abstraction reform

☒New water demand and efficiency policies

☐Don't know

☒Other (please specify)

If you selected other, or want to provide additional views, please specify below

The regulatory framework must become more flexible and evidence-based, enabling long-term planning and balancing the environment with customer needs. We set out our wider views in questions 12 and 13, but in summary, we believe a single, coordinated Plan for Water should set national targets, funding envelopes, and delivery expectations and trade-offs.

At the local level, the focus should be on delivery, within a streamlined national framework. While many of the right structures exist today, the current system remains overly rules-based, slow to respond to actual risks, and misaligned with long-term priorities.

We support a shift towards evidence-led, risk-based regulation – an approach that is already working well for drinking water quality and should be extended to water resources. Key long-term tools like Water Resources Management Plans (WRMPs) and LTDSs should feed more directly into national policy, highlighting strategic and delivery risks.

We also support abstraction reform. Licences must reflect modern hydrological realities and enable resilience and innovation. For example, we have already relinquished enough abstraction to supply the entire Bournemouth Water region, and we expect abstraction in that region to halve again. Yet there remains uncertainty around the infrastructure needed to deliver this – underscoring the need for greater alignment and clarity across the regulatory framework.

We are committed to reducing demand in line with the Environment Act targets. We are trialling innovative tariffs designed to promote fairness and incentivise lower use –

especially in areas where peak seasonal demand is high. However, in some areas, public and parliamentary pressure has challenged these reforms. This highlights a tension between national demand targets and local acceptability.

A key barrier is the lack of data on property usage. Our region has high numbers of second homes and holiday lets, but we cannot currently identify these properties or tailor tariffs accordingly. A national property register – as proposed in the Levelling Up and Regeneration Bill – would enable smarter, fairer charging.

It is also vital to create stronger levers to drive demand reduction beyond tariffs. Water companies currently have no statutory targets for demand reduction and few powers to influence behaviour. Progress depends on partnerships with government, local authorities, and civil society.

There is also a critical need to mandate water efficiency in new homes and create stronger incentives for retrofitting older housing stock. Consumers need greater visibility of product-level water efficiency, and a clearer link between water and energy efficiency. Around half of household water is heated, accounting for 18% of home energy use and 12% of a typical gas-heated home's energy bill. Defra and the Department for Energy Security and Net Zero should work together to support joined-up policy and incentives.

Infrastructure and supply chain resilience and security

Water companies need resilient and secure infrastructure and supply chains to deliver on their core duties. Infrastructure resilience is the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with, and recover from disruption in its performance. Infrastructure security is the practice of protecting systems and assets against physical and cyber threats.

The commission has heard conflicting evidence on the sector's resilience (for example, with disagreement between companies and Ofwat on whether companies have been appropriately funded to maintain assets).

Initial engagement has also highlighted potential concerns about the maturity of the sector's security arrangements, as well as whether funding decisions and regulatory oversight are adequately delivering a secure sector.

Supply chain concerns have also been raised regarding the ability to deliver ambitious new infrastructure programs and whether risk is appropriately allocated for critical dependencies (such as chemical supply).

The Commission is seeking views on potential changes that could be made to support infrastructure resilience. These include, but are not limited to:

- Changes to the Price Review to support infrastructure resilience (for example, calculating base expenditure with reference to asset condition, or linking base expenditure to investment plans)
- Changes to the scope and enforcement of existing infrastructure requirements (for example, strengthening requirements on companies to map assets)
- Setting infrastructure resilience standards (for example, requiring companies to prepare for a defined level of disruption)

The Commission is seeking views on potential changes that could be made to support infrastructure security. These include, but are not limited to:

- Changes to the Price Review to ensure adequate coordination on security expectations
- Changes to existing legislation, such as Security Emergency Measures Direction and cyber security regulations to close gaps (for example, giving powers in relation to security of wastewater infrastructure)
- Changes to the enforcement of security regulations (for example, providing the DWI with powers to issue directions under Security Emergency Measures Direction)

The Commission is seeking views on potential changes that could be made to manage risks from supply chains. These include, but are not limited to:

- Changes to planning processes to ensure supply chain constraints are factored (for example, factoring supply chain into planning decisions)
- Changes to cross-government policy on supply chain constraints (for example, agreeing investment plans with other sectors)
- Changes to the Price Review process to address supply chain constraints (for example, moving from a 5-year Price Review process)
- Setting government guidance on managing supply chain disruption
- Requiring companies to take greater steps to reduce dependencies (for example, onshoring chemicals production)

Q59. To what extent does the overall water regulatory framework support or hinder infrastructure resilience? When considering your answer, please think about future pressures including factors such as climate change and population growth.

☐Significantly supports infrastructure resilience

☒Somewhat supports infrastructure resilience

☐Neither supports nor hinders infrastructure resilience

☐Somewhat hinders infrastructure resilience

☐Significantly hinders infrastructure resilience

☐Don’t know

Q60. To what extent does the overall water regulatory framework support or hinder infrastructure security? When considering your answers, please think about evolving security threats such as cyber security.

☐Significantly supports infrastructure security

☒Somewhat supports infrastructure security

☐Neither supports nor hinders infrastructure security

☐Somewhat hinders infrastructure security

☐Significantly hinders infrastructure security

☐Don’t know

Q61. To what extent does the overall water regulatory framework support or hinder effective management of supply chain risks? When considering your answers, please think about disruption in and constraints from supply chains.

☐Significantly supports effective management

☒Somewhat supports effective management

☐Neither supports not hinders effective management or

☐Somewhat hinders effective management

☐Significantly hinders effective management

☐Don’t know

Q62. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure resilience? *(Please select all that apply)*

☐No changes are needed

☒Changes to the Price Review to support infrastructure resilience (for example, calculating base expenditure with reference to asset condition, or linking base expenditure to investment plans)

☐Changes to the scope and enforcement of existing infrastructure requirements (for example, strengthening requirements on companies to map assets)

☐Setting infrastructure resilience standards (for example, requiring companies to prepare for a defined level of disruption)

☐Don’t know

☐Other (please specify)

If you selected other, please specify below

Q63. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure security? *(Please select all that apply)*

☒No changes are needed

☐Changes to the Price Review to ensure adequate coordination on security expectations

☐Changes to existing legislation, such as Security Emergency Measures Direction and cyber security regulations (for example, giving powers in relation to security of wastewater infrastructure)

☐Changes to the enforcement of security regulations (for example, providing the DWI with powers to issue directions under Security Emergency Measures Direction)

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Q64. What changes, if any, could be made to the overall water regulatory framework to better manage risks from supply chains? *(Please select all that apply)*

☐No changes are needed

☒Changes to planning processes to ensure supply chain constraints are factored (for example, factoring supply chain into planning decisions)

☒Changes to cross-government policy on supply chain constraints (for example, agreeing investment plans with other sectors)

☒Changes to the Price Review process to address supply chain constraints (for example, moving from a 5-year Price Review process)

☐Setting government guidance on managing supply chain disruption

☐Requiring companies to take greater steps to reduce dependencies (for example, onshoring chemicals production)

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Innovation and technology

Innovation is defined here as the full process of invention, application, and adoption, and it involves a range of investment efforts in the form of research, development, demonstration, dissemination, and training.

Historically, there have been concerns about the levels of innovation in the water sector and its approach to innovation

The commission has also heard that risk-aversion from both regulators, the government and water companies could be stifling the introduction of innovative approaches and technologies as more 'certain' engineering approaches are favoured over newer, less tested options.

The commission is gathering views on changes to the regulatory framework to support innovation. These include, but are not limited to:

- Changes to the way companies and regulators approach risk (for example, introducing a regulatory 'sandboxing' tool)
- Changes to regulation to allow flexibility on delivery approaches Changes to the Price Review process to support innovation (for example, treating research and development spending separately in the Price Review)

The commission is also interested in views on opportunities from new technologies to transform water company and regulator approaches.

Q65. To what extent does the overall water regulatory framework currently support or hinder innovation?

☐Significantly supports innovation

☒Somewhat supports innovation

☐Neither supports nor hinders

☐Somewhat hinders innovation

☐Significantly hinders innovation

☐Don't know

Q66. Which of the following changes in the sector, if any, would enable innovation outcomes? *(Please select all that apply)*

☐No changes are needed

☒Changes to the way companies and regulators approach risk (for example, introducing a regulatory 'sandboxing' tool)

☒More outcome based regulation to allow flexibility on delivery approaches

☒Changes to the Price Review process to support innovation (for example, treating research and development spending separately in the Price Review)

☐Don't know

☐Other (please specify)

If you selected other, please specify below

Q67. What opportunities, if any, do new technologies present for companies and the regulators?

Funding research and harnessing new technology to develop innovative solutions to the challenges and opportunities we face as a sector is crucial. We welcome the Ofwat innovation fund as a major incentive to develop innovation and stimulate transformative change. Having a dedicated funding stream for innovation projects helps accelerate ideas and fosters collaboration across the sector.

We recognise the need to invest in innovation to future-proof our business and improve the service we provide to customers. We are leading the charge by collaborating with partners to build a suite of projects designed to make a difference now, and in the future. CREWW is backed by £21m from SWW, in collaboration with Exeter University which has achieved a gold-standard for excellence in research and teaching.

Working with CREWW, we have identified several key projects. We are aware of the need to understand how much microplastic is present in water that is abstracted, treated, supplied as drinking water, and then collected, treated and returned to the environment. We also need to know how we can reduce the presence of plastic at every stage, to protect the environment and the consumer, and to prepare for future

regulation. We have established a state-of-the-art ‘CREWW Microplastics Lab’, which will enable further ground-breaking work on microplastics at a scale to meet the needs of the industry.

We have also funded a pilot project to generate a groundwater infiltration risk map for a pilot study in the SWW sewer network, highlighting with a RAG (Red, Amber, Green) rating for areas most prone to groundwater infiltration and enabling operations staff to proactively target site investigations. By cross-referencing this new map with areas of high CSO spill and pollution events, it is envisaged that works targeted around infiltration will contribute to a reduction in these events. We have plans to extend the project to cover the entire SWW network to help identify novel and effective approaches to go beyond the current commercial solutions and look to improve efficiency beyond pipelining and replacement.

For years, the water sector has had to control the impact of lead in the water supply by orthophosphate chemical dosing, adding additional cost to the treatment process. Through CREWW, we are funding an upgrade to our model used to predict the location of lead pipes in our water supply network. The new model will utilise SWW data, whilst also employing artificial intelligence to update the model, which will help bridge gaps in the existing data.

Aside from CREWW, we are currently developing new approaches to using artificial intelligence to assess telemetry and GIS data to inform our clean water asset maintenance and renewal programmes. This project is being led across industry, with support from Ofwat’s innovation fund. By working together with regulators, industry and partners on innovative technology, we believe we can deliver a water sector fit for the future. By working together with regulators, industry and partners on innovative technology, we believe we can deliver a water sector fit for the future.

Section 6: Questions on Chapter 6 – Ownership

Introduction

The English and Welsh ownership model has evolved since 1989.

There has been significant public debate about the extent to which ownership models for water companies impact their performance against public policy objectives. Initial research on other countries has failed to generate clear conclusions on whether ownership change would drive improved outcomes.

The Commission would like to gather evidence on the following areas in relation to ownership:

- What the impact, if any, of mergers between companies (consolidation) has on company performance.
- What the impact, if any, of public listing versus private ownership is on company performance.
- What the impact, if any, of company structures – like Whole Business Securitisation – is on company performance.
- What the impact, if any, of different types of investors (for example, private equity firms, pension funds) is on company performance.
- How effective Dŵr Cymru Welsh Water's not-for-profit model has been, and what the risks associated with this model are.

Q68. What impact, if any, has consolidation of water companies had on their performance?

Consolidation has delivered operational efficiencies, cost savings, and stronger performance. Mergers allow larger entities to pool resources, streamline operations, and spread fixed costs over a broader customer base—reducing per-unit costs and enhancing service. For example, the creation of Scottish Water through the merger of three water authorities led to a 40% reduction in operating expenditure. Similarly, Pennon's merger with Bristol Water delivered annual synergies of approximately £20m; the 2024 merger with SES Water is on track to deliver around £10m per year.

The ability to share best practice across merged companies has driven continuous improvement and innovation. Within Pennon, collaboration on leakage reduction and water quality has accelerated progress across the Group.

Consolidation has also improved investment capability. Larger, better capitalised entities are more able to fund major infrastructure projects. Pennon's acquisition of Bournemouth Water in 2016 enabled over £200m of investment in water treatment, and the 2020 acquisition of the Isles of Scilly water assets supported the introduction of new treatment processes to protect public health and the environment—costing around £40,000 per property, which would have been unachievable without consolidation.

Mergers have strengthened financial resilience by reducing gearing risks and lowering the cost of capital. In the cases of Bournemouth, Bristol and SES, we were able to remove the small company premium.

Importantly, customer representation has been retained and enhanced. Our WaterShare+ scheme returned merger benefits directly to customers—e.g. following the Bristol merger, £20m was shared via bill reductions or equity stakes in the Group.

Q69. What impact, if any, does whether or not a water company is listed on the stock exchange have on their performance?

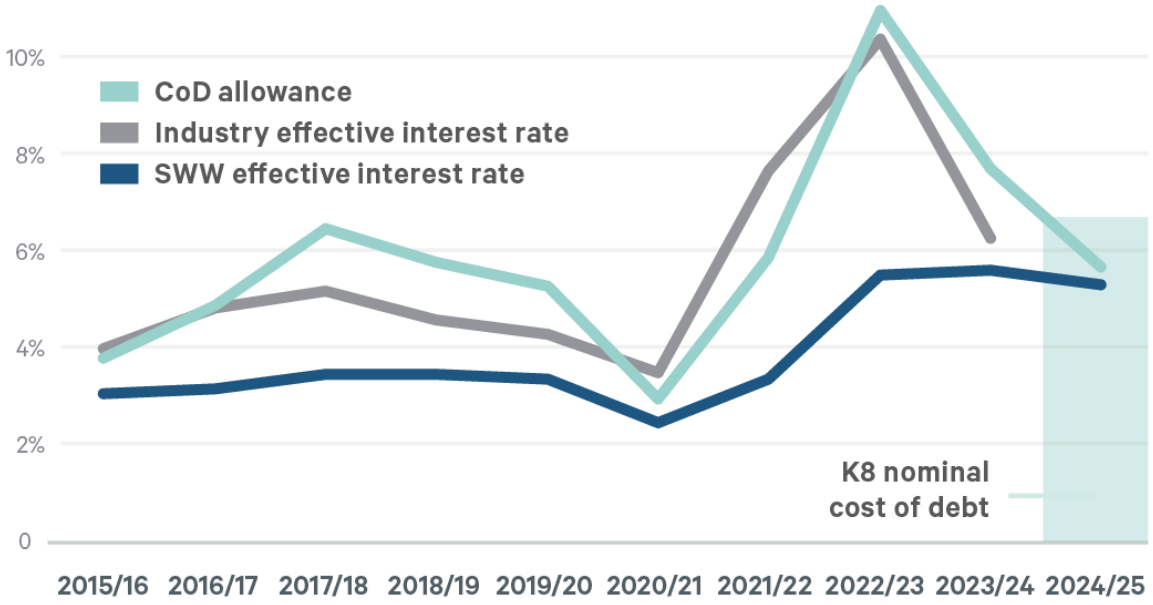
Financial structures such as Whole Business Securitisation reduce flexibility, limit responsiveness to changing circumstances, and can undermine financial resilience. While securitisation may provide stable funding under certain conditions, its rigid structure has proven inappropriate for the UK water sector.

We acquired Bournemouth Water, Bristol Water, and most recently SES Water — all of which operated with securitised financing structures. We successfully unwound these securitisation arrangements and put in place a diversified funding portfolio.

Securitisation locks companies into fixed capital structures with limited ability to raise additional equity or adjust gearing levels. This restricts management's capacity to respond effectively to emerging risks and can constrain companies' ability to access diverse pools of funding, increasing dependency on debt and reducing financial headroom.

As a listed company we maintain a balanced and flexible funding portfolio. Our long-term funding strategy does not rely on securitisation. Instead, we have demonstrated our ability to raise capital efficiently through equity markets — including a £490 million rights issue and a prior £180 million equity raise to support the acquisition of SES Water.

Pennon is consistently recognised as one of the most efficient funders in the sector, with low effective interest rates achieved through a prudent and well-managed capital structure.



We adhere to robust governance standards as a listed company, including the publication of annual financial viability statements and maintaining prudent gearing levels. Our governance model ensures that our funding strategy remains aligned with the interests of customers and investors.

Q70. What impact, if any, do complex company structures like Whole Business Securitisation have on water company performance?

Investor type has a direct impact on water company performance by shaping governance, investment horizons, financial resilience, and alignment with long-term environmental and customer outcomes. Different models of ownership bring different expectations, strategies, and risk appetites — which influence the quality of decision-making and the company's ability to deliver sustainable services.

Pennon has seen first-hand how investor alignment can strengthen performance. Having operated both water and wastewater services alongside Viridor — a growth-oriented waste and energy recovery business — we understand how different business models attract different kinds of capital. Viridor's need for long-term, higher-risk investment was distinct from the stable, utility-style financing suited to water services. This experience gives us confidence that separating water and sewerage licences would enable better matching of capital structures and investor types to the needs of each business and attract more investment into the sector.

Water services, with their steady-state investment profile and ongoing operational delivery, are well suited to long-term institutional investors who prioritise stable income and ESG performance. Sewerage, by contrast, is a higher-risk, more capital-intensive profile that requires investors willing to back long-term growth, rather than short-term

income. We saw this with Viridor where we had higher concentrations of infrastructure and GARP investors.

Alongside the type of investor, we believe the quality of investor engagement and accountability mechanisms also directly influence performance. Through our WaterShare+ scheme, we embed customer voice at the heart of governance and give customers a financial stake in the business, with around 90,000 customers now shareholders through WaterShare+.

Q71. What impact, if any, does the type of investor (for example, private equity firms, pension funds) have on water company performance?

Different types of investors bring different perspectives, strategies, and levels of influence, which can shape a company's performance.

Institutional investors, such as pension funds, insurance companies, and charities are focused on stable, long-term investments. They may be focused on dividend-paying stocks for income, growth stocks for capital appreciation, or a balance of each. These investors typically value Environmental, Social, and Governance (ESG) principles, seeking companies that demonstrate strong sustainability practices. This alignment with ESG goals helps drive long-term value creation and risk management within the company.

Other investors may have shorter investment horizons: that is, growth-oriented with a preference for stocks that have the potential for significant growth over time, even if they do not provide immediate dividends.

Pennon Group PLC, a leading UK infrastructure company, has a diverse shareholder base which is focused on long term sustainability and value creation. Our institutional investors collectively own a significant portion of Pennon's shares, providing stability and long-term investment perspectives. Sustainability is highly valued by our shareholders. Overall, they prioritise regular income from their investments and look to us to pay consistent, stable dividends.

Ownership (for Wales only)

The following 2 questions are targeted at those who live in Wales or are part of an organisation that operates in Wales.

Q72. How effective has Dŵr Cymru Welsh Water's not-for-profit model been in driving improved outcomes?

Welsh Water has not consistently delivered sector-leading performance and the company is often mid-ranking on key metrics like pollution incidents and leakage. This supports our view that ownership structure alone does not drive outcomes. Listed businesses have internal governance AND shareholder pressure and challenge to ensure a performance focus.

Q73. What are the risks associated with Dŵr Cymru Welsh Water's not-for-profit model?

A key risk of Welsh Water's not-for-profit model is the absence of an equity buffer. Equity buffers are widely recognised as critical in the water sector, allowing companies to manage revenue shortfalls, cost shocks, or operational failure without immediately impacting customers or investment plans. Ofwat's stress testing assumes companies can raise equity or restructure if needed. Without shareholders, Welsh Water relies solely on debt and retained surpluses, which could reduce flexibility and place financial risk more directly on customers through higher bills or delayed investment.