



From the Chief Executive Officer, Susan Davy
Peninsula House, Rydon Lane, Exeter, EX2 7HR
T: 01392 443381 www.pennon-group.co.uk

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Sir Jon Cunliffe
The Independent Water Commission
Defra Ground Floor
Seacole Building
2 Marsham Street
London
SW1P 4DF

By e-mail: cfe.water@defra.gov.uk

Dear Sir Jon,

Independent Water Commission's Call for Evidence

Thank you for the opportunity to input into the call for evidence as part of your Independent Commission on Water Regulation. We welcome this review, at a pivotal time for the sector when investment is at record levels with equally ambitious outcomes for society.

At Pennon Group plc, we take our leadership role in the UK Water sector seriously, with a clear strategy committed to the sector and environmental infrastructure. Our strategy has seen us steadily grow, with the acquisition of Bournemouth Water in 2015, the successful adoption of the Isles of Scilly, and the acquisition of Bristol Water in 2021, bringing financial resilience and investments in infrastructure and services to customers and communities. We supported the development of the B2B market, with our retailers Pennon Water Services and Water2business, now with c15% market share in delivering excellent customer service in England and Scotland. Most recently, we acquired Sutton and East Surrey Water, with a commitment to resolve and improve ongoing financial resilience, better position the business to serve its customers, as well as protecting jobs for the longer term. Along with our renewable energy investments at Pennon Power, we are also investing to underpin our 2030 Net Zero commitments.

As one of a few FSTE listed businesses in the sector, we can also offer a unique insight into what matters most to customers, stakeholders and investors alike. Our progressive customer centric ownership model, Watershare+, gives customers both a stake and a say in their local water company, with circa 100,000 shares issued to customers. With quarterly public meetings, and a customer AGM, we are forging a new path, and one in which the interests of customers and shareholders are more aligned than ever before.

In responding to the Independent Water Commission's Call for Evidence, I wanted to start with an acknowledgement. Since our first letter on the 10th December, and our subsequent meeting, we have been reflecting a lot on how best to contribute, evolving our thinking.



No. 2366640.

Registered Office: Peninsula House, Rydon Lane, Exeter, EX2 7HR

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In particular your words, “*water is an unhappy family – and as an unhappy family, each family member is unhappy in their own way*”, has resonated. Generations of fathers, sons, and more recently mothers and daughters have dedicated their careers to this sector. These generations have also seen first-hand what a combination of investment, innovation, effective regulation and brilliant colleagues can achieve. Bringing together customers and communities, driving up standards, supporting public health and underpinning the economic growth of the sector with critical national infrastructure.

As a sector, and as a business we stand ready to deliver, and our response is therefore focused on how we might do that, building on the four key areas we identified in December.

1. Our role in Critical National Infrastructure, supported by a national framework and facilitated through local devolution.

The water sector is one of 13 defined national infrastructure sectors necessary for the country to function and upon which daily life depends. The National Infrastructure Commission estimates that our sector will need to make capital investments of c.£300bn between now and 2050. This places us on a par with the electricity distribution and transmission sectors in terms of infrastructure investment. Strategic investment and public confidence are therefore more interdependent than ever before. We would like to see the sector put on an equal footing with other utilities such as energy with a national framework, to take account of climate resilience through the introduction of legally binding resilience standards, stretching environmental and service goals, the UK's Net Zero goals and with local devolution to support economic and socioeconomic regional priorities. We believe there is a role for Government to clearly set the strategic direction and the pace of investment.

We need a framework that recognises water and waste water are inherently different. Water priorities should be set nationally, focused on a national grid for water, with waste water priorities set regionally, focused on controlling pollution at sources and facilitated through local devolution.

At Pennon, with significant experience of acquiring water only businesses, alongside our water and waste water assets - it is clear that there are significant differences in how we should invest, operate and think strategically about the services we provide. Put simply, the challenges facing water resources nationally, are not the same as the challenges for driving regional catchment water quality, and health. Securing sustainable resources for drinking water, in the face of climate change and for the longer term, should be a national priority, set by government policy - just as it is today for power, cementing the water sector's critical role in National Infrastructure and in turn unlocking unrivalled access to funding streams.

Positioning the water sector as critical national infrastructure would unlock other benefits too. Currently the water sector, with the strict liability for assets and services, does not have the same powers as other in critical national infrastructure, leading to increased risk of supply. Water is the only sector that you connect to without recourse and when seeking to gain entry across land to manage critical assets, is not considered an automatic right.

Devolving power regionally, would also mean that a region like the South West, that looks after a third of the nation's bathing beaches, with an imperative to drive improved bathing water quality, could be co-ordinated in the catchments by those who are best informed and motivated to deliver the improvements, with empowered communities, and with an outcome, that is faster and cheaper for all.

2. We are supportive of regulatory reform to support fair and predictable regulation.

Regulation does need a reset, sharpening responsibilities, with clear remits.

Our focus is always to ensure we maintain constructive working relationships with Government and our Regulators. It is what the public expects from us. In general, all parties work constructively to achieve shared objectives, and there is a great deal that works across current regulation in the sector,

with models that can inspire. For example, since privatisation, the RAB based model has driven over £236bn of investment across the sector, accessing efficient funding to deliver a step change in outcomes. This same model has also driven (and continues to drive) a step change in investment across several infrastructure providers across the UK – e.g. energy and aviation. However, to effectively regulate a transforming water sector, it's only right that regulation should also reset. Multiple regulators, with overlapping duties, and sometimes conflicting priorities, is confusing for companies and customers and a contributor to declining outcomes. For example, customers today believe reducing pollutions that affect land, home, people and amenities are as important as reducing pollutions that hit a water course, yet the Environment Agency's current Environmental Performance Assessment measures just 4% of the emissions currently in Ofwat's reporting framework. Supported by a clear framework, Ofwat's accountabilities could be refocused back onto the national priorities of security of supply, affordability, and in driving competition and investment, supported by the Environment and Drinking Water Regulators who are there to drive better outcomes for the environment and public health. In addition, setting up a consumer champion Ombudsman with the legal power to resolve disputes, could go some way to restore public confidence and in bringing the water sector into line with other sectors such as energy, communications and rail sectors.

3. We are at a pivotal point in the sector, where ongoing investor confidence is key to deliver for customers:

Customers rightly want us to be ambitious, but this can only be achieved by a significant step up in investment, underpinned by funding from investors. In any one five-year delivery period, 2/3rds of funding for investment comes from investors, with roughly 1/3rd from customer revenues. We must not lose sight of the fact that both debt and equity are funding the change we collectively want to oversee. The challenge is how we can ensure that in balancing risk and return, the cost of equity is appropriately balanced, and we can continue to attract investment at an economic rate. Investors are increasingly telling us that the attractiveness of the sector is reducing yet we know there's a proposed c£300 billion of private capital needed for investment over the next 25 years. Our solution to this, has to be in the resetting of long-term national priorities around water, with regional priorities for waste. This could unlock investment from a wider group of investors to meet both sides of the coin.

We have long advocated that the interests of investors and customers are more aligned than some might think. As the only water company to give customers a stake and a say in their local water company – with circa 90,000 customers as shareholders, nearly five times the number of institutional investors since launch in 2020, we are well qualified to speak to this point.

4. Improving Customer Outcomes – giving customer a choice

The water industry in England and Wales has been a regulated regional monopoly business since privatisation in 1989. This has meant that, with limited exceptions, customers cannot choose their water supplier. The introduction of the non-household market in 2017 was an important step forward in introducing competition into the sector. With three business to business (B2B) retailers at Pennon, we were an early entrant and have consistently been a strong advocate of the market.

Not all customers are universally unhappy, although we would all agree there is a lot to do to rebuild trust. The introduction of the non-household market in 2017 was an important step forward for the sector. Pennon as an early entrant, has grown market share to c15% nationally, with trust pilot scores on a par with the John Lewis/ Amazon and Shein, yet in essence the same infrastructure. The sector could take its next bold step now - replicating this and widening competition to the household market - bringing innovation and customer choice to the forefront. Our own national research conducted in April 2025 shows that appetite for switching is comparatively high, with half of water consumers saying they would switch in the next year if given a choice. Price was not the only factor motivating customers. Three in five customers say the option to buy new products and services that help save water would be important in their decision to switch supplier, and half say they would pay more for sustainably sourced water.

We believe that driving competition would unlock the fairer water charges for customers, and would pave the way to remove the regulatory blockers to innovation.

I trust these comments are helpful, in addition, all the specific questions posed have been addressed and sent separately.

Whatever the Commission concludes at the end of this process, the raw ingredients are all here and that is a reason to be optimistic for the future.

I look forward to your conclusions.

Yours sincerely

Susan Davy
Chief Executive Officer, Pennon Group