CMA PR24 water redeterminations

27 March 2026

1 Introduction

On 10 March 2026, the Competition and Markets Authority (CMA) published the summary of its Final Determinations (FDs) of Ofwat's PR24 price review for five disputing companies (DCs)—Anglian Water (ANH), Northumbrian Water (NES), South East Water (SEW), Southern Water (SRN) and Wessex Water (WSX)—following a reference from Ofwat at the request of each company. Yesterday, the CMA published the full report and accompanying annexes outlining its FDs.

This article provides commentary on the key changes applied by the CMA relative to its Provisional Findings (PFs, published in October 2025) and to Ofwat's FDs. This is set out across three key areas:

- the financial parameters, including the cost of capital
- the CMA's approach to assessing efficient costs
- outcome delivery incentives (ODIs) and the expected level of performance from base funding

2 Finance

On the cost of capital, the headline message is that the CMA has provided a 60bp uplift to the return on equity relative to Ofwat's FDs. Combined with changes to the allowed return on debt (CoD), this leads to a 23bp increase in the wholesale weighted average cost of capital (WACC). Summary parameters from the CMA's FDs estimation of the allowed return on capital are set out in Table 2.1.

Table 2.1 CMA FDs WACC parameters

Parameter, CPIH-real	Ofwat PR24 FDs	CMA PFs	CMA FDs
Cut-off date	*30 September 2024*	*30 June 2025*	*30 November 2025*
Gearing	55%	55%	55%
Risk-free rate	1.52%	2.49%	2.40%
Equity beta	0.59–0.65	0.61–0.76 (0.68)	0.61–0.70 (0.66)
Total market return	6.68–6.98%	6.70–7.30% (7.00%)	6.70–7.20% (6.95%)
Return on equity	**4.58–5.07% (5.10%)**	**5.07–6.13% (5.90%)**	**5.02–5.76% (5.70%)**
Cost of embedded debt	2.77%	2.38%	2.38%
Cost of new debt	3.74%	3.86%	3.78%
Issuance and liquidity costs	0.15%	0.20%	0.20%
Proportion of new debt	24%	27%	28%
Return on debt	**3.15%**	**2.98%**	**2.97%**
Appointee WACC	**4.03%**	**4.29%**	**4.20%**
Retail margin deduction	0.06%	–	–
Wholesale WACC	**3.97%**	**4.29%**	**4.20%**

Note: Figures shown in parentheses indicate parameter point estimates, where relevant.
Source: Oxera analysis.

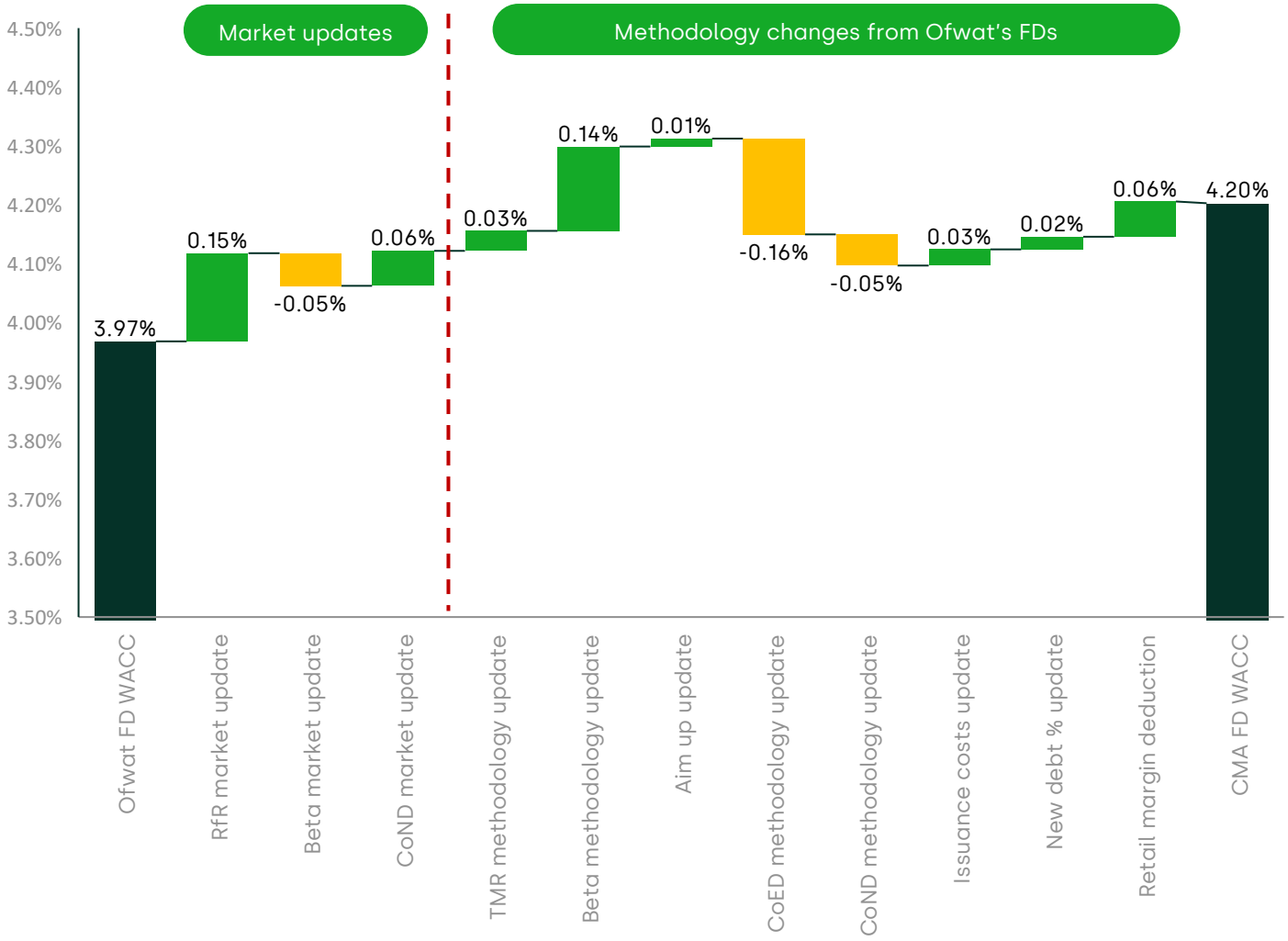
While the CMA has not departed materially from its views presented in the PFs, there are some notable methodological differences in addition to updating its estimate for more recent market data (with a cut-off of 30 November 2025). The two most material methodological changes are as follows.

- The first key change relates to the calculation of the swap wedge adjustment. The CMA has adopted a different source for market data on swaps to align with the evidence and PF responses received. This leads to a c. 17bps reduction in the swap wedge adjustment to the risk-free rate (RfR).
- Second, the CMA has included Pennon as a beta comparator in estimating ten-year betas, using its data from 1 October 2021, agreeing with arguments raised that Pennon data from this date is relatively 'clean', and that its inclusion outweighs the

drawbacks of having a more limited data set comprising only Severn Trent and United Utilities.[1]

A comparison of the full set of changes in WACC from Ofwat's FDs to the CMA's FDs is provided in Figure 2.1, identifying key movements due to market data update and methodology changes.

Figure 2.1 Wholesale WACC bridge from Ofwat FDs to CMA FDs



Note: Shown in wholesale WACC terms. Y-axis set to begin from 3.50% to ease visualisation of changes. The change in the source for swap rates on the RfR have been shown under market updates.
Source: Oxera analysis.

We address the CMA's FDs approach to WACC estimation in the following subsections, summarising key changes from Ofwat's FDs, and arguments raised by disputing companies.

[1] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 4: Allowed return – Chapter 7', 10 March, para. 7.491.

2.1 Return on equity

2.1.1 Estimating the CAPM cost of equity

The CMA has chosen to follow a capital asset pricing model (CAPM) approach to estimating the cost of equity, consistent with Ofwat's FDs. The three main components of the CAPM cost of equity are the RfR, the beta and the equity risk premium (ERP).

In estimating the RfR, the CMA uses a one-month average of yield on 20-year index-linked gilts (ILGs), and adds the wedge between RPI and CPIH inflation forecasts to derive a CPIH-real RfR. The wedge is estimated as an average of the Office for Budget Responsibility's (OBR) November 2025 inflation forecasts, and market evidence on inflation swaps. The CMA has opted not to include a forward rate adjustment or convenience yield. But for the change in evidence source for inflation swaps highlighted above, the CMA's FDs approach to RfR estimation is otherwise unchanged from its PFs, and largely unchanged from Ofwat's FDs.[2] The CMA has not pursued RfR indexation, stating that such a move would be a relatively major policy change that is best implemented at the industry level, requiring careful consideration as it implies risk transfer from investors to customers.[3]

To estimate the beta, the CMA has adopted the following methodology.

- Lower end of the range based on using ten years of daily returns spot data to calculate simple average betas of Severn Trent, United Utilities, and Pennon (as highlighted above, with Pennon included from 1 October 2021). This is a change from the PFs, where the CMA gave no weight to Pennon data in estimating ten-year betas. Relative to Ofwat's FDs, the CMA's FDs represent a material change, as Ofwat excluded Pennon data from all its spot five- and ten-year beta estimates.
- Upper end of the range based on using three years of daily returns spot data to calculate betas of Severn Trent, United Utilities, and Pennon. This is another material change from Ofwat's FDs, where Ofwat opted to only consider long-term beta data, i.e. five- and ten-year estimates. In doing so, the CMA has reiterated its position from the PFs that shorter-term betas allow greater weight to be placed on Pennon data, while reducing bias from lower betas observed during the Covid-19 pandemic. The CMA has also agreed with the arguments raised

[2] Ofwat's FDs used inflation estimates from HM Treasury's comparison of independent forecasts in August 2024, as it did not have access to updated OBR forecasts at its cut-off for publication of its FDs. See Ofwat (2025), 'PR24 final determinations: Aligning risk and return – allowed return appendix', March, p. 20.
[3] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 4: Allowed return – Chapter 7', 10 March, paras 7.24–7.25.

that shorter-term betas are likely to be more responsive to changes in forward-looking risk.[4]

The CMA has decided against making manual adjustments to beta estimates, given there is no clearly established methodology for this, albeit it agrees that there may be a theoretical link between beta and capital intensity.

On the total market return (TMR), the CMA's FDs retain its PFs view, placing weight on the following.

- Historical ex post evidence based on simple one-year arithmetic averages of real UK equity returns since 1900.
- Historical ex ante evidence based on Fama French and DMS decomposition methods (forming the bottom of the range).
- Long-run average ERP plus current RfR (forming the top of the range). This is a material development over Ofwat's FDs, which adopted a stable TMR approach, based on evidence from only historical ex post and ex ante evidence.

In retaining its PFs approach of using the ERP plus RfR approach, the CMA has agreed with disputing company arguments, stating that the stable TMR (or 'through the cycle' TMR) approach does not imply that the values used by regulators should be fixed through time, especially when interest rates move significantly between regulatory periods. The CMA has also considered the dramatic increase in investment requirements in the sector—crucially, it recognises the need to consider the perspective of new investors, not just whether existing investors 'win' or 'lose' from the implementation of the 'through the cycle' approach.[5]

2.1.2 Selecting a cost equity point estimate

The CMA's estimated ranges for the CAPM parameters result in a midpoint cost of equity (CoE) of 5.40%. Following its review of cross-check evidence and disputing company arguments, it opts to retain the 30bps aiming-up from the PFs, to arrive at a point estimate CoE of 5.70%. We review key points below.

- **Market-to-asset ratios (MARs)**: While the CMA agrees that the MARs of the three listed water companies may not accurately identify a point estimate, the CMA considers this to be useful information about the broad appetite for equity investment in the sector.[6] It thus replicates the methodology used in Ofwat's

[4] Ibid., para. 7.620.
[5] Ibid., paras 7.424 and 7.433.
[6] Ibid., para. 7.643.

FDs, and estimates a MARs-implied CoE range of 4.3–6.3%, which it concludes support its CAPM estimation.

- **Debt v equity premia**: A key advancement of the CMA's FDs (maintained from the PFs) that contrasts with Ofwat's FDs is its comparison of the unlevered CoE against the cost of new debt (CoND). In considering this cross-check, the CMA states that while there is no defined required premia between the CoE and CoD, values in the bottom half of its CAPM-implied CoE range are 'relatively narrow', which may not be sufficient to attract the record levels of capital needed.[7] The CMA concludes that this warrants a CoE point estimate above the midpoint of its CAPM range. Elsewhere, the CMA considers alternative forms of debt v equity premia cross-checks—for example, hybrid bonds and 'inference analysis'—but does not accord any weight to these. The CMA has also considered Oxera's asset risk premium v debt risk premium (ARP–DRP) methodology, stating that it provides a directional sense-check of the CAPM CoE, but citesreservations over whether it provides a strict lower bound on the CoE.[8]
- **Infrastructure fund returns**: The CMA agrees with disputing company arguments that figures estimated in Ofwat's FDs were not representative as these did not adjust for the discounts to net asset value (NAV) that some funds traded at. However, it retains its PFs position in stating that this cross-check could include assets with different risk profiles to water and therefore different return expectations, such that it cannot select a precise point estimate.

The CMA also cites mitigation of the welfare impacts of underinvestment in justifying its decision to aim-up above the CAPM midpoint.

The CMA considers that asymmetry in the incentives package and CAPM parameter uncertainty have been sufficiently resolved at source and therefore should not affect the choice of a point estimate. The CMA finds that its FDs are broadly consistent with a Baa1/BBB+ credit rating for all DCs and therefore does not consider financeability as a direct cross-check to select the CoE point estimate.

2.2 Allowed return on debt

The CMA's FDs estimate a lower allowed return on debt than both its PFs and Ofwat's FDs. This reduction stems from a combination of updating for market evidence and limited but significant methodological changes. The key methodological driver is the change in the long-term CPIH inflation assumption applied—as with the PFs, the CMA has agreed with

[7] Ibid., paras 7.686–7.687.
[8] Ibid., paras 7.699 and 7.705.

Ofwat's argument to increase the CPIH inflation assumption to 2.4% from 2.0%, based on the OBR's October 2024 long-term forecast view.[9] This higher inflation rate is used to deflate nominal debt rates to determine rates in CPIH-real terms, and so leads to a direct reduction in the allowance.

The CMA's FDs otherwise maintain its PFs view, updating Ofwat's FDs embedded debt cost allowance by accounting for market evidence to its November 2025 cut-off, and actual water company issuances from Ofwat's FDs September 2024 cut-off through to March 2025. The CMA's FDs retain a combination of 'all-in' and 'actual-notional' cost of embedded debt estimates and reject the inclusion of swaps within the allowance calculation.

In estimating the allowance for new debt costs, the CMA's FDs retain its PFs approach, largely maintaining Ofwat's FDs approach updated for market movements, and adjusting for the higher CPIH inflation assumption detailed above. It rejects proposals to change the benchmark index adjustment calculation, with the CMA observing that the premium estimated in Ofwat's FDs has broadly persisted in more recent data.[10]

Separately, the CMA also increases the share of new debt within the allowance from 24% to 28%, driven by updating its assumptions for regulatory capital value (RCV) growth.

Finally, the CMA's FDs retain its PFs position of increasing the allowance for additional debt costs to 20bps (from 15bps in Ofwat's FDs), comprising 5bps in issuance costs, and 15bps in liquidity costs allowance. This implies an effective increase of 5bps in the allowance for liquidity costs. The CMA's FDs rejects allowances for basis risk and company-specific costs.

2.3 Retail margin adjustment

The CMA's FDs also maintain its PFs position, in removing Ofwat's FDs retail margin adjustment of 0.06%. In doing so, the CMA agrees with arguments raised by ANH, and cites a lack of evidence of double-counting in returns across the combined wholesale and retail price controls, stating its view that Ofwat's estimated allowance for the retail margin already correctly remunerates the retail business for capital employed such that no further adjustment is required.[11]

[9] This forecast view was updated in the OBR's March 2026 Economic and Fiscal Outlook. See Office for Budget Responsibility (2026), 'Economic and Fiscal Outlook – March 2026', 3 March.
[10] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 4: Allowed return – Chapter 7', 10 March, para. 7.906.
[11] Ibid., para. 7.1091.

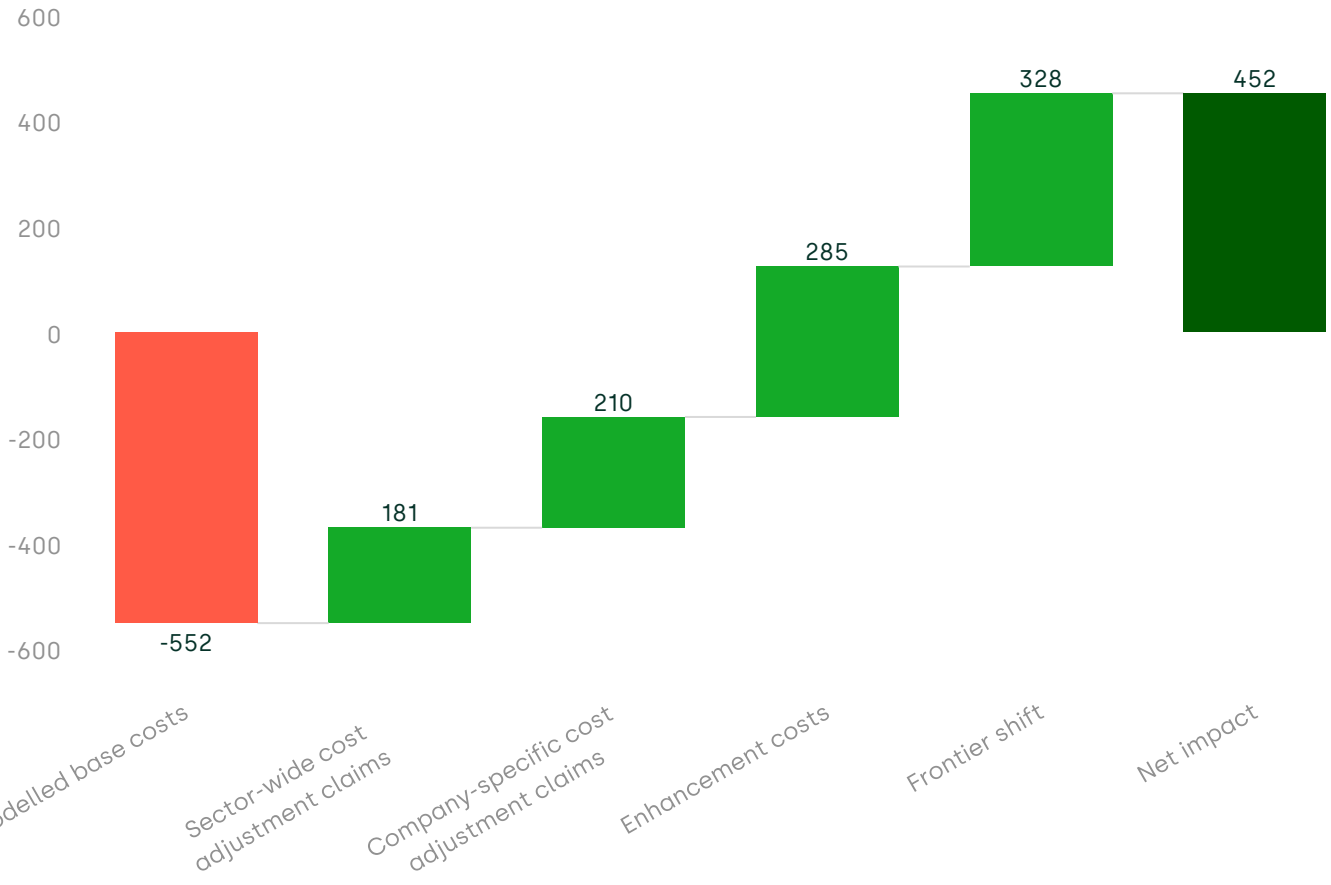
3 Cost assessment

In its assessment of efficient costs, the CMA has made some notable changes relative to Ofwat's approach, most prominently through its use of a largely statistically driven method (Lasso-based) for base cost modelling.

At the aggregate level, the CMA has increased ex ante expenditure allowances by c. £450m for the five DCs, from £29,892m to £30,344m. However, this net increase masks significant variations in allowances across individual cost areas, whether for individual DCs or for the five DCs as a whole.

As shown in Figure 3.1 below, although the CMA has reduced the modelled base cost allowance for the five DCs by approximately £550m, this was entirely offset by increases in expenditure allowed under cost adjustment claims (CACs) and ex ante enhancement allowances, which result in a combined uplift of £125m compared to Ofwat's FDs. This increase is further amplified by the CMA's revision of the frontier shift target. We discuss the main drivers of these changes below.

Figure 3.1 Changes in cost allowances—Ofwat FDs v CMA FDs (£m, 2022/23 prices)



Source: Oxera analysis.

3.1 Frontier shift

The CMA has revised the frontier shift target downward from 1% to 0.7% per annum (p.a.), which is close to the top end of the range requested by DCs. This alone explains almost 75% (c. £330m) of the increase in expenditure allowances across the five DCs. The reduction in the frontier shift target is significant, given that Ofwat and Ofgem have set targets of c. 1% p.a. for several price controls, and these targets have historically been supported by the CMA. The 1% p.a. target has therefore been seen as an 'anchor' for what is achievable in recent price reviews, with Ofgem referring to Ofwat's (and the CMA's) precedent to support its own 1% p.a. target, and vice versa.

The CMA's decision hinges on two questions. First: does productivity growth in the water sector broadly mirror productivity growth in the wider economy? Second: if so, what do independent forecasters suggest the wider economy will achieve in the next period? Regarding the former, the CMA estimates that productivity growth in the water sector was broadly flat since 2012, which is aligned with the near-zero productivity growth observed in the wider economy. It has also explored qualitative arguments raised by Ofwat and the DCs regarding whether the water sector *should* be able to deliver more or less than the wider economy. Regarding the latter, the CMA reviewed forecasts from the Bank of England (BoE) and OBR and concludes that assuming 0.7% p.a. was appropriate. While this target is higher than the central forecasts from either institution, the CMA also relied on qualitative evidence to set the target 'in the round'.[12]

The CMA has also cautioned that the frontier shift target should in general reflect recent evidence regarding the ability of efficient companies to make productivity improvements in an upcoming regulatory period.[13] As such, the CMA's 0.7% p.a. target may *not* form a new 'anchor' for what is achievable in other sectors in the same way that the 1% p.a. target has become standard in recent price controls; rather, the CMA is suggesting that targets should evolve according to the evidence of what is deliverable—that is, there should be no 'anchor' at all.

Notwithstanding the CMA's appeal to evidence, it has not provided a direct link between estimates of productivity growth and the frontier shift target and has relied on qualitative arguments to form an ultimate view (as noted above).

[12] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs - Chapters 1–4', March, para. 4.940.
[13] Ibid., para. 4.2031.

3.2 Modelled base costs

Modelled base costs refer to business-as-usual costs (such as maintenance and energy) and represent a key component of PR24 allowances, accounting for approximately 80% of base costs at the industry level or about half of total expenditure. For several price reviews, these costs have been assessed through econometric modelling. At PR24, Ofwat outlined a set of core modelling principles, which were developed over years of consultation and built on the CMA's approach to cost modelling in the Bristol Water PR14 redetermination. Indeed, Ofwat's PR24 models were broadly similar to its PR19 models, which were largely endorsed by the CMA at the PR19 redetermination. Some DCs raised targeted concerns with Ofwat's modelling at PR24, arguing for incremental changes (e.g., removing a problematic variable or including a relevant one).

Despite this general consensus, the CMA has discarded Ofwat's models in its PR24 redetermination and independently developed its own models and modelling principles. The key differences are as follows.

- The CMA has used a data-driven algorithm to develop its models by selecting cost drivers that maximise model fit to the historical data, whereas Ofwat typically viewed model development more holistically, following the CMA's approach in the Bristol Water appeal at PR14.
- The CMA combines individual cost drivers into composite variables using principal component analysis (PCA), whereas Ofwat's preference was to include cost drivers separately.
- The CMA views the goal of model development as deriving a single model each for water and wastewater, whereas Ofwat was content to have 24 and 7 models in water and wastewater, respectively.
- The CMA has not considered it appropriate to examine whether the estimated relationships between cost and cost drivers are aligned with operational expectations, whereas this was seen as a key development area in Ofwat's PR19 and PR24 models.

It is useful to compare the CMA's approach to base cost modelling at PR24 with its econometric modelling of costs in the Bristol Water appeal at PR14. In both instances, the CMA chose to redevelop models that deviated from Ofwat's approach, although the emphasis in the CMA's methodology has evolved over time.

During the Bristol Water inquiry, the CMA developed new models on the basis that Ofwat's approach was considered to be more statistically driven, with relatively less emphasis placed on operational and economic interpretability, as well as on the overall robustness of the

modelling framework from a holistic perspective.[14] Following the CMA's decision in that inquiry, Ofwat incorporated many elements of the CMA's approach at PR19,[15] including greater industry engagement and consultation on cost modelling. This framework was largely upheld by the CMA in the PR19 redetermination.

In the current PR24 redetermination, the CMA appears to place relatively greater emphasis on statistical techniques and measures of model fit, with comparatively less emphasis on economic and operational interpretability. This represents a shift in emphasis in the CMA's approach across these redetermination processes. This increased focus on statistical methods may also have contributed to some sizeable variation in outcomes, as reflected in the changes in results for DCs and others in the industry between the PD and the additional modelling consultation in December 2025, with both differing from Ofwat's FD considerably.[16]

A further point of distinction relates to the consultation process. Ofwat's modelling principles and methodology were developed through extensive engagement with the industry and other stakeholders over a number of years. By comparison, consultation within the CMA's redetermination process at PR24 has, understandably, been more limited in scope.

At the FD, the resulting models have a more similar form to Ofwat's models, in that they control for scale, topography, density, treatment complexity and (in wastewater) economies of scale. However, a key difference between the CMA's models and Ofwat's is the inclusion of input price variables. Ofwat modelled the impact of input prices through post-modelling adjustments to expenditure allowances, while the CMA has included indices for labour and energy prices directly in the cost models. This means that the relationship between input prices and expenditure used to set allowances is determined by correlations in the data, rather than economic rationale.

This significant change in methodology ultimately leads to a reduction in modelled base cost allowances of c. £550m for the DCs. If these models had been applied to all companies, the aggregate reduction would be £3bn for the industry, with 15 out of 17 companies negatively impacted. In percentage terms, the five DCs face a combined reduction of 4.9%,

[14] Competition and Markets Authority (2015), 'Bristol Water plc: A reference under section 12(3)(a) of the Water Industry Act 1991 Appendices 1.1 – 4.3', October.
[15] For example, see Ofwat (2018), 'Cost assessment for PR19: a consultation on econometric cost modelling', March, p. 8.
[16] See Competition and Markets Authority (2025), 'WATER PR24 REFERENCES: Base Costs Modelling – Working Paper', December, tables 3.3 and 4.4; and Competition and Markets Authority (2025), 'WATER PR24 REFERENCES: Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1–4', October, table 4.4.

with the largest reduction of 8.4% for NES. The resulting (illustrative) industry-wide impact is 7.2%, with impacts up to 14.3% for Thames Water. However, there is an open question as to whether this is truly precedent-setting, particularly in the water sector, given the Independent Water Commission's (IWC) recommendation to move away from mechanistic econometric benchmarking and better consider company-specific circumstances.

Table 3.1 Changes in modelled base cost allowances from Ofwat FDs to CMA FDs

Company	Ofwat FDs (£m)	CMA FDs (£m)	£m impact	% impact
TMS	8936	7657	-1279	-14.3
PRT	199	175	-23	-11.8
SES	202	185	-18	-8.8
SSC	576	526	-50	-8.6
NES	2351	2154	-197	-8.4
NWT	5071	4674	-397	-7.8
SVE	5583	5212	-371	-6.6
ANH	3807	3601	-206	-5.4
WSX	1504	1426	-77	-5.1
SWB	1613	1535	-78	-4.8
YKY	3633	3487	-147	-4.0
AFW	1305	1260	-44	-3.4
WSH	2566	2506	-60	-2.3
SRN	2778	2722	-56	-2.0
SEW	840	824	-16	-1.9
BRL	416	424	7	1.8
HDD	162	178	15	9.4
Disputing companies	**11280**	**10728**	**-552**	**-4.9**
Industry	**41542**	**38547**	**-2996**	**-7.2**

Note: All £m figures are in 2022/23 prices.
Source: Oxera analysis.

3.3 Sector-wide cost adjustment claims

In addition to econometric allowances for base costs, Ofwat granted sector-wide CACs in response to the CMA's PR19 recommendations to

develop forward-looking considerations for asset health improvements.[17]

To calibrate the level of this additional base funding, Ofwat netted off an implicit allowance granted through econometric models, i.e. what base buys.[18] In some cases, Ofwat also applied under-delivery adjustments for companies estimated to have under-delivered on base costs over the PR19 period.[19]

While no companies disputed the existence of an implicit allowance in principle, all DCs disputed the methodology used by Ofwat for meter replacements and mains renewals,[20] where Ofwat assumed that all companies were funded for the average activity level observed across the full historical period considered in the modelling.[21]

DCs proposed alternative approaches to calculate the implicit allowance, including advocating for alignment between the implicit allowance calculation period and the industry benchmark period (based on the last five years of outturn data),[22] given that the latter determines PR24 allowances. The CMA, however, has validated Ofwat's approach, noting that while the benchmarking period substantially determines base allowances, 'it does not necessarily follow that extrapolating from activity rates during this period translates into an appropriate forward-looking estimate of the level of mains renewals an efficient company can reasonably be expected to deliver over AMP8'.[23] The CMA refers to the flexibility that companies have to undertake maintenance activity across AMPs to support this view, but does not elaborate further on this point.

Nonetheless, the CMA has made two significant changes to Ofwat's PR24 FDs methodology for determining sector-wide CACs. These concern PR19 under-delivery adjustments and the methodology for estimating what base buys for network reinforcement.[24]

On the former change, the CMA has removed Ofwat's retrospective adjustments for presumed PR19 under-delivery in workload activity

[17] Competition and Markets Authority (2021), 'Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determination: Final report', 17 March, para. 4.293.
[18] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs - Chapters 1–4', March, para. 4.308.
[19] Ibid., para. 4.438.
[20] Ibid., para. 4.312.
[21] Ofwat (2025), 'PR24 final determinations: Expenditure allowances', February, pp. 34 and 40–41.
[22] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs - Chapters 1–4', March, para. 4.312.
[23] Ibid., para. 4.346.
[24] Ibid., paras. 4.383 and 4.470.

underpinning certain asset classes on the basis that: (i) the PR19 settlement did not specify what needed to be delivered on base; (ii) there was no compelling evidence of gaming by companies; and (iii) companies substantially overspent their PR19 base cost allowances.[25] This removal also applies to one enhancement area, water treatment growth,[26] as this was modelled as part of base costs at PR19, so the same principles apply.

On the latter change, the CMA disagrees with Ofwat's assumption that companies are funded based on their own historical network reinforcement expenditure, instead calibrating the implicit allowance using industry-level historical network reinforcement expenditure as a proportion of total base expenditure.[27]

These two significant changes, combined with other minor adjustments, result in a net uplift of approximately £180m for DCs.[28] This could have implications for Ofwat's cost change process for AMP8, which is intended to unlock additional in-period funding for priority assets and will therefore involve calculating implicit allowances.

3.4 Company-specific CACs

Over the course of the PR24 process, the vast majority of companies submitted company-specific CACs where they considered that the econometric models did not sufficiently account for some of their characteristics. However, among the 64 CACs submitted by the industry, only 28 were accepted or partially accepted.[29]

As all DCs had been disallowed CACs (either in full or in part), these were put forward again in their respective Statements of Case, and the CMA conducted its own assessment of their merits.

While initially converging with Ofwat's assessment in its Provisional Determination,[30] the CMA's approach has shifted in the FDs. Specifically, the CMA has approved ANH's boundary box and SRN's coastal population CACs.[31] The CMA has also increased the value of SEW's CAC on economies of scale at water treatment works,[32] which also increases

[25] Ibid., paras 4.467–4.470,
[26] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 2: Enhancement costs – Chapter 5', March, Table 5.1.
[27] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 2: Enhancement costs – Chapter 5', March, para. 4.383.
[28] Oxera analysis based on the CMA's modelling files.
[29] Ofwat (2024), 'PR24 final determinations Expenditure allowances', December, p. 29.
[30] Competition and Markets Authority (2025), 'WATER PR24 REFERENCES: Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1–4', 9 October, pp. 101–114 and 166–210.
[31] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs - Chapters 1–4', March, paras 4.520 and 4.741.
[32] Ibid., paras 4.705–4.738.

allowances for two other DCs operating similar small water treatment works by approximately £20m.

In total, DCs have been granted an additional c. £210m allowance compared to Ofwat's FDs.[33]

3.5 Enhancement

In contrast to its approach to base costs, the CMA has only made targeted interventions in enhancement areas that companies had disputed. However, where disputing companies raised concerns with models, the CMA has sought to address these through interventions to the modelling framework for that enhancement area as a whole, rather than making targeted company-specific interventions.

The CMA makes significant changes to the modelling of two enhancement areas: phosphorus removal (the second most material enhancement area for the industry), and supply interconnectors.

For phosphorus removal, the CMA has moved away from Ofwat's methodology by adopting a data-driven and algorithmic approach (Gaussian Mixture Regression) to determine allowances. This change involves moving from an assessment of all phosphorus-removal schemes together to a segmented assessment across three groups, each with separate cost functions and assigned probabilities based on forecasted costs and underlying characteristics of companies' phosphorus-removal programmes.[34] As with modelled base costs, this modelling approach may be specific to PR24 and may not persist in future price reviews, given that it creates circularity and provides greater incentives for companies to alter cost forecasts to achieve more favourable outcomes.[35] Additional data going forward may help refine the assessment without relying on probability assignments based on companies' cost forecasts.

As for supply interconnectors, the CMA uses a relatively unusual method, known as the Pseudo-Poisson Maximum Likelihood (PPML) model,[36] which is a way to estimate relationships between variables that works well when the data vary unevenly, without assuming they follow a specific pattern.

[33] Oxera analysis based on the CMA's modelling files.
[34] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 2: Enhancement costs – Chapter 5', March, paras 5.70–5.79 and 5.151.
[35] Ibid., paras 5.107–5.118.
[36] Ibid., para. 5.225.

Although these two modelling changes result in approximately £220m uplift for the five DCs, unlike the modelled base costs changes, they result in both gains and losses for individual DCs.[37]

When combined with other changes to companies' individual assessments, including adjustments to enhancement allowances due to moving schemes into the RAPID and large scheme gated processes, the net increase is c. £285m.[38]

3.6 Areas deprioritised by the CMA

Despite being a full redetermination process—which, unlike the appeals framework in the energy sector, is intended to cover all aspects of Ofwat's PR24 determination—the CMA typically 'deprioritises' certain decisions, where it effectively maintains Ofwat's decision without significant scrutiny. Several areas of cost assessment were deprioritised at this redetermination either on de minimis grounds (i.e. the alleged impact of Ofwat's decision is immaterial) or because Ofwat's approach was not disputed. These include the residential retail and bioresources cost modelling, 'small' CACs or enhancement claims and the assessment of business rates.[39]

The CMA also deprioritised broader asset health considerations, beyond the sector-wide and company-specific CACs, despite the alleged materiality of the issue. The CMA considered that 'any fundamental changes to the regulatory framework are best addressed through industry-wide policy work, outside of these redeterminations'.[40] The CMA also notes Ofwat's cost change process consultation 'as potential means for water companies to access additional asset health funding in-period or at the end of the period'.[41]

Moreover, unlike at the PR19 redetermination, the CMA has not updated the base cost modelling with the latest outturn data (2024/25), although it does update the modelling performance commitment levels (PCLs) and ODIs, as well as some enhancement categories.[42]

4 Outcome delivery incentives

Compared to its approach to expenditure allowances, the CMA has taken a relatively targeted approach to assessing claims on ODIs—

[37] Ibid., Table 5.1.
[38] Ibid., Tables 5.1 and 5.2.
[39] Competition and Markets Authority (2026), 'WATER PR24 REFERENCES: Final Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs - Chapters 1–4', March, section 3.
[40] Ibid., para. 3.36.
[41] Ibid., para. 3.51.
[42] Ibid., section 3.

focusing on those areas where DCs had raised specific concerns. In general, the CMA has been most responsive to arguments put forward to better align ODI rates and PCLs with the most recent historical data.

Changes to ODIs that affect all DCs are as follows.

- The ODI rate for total pollution incidents is more than halved, relative to Ofwat's PR24 FDs, from c. £0.25m per incident to c. £0.10m per incident, from a combination of a methodological change and an update to include the latest 2024/25 data.
- The PCL for total pollution incidents has increased by c. 10%—with the closing target shifted upwards from 18.63 (Ofwat's PR24 FDs) to 20.42 (CMA's FDs) incidents per 10,000m of sewers.
- An increase in the average level of the supply interruptions PCL for all DCs (other than SEW, see below)—although the 2029/30 PCL remains at 5:00 minutes lost per customer (mm:ss) across both the Ofwat and CMA FDs, the CMA uses evidence from AMP7 (including the latest 2024/25 data).

In addition, there were several company-specific claims that achieved full or partial success.

5 Conclusions

The CMA's FDs mark the conclusion of the largest and likely most extensive redetermination process seen in regulated networks, where 36% of the sector's RCV across five companies appealed Ofwat's decision.[43] This symbolises a landmark moment for the England and Wales water sector, and UK regulated networks more broadly, given that proposals by Defra to replace the current redetermination process for the water sector with a targeted appeals regime could mean that the PR24 appeals are the final redeterminations process ever.[44]

Even as disputing companies and the wider sector digest the impacts of the CMA's FDs and focus on AMP8 delivery, attention on the sector will likely remain elevated given ongoing reform efforts. The next key publication will be Defra's upcoming Transition Plan (expected to be published in the coming weeks), which is hoped to provide clarity to customers, companies, investors, and regulators on the transformation roadmap towards building a stable water sector of the future.

[43] If including Thames Water, this would be 46% of sector RCV across six companies. This compares to four appealing companies in PR19, comprising 26% of sector RCV.
[44] Department for Environment, Food & Rural Affairs (2026), 'A New Vision for Water', January.