

CMA issues final decision on water price controls

In December 2019, Ofwat published its price controls setting out the total amount water companies can charge for services in 2020-25. In March 2020, Anglian, Bristol, Northumbrian and Yorkshire asked the Competition and Markets Authority (CMA) to redetermine their price controls.

The CMA's role is set out by law and requires it to appoint an independent Special Reference Group to conduct a redetermination of the price controls. The Group has to promote the interests of consumers, consider the long-term resilience of water infrastructure, and ensure financeability of the water companies. This means the Group must provide the 4 water companies with enough money for them to cover their current running costs and pay for improvements for the future, including by providing investors with a reasonable rate of return.

In coming to its conclusion, the independent Group examined all of the evidence provided by Ofwat, the water companies and a range of third parties, including new information that was not available to Ofwat when it made its decision in December 2019. The Group consulted widely throughout the process, including through the publication of provisional findings and working papers.

The Group considers that its determination will allow sufficient investment to ensure bill payers receive a sustainable quality of service.

The Group has:

- adopted the same basic methodology as Ofwat
- set a headline rate of return to investors of 3.2%, compared with 4.67% in the previous price control period, approximately 3.6% proposed by the water companies and 2.96% proposed by Ofwat
- provided increased allowances to pay for improvements in some priority areas such as security of supply and leakage
- maintained strong incentives on the companies to improve cost efficiency and service quality
- placed the companies on a stronger footing by reducing their exposure to future costs that may be beyond their control

The return to investors will be 32% lower than the last price control period, 9% lower than the Group's provisional findings and approximately 12% lower than the rate proposed by the water companies. Although Ofwat had proposed an even lower headline return to investors, it was also proposing to increase revenues for 3 out of 4 of the companies by bringing forward revenue from future price control periods, and to pass this charge to bill-payers; the Group has reversed this adjustment.

The Group considers that the return set out in its determination is the minimum that is sufficient to allow the companies to finance their activities

and invest in long-term infrastructure. On the basis of the most up-to-date evidence, the Group has also concluded the companies will together need to spend more than Ofwat had estimated to carry out essential operations – but if the companies do not spend all of this extra cost allowance on providing services, customers will get more than half of this money back.

As a result of this determination, customers will be spending, on average, £34 less per year on their bills than they were paying in 2019/20. This is a smaller reduction than was proposed by Ofwat, but bills will be slightly lower than set out in the CMA's provisional findings, in September 2020.

Kip Meek, the Chair of the Group, said:

In coming to our decision, we have sought to balance keeping bills low with the need to maintain a good quality of service and to invest in critical infrastructure for the future. Our decision means that customers of these companies will be paying, on average, £34 less per year for their water than they did in 2019/20.

For more information, including the executive summary, visit the [Ofwat Price Determinations case page](#).

Notes to Editors

1. When reaching its determination, the CMA is bound by a number of statutory duties, both primary and secondary, set out in the Water Industry Act 1991 and, with respect to English water companies, it has to act in accordance with objectives set out in a Strategic Policy Statement (SPS) issued by the Department of Environment, Food and Rural Affairs (DEFRA). It also must have regard to the principles of best regulatory practice.
2. The CMA has today submitted its full determinations report to Ofwat as well as publishing the executive summary of its findings. There is now a formal process that Ofwat and Defra need to follow before the full report is published by the CMA on Ofwat's behalf. By law, this process will take a minimum of 2 weeks.