

Provisional findings published in CMA review of water price controls

Ofwat published its price controls for 2020-25 in December 2019. These set out the total amount water companies can charge for water in that period. Ofwat described its price review as aiming to challenge companies to deliver stretching improvements in service quality, to save money by becoming more efficient, and to pass those savings on to their customers, while at the same time substantially improving their performance. Ofwat set an allowed rate of return at a level that was low against historical standards, but that it considered allowed the water companies to finance themselves.

4 companies – Anglian, Bristol, Northumbrian and Yorkshire – asked the Competition and Markets Authority (CMA) to redetermine Ofwat's price controls.

The main reasons the water companies rejected Ofwat's price controls included that they believed Ofwat had:

- not provided enough funding to deliver plans including expenditure to improve resilience
- failed to recognise the link between costs incurred and delivering higher levels of service
- set the cost of capital too low to provide a reasonable level of return for investors
- not given enough weight to customer views
- increased levels of financial risk to companies

The CMA received also representations from third parties arguing that Ofwat should have been tougher in some areas.

Today, as part of a consultation, the CMA has published its provisional conclusions on the price controls for the individual companies. In reaching its conclusions, it is bound by the same duties as Ofwat, although it might reach different judgements as to how best to comply with these.

The CMA came to similar conclusions to Ofwat on many issues. It found that the 4 companies should be subject to a challenging set of performance targets while keeping bills low for customers, but the CMA has also allowed the water companies limited additional costs.

The CMA has provisionally:

- provided more funding to the water companies for some projects to address challenges to resilience because of climate change and demand growth
- provided funding to the companies to support a reduction in leaks from water networks
- re-balanced the ways the companies are incentivised to better promote

improvements in efficiency and service quality

- made an adjustment to the allowed rate of return to investors to reflect market evidence and best regulatory practice, with a view to ensuring continued investment in the sector

The allowed rate of return in the CMA's provisional findings is lower than in previous recent water price controls. This largely reflects market movements and means that customers will still receive lower bills in the CMA's provisional findings for the 2020-2025 price review, although they will be higher than those under Ofwat's price control. This reflects the judgements the CMA has made about financing investments that are needed in the sector both now and in the future.

With regard to the coronavirus (COVID-19), as the full impact of the pandemic on the industry will not be known for some time and will not be only felt by the companies that appealed, the CMA proposes that Ofwat take this into account as part of its ongoing work.

To reach its provisional findings, the CMA used existing and new evidence, including updated market data, submissions from the main parties and third parties, reviews of business plans and specific projects, and the advice of engineering consultants.

Kip Meek, Chair of the CMA Inquiry Group, said:

We've looked closely at all the evidence provided by Ofwat, the disputing water companies and third parties. While we came to similar decisions as Ofwat on many issues, we think the water companies need to be provided with more revenue to secure continued investment in the sector.

We have sought to ensure that our provisional findings strike the right balance between bill reductions and the interests of current and future customers in resilient infrastructure, particularly in the face of climate change.

We consider our position is balanced and supported by the evidence before us. We welcome further input before finalising our redeterminations.

The CMA will now consult on the provisional findings before publishing its final decision. The consultation will be open for 4 weeks. For more information on the provisional findings, or to submit a view on the consultation, visit the CMA's [Ofwat Price Determinations web page](#).

For media enquiries, please contact the CMA press office on 020 3738 6460 or press@cma.gov.uk.

Notes to editors

1. The water companies that are seeking redeterminations by the CMA are

Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited.

2. Ofwat's price control applied to all 17 water companies in England and Wales. Four of those companies requested Ofwat to refer their determinations to the CMA. The CMA's provisional findings apply to these 4 companies only.