

Competition and Markets Authority
Sent by email to: waterdetermination2020@cma.gov.uk

FAO Kip Meek, Chair of inquiry

11th May 2020

Dear Mr Meek,

We write to you concerning your consideration of the final determinations made by Ofwat in relation to four water companies, who have subsequently referred their cases to the CMA, to emphasise a number of positions which we would request you to consider before making your final decisions on these cases.

CIWEM is a Royal Chartered professional institution of 10,000 highly qualified environmental practitioners with expertise rooted in water resources, water quality and sanitation, which also extends to flood risk management, wider climate change adaptation, environmental land management including natural capital and nature conservation. We engage extensively with water companies and their various regulators stretching across these issues and we have no specific allegiance to any of these parties in this context.

In making these comments therefore, we shall not reference directly the individual cases and circumstances of either Anglian Water, Bristol Water, Northumbrian Water or Yorkshire Water. We make our points generically and request the CMA to consider them as appropriate in the context of each individual case.

We are supportive of a robustly regulated water industry and we welcome the challenge which has been put to water companies to improve their ownership and governance models and transparency, and their levels of customer service. We recognise that customer bill affordability is part of this piece.

At the same time, we recognise that there are considerable and urgent challenges faced by society, from local to national and global levels, which will require significant investment to address, beginning now. Not least of these is the challenge posed by climate change.

The Intergovernmental Panel on Climate Change has warned that in order to stand a reasonable chance of keeping global average heating within 1.5°C, considerably more ambitious policies and practice will need to be introduced by the end of this decade.

In this context, given the five-year length of water company business planning cycles, ambitious investment is necessary to ensure that progress on resilience and decarbonisation made in previous AMP rounds is built on and the pace of progress increased within this round. Broadly, the settlement put forward by Ofwat was regarded within our sector as

ambitious, with considerably increased investment in resilience and the environment on previous AMP rounds.

Companies face a range of challenges requiring increased investment which include, but are not limited to: Decarbonisation, enabling sustainable growth, delivering environmental improvement and recovery in line with the government's 25 year environment plan, and delivering increased levels of resilience to climate change hazards, as set out by the Climate Change Risk Assessment and quantified by the UK Climate Projections 2018.

Measures required to tackle these include:

- increasing the ability to plan, and to move water across and between regions;
- reducing mains leakage so that less energy-intensively treated water is lost to supply;
- increasing smart metering in order to address plumbing losses and understand usage patterns, to enable targeted efficiency programmes;
- reducing customer exposure to flood risk from sewerage and drainage failure or overload, through investment in new sustainable systems;
- reducing pollution incidents to watercourses which impact on environmental water quality, and
- enhancing the harvesting and reuse of water.

We are aware that water companies have consulted extensively with their customer base whilst developing their business plans. We are also aware that this process indicated strong levels of support for investment in programmes and infrastructure which will deliver improved environmental health, decarbonisation and resilience to climate hazards. Some of the companies who have asked Ofwat to refer their final determinations to CMA are particularly exposed to climate change or development pressures in their particular regions, or both.

CIWEM as an organisation has long considered that given the criticality of water to the functioning of a healthy, resilient society, the bills paid by customers for the public supply of water and sewerage services are low, particularly when compared with other utilities.

Within this position, we fully recognise that there is a significant component of the customer base which faces challenges in relation to affordability. We are also aware that there are other customers who use water profligately.

Striking the balance appropriately in relation to bills needs great care, however we are supportive of ensuring that there are processes which are fully fit for purpose to support vulnerable customers and others who struggle with affordability, whilst at the same time ensuring that those who use water inefficiently should pay accordingly.

We therefore urge the CMA, when considering the specifics of each company's case, to fully consider:

- 1) The urgency of the need to put in place programmes which respond to climate change and environmental challenges at a level which is reflective of the scale of these challenges;
- 2) The support which has been shown through customer engagement for such programmes;
- 3) The potential for determinations to result in significant curtailment of these programmes during the current round, and the likelihood that this will result in the need for similar programmes in future rounds to be even more pressing than they are now;
- 4) Lessons around resilience and preparedness to major global risks which may be learned from experience during the Covid-19 pandemic, and whether these reflect on the determinations made, and
- 5) Whether the balance struck between reducing customer bills and the delivery of ambitious programmes of investment to improve levels of customer service, improve climate resilience, enable significant housing growth and restore the natural environment within the final determinations in question, is an appropriate one.

Against this background, and the criticality of the climate and wider environmental challenges we currently face, we do not consider that prioritising water bill reductions in the short-term should result in investment in climate resilience and environmental recovery falling short.

Yours sincerely,


Terry Fuller

Chief Executive