

Monday 11<sup>th</sup> May 2020

## **GIIA CMA Ofwat Price Determinations Case Submission**

Global Infrastructure Investor Association (GIIA) is the membership body for the world's leading institutional investors in infrastructure. Our members operate in 55 countries across 6 continents and are responsible for over \$780bn of assets under management globally, with over a third of that value invested in the UK. In addition to investments in UK's airports, ports, digital and energy assets, GIIA members have stakes in 10 of 15 of the privately held regional water companies in England and Wales, supplying over 50% of the UK population's water supply.

In relation to the CMA Case *Ofwat Price Determinations* published 19<sup>th</sup> March 2020 we are keen to provide the perspective of institutional investors in infrastructure. This letter therefore acts as a high-level position statement on behalf of the institutional investor community on the issues raised in the *References from Ofwat and the Main Party Submissions*.

GIIA understands and supports the need to strike the right balance with the sometimes competing interests between short term affordability for the consumer, the need for longer term investment to address resilience and climate change challenges, as well as the legitimate expectation of fair returns for investors. However, it is GIIA's belief that Ofwat has not found the correct balance in its 2019 price determinations, placing too great an emphasis on short term affordability to the detriment of longer-term sustainable investment objectives whilst undermining the ability of water companies to deliver the performance improvements and investments their customers have signalled they wish to see. One of the impacts of this approach will be to load even more costs for future essential investment on to consumer bills beyond this 5-year period, which is neither cost efficient or fair in term of intergenerational equity.

The actions taken by Ofwat represent a departure from the established regulatory principle – common across all UK regulators – that regulated private companies are free to determine their own capital structures. This is an unwelcome move, that undermines confidence in the stable regulatory regime which has been a hallmark of the UK's investment environment and has the potential to discourage new investment, perversely increasing costs for end-users of infrastructure services. As a case in point, Moody's, the international credit rating agency, has cited the reduced stability of the UK regulatory regime as a factor in its downgrading of a number of UK water companies and in putting others on negative watch<sup>1</sup>. This downgrade will also send a message to international investors looking at the UK and make it more difficult for investors to justify deploying capital to UK regulated infrastructure in future.

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<sup>1</sup> Moody's Investors Service (Dec 2019), *Moody's reviews 12 UK water groups for downgrade*, [URL](#)

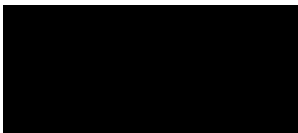
The CMA has the opportunity to reverse this approach and, in so doing, avoid a dangerous precedent for the application of regulation in other sectors and the risk of knock on effects for other regulated industries, and deliver a fair settlement for UK consumers.

Furthermore, in a non-homogenous sector the impact of the Final Determination in reducing water companies' planned capital expenditure – in return for modest savings on consumer bills - will limit the capacity of many companies to meet their obligations to address longer-term structural challenges posed by climate change and population growth, and to deliver value for society - key principles enshrined in Ofwat's Forward Programme 2020-21<sup>2</sup>. The Determination has already had the effect of reducing the financial resilience of water companies that have been exposed by the challenges of encountered by widespread residential land business bad debt, during the current COVID19 crisis.

In a post-Brexit world, the UK will be seeking to attract domestic and international investment with fundamental structural challenges to address such as the transition to net zero, digital connectivity and addressing regional disparities, ultimately reliant on a steady flow of private capital and expertise in project management and delivery. Added to this is the need to stimulate investment across all sectors to aid the economic recovery from the Covid-19 crisis.

We would urge the CMA to carefully consider the above points in assessing their case regarding Ofwat Price Determinations and would be glad to provide further evidence and support to this submission as required.

Yours sincerely,



**Lawrence Slade**  
Chief Executive  
Global Infrastructure Investor Association



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<sup>2</sup> Ofwat (March 2020), *Forward Programme 2020-21*, [URL](#)