

F.A.O Sharon Mayer
Principal Case Officer,
Regulatory Appeals & State Aid,
Competition and Markets Authority

By e-mail: waterdetermination2020@cma.gov.uk

Dear Sharon,

Ofwat Price Determinations: CMA's Provisional Findings

Blueprint for Water, part of Wildlife and Countryside Link, is a unique coalition of environmental, water efficiency, fisheries and recreational organisations that come together to form a powerful joint voice across a range of water-based issues. Blueprint members have a significant interest in the water sector given the negative impacts, and the scope for positive environmental change, that the operations of water companies can deliver, and it is on this basis that we [submitted our concerns](#) to the CMA for consideration as part of this price redetermination.

Blueprint members welcome the CMA's review, and are pleased to see consideration of many of the issues raised in our submission; as acting chair of Blueprint I am writing to share our reflections on the CMA's Provisional Findings.

Overall we welcome the approach taken initially by Ofwat and subsequently by the CMA which aimed to balance acceptable bills for customers with continued investment in the water and sewerage network. But within this approach it is crucial to ensure that reductions in customer bills do not curtail long-term investment so as to be damaging to the long-term resilience of the industry, and of the environment upon which that industry depends.

To this end, we welcome many of the CMA's findings:

- We are pleased to see the benefits of smart meters acknowledged, for example via the award of funding to support Anglian Water's smart metering programme, in light of the benefits to customers and the environment (e.g. through enhanced water saving, reduced leakage, and reduced energy and water bills) that Anglian had evidenced. However we also welcome the approach set out to ensure that elements already financed by base funding are not double-funded, in order to ensure that costs to customers remain fair.
- We welcome the acknowledgement of the important role that water transfers will play in underpinning resilience at company, regional and national level, for example, via the award of funding to Northumbrian Water to support the Essex Resilience Scheme. The scheme will enable intra-company water transfers and provide resilience to drought, pollution events and other threats to security of supply, which will help to avoid the need for damaging drought permits and orders which impact the environment when it is already under stress.

- In order to ensure that customers are protected financially, we also welcome the inclusion of scheme-specific mechanisms to protect customers from non- or under-delivery by the industry.

Since the companies submitted their plans, the Environment Agency published the National Framework for Water Resources which brings into sharp focus the scale of the pressures our water supplies are under. Without action, many areas of England will face water shortages by 2050; some much sooner. Against this backdrop, the need for investment in resilience is clear, to be delivered by a step change in 'enhancement' expenditure. As such, our initial submission asked whether Ofwat's decision making had got the balance quite right; Ofwat's strategy is ambitious on long-term challenges and environmental delivery, yet funding decisions sometimes seem at odds with these aspirations.

In this context, we wish to highlight three areas we feel may warrant further consideration by the CMA when making its final determination and any related recommendations:

- 1) **Holistic decision-making:** has there been sufficient consideration of the knock-on impacts of decisions to decline funding for particular schemes?

For example, where customers consider leakage a totemic issue, any impacts upon delivery there may also impact the effectiveness of related schemes such as water efficiency, due to reduced buy-in from customers as a result. This is not to support the arguments of any particular company regarding any particular scheme, but more to highlight that funding decisions need to be considered in the round. Do schemes impact each other? Are schemes that are proposed for future AMPs jeopardised by lack of delivery now?

- 2) **Base versus enhancement funding:** Is there a case for earlier discussion?

The CMA's decision to provide enhancement funding to a flooding scheme for Yorkshire Water but not for Northumbrian Water (identifying that Northumbrian's work should be delivered from base funding) speaks to a point raised in our previous response; there is a lack of agreed understanding on the scope of base funding with regards to flood risk reduction (and other issues). We understand from water company colleagues that the question of what should be delivered through base funding and what is eligible for enhancement funding is a point of contention in every Price Review.

Whilst some schemes are clear-cut – maintaining levels of service from base funding, servicing a new need from enhancement funding – there are many areas where determining how much of a scheme is 'additional' requires judgement. Whilst we cannot comment on the specific schemes under consideration here, we would welcome a recommendation of improved guidance or more up-front discussion between companies and the regulator in order to minimise disagreements in future Price Reviews.

- 3) **Customer preferences:** Has sufficient weight been given to customer priorities?

We are concerned by the statement (section 69 c, summary report) that there are 'limits to the weight that can or should be placed on customer research evidence' in determining levels of service and priorities for investment.

Given the direction to companies that customer preferences should be a key factor in directing investment, and the statement in Ofwat's PR19 methodology that there may be the need to intervene 'to ensure that companies deliver the step-change required by customers', to then *overrule* customer ambitions appears significantly out of step.

Many of the schemes downscaled or underfunded by Ofwat were schemes for which the companies had demonstrated particular customer support, and commonly these schemes provide greater environmental outcomes at the expense of greater bill reductions. Customer support is often key in securing the delivery of schemes that go further, faster, on environmental delivery, and in light of the growing public awareness of the twin biodiversity and climate crises, it is likely that customer support for, (even expectation of), these kinds of schemes will continue to rise.

To maintain customer confidence in the industry it will therefore be important to ensure that assessment methods are developed which enable the regulator to confidently take account of strong levels of customer support when making price determinations. Customers will soon grow weary of customer engagement efforts if it is clear that their preferences are not then acted upon.

To support this, it could be helpful for Ofwat to expand their assessment of 'engaging customers' in future (e.g. that undertaken as part of the Initial Assessment of Plans, IAP) This could warrant, for example, bringing in staff or consultants with expertise in public engagement, to help assess the quality of customer engagement by each company, in order to determine the significance that should be placed upon the level of customer support displayed. This should consider factors including the engagement expertise within Customer Challenge Groups or similar, (to give confidence in the groups' assessment of whether there has been sufficient engagement with customers), as well as the quality and breadth of engagement with wider stakeholders (as these can help to shape the proposals presented to customers to ensure that they are not 'led' by the companies, including by ensuring that a broad range of options are developed, and can also have a role in assessing the acceptability of proposals on behalf of the stakeholders that they represent). Furthermore, Ofwat and CCW could look to undertake more comprehensive national customer engagement before and during the PR process, which could provide useful benchmarking on key issue and would sit alongside and help provide greater confidence in company-specific customer engagement.

We would welcome consideration by the CMA of how customers' views can be better accounted for in its own decision-making, and would further welcome any direction to encourage greater focus on this issue by Ofwat for PR24.

To conclude, I hope these comments have been useful, and that they will support the CMA in finalising decisions that secure better outcomes for the environment - which customers value, and upon which the water industry depends.

Best regards,



Ali Morse
Water Policy Manager, The Wildlife Trusts &
Acting Chair, Blueprint for Water.