

Competition and Markets Authority

Kip Meek

Sent by email: waterdetermination2020@cma.gov.uk

15 January 2021

Dear Kip,

I am writing on behalf of Dalmore Capital (“Dalmore”), an investor in Anglian Water, to provide our views on the Cost of Capital Consultation (“Consultation”) for the PR19 Water Redetermination.

As an independent fund management company, Dalmore provides institutional investors with access to long-term investment opportunities in limited volatility infrastructure assets. In Anglian Water, Dalmore represents the interests of UK and overseas investors, including over 1.3 million UK pension holders.

Dalmore has £5bn assets under management having invested in UK schools, hospitals, roads, trains, waste treatment, renewable energy generation and regulated networks including Cadent Gas and Tideway Tunnel. In the case of Tideway, Dalmore has invested over £400m into the development of vital sewerage infrastructure that will generate significant environmental benefits over the coming decades.

It is an important time for the UK. The challenges of climate change, the requirement to decarbonise UK’s energy mix, and the need for a green recovery from the COVID-19 recession all means significant infrastructure investment is required and it is critical that the UK regulatory frameworks provide an environment that supports and encourages this investment. Long-term investment can only be made when there is confidence in a stable and predictable regulatory framework. A fair balance of outcomes across price control periods benefits all parties, including current and future customers.

Overall, the characteristics of the regulated sector make it an appropriate investment opportunity for many of our investors. However, the recent sharp reduction in returns and perception of increased regulatory risk has had a real impact on investment appetite. We have seen significantly reduced interest from our overseas investors and a real sense of nervousness from our UK-based investors in investing in UK regulated utilities.

It is for these reasons we consider it important to provide our views on the Consultation as an active investor in the UK regulated sector.

Cost of Capital Consultation

We believe Anglian Water’s Statement of Case was well-evidenced and further movement in Cost of Capital and Totex allowances were justified beyond what was provided in the Provisional Findings. Nonetheless, we recognise the appeals process was robust and the CMA has carefully considered the evidence and arguments in arriving at the Provisional Findings.

However, we are concerned by the additional changes proposed to the allowed Cost of Capital in the recent Consultation. The proposed changes would lower returns below what we consider an appropriate risk-adjusted level, negatively impact financeability and are generally not supported by new data or evidence.

We do not propose to offer detailed technical arguments on either the cost of equity or the cost of debt papers. The company responses will deal with those issues. But we are concerned that the recent Consultation in relation to the cost of equity puts at risk one of the CMA's core reasons for aiming up in the range, that is "to promote long-term investment in the water sector and address the risk of an exit of capital". Further, in relation to the cost of debt, the Consultation position would create a situation where companies who made prudent financing decisions in 2000-2005, in line with regulatory guidance at the time, would now be penalised with an assessment applied with the benefit of hindsight.

Customers are at the heart of Anglian's business. During the engagement process, where over 500,000 were consulted, Anglian's customers clearly said they want to see increased investment to address urgent climate change issues over further bill reductions. The additional challenges of COVID-19 and Brexit are likely to only increase the requirement for private investment in UK infrastructure.

It is therefore imperative that the regulatory framework supports this investment, now and in the future. Ensuring a fair and appropriate Cost of Capital is central to this aim and we would urge the CMA to reconsider the position in its Consultation and move back to the position set out in the Provisional Findings.

We appreciate the opportunity to provide our views on the Consultation.



Nick Axam
Director
Dalmore Capital