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Water UK is the representative body and policy organisation for water and wastewater service providers across the UK; individual companies may have different perspectives.

We welcome the opportunity to respond to the CMA's consultation¹ on whether to include 2019-20 data in the base cost models. In doing so, we are conscious that these findings have significance not only to the four price determinations which have been referred to the CMA, but also to future price determinations for all water and wastewater service providers in England and Wales, to their customers, and to the environment.

In considering the issues raised by the consultation, we start from the position that it would be natural and normal for regulatory decisions to be made using the latest available information. We note that the CMA concurred with this view in its Provisional Findings, and has made use of data from 2019-20 in setting service performance targets. We have previously commented on the importance of there not being a disconnect between the approaches for cost assessment and for setting service performance targets.

To depart from this natural presumption of inclusion of the latest data should require clear and compelling evidence of why this would not be appropriate. The information presented in the consultation does not meet this test.

Figure 1 on page 14 of the consultation clearly shows that far from being exceptional, 2019-20 water service base cost data shows the continuation of the trend over the whole of the AMP6 period of increasing water service base costs, and the increment in costs from 2018-19 to 2019-20 is not exceptional; figure 2 on page 15 shows that 2019-20 base costs for the wastewater service were similar to the other years of the AMP6 period.

We note the concerns raised about whether 2019-20 cost data includes amounts relating to investments brought forward from the following year. In response, we would note that this in itself would not be unusual; expenditure incurred in one year will often deliver benefits in future years, and this also occurred in previous price previews.

As companies have noted it is not straightforward to quantify which investment is specifically for future years' targets, and as noted in the consultation, a range of drivers for additional investment were cited

¹ https://assets.publishing.service.gov.uk/media/5ffc682ee90e0763a31280d8/Working_paper_-_2019-20_data_-_document_---_PDF_-_-.pdf

by companies in their commentaries, relating to both the water service (where in aggregate expenditure in 2019-20 was higher), and the sewerage service (where in aggregate expenditure in 2019-20 was broadly unchanged).

In conclusion, our view is that the evidence presented in the consultation does not justify the unusual step of not using the most recent audited and assured information in regulatory decision making, and as a result, 2019-20 data should be used in the base cost models for both the water and sewerage services. The consequence of not doing so would be to place greater weight on earlier data, which is clearly less relevant to the assessment of future costs of service delivery than the most recent year's data.