



The voice for water consumers
Llais defnyddwyr dŵr

Water Redeterminations 2020:

CCW's response to the Competition & Market Authority's working paper on leakage enhancement totex allowance

January 2021

1. CCW welcomes the CMA's working paper of 15 January 2021, which considers whether the totex allowance for leakage enhancement it will use when setting the final redeterminations for Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water.
2. CCW remain of the opinion that Yorkshire Water's poor performance on leakage reduction and its subsequent public commitment to improvement made to its customers – on which it has reneged – means that allowing the company enhancement funding for leakage effectively rewards Yorkshire Water for past failures.
3. We accept that the CMA is only in a position to make a determination in respect of the disputing companies. But its decision will create the perverse situation of making Yorkshire Water one of only three companies to receive enhancement funding for leakage – the others being companies that have demonstrated sector leading performance.
4. CCW agrees with the CMA's decision not to allow Northumbrian Water's request for enhancement funding. We welcomed the company's earlier commitment to cover any shortfall in funding from its own resources – thereby protecting customers from additional costs arising from its previous poor performance. However, we have some sympathy with the company's reaction to the CMA's provisional determination and the £93m enhancement allowance that was being proposed for Yorkshire Water – a worse performer on leakage – at that time. It is understandable that Northumbrian Water will have seen enhancement funding being provided to a company with worse performance than it has delivered and concluded that it was reasonable to request a similar allowance to fund its own proposals.
5. We are not in a position to make a judgement on whether the CMA should adopt a top-down or bottom-up approach to calculating enhancement allowances but note that Yorkshire Water was unable to provide sufficient evidence to the CMA about the link between its proposed activities and the impact they would have on leakage reduction to allow it to use a bottom-up approach. We would therefore question again if the company has done enough to justify receiving an enhancement allowance.
6. In paragraphs 9 and 30 of the CMA's working paper it states that "we are not proposing any revisions to the level of the Performance Commitments as set out in the provisional determination and we have not received representations to suggest that we should (9)" and "CCW supported the CMA's position of retaining the leakage PCs as set out in Ofwat's Final Determinations"(30)
7. In fact we stated that "we think the target should be increased..." (*CCW's Response to the CMA's provisional redetermination, October 2020 paragraph 7.7*) and "If the CMA concludes, following its planned re-examination of companies' enhancement expenditure requests, that this investment should be allowed, then CCW believes that companies whose current performance is below upper quartile should be required to make improvements above the 15% industry baseline" (7.14)
8. In conclusion we don't believe that providing Yorkshire Water with an enhancement allowance is merited. However, if the CMA decides to continue with this allowance then the

company's target for leakage reduction should be increased. Yorkshire Water should be required to deliver on its promise to its customers to improve on its position as as one of the worst performers on leakage and reduce overall levels by 40% it committed to in December 2017.¹

Enquiries

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¹ <https://www.yorkshirewater.com/news-media/2017/leakage-reduction-plan/>