

By email only

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Dear Kip

### **Final submission to CMA for the PR19 Redetermination**

In opening this final submission, I wanted to again thank you, the Panel, and the CMA team for all the hard work you have put into the process since its inception nearly a year ago. With four companies asking for redeterminations, this would have been a complex process under any circumstances. With the additional challenges created by Covid-19, it has been even more so. I commend you all for adapting to the different working methods required with such agility.

### ***Why Anglian had no choice but to seek a Redetermination***

I have reflected again on the question you asked in our first hearing as to why we had sought a redetermination, and why we had not been able to resolve differences with Ofwat during PR19. At the heart of this matter is the approach that Ofwat had taken to PR19 and reflected in its Final Determination which Anglian's Board considered to be fundamentally at odds with the Purpose of the company, as enshrined in our Articles of Association, to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop. And, we believe, the FD seemed to have been driven more by a focus on maximising short-term bill reduction, and attacking securitised structures, rather than a proper balancing of Ofwat's duties. That includes the new resilience duty which is being fully tested for the first time in PR19, and was added by Government to recognise that more weight should be placed on this issue given climate change risks, growth and now the need to deliver net-zero carbon. The PR19 position that Ofwat reached demonstrated no such rebalancing to appropriately reflect resilience priorities.

We were faced with an FD with a totex gap of £744m, that underfunded the resilience investment needed to avoid our region running out of water, and that ignored the clear priorities of our customers who asked us to address the growing risks from drought and flood. The FD also left the company unfinanceable at the WACC set out, and with an imbalance between risk and reward. The Board was reluctant, but unanimous in its decision, to ask the CMA for a Redetermination, the first time that Anglian Water has ever exercised its rights under the legislation to ask the CMA to look again.



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The defining feature of discussions in Board meetings on this matter was that neither the customer interest nor the environment would be served by accepting the FD. The FD position was clearly incongruous with the long-term ambitions we had agreed with customers and stakeholders in our 25-year Strategic Direction Statement. We set out to frame our PR19 Business Plan against these long-term goals on resilience, sustainable growth, ecological quality of our catchments and delivering carbon neutrality by 2030. We intended the 5 years of AMP7 to be a stepping stone towards delivery of those ambitions. And the trade-offs reached in the FD were also completely inconsistent with the clear messages our customers and stakeholders gave us through our engagement process, with over 500,000 engagements triangulated through 38 different channels.

***Opportunities to resolve issues were not taken up by Ofwat during PR19***

It remains a source of regret that Ofwat did not take up opportunities we presented at numerous points during the PR19 process to resolve what seem to be relatively straightforward issues, such as the misallocation between Opex and Capex; addressing the uncertainty around levels of population and housing growth via the wider growth true-up we proposed; taking a pragmatic approach to the scope of DPC to avert the risks to security of water supply, and recognising the legitimacy of our Cost Adjustment Claim for base leakage costs, as a frontier company has higher marginal costs to maintain that position than a company with average leakage performance.

***Anglian is a high-performing company with a strong reputation***

We have shown to the CMA that Anglian is the highest performing company across AMP6, and highly regarded both within and beyond the sector as a responsible business acting in the long-term interests of customers, communities and the environment. Further, we have also evidenced that our securitised structure brings benefits to customers in terms of resilience to shocks and lower cost exposure, contrary to Ofwat's claims.

Taking all of the points above into account, it is clear that Anglian should not find itself criticised for its choice of financial structure, nor punished today through the levying of a c.£100m penalty for debt that was legitimately and efficiently raised in 2002.

***The central issues that the Redetermination must resolve: financeability and security of water supply***

The key issues that I believe the CMA must resolve in its Redetermination of Anglian's Price Review relate to ensuring that the notional company is financeable, and that sufficient funds are available to safeguard security of water supply for our customers.

On the first, I am reassured by the commitment given by the CMA in the Working Papers that it will ensure that the financeability test is met, which I assume will require the overall balance of risk and return in the redetermination to be consistent with notional company financeability, on the same basis as set out in the PFs.

On the second, we have evidenced to you that the urgency of addressing risks to the security of water supply in our region has increased, even during the Redetermination process. Critically, the only tools we have available to address this during AMP7 are to reduce demand, as supply-side options will only bring benefits from AMP8. To do this, we need the funding in leakage base costs we specified in our Cost Adjustment Claim, and the timely investment in smart metering. This is why these issues are so important to address in your Redetermination.

Further, we have also evidenced that the only realistic prospect of completing the Strategic Interconnector in time to avoid security of supply issues biting at the end of the AMP is for the scope of DPC to be limited to the Elsham treatment works.

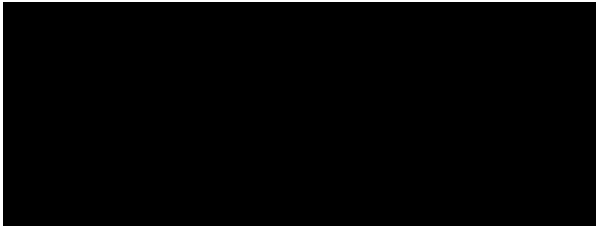
***Importance of a robust and fair process***

Finally, I am grateful to the assurances you provided in your letter of 25 January that the CMA would fully consider all evidence submitted before reaching its final decisions, and your explanation that: *“Our further consultations are limited to a small proportion of the areas addressed in the Provisional Findings where we consider there might be a case for a fundamental difference in approach from that set out in our Provisional Findings and that it is appropriate to seek further views.”*

The PFs provided much of the framework the industry needs to put it on a sustainable and stable path to meet its future challenges. It would be a mistake to step away from the important ways in which the CMA corrected the biases towards short-term bill reductions and away from long-term resilience that were apparent in Ofwat’s FD.

I enclose as part of our final submission, two annexes, annex one on costs, outcomes and regulatory precedents and annex two on finance issues.

Yours sincerely



Peter Simpson  
Chief Executive  
Anglian Water