

By email to waterPR24references@cma.gov.uk

Water UK's response to the Competition and Markets Authority's provisional determinations for PR24

We welcome the opportunity to comment on the Competition and Markets Authority's provisional determinations for five water companies as part of the 2024 price review (PR24). This response represents the views of Water UK, which is the trade association for water companies in England, Wales, Northern Ireland and Scotland.

In this document we start by commenting on the overall approach taken by the Competition and Markets Authority, followed by a discussion of provisional decisions that we support. We end with where we consider that the Competition and Markets Authority could do more within its final determinations to support urgent action on asset health and capital maintenance. Such action should help to ensure that the water sector can act more swiftly to fix leaks, reduce sewage spills and upgrade infrastructure to support economic growth.

Overall approach

We appreciate the substantial amount of work undertaken by the Competition and Markets Authority, particularly given the short timeframe in which the work was delivered. Although redeterminations are only used as a last resort, they provide a robust mechanism for reviewing the regulator's decisions to ensure that water companies are able to finance and deliver their investment programmes.

We are concerned by the suggestion that the Competition and Markets Authority may have underfunded water companies' ability to meet their legal requirements. The Competition and Markets Authority says it has "balanced minimising the impact on people's bills with the need for companies to have enough funding. This includes funding to meet their environmental and drinking water quality legal obligations...."¹ We note that neither the Water Industry Act 1991, nor the current Strategic Policy Statement, provides a duty or obligation on Ofwat (and, as a direct result, the Competition and Markets Authority) to "minimis[e] the impact on people's bills."

In meeting their legal obligations, we accept that water companies must act as efficiently as possible. Therefore, any funding provided should be no more than is needed for an efficient company to meet its legal obligations. As a result, the impact on consumer bills should be no more, or no less, than is needed for companies to meet their legal obligations. Bill rises are never welcome and the last thing the industry wants to do is cause them to rise. At the same time, bill rises are necessary if an efficiently operating company needs to finance the upholding of its legal obligations. Indeed, we are concerned that any underfunding now that leads to asset deterioration could lead to even higher bill

¹ ['Provisional redeterminations on water price controls issued'](#), Competition and Markets Authority, (October 2025).

impacts in the future. We therefore urge the Competition and Markets Authority to consider and clarify its approach in the final determinations.

Provisional decisions that we support

There are, however, aspects of the provisional determinations that we welcome.

We support the Competition and Markets Authority’s provisional decision to add more than half a billion pounds in additional revenue over the next five years.² If confirmed, this additional funding will contribute to the investment needed to support our economy and environment.

We endorse the Competition and Markets Authority’s recognition that investment is needed to address significant challenges facing the sector, including ageing infrastructure, climate change, population growth, and environmental concerns and to support economic growth.³ These challenges require considerable investment, which can only be mobilised through an investable framework and an allowed return that reflects the risk of that investment. The Competition and Markets Authority appears to have taken steps in the right direction, with further steps likely required in the final determinations.

In particular, providing a higher allowed cost of equity compared to Ofwat’s estimate is a positive step. We particularly welcome the following factors that were taken into account by the Competition and Markets Authority when estimating the allowed cost of equity:

- **Clear recognition that “significant amounts of investments are required” over the next five years**, and that promoting investability is important because “there are risks from setting the WACC too low which in welfare terms may exceed the costs to customers....”.⁴
- **Ensuring that the cost of equity is clearly above the cost of debt**, reflecting the greater risk borne by equity investors, and in contrast to Ofwat’s approach which led to a noticeably low margin between the two values.
- **The use of the most recent market data and evidence**, which help to make allowed returns reflective of real-world conditions and all available evidence – including listed data points such as Pennon, which is rightly now included, differing from Ofwat’s position in previous price controls.⁵

We expect the Competition and Markets Authority to continue to take these approaches in its final determinations, as well as using the latest available market data and comparable evidence to support the delivery and financing of the water industry’s largest ever investment programme. As the Independent Water Commission has identified, low levels of returns and high levels of risk are reasons why the water sector has struggled to attract investment.⁶ The Commission further highlights that investors report being able to earn nominal returns of 8-10% in comparable sectors.⁷ We would expect the Competition and Markets Authority to consider incorporating top-down analysis of how allowed returns in the water sector compare to returns available in other sectors. This is critical to

² ‘Provisional determinations – Summary’, pg. 9, *Competition and Markets Authority*, (October 2025).

³ ‘Provisional determinations – Summary’, pg. 4, *Competition and Markets Authority*, (October 2025).

⁴ *Provisional Determinations Volume 4*, pg. 124-125, *Competition and Markets Authority*, (October 2025).

⁵ *Provisional Determinations Volume 4*, pg.10 and 78, *Competition and Markets Authority*, (October 2025).

⁶ ‘*Independent Water Commission: Final Report*’, pg.314-315, *Independent Water Commission*, (July 2025).

⁷ ‘*Independent Water Commission: Final Report*’, pg.315, *Independent Water Commission*, (July 2025).

making sure that the water sector is able to compete for the level of investment it needs, particularly as other sectors look to raise £374 billion by 2030.⁸

We welcome the Competition and Markets Authority’s provisional decision to better reflect real-world productivity growth than the decisions taken by Ofwat. Any further evidence should be taken into account by the Competition and Markets Authority in the final determinations. Adjusting the frontier shift efficiency assumption from 1% to 0.7% per year is a positive step, which much better reflects the reality of productivity improvements seen in the water sector and the wider economy. As noted by the Competition and Markets Authority, most sectors have been affected by a substantial and durable slowdown in productivity since the global financial crisis.⁹

Provisional decisions that we think need re-examining

In addition to the decisions above, we consider there are areas that require further focus by the Competition and Markets Authority as it confirms its final determinations of PR24.

We are concerned about the apparent insufficiency of base expenditure allowances, and we urge the Competition and Markets Authority to take additional steps to assure itself that its final base expenditure allowances will be sufficient. Base expenditure allowances are vital for funding water companies to properly operate their assets and to maintain and replace them through capital maintenance activity. Those allowances should be based on all available data and evidence.

As recognised by independent expert bodies – as well as outturn data – base expenditure allowances have been consistently underfunded. Across the 2020-25 period, water companies collectively spent around 13.5% more than their base cost allowances, while the five disputing companies overspent them by around 19%.¹⁰ Observations made only this year on the inadequacy of Ofwat’s approach to funding base expenditure include:

- The Independent Water Commission, which highlighted in its final report that successive price reviews since 2009 have led to underinvestment in the sector.¹¹ The Commission noted that while customer bills have declined by 15% in real terms since 2014-15, that decline has come at the expense of resilience and adequate capital maintenance.¹² The Commission also warned that “if allowances are set too low relative to spending and financial needs, this can potentially undermine financial resilience or encourage risky behaviour”.¹³
- The National Audit Office, which concluded that the water regulators lack a “shared understanding of the condition of water and wastewater assets, and the level of funding needed to maintain them”.¹⁴

⁸ [‘Independent Water Commission: Final Report’](#), pg. 319, *Independent Water Commission*, p. 319, (July 2025).

⁹ [‘Provisional Determinations Volume 1’](#), pg. 79, *Competition and Markets Authority*, (October 2025).

¹⁰ [‘Water company performance report 2024-25’](#), pg. 43, *Ofwat*, (October 2025). *The figure of 19% is based on Water UK’s calculation for the five disputing companies, based on the table provided.*

¹¹ [‘Independent Water Commission: Final Report’](#), pg. 202, *Independent Water Commission*, (July 2025).

¹² [‘Independent Water Commission: Final Report’](#), pg. 204, *Independent Water Commission*, (July 2025).

¹³ [‘Independent Water Commission: Final Report’](#), pg. 332, *Independent Water Commission*, (July 2025).

¹⁴ [Regulating for investment and outcomes in the water sector](#), pg. 9, *National Audit Office*, (April 2025).

- The Public Accounts Committee, which said that the “water system has been left to sink for too long [...]” and that “major investments [are] desperately needed to prevent pollution from antiquated sewage systems”.¹⁵

In this context, it seems odd that two companies are set to receive lower base cost allowances compared to Ofwat’s initial allowances, and, it would appear, a further eight out of twelve companies that are not subject to this redetermination would also have experienced cuts under the Competition and Markets Authority’s provisional approach.¹⁶ If applied to the entire sector, water companies overall would have seen their base allowances cut by £4.3 billion (or 3.8%), with some companies’ allowances cut by as much as 20.8%.¹⁶

In ensuring that its final allowances for base expenditure are sufficient, we encourage the Competition and Markets Authority to carefully consider the tools that are available to it, recognising that there is limited time before the statutory deadline. The Competition and Markets Authority could consider:

- **Reassessing the validity of company-specific cost adjustment claims submitted by the disputing water companies.** Cost adjustment claims are designed to provide funding for water companies where the underlying base models do not adequately reflect their circumstances. The Independent Water Commission noted that funding associated with cost adjustment claims accounted for around 6.5% of base expenditure allowances in Ofwat’s PR24 final determinations,¹⁷ and that Ofwat “relied too heavily on a data-driven, econometric approach, and has not taken sufficient account of company-specific conditions and challenges.”¹⁸ We are concerned that the Competition and Markets Authority risks perpetuating this approach without sufficient regard for company-specific cost adjustment claims.
- **Resetting the efficiency catch-up challenge.** Given the high levels of uncertainty surrounding any econometric outputs, especially under new models that have been built with limited time and ability for consultation and iteration, it may be worth relaxing some of the efficiency assumptions that the Competition and Markets Authority uses in conjunction with those models. That could mean revising the frontier shift efficiency assumptions (as mentioned above) or reducing the ‘catch up’ efficiency challenge from the upper quartile (i.e. one of the top lowest spending companies) to the median company. Such a change could help to mitigate the novelty of the econometric approach taken by the Competition and Markets Authority, as well as the small sample sizes which mean that the final allowances are very sensitive to the performance of any single company, particularly due to region-specific or geographic factors.
- **Using the latest available data in the final determinations.** The Competition and Markets Authority’s said it would consider incorporating 2024–25 data within its final determinations.¹⁹ We strongly urge it to do so, as it did for the PR19 redeterminations.

¹⁵ [Failing water sector left to flounder as piecemeal regulators appear to be missing in action](#), Public Accounts Committee, (July 2025).

¹⁶ [‘Provisional Determinations Volume 5’](#), pg. 28, Competition and Markets Authority, (October 2025).

¹⁷ [‘Independent Water Commission: Final Report’](#), pg. 177, Independent Water Commission, (July 2025).

¹⁸ [‘Independent Water Commission: Final Report’](#), pg. 193, Independent Water Commission, (July 2025).

¹⁹ [‘Provisional Determinations Volume 1’](#), pg.38, Competition and Markets Authority, (October 2025), and [‘Approach and prioritisation’](#), pg. 24, para 98, Competition and Markets Authority, (May 2025).

Securing the future of the water sector

The Competition and Markets Authority continues to play an important role in the water sector, helping to provide a safeguard when a water company considers regulatory decisions do not enable it to deliver its statutory requirements. We recognise that the statutory deadline that the Competition and Markets Authority has to work within necessitates some prioritisation. However, we are disappointed by the lack of focus on asset health and capital maintenance and would encourage the Competition and Markets Authority to further focus on these issues in the final determinations and provide a clear steer to Ofwat.

Asset health has been recognised as a major issue by a range of independent bodies – including the Competition and Markets Authority in 2021, where its suggestion to Ofwat was ultimately ignored for the PR24 final determinations. In the PR19 redeterminations, the Competition and Markets Authority suggested that Ofwat develop forward-looking indicators to overcome issues with the backward-looking nature of Ofwat’s cost assessment of capital maintenance requirements.²⁰ In response, Ofwat promised to “explor[e] how we could incorporate more of a ‘forward look’ into our wholesale base cost assessment approach at PR24,” and said that it was “keen to explore additional asset health measures that may help to provide insight into levels of asset health at a sector level, future capital maintenance activity requirements, and to demonstrate if the future may be different to the past....”²¹ Ofwat also acknowledged that its regulatory approach creates short-term incentives and that “there could have been greater focus on asset health and its role in delivering resilient services in the long-term during the 2015-20 period”.²²

In May 2023, the National Infrastructure Commission publicly wrote to Ofwat expressing continued concern about the regulator’s approach to asset health monitoring and funding. The Commission expressed concern about the present approach to managing ageing assets and recommended that Ofwat should develop consistent forward-looking metrics for defining and measuring asset health.²³ Despite these long-standing recognitions of the weaknesses in the current regulatory approach, Ofwat failed to comprehensively respond in its PR24 decisions. Only in December 2024 did it eventually publish an ‘asset health roadmap’ which was primarily designed to ‘enhance understanding’ of asset health.

We are concerned that Ofwat’s asset health roadmap may not be a reliable route to securing the additional allowances required to maintain assets appropriately – we therefore encourage the Competition and Markets Authority to act in its own determinations as an urgent priority. The roadmap risks repeating past errors, such as the treatment of mains renewals, by introducing retrospective expectations of what companies should have spent on specific asset classes, without considering overall capital maintenance needs or whether these were adequately funded under a ‘totex’ regime. We are pleased that the Competition and Markets Authority appears to have reversed some of these retrospective adjustments made by Ofwat where they relate to water mains renewals, meter replacements and network reinforcement.²⁴ Without change, Ofwat’s approach increases the risk of continued underfunding and, in turn, the likelihood of asset failures that could otherwise have been prevented, to the detriment of customers and the environment. Ofwat’s proposed ‘cost change process’ is intended to enable water companies

²⁰ ‘Final report’, pg. 185, *Competition and Markets Authority*, (March 2021).

²¹ ‘Assessing base costs at PR24’, pg. 4, *Ofwat*, (December 2021).

²² ‘PR14 Review’, pg. 23-24, *Ofwat*, (January 2022).

²³ ‘Letter to Ofwat on water company asset management’, *National Infrastructure Commission*, (May 2023).

²⁴ ‘Provisional Determinations Volume 1’, pg.156-158, *Competition and Markets Authority*, (October 2025).

to secure additional funding for asset health, but we are concerned that it is too narrow and too slow – under Ofwat’s proposed approach, water companies are restricted to requesting funding for a very limited number of assets types out a potential list of 250 asset types identified by Ofwat.²⁵ Water companies are also prevented from seeking additional funding for only two years over the 2025-30 period, which will have the consequence that funding will not be released until 2027-28 by the earliest.²⁶

Should the Competition and Markets Authority not materially address the issue of asset health in its final determinations, we request that it provides clear recommendations for how Ofwat should approach the issue for all water companies for the remainder of the 2025-30 period. We are concerned that Ofwat’s track record of receiving ‘suggestions’ from the Competition and Markets Authority may mean that swift action is not taken. We, therefore, propose two potential changes to the ‘cost change process’ that would immediately increase the chances of water companies securing the funding that they need for urgent capital maintenance:

- **Allow water companies to request funding for a much broader set of asset types than those Ofwat has included in the process.** Ofwat’s current proposal to restrict funding requests to a narrow set of assets, which must be evidenced to affect every company, does not take sufficient account of company-specific conditions and challenges. It also perpetuates a clear failing with the current framework noted by the Independent Water Commission. Water companies should have the opportunity to provide evidence of which assets in their regions and networks are most at risk and therefore require investment to improve resilience.
- **Remove the reliance on sector-wide data collection activities, which prevent water companies from requesting funding for risks that are specific to their networks.** As well as adding unnecessary delays and burdens, this approach ignores company-specific challenges.
- **Remove unnecessary barriers to requesting and financing investment.** Ofwat has proposed that asset health requests would only be available for two years over 2025-30, which is not consistent with the urgent need for action. In addition, if approved, investments should be able to be financed and delivered as quickly as possible. Investment cannot be financed or delivered prior to 2030 without the option of in-period revenue allowances to cover additional financing costs, and an update to Regulatory Capital Values (RCVs) every year to accurately reflect additional investment.

We appreciate the opportunity to provide feedback on the provisional determinations. The redeterminations process carried out by the Competition and Markets Authority provides an important opportunity to reset the regulator’s decisions and to enable water companies to deliver their ambitious investment plans to clean up our rivers, lakes and seas, secure our future water supplies, and support economic growth. We look forward to further engagement ahead of the final determinations.

²⁵ [‘Enhancing asset health understanding update paper’](#), Ofwat, (June 2025) and [‘Workshop 2: Priority assets’](#), Ofwat, (March 2025).

²⁶ [‘Cost change process draft guidance note’](#), p.16, Ofwat, (July 2025).