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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 leakage enhancement totex allowances. 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.

Our focus in responding is on matters of industry-wide significance, rather than the specific details of the situations of the four disputing companies. In particular, given the ongoing stakeholder interest in leakage, it is important that the companies are sufficiently funded to meet the ambitions of policy makers (whether regulators or government) for leakage to be reduced, rather than being faced with asymmetric outcome incentives.

In considering the issues raised by the consultation, we start from the context that the regulatory approach to leakage has changed several times over the last 30 years. In the 1990s, regulatory targets drove a significant reduction in leakage; subsequently Ofwat adopted the approach that there is an economic level of leakage (ELL, which then evolved to sustainable economic level of leakage, SELL). This resulted in regulatory targets to maintain a broadly stable level of leakage – which, in the round, companies delivered on.

Companies see leakage as a key tool to manage their supply-demand challenges, which vary across the country; more recently, Ofwat has set a challenge for the industry as a whole to deliver a step change in leakage performance. We welcome the CMA's continued recognition of the principle that this step change results in additional costs, and that these additional costs should be appropriately reflected in determinations.

We also agree that a one size fits all approach to assessing the marginal costs of incremental reductions in leakage may not always be appropriate, for example due to the varying marginal costs of options available to companies.

¹ https://assets.publishing.service.gov.uk/media/60009a20d3bf7f33b88fcb9c/20210115-Leakage_enhancement_working_paper_-_pdf

We note the comments made in the consultation about the reduction in reported leakage in 2019-20. While the 7% year-on-year reduction in the industry total leakage was positive and welcome, we would caution against over-reading the implications for future years.

Leakage performance is strongly affected by weather conditions; the winter of 2019-20 was relatively mild, providing relatively favourable operating conditions – and the year-on-year comparison is also affected by companies recovering from the ‘Beast from the East’ the previous year and other atypical factors.

We also note that in 2019-20 the trend of water service base costs increasing continued; as we have separately commented², it would be natural and normal for regulatory decisions to be made using the latest available information, so we support using 2019-20 data for the base cost models.

² <https://www.water.org.uk/publication/water-uk-response-to-cma-consultation-on-use-of-2019-20-data-for-base-cost-models/>