

Policy Note: CMA water appeal provisional findings

We give people the knowledge and confidence they need to find their way forward and use our evidence to show how things can be improved for people.

Overview

- **CMA could set a precedent that could see costs increase in other regulated sectors**
- **CMA water decision could cost consumers £3.7 billion over the next set of water and energy price controls**
- **Household bills could increase by £113.50 over the next set of 5 year price controls**
- **Households are being squeezed by COVID. Our research shows that millions are already falling behind on bills¹**

What is the issue?

- The CMA has published [provisional findings](#) for the appeal that 4 water companies made to Ofwat's PR19 water price control². This sets out the amount that water companies can charge for services over the next 5 years.
- The CMA has provisionally decided to increase the allowed return to investors of the disputing water companies by 54 basis points to 3.5%³, more than some of the companies asked for in the appeal.
- The CMA's decision will have significant implications for consumers because it will set a precedent for similar price controls in energy and other sectors⁴.
- Water customers served by the 4 appealing companies could see their bills rise by 3% - in total £0.5 billion.⁵ Ofwat estimates that 90% of the higher bill proposed by the CMA delivers no additional benefits for customers or the environment.⁶
- We think the CMA needs to look again at these issues before making its final decision.

¹ Citizens Advice (2020) [Excess debts - who has fallen behind on their household bills due to coronavirus?](#)

² These 4 companies are Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water.

³ Ofwat - [Reference of the PR19 final determinations: Overview - response to CMA provisional findings](#)

⁴ As seen by the evidence provided by energy and aviation companies to the CMA appeal [here](#).

⁵ Ofwat - [Reference of the PR19 final determinations: Overview - response to CMA provisional findings](#)

⁶ *ibid*

Our analysis

- Ofwat sets price controls for water and wastewater services - the CMA appeal will set costs for the period running from 2020-2025.
- Ofgem sets price controls for energy networks. These companies provide the networks that provide the pipes and wires taking energy to our homes and businesses. The energy controls run between 2021 and 2028.
- We've projected how this decision could impact consumers if this was applied to decisions in both the water and energy sectors. We have used regulators' estimates of the regulated values of the companies and we have applied the CMA's increased cost of capital.
- Households meet about half the total of consumers' energy costs, businesses meet the rest.

	Overall cost increase to consumers in next price controls	Per household per year estimated bill increase	Total per household bill increase over all 5 year price controls
Water (for the 4 appealing companies only) Period: 2020-2025	£0.5 billion ⁷	£10 ⁸	£50 ⁹
Energy (Transmission, Gas Distribution and ESO) Period: 2021-2026	£2 billion ¹⁰	£8	£40
Energy (Electricity Distribution) Period: 2023-2028	£1.2 billion ¹¹	£4.70	£23.50
Total - water and energy	£3.7 billion	£22.70	£113.50

⁷ ibid

⁸ Citizens Advice estimated costs based on weighted average bills in the 4 appealing company areas - using data from Ofwat - [Reference of the PR19 final determinations: Overview - response to CMA provisional findings](#)

⁹ The impact if applied across the whole water sector would be higher: for an average water and wastewater bill (£397) would be about £14 per annum or £70 over 5 years.

¹⁰ Ofgem [RIIO-2 draft determinations - Finance Annex](#) - applying CMA cost of capital increase to electricity distribution Regulatory Asset Value (RAV)

¹¹ Ofgem [ED1 Annual Reports 2019](#) - applying CMA cost of capital increase to electricity distribution RAV