

United Utilities Water

Response to draft determination of Anglian Water's interim determination application

7 July 2021

United Utilities Water's response to Ofwat's June 2021 consultation

UUW comments on draft determination

We welcome the opportunity to comment on Ofwat's draft determination of Anglian Water's application for an interim determination regarding its direct procurement scheme.

We have two points to note in relation to Ofwat's views on the appropriate WACC to apply.

Firstly, we agree that Ofwat should apply a Weighted Average Cost of Capital, and not just the Cost of Debt. In fact, we cannot envisage any circumstances in which it would be appropriate to only allow the cost of debt. Even if the investment was planned to be entirely funded from debt, the resulting increase in gearing would confer additional financing risk to the company and hence Ofwat should always apply the WACC to ensure that the financing of such investment is appropriately remunerated.

Secondly, on the question of which WACC to apply, Ofwat notes that it proposes "*to use the CMA's cost of capital because the CMA could have chosen to include the costs in its re-determination and for consistency with the rest of Anglian Water's programme.*" We agree that use of the CMA WACC is appropriate in this case given that, absent this IDoK, the CMA would presumably have been asked to include this within the scope of its determination (and, therefore, the WACC would have been applied.)

However, we do not agree with the statement that this would be appropriate "...*for consistency with the rest of Anglian Water's programme.*" This is because we do not think it should be implied that Ofwat would apply the CMA WACC at an IDoK just because the remainder of a company's programme had been subject to CMA referral. We don't believe that this should necessarily be assumed for any subsequent IDoK, particularly for any items that had not been considered as part of the CMA referral. Furthermore, if Ofwat were to receive IDoK claims from multiple companies on the same issue, the WACC applied to those determinations should not be determined by the historic choices the companies made to appeal – or not – to the CMA. The cost and financing challenges facing both companies should be treated consistently, based on the facts available at the time and the specific circumstances of the IDoK.