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To all Regulatory Directors and other interested parties

17 November 2021

Dear Regulatory Directors

## **Water resources price control boundary**

A separate price control for water resources was introduced at the 2019 price review (PR19). In our consultation [PR24 and beyond: Creating tomorrow, together](#), published in May 2021, we sought views on the possible extension of the boundary of the water resources control.

Adequate water resources remain a key issue for the English water sector, with ongoing constraints notable in the East and Southeast. Significant progress has been made in recent years including the creation of RAPID, strategic regional resource planning and Direct Procurement for Customer (DPC).

Alongside these initiatives, we have also considered whether to extend the boundary for the water resource control. We considered two options for extending the boundary: to include raw water distribution, or alternatively to include raw water distribution and water treatment.

In response to the consultation, and in follow-up discussions with companies, three main challenges to the ideas we explored were made. Some stakeholders challenged the rationale for changing the boundary; we also heard arguments that changing the boundary would result in an increase in regulated assets at risk; and we were told by some that the potential benefits from changing the boundary would not be justified by the resources needed to implement it.

We also heard a range of views on where the most appropriate boundary might be, in part reflecting that different companies have configured the relevant assets in different ways. A limited number of respondents questioned the need for a separate water resources control altogether.

We are grateful for the engagement from stakeholders that we received on this issue. We do not agree with all of the challenges raised in response to the consultation. However, after careful consideration of stakeholders' views and the available evidence, our assessment is that while there may be benefits associated with changing the control boundary in future, they are not likely to be sufficient in the 2025–2030 price control period to justify being a priority area of work. In light of this, and to allow us and industry to prioritise other important

work in the development of strategic water resource options, we anticipate retaining the water resources control boundary as defined in PR19. Retaining the current boundary recognises that the current control has been in place for only 18 months and does not exclude the possibility of future changes to respond to developments in the water resources market.

I hope that early sight of our intention in this area is useful as you prepare your future engagement with our methodology for the 2025-2030 price control period.

Yours faithfully

**Aileen Armstrong**

Senior Director, Company Performance and Price Reviews