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By email

Rt Hon Philip Dunne MP
Chair, Environmental Audit Committee
House of Commons
London SW1A 0AA

1 September 2021

Dear Chair,

River water quality inquiry

Thank you for the opportunity to appear before the Committee as part of its inquiry into river water quality on 23 June. During the evidence session you asked me to write with further information on water companies spending against the regulatory allowances made by Ofwat. With apologies for the delay in writing, I set that information out below.

The table in the Annex to this letter shows, for each of the current appointed undertakers who are subject to our price control process, whether the company has underspent (shown by a negative % figure) or overspent (shown by a positive % figure) the total expenditure ("Totex") allowances made at each of the last four price reviews for which we have complete data. As I explained at the evidence session, where companies underspend their allowance, companies share some of the benefit of this with customers, and where they overspend, these additional costs are also shared with customers.

Please note that the figures for PR14, covering the period 2015–20, relate only to wholesale Totex allowances, whereas for other periods wholesale and retail are included. The exclusion of retail Totex from PR14 figures reflects the separation of residential and business retail price controls in preparation for the opening of the business market to retail competition in April 2017.

We do not observe a clear pattern of companies underspending their allowances, there has been some variation between companies and over time. In almost all periods, some companies underspend, while others overspend and in some periods, the sector as a whole underspends, while in other periods, it overspends. This is likely to reflect a mixture of companies making efficiency gains and so enabling outperformance on cost and performance and the impact of risks materialising which may adversely impact on cost and performance.

It is important to note that where companies underspend their allowances, this informs our assessment of the efficient costs which companies are funded to meet in future review

periods. This means that improvements in efficiency by leading companies benefit all customers in subsequent price reviews.

I trust this information is helpful, and I would be pleased to provide any further information the Committee would find useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Black', is placed over a light grey, semi-transparent rectangular background.

David Black
Interim Chief Executive

Annex - Water company Total expenditure under spending and overspending, 2000-2020

In the table below, a negative percentage is the amount of underspending by a company against its 5 year cost allowance and a positive percentage is the amount of overspending against the 5 year cost allowance.

Totex performance %	PR99, (2000- 2005)	PR04, (2005- 2010)	PR09, (2010- 2015)	PR14, (2015- 2020)
Anglian Water	-3.50%	-1.69%	-8.33%	-5.88%
Welsh Water	-2.53%	4.05%	10.63%	9.62%
Hafren Dyfrdwy				8.39%
Northumbrian Water	-2.89%	8.86%	-4.42%	-2.93%
Severn Trent (pre 2018 merger)	-7.58%	2.45%	0.23%	1.89%
South West Water	-4.59%	5.57%	-0.58%	-11.79%
Southern Water	-1.65%	-4.29%	9.72%	4.04%
Thames Water	0.00%	0.08%	0.75%	10.91%
United Utilities	-5.24%	0.23%	-1.84%	11.66%
Wessex Water	-13.20%	-12.43%	-15.24%	-6.23%
Yorkshire Water	-11.96%	-0.80%	-6.38%	4.41%
Affinity Water			5.52%	2.74%
Bristol Water	-3.62%	0.53%	5.19%	3.61%
Portsmouth	-11.76%	4.55%	3.95%	6.77%
South East Water	-7.52%	-7.07%	-2.31%	-1.19%
South Staffs Water	-7.02%	-0.61%	-3.06%	5.35%
Sutton and East Surrey Water	-5.31%	1.80%	-3.75%	4.06%
Sector total	-4.95%	0.19%	-1.08%	3.69%

Source: Ofwat analysis of company regulatory returns