



**The Consumer Council for Water's
submission in response to the
Competition and Markets Authority's provisional
findings on the Pennon Group / Bournemouth Water
Investments merger**

October 2015

1. Introduction

- 1.1 The Consumer Council for Water is the statutory body representing the interests of household and business customers of water and sewerage companies in England and Wales. We operate through four Committees in England and a Committee for Wales.
- 1.2 On 30 September 2015, the Competition and Markets Authority (CMA) published its provisional findings from its assessment of the acquisition of Bournemouth Water Investments by the Pennon Group, the holding company of South West Water. The CMA consider that the loss of a regulatory comparator resulting from the merger is unlikely to effect Ofwat's ability to set stretching cost, performance or incentive benchmarks, or it's ability to identify good practice.
- 1.3 We welcome the opportunity to provide comments in response to the CMA's provisional findings.

2. CCWater comments

- 2.1 We note that the CMA used four different methods to measure the scale of the effect of a loss of a comparator, and applied these methods to Ofwat's current approach to wholesale benchmarking. The CMA found that the effect on Ofwat's statistical precision in benchmarking was not significant enough to justify any undertaking or remedies to mitigate the effect of a loss of comparator, beyond requiring South West Water and Bournemouth Water to continue to separately report progress against their performance commitments and Outcome Delivery Incentives (ODIs) through to 2020. We note that this is a different conclusion to some past decisions by the Competition Commission, such as the decision on the merger of Mid Kent Water and South East Water.

2.2 Loss of a regulatory comparator

If the CMA's assessment is based on an assumption that Ofwat's methodologies for cost modelling, benchmarking (cost efficiency and performance) at the 2019 price review (PR19) will be broadly the same as the methods Ofwat used in the 2014 price review, this assumption should be confirmed.

- 2.3. If Ofwat were to change its approaches to modelling costs and performance at PR19, for example as a result of the CMA's assessment of Bristol Water's 2014 final price determination which indicated that there may need to be a change of approach in Ofwat's wholesale cost modelling, this could change the basis of the decision. Since analysis of the detriment arising from loss of a comparator should be forward looking, the CMA should satisfy itself that any such change is unlikely to result in detriment.

2.4 Separate reporting

We support the CMA's view that South West Water and Bournemouth Water should continue to separately report their performance commitments and ODIs for the entirety of the 2015-20 price control period.

Enquiries

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