

Mutualisation
Prepared for Water UK
29 July 2026

1. Introduction

Water companies may need to respond shortly to a proposal that water and wastewater services in England should in future be provided by mutual companies.

This short note explores some of the issues, focusing on:

- the capacity that mutual companies have to finance a major programme of investment;
- whether changes of ownership would be voluntary or mandatory, and the questions that there would be about the prices at which any transfers take place; and
- the wider concerns that policymakers had 25 years ago when Ofwat and government last contemplated proposals for mutualisation.

2. Financing

The key differences between mutual ownership and the more conventional company limited by shares model are that:

- mutuals are owned by members rather than by profit-motivated shareholders;¹ and
- mutuals are financed predominantly/entirely by debt and have no access to external equity capital markets.

The second of these points is as important as the first. The water sector is currently delivering a major programme of new investment, necessitating that companies raise billions of pounds of new financial capital. The question that follows is: would water companies be able to obtain the monies that they need if they are restricted to using only the market for debt finance?

There are good reasons to have doubts:

- lenders' appetite for investing in infrastructure is directly related to companies' credit quality. As a general rule, companies need to maintain a solid investment-grade credit rating in order to have ongoing access to new borrowing;
- we know from the opinions issued by credit rating agencies that companies come up against the limits of such a rating when their debt-to-RCV ratios hit around 60-70%;^{2 3}
- we also know that the scale of the investment being carried out in AMP8, AMP9 and AMP10 (i.e. 2025-40) may push companies beyond this threshold if they try to finance investments solely through retained earnings and new borrowing;
- companies across the sector have therefore been raising new equity capital in order to maintain their gearing at manageable levels and safeguard their investment-grade credit ratings;

¹ Throughout this note I interpret a "mutual company" to include companies limited by guarantee, community interest companies, co-operative societies and community benefit societies where the members/owners are customers of the water company.

² The limiting factor is often interest cover rather than the debt-to-RCV ratio per se.

³ The latest 2025/26 annual performance reports record that only one company – Thames Water – had gearing and/or is targeting gearing of materially more than 70%.

- Ofwat, as economic regulator, has likewise written assumptions about equity issuance into the ‘financeability assessment’ in its PR24 price control determination;
- it therefore follows that mutual companies, which cannot raise equity capital, are in a materially less flexible position in comparison to shareholder-owned firms; indeed
- in some scenarios, it may well be that such companies cannot practically raise the necessary finance for ongoing investment programmes without some form of extra outside support (e.g. from customers or from government).

If anything, this chain of logic may understate the difficulties that a future mutual company would face, for three reasons.

First, new mutual companies would have to buy existing water companies. I discuss possible issues around the sale price in section 3, but the likelihood must be that a new mutual owner would have to pay (and hence borrow) well in excess of the aforementioned 60-70% of the RCV⁴ in order to persuade current shareholders to sell up voluntarily.

A company that starts with very high gearing, by definition, has less capacity to take on additional new borrowing. Future new mutual companies will likely therefore hit the absolute limits of their balance sheets more quickly than the current shareholder-owned companies.

Second, water companies have since 2020 had to manage a series of headwinds affecting both costs and performance, with repeated over-spending and financial penalties putting pressure on financial ratios. The rating agencies have said explicitly that complete dependence on borrowing as the only source of finance constrains credit quality – and, hence, financing capacity – in these circumstances.⁵

Third, and building on the same theme, one of the propositions, as I understand it, is that mutual ownership might be a preferred option in the event that an existing company encounters financial difficulties and goes into special administration. Such a company will inevitably start life well down against the thresholds on interest cover and other financial ratios that rating agencies look for. It follows that a new mutual company that is overspending and/or suffering ODI penalties, to the point that its previous owner has become insolvent, will likely find it challenging to restore its investment-grade rating and regain ongoing access to new debt finance for new investments until such time as it is able to improve its performance and restore its profitability.

Note that in all of these scenarios, a mutual company would be in a much better position if it were able to issue meaningful amounts of new equity capital alongside debt. In the first of the above cases, a new owner would be able to pay for existing equity using equity and wouldn’t exhaust its capacity to raise new debt at the point of acquisition. In the second and third cases, equity injection can be said to be a natural part of the remedy for financial distress in that it eases the day-to-day financial pressures that the firm is under and helps to smooth the path back to an investment-grade credit rating and financial stability.

⁴ The latest market evidence from listed companies’ share prices and market transactions indicates that almost all of the water companies are currently valued at well above 60-70% of the RCV. On average, one would expect a well-functioning regulatory regime to produce an average market-to-asset ratio of slightly above 100%.

⁵ Moody’s (2026), Dwr Cymru Cyfyngedig update following H1 2025-26 reporting, available at <https://corporate.dwrcymru.com/-/media/project/files/page-documents/corporate/about-us/investors/rating-agency-reports/2026/moodys-credit-opinion-update-24-march-2026.ashx>

In short, therefore, being able to deploy equity capital provides financial flexibility and improves financial resilience. The loss of this financing capacity is not something that has no cost attached to it.

Case study: Network Rail

When Network Rail (a company limited by guarantee) bought Railtrack out of administration in 2002, it began life with gearing of around 80%.

The intention was that the company would finance itself on a fully stand-alone commercial basis by raising investment-grade debt from the bond market. However, by 2004, it became apparent that this was not going to be feasible.

Network Rail was forced instead to borrow using a written indemnity provided by the Secretary of State for Transport, which stated that the UK government would step in and meet Network Rail's liabilities to bondholders if the company was unable to do so.

The risk that the government bore under this arrangement led directly to the ONS' decision in 2013 to reclassify Network Rail as a public-sector organisation and, from then, to a series of forced changes to Network Rail's governance which saw it come under direct Ministerial control.

(NB: Since 2014 Network Rail has been a central government body.)

Case study: Welsh Water

The one example that we have of mutual ownership in the UK water industry is Glas Cymru (also a company limited by guarantee), owner of Welsh Water.

Glas Cymru took ownership of Welsh Water in 2001, prior to the 2008 credit crunch. It began life with gearing of 93%.

Glas Cymru was able to finance Welsh Water by issuing tranches of debt of varying seniority. Class A and B debt were AAA and AA rated, class C debt was BBB rated and class D debt was of 'junk' quality and was unrated.

Crucially, the business's operational and financial performance at the time of acquisition provided interest cover of more than 1.0 times. A comprehensive package of covenants restricted additional borrowing, acquisitions, new business, asset disposals and the leakage of cash from the regulated business, and gave creditors step-in rights in the event that key financial ratios weakened beyond specified levels, further enhancing credit quality.

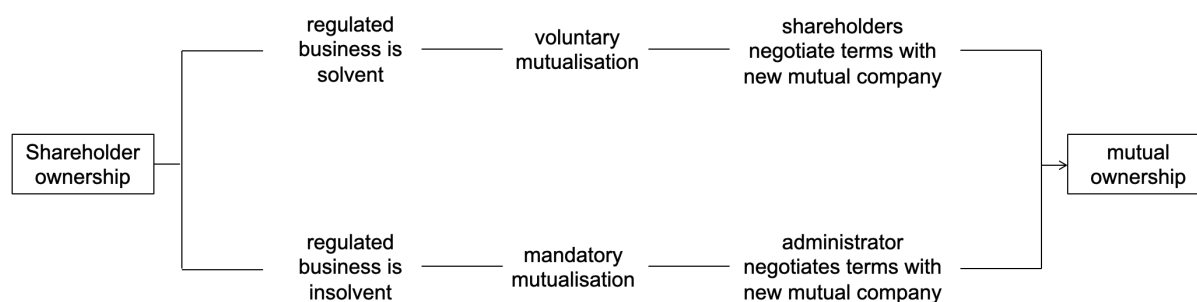
Annex 1 records that Welsh Water has been able to finance itself without any major difficulty since mutualisation. However, Glas Cymru's inability to raise equity financing has become a topic of conversation during the last few years, as industry investment and financing requirements have increased. The question at the time of writing is whether debt issuance alone will provide sufficient financing capacity for the large programme of investment that Welsh Water is taking on over the next 10-15 years, particularly in scenarios where the business under-performs against its regulatory determinations and/or its credit rating comes under pressure.

3. Sale Price

A key issue that any proponent of mutualisation will have to address is the price at which a mutual company would acquire an existing water company.

The diagram overleaf plots the two possible routes to a change in ownership that one can envisage, based on the proposals made by the Good Growth Foundation in its paper 'A watertight solution for public control'.⁶

Figure 1: Possible routes to mutual ownership



3.1 Voluntary mutualisation

The first possible scenario would see the current owners of an appointee enter into a sale voluntarily. The directors of the company would be required during the negotiation of such a transaction to act in the best interests of shareholders. This would mean, in particular, obtaining a price that equals or exceeds the value that shareholders could expect to collect from continued ownership.

This is likely to be problematic:

- owners of good-performing companies would almost certainly require a price in excess of the value of the RCV. For the reasons outlined in section 2, it is improbable that a mutual company could obtain sufficient new debt to pay a premium to RCV and then operate its business with gearing of more than 100%. This means that the industry's stronger companies will almost certainly never mutualise voluntarily;
- owners of middle-performing companies will likewise need to see a price that is close to RCV in order to consider an offer from a prospective mutual owner. The resultant near-100% gearing that this implies is likewise not going to be practically manageable in today's credit markets; therefore
- notwithstanding the challenges and constraints identified in section 2, the likelihood is that any voluntary proposals that come forward are going to be from the owners of the industry's poorest performing companies. Specifically, shareholders of the weakest companies may be willing to pursue a sale to a mutual company if they can see that it might be possible to structure a transaction in which the new mutual owner pays more than the intrinsic underlying value of the business and/or more than they would be able to obtain from a normal market transaction.

⁶ Available at: <https://www.goodgrowthfoundation.co.uk/a-watertight-solution-for-public-control>

This gives rise to a risk of very asymmetric outcomes – i.e. most companies in the sector will likely never choose mutualisation willingly, and voluntary mutualisation becomes first and foremost a means by which the owners of lagging companies seek to exit their investments at above-market prices.

3.2 Mandatory mutualisation

The second scenario has it that a company that goes into special administration must in future be transferred to a new mutual owner. The question in this case will be how much the acquiring party needs to pay to the creditors of the insolvent company.

Under the current legal framework, compensation is determined via a process of competitive bidding. Interested parties submit proposals to the administrator and, subject to being sure that the acquiring party is capable of meeting its regulatory and legal obligations, the best bid wins.

Forced mutualisation eliminates the revelation of a market price and requires all parties to rely upon some sort of negotiated price.

It could be that a single-bidder transaction results in a price that is close to ‘fair’ value. But it could just as easily be that the new mutual owner comes in with:

- a low offer, perhaps because of the kinds of challenges identified in section 2, in which case the creditors may reasonably feel that an asset is being confiscated from them without appropriate payment; or
- a noticeably generous offer, in which case mutualisation has the effect of shielding creditors from the losses that they should otherwise reasonably bear.

In the absence of a competitive process, different stakeholders may reasonably have different views as to which of these situations they are looking at (i.e. it is possible that creditors will feel that they are receiving too little while, simultaneously, customers and/or other stakeholders perceive that the new mutual owner is paying too much). This could, in turn, lead to heated disputes, possibly involving legal challenges, about the terms on which a forced mutualisation should proceed.

3.3 Summary

Taking these things together, there exists a risk that one or more stakeholder groups will be materially disadvantaged during any non-competitive process of transferring shareholder-owned companies to mutuals. Safeguards will be needed to protect the interests of these groups.

4. Lessons from Previous Proposals

This is not the first occasion when we have heard proposals for alternatives to conventional shareholder ownership. It may be instructive to revisit two previous episodes:

- the proposed mutualisation of Yorkshire Water by the company’s owner Kelda in 2000; and
- the acquisition of Welsh Water by Glas Cymru, a company limited by guarantee, in 2001.

By way of background, both transactions raised concerns at Ofwat, among consumer representatives and in certain parts of government. The Yorkshire Water proposal collapsed when the then Director General at Ofwat said he would not accept the proposed mutualisation in its proposed form. The Welsh Water transaction went ahead after the parties were able to garner general support from stakeholders in Wales and then obtained approval to proceed from Ofwat.

The main issues that were flagged and discussed at the time were broadly as follows.

First, in the case of the Yorkshire Water proposal, it was not obvious that customers supported mutualisation or understood the risks that they would assume as owners. A paper published by Ofwat in July 2000 records that:⁷

A number of respondents are concerned that, in the absence of shareholders and hence the possibility of equity finance, customers are being asked to bear increased risks without understanding the benefits of the new structure against which to balance these risks.

Many customers and the Yorkshire Customer Service Committee (Yorkshire CSC) do not oppose in principle the idea of water being supplied to them by a mutual, although they have concerns about the specifics of the Kelda proposals. However, a number of customers have expressed reservations about the extent of consultation and that they have not been asked for their consent to the proposals ... Customers believe that the introduction of such radical restructuring proposals, including the introduction of a new ownership structure, should be conditional on the consent of customers obtained through a vote on the proposals.

Ofwat therefore required evidence of “informed customer consent” before it would allow mutualisation to proceed:

Any decision by the YWM [Yorkshire Water Mutual] to proceed with the proposals should be based on informed customer consent obtained in an objective manner. The method of consent requires further thought. It might require a vote by customers (this could be on a one customer one vote basis or alternatively be related to the size of each customer) or be achieved by a comparable procedure. Whatever the method chosen, it must be consistent with the continuing arrangements adopted for corporate governance. Customers will need to be given adequate information enabling them to reach a decision. The process of seeking customers’ consent would need to be overseen by independent experts to ensure its fairness ...

The information made available as a minimum should set out:

- what is proposed;
- what are the specific benefits to customers of the proposals in terms of bills and service and why they could not be achieved under the current structure;
- what are both the operational and financial risks of the proposals and the extent to which they fall on customers;
- what would be the responsibilities and liabilities of customers as Members of the YWM;
- verification of the complete independence of the proposed mutual from Kelda and any associated company of Kelda;
- what are the constitutional arrangements for appointing and securing the independence of the initial Directors of the YWM and how they could be replaced;
- details of the proposed Directors;
- how the Board of the YWM would be properly accountable to its Members;
- the procurement arrangements in the form of a procurement plan approved by the Director which should have addressed the practical concerns raised by the Director;
- how the YWM would deal with emergencies;

⁷ Ofwat (2000), The proposed restructuring of the Kelda Group: a preliminary assessment by the Director General of Water Services, available at [https://webarchive.nationalarchives.gov.uk/ukgwa/20081106053500mp_/http://www.ofwat.gov.uk/apt/rix/ofwat/publish.nsf/AttachmentsByTitle/keldapaperdraft5.pdf/\\$FILE/keldapaperdraft5.pdf](https://webarchive.nationalarchives.gov.uk/ukgwa/20081106053500mp_/http://www.ofwat.gov.uk/apt/rix/ofwat/publish.nsf/AttachmentsByTitle/keldapaperdraft5.pdf/$FILE/keldapaperdraft5.pdf)

- how the YWM would retain its ability to fully discharge its licence and statutory obligations including its responsibilities towards securing proper standards of drinking water and preventing environmental damage; and
- the financial consequences of the proposed purchase of the assets including a broad indication of the amount to be paid by the YWM for the assets and assumptions about the cost of finance.

Second, consistent with the discussion in section 3, there was concern that Kelda had set up a structure whose main purpose was to enable shareholders to exit the business at above-market value. Ofwat's paper stated that:

Although there appear to be clear benefits in the short-term for Kelda's shareholders from the proposals, in its current form, the benefits for customers have still to be demonstrated ... Many respondents [to a prior consultation] are suspicious that the change to a mutual structure is being driven solely by shareholders' considerations without sufficient regard to customers' interests.

The paper goes on to note that one of customers' chief concerns was that:

those negotiating the price for Yorkshire Water on behalf of the mutual are not independent from Kelda and that the acquisition price may significantly exceed the current market price of the assets

Third, both the Yorkshire Water and the Welsh Water transactions raised questions about the amount of debt that the new owners were taking on and the businesses' subsequent financial sustainability. During the consultation on Yorkshire Water's proposal, Ofwat noted:

Representatives of bondholders themselves have expressed concern that the total increase in debt that they would be asked to provide, as a result of the company's investment programme, might result in a significant deterioration in the overall credit quality of the issuer.

Ofwat elaborated on these concerns when it consulted on Glas Cymru's proposed acquisition:⁸

Ofwat wishes to understand the extent to which (if at all) customers are being asked to take on additional risks compared to the shareholder model under Glas' proposals. This question arises from the fact that there will be no equity ownership of Glas and hence there is no shareholder capital to act as a 'buffer' between adverse events suffered by the company and their impact on customers.

Ofwat was subsequently able to get comfortable with the Welsh Water acquisition on the following basis:⁹

Ofwat has had extensive discussions on the financing plan with Glas, the credit rating agencies and other City institutions both during and since the consultation, and has taken advice from its financial advisors Deloitte & Touche. Glas' structured debt approach is a new form of financing for a regulated water company and therefore there must be an element of risk to the proposals ...

⁸ Ofwat (2000), The proposed acquisition of Dwr Cymru Cyfyngedig by Glas Cymru Cyfyngedig: a consultation paper by Ofwat, available at [https://webarchive.nationalarchives.gov.uk/ukgwa/20081105181632mp_/http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/glass_final.pdf/\\$FILE/glass_final.pdf](https://webarchive.nationalarchives.gov.uk/ukgwa/20081105181632mp_/http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/glass_final.pdf/$FILE/glass_final.pdf)

⁹ Ofwat (2001), The proposed acquisition of Dwr Cymru Cyfyngedig by Glas Cymru Cyfyngedig: a position paper by Ofwat, available at [https://webarchive.nationalarchives.gov.uk/ukgwa/20081106051543mp_/http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/glas_decision_31jan.pdf/\\$FILE/glas_decision_31jan.pdf](https://webarchive.nationalarchives.gov.uk/ukgwa/20081106051543mp_/http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/glas_decision_31jan.pdf/$FILE/glas_decision_31jan.pdf)

Ofwat has confirmed that Glas has secured commitments from its financiers, including MBIA (a US-based credit insurance company) which will be insuring a large proportion of the bond issue, and most of Dwr Cymru's existing lenders.

The risk of the company failing is also reduced because the purchase price is at a discount to the RCV. This provides implicit reserves in terms of the borrowing capacity of the company from the beginning. It intends to add to these reserves through the retention of trading surpluses, up to a projected level of £350m by 2004-05. Ofwat understands that Glas will initially also have committed credit facilities of around £150m to provide additional liquidity to meet unanticipated capital needs. Ofwat accepts that these reserves should provide a measure of protection against cost shocks.

(NB: most monoline credit insurers, like the above-named MBIA, exited the market for UK regulated company debt after the 2008 global financial crisis.)

Ofwat did, however, sound a note of caution:

In the short-term therefore the financing plan appears to be satisfactory. Assuming Glas achieves trading surpluses, the arrangements should not compromise Glas' ability to issue new debt to fund its capital investment requirements in the period 2000-05 ...

In the longer term there is greater uncertainty. There can be no guarantee that contract prices will be reflected in price limits. There is, therefore, a risk that if Glas does not retain sufficient flexibility in its operations contracts or its financing, it may be unable to make the efficiency savings required at future Periodic Reviews. It would then need to fall back on its reserves and that would test its robustness.

(NB: The general tone of Ofwat's final paper approving Glas Cymru's takeover was one in which Ofwat had concluded that it should not stand in the way of a transaction that the National Assembly for Wales was actively championing, but instead took the view that it could watch and let the market decide whether the new company succeeded or failed.)

Fourth, a lot of words were written about the incentives that the companies would have and the behaviours they would exhibit in the absence of shareholder pressure. In its initial consultation on the Welsh Water acquisition, Ofwat said:

The water companies have become more efficient following privatisation in consequence of the combined pressure from shareholders and the system of incentive-based regulation under which they operate. Under this incentive-based framework, Ofwat has set price limits which allow companies to cover the cost of efficient provision of operations and maintenance and allow a reasonable return on capital. Ofwat does not control profits or dividends. Companies have the scope to increase efficiency, and hence profitability, and share these rewards with shareholders and customers. Ofwat must be satisfied that the incentives for efficiency are not harmed by the absence of shareholder pressure.

In its position paper approving the transaction, Ofwat reiterated its concerns and explained how it had become more comfortable with the proposal:

In principle, Ofwat remains of the view that the incentives for Glas, as a company limited by guarantee, to make continuing efficiency savings are unlikely to be as strong as under shareholder ownership. Members may not, individually, have sufficient incentives to monitor performance and exert continuous pressure on management to achieve efficiency savings. Lenders are likely to focus largely on protection of their interest payments and capital rather than maximisation of efficiency.

However, Ofwat recognises that Glas has sought to build in other mechanisms designed to mitigate the loss of shareholder pressure. Management remuneration will be closely linked to

performance both in terms of delivering customer rebates and improving Dwr Cymru's standing in Ofwat's relative efficiency and service performance assessments. Ofwat's comparative analyses show Dwr Cymru to have been one of the least efficient water and sewerage companies. So (under any ownership) Dwr Cymru will have opportunities to demonstrate significant improvement.

The existence of a majority of non-executive Directors should help Glas and Dwr Cymru maintain a commercial focus. Glas will be required to give an undertaking to ensure that the Board maintains this majority. Customer pressure on Glas to adhere to its public statement on rebates should provide further incentives.

The involvement of MBIA, which is to insure a large proportion of Glas' bond issue, will also reinforce these pressures, as it will have stronger incentives and resources to monitor Glas' performance than ordinary bondholders, and should therefore provide an external commercial pressure to perform.

5. Conclusion

It follows from the discussion in this paper that any future mutual company must be able to demonstrate that it:

- has the capacity to finance its future investment programme;
- is not a 'dumping ground' to enable owners of poor-performing companies to exit at an above-market price;
- does not confiscate assets from shareholders at below-market prices;
- has the support of the communities it seeks to represent;
- is resilient in the face of downside shocks;
- can demonstrate that there are continuing incentives for cost efficiency, timely delivery of investments and good service quality / environmental performance; and
- is accountable in the event of poor performance.

This is a sizeable checklist. Ofwat and the UK government were concerned 25 years ago that it might not be possible for a mutual company to satisfy all of these criteria. If anything, the changes that there have been since this time (e.g. the upswing in the industry's investment programme, the greater demands that lenders nowadays place on companies) make it even more of a challenge for proponents of mutualisation to show that a change of ownership would be in the long-term interests of the communities they seek to represent.

Annex 1: Glas Cymru's Performance

Glas Cymru took ownership of Welsh Water 25 years ago. Many of the fears that Ofwat expressed (see section 4) did not come to pass: the company has been able to raise the debt that it has required; it has maintained a solid investment-grade credit rating; and its performance has been broadly 'in the pack' with the shareholder-owned companies in England.

A 2020 paper by Chris Jones, Welsh Water's former CEO, and two Oxford University researchers concluded that:¹⁰

Overall, Welsh Water has performed relatively well against regulatory, customer, and operational performance benchmarks [set by companies in England] over the past two decades, thus demonstrating that a commercial, non-shareholder-company limited by guarantee can effectively and efficiently provide water and waste-water services.

A 2024 report by the Welsh Parliament's Climate Change, Environment and Infrastructure Committee was more critical:¹¹

The pressures facing water companies in Wales and the rest of the UK are well-known: archaic infrastructure, population growth and the effects of climate change. Nonetheless, water companies have statutory duties to fulfil, regulatory requirements to adhere to, and service commitments to meet. Based on Dŵr Cymru's latest performance reports, it is struggling with some of these.

Within a two-year period Dŵr Cymru's environmental performance, assessed by NRW, has dropped from a 4-star 'industry lead' rating to a 2-star rating, with the company classed as in need of improvement. Not only that, its wider performance has been categorised as 'lagging' by Ofwat for the second year in a row. This is deeply disappointing. Dŵr Cymru's current level of performance must not become the norm.

The industry's latest 2025/26 annual performance reports have Welsh Water (WSH) in the middle of the pack as regards over-spending against PR24 totex allowances but mark the company out as the business with the second-highest net performance penalties.

Figure A1: 2025/26 performance (RORE)

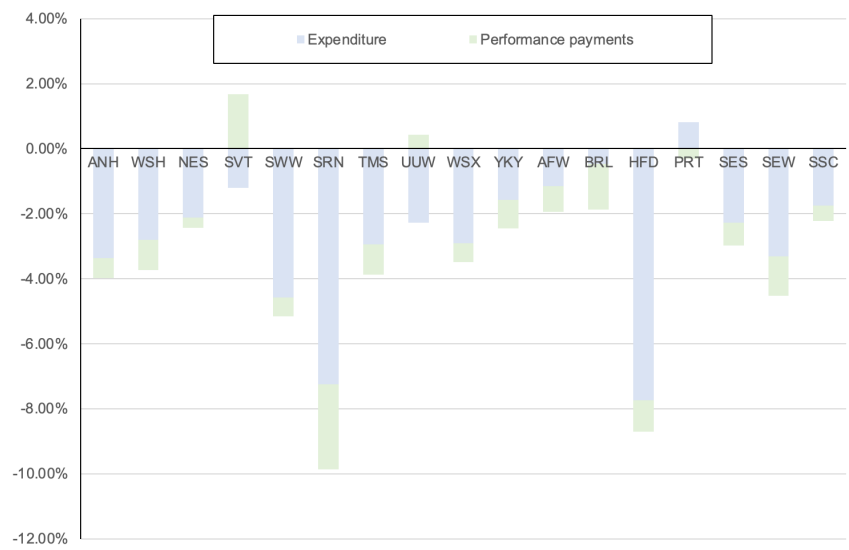


¹⁰ Jones, Metzner, Stroehle (2020), Welsh Water: A model for the purposeful ownership of a utility, available at <https://www.sbs.ox.ac.uk/sites/default/files/2021-04/welsh-water-case-study.pdf>

¹¹ Climate Change, Environment and Infrastructure Committee (2024), Report on performance of Dwr Cymru, available at <https://senedd.wales/media/lijmntov/cr-ld16328-e.pdf>

This is not dissimilar to the positioning of the company during the previous 2020-25 control period.

Figure A2: Average 2020/21 to 2024/25 performance (RORE)



Note: the RORE measure translates £m under-/over-spending and £m performance rewards/penalties into equivalent percentage points on or off the regulator’s allowed return on equity.

The overall picture this presents is consistent with the findings of the independent Water Industry Commission last year:¹²

There is no clear relationship between ownership models and outcomes

¹² Independent Water Commission (2025), Final report, available at: https://assets.publishing.service.gov.uk/media/687dfcc4312ee8a5f0806be6/Independent_Water_Commission_-_Final_Report_-_21_July.pdf

Annex 2: Mutualisation and the cost of capital

One of the talking points 25 years ago centred on the impact of mutualisation on the cost of capital.

Kelda and especially Glas Cymru argued that their structures would reduce financing costs. They pointed out, in particular, that a mutual company does not have to pay returns to shareholders and argued that this constitutes a saving that can be passed on to customers.¹³

This point of view was disputed by a number of commentators¹⁴ who made the following points in response:

- first, it was argued that the aggregate risk borne by investors that finance 100% of a company's RCV via debt should not logically be any different from the aggregate risk borne by investors that finance 100% of the RCV via equity or, for that matter, by any group of investors that finance the RCV via a mix of the two types of capital; therefore
- if lenders were to set a lower required return for a wholly debt-financed company, this could only be –
 - because the company has entered into covenants that reduce business risk (e.g. because they have committed not to invest in unregulated businesses) – a course of action that is equally open to conventional shareholder-owned companies; or
 - because risk must have been transferred away from investors and on to customers (e.g. because investors consider that the regulator is more likely to help a mutual company in the event that it encounters financial difficulties).

An analysis of Welsh Water's actual track record indicates that Welsh Water has been able to demonstrate a modest amount of customer benefit as a result of its financing structure.

Table A1: Return of value to customers, 2001-20

Period	Type	Value
2001-05	Customer rebates	£23m
2006-10	Customer rebates	£129m
2011-15	Social tariffs	£22m
	Additional investment	£114m
2016-20	Social tariffs	£37m
	Additional investment	£116m
Total		£441m

Source: Jones, Metzner, Stroehle.

The £441m in the final row of the table is the equivalent of £15 per customer per year. (NB: care must be taken with some of these entries because shareholder-owned companies in England also voluntarily funded social tariffs and undertook additional discretionary investments in the period prior to 2020.)

¹³ Note that the saving was to be passed on to customers via rebates of customers' bills. Glas Cymru could not commit to lower prices upfront because it needed to collect the full amount of Ofwat's allowed return in order to meet the rating agencies' tests for interest cover.

¹⁴ A good summary of the debate at the time is given in a 2002 report by Oxera for Ofwat. See Oxera (2002), The capital structure of water companies, available at: <https://www.oxera.com/wp-content/uploads/2018/03/Ofwat-capital-structure-of-Water-Companies.pdf>

However, looking back, it is clear that the directors have had to prioritise using any financing savings that the business has unlocked not to fund customer rebates or additional spending but to reduce the business's gearing level. Welsh Water's current gearing as at 31 March 2026 was 61%, down from 93% in 2001. It is questionable whether this can be regarded as a 'benefit' to customers, given that the effect of the de-gearing has simply been to move Welsh Water from an abnormal to a normal debt-to-RCV ratio.