



The Water Framework Directive: Position Paper

This EU Directive, which came into force on 22 December 2000 establishes a framework for the protection of inland surface waters, coastal waters, and groundwater, in order to prevent and reduce pollution, promote sustainable water use, protect the aquatic environment, improve the status of the aquatic ecosystem and mitigate the effects of floods and droughts.

The Department for Environment, Food and Rural Affairs (Defra) is responsible for the development of policies to meet the Directive's objectives. The Environment Agency has been designated as the 'Competent Authority' for implementing this Directive. It has identified nine River Basin Districts in England and Wales and a further two across the English-Scottish border. We have participated in the various strands of work and in stakeholder discussions.

Implementation of the Directive will be incremental and will take place over three six-year-planning cycles. For each planning cycle the Environment Agency will develop a comprehensive River Basin Management Plan (RBMP) for each River Basin District. The Directive came into force on 22 December 2000, much preparatory work has already been done by policy makers and regulators.

Our goal

We play an active role in the implementation of the Water Framework Directive (WFD) by providing well-balanced sound information in relation to the water industry, on which decisions on appropriate measures required under the directive can be taken to ensure that:

- customers of water companies pay a fair share, but no more, of the costs of implementing the WFD over the three river basin planning cycles to 2027.

Our role

As the economic regulator for water and sewerage services in England and Wales we are working closely with the Environment Agency and other stakeholders including; Defra, water and sewerage companies and CCWater.

By 2010 companies will have invested £63 billion in capital expenditure programmes, a large proportion of which has been spent on environmental quality. At the last price review in 2004 the prices set allowed for £3.5 billion in the period 2005-10 to meet new and existing environmental obligations. Water customers are already financing much of the implementation programmes for EU Directives such as the Urban Wastewater Treatment, Groundwater and Freshwater Fish directives.

Our statutory duties outlined in the Water Industry Act 1991 (amended by the Water Act 2003) require us to regulate in a manner that allows water and sewerage companies to continue to finance their functions and operate efficiently, have regard to affordability for customers and to contribute to the achievement of sustainable development.

In line with the duties we therefore welcome the Directive in principle for three key reasons

1. It is the first Directive to incorporate economic analysis in informing policy making on the water environment.
2. It requires public participation in the development of proposals to meet environmental objectives.
3. The three river basin planning cycles allow for the development of a long-term approach.

Neither Ofwat, nor the companies will decide on the improvements expected from companies and paid for by water customers; these are for the EA to propose and the Secretary of State and Welsh Assembly Government to confirm, following consultation. However, we will use appropriate channels to ensure that the measures proposed are both fair to water customers and comply with the requirements of the WFD.

We are working closely with colleagues at Defra and the Environment Agency to identify what work may be appropriate for water and sewerage companies to carry out. As part of a wider collaborative research programme we recently published the joint Defra and Ofwat funded report: 'Water Framework Directive – economic analysis of water industry costs' (21/11/05). This report explored the development of methodologies to assess the cost-effectiveness of measures that might be taken by the water industry.

It is our view that the WFD implementation process managed by Defra and the EA should:

- adopt a realistic approach to the environmental objectives and pace of delivery.
- ensure all the improvements identified offer value for money – i.e. they are worth doing in their own right;
- incorporate a reasonable approach to risk, rather than being unduly risk averse;
- spread the burden in a fair and proportionate way across all sectors – in line with the 'polluter pays principle';
- use the exemption process to postpone measures if the information is not yet available to confirm either their need or effectiveness – perhaps by using specialised 'value of information' techniques;
- identify a realistic timetable to achieve objectives over three river basin plan periods to 2027 at the overall least cost, again using exemptions as appropriate; and
- align with the principles of sustainable development.

We believe more work is required on the cost effectiveness methodology on the measures taken, which is untried. Further work is needed to validate this methodology to ensure that all sectors are evaluated in an even-handed manner. Additionally we continue to emphasise the need for sound cost benefit analysis to inform wider policy making on the water environment. Further work is required to provide robust estimates of the benefits of the alternative measures available.

Our change protocol (published 02/12/2004) sets down procedures for dealing with changes to the improvement programmes during price periods. The protocol ensures we can deal with change in an informed collaborative way, including any new requirements occurring as a result of the Water Framework Directive.

Ofwat
March 2006