



Catchment management workshop notes 24 April 2012

Purpose

The workshop was an opportunity to engage directly with companies and listen to their views and approaches on catchment management. Moorland restoration, farmer engagement, monitoring and modelling were some of the topics discussed. The emerging benefits of catchment management and how these are being evaluated economically were of particular importance to Ofwat. The outputs from the workshop will help inform our work when developing our methodology for the next price review.

Introduction

Martin Furness, Principal Scientist, Ofwat introduced the day. Noel Wheatley, Director of Environmental Policy, Ofwat set the scene for the workshop. Four companies were invited to talk about their catchment management initiatives, how they quantified the benefits and customer engagement.

There was a breakout session with feedback in the morning, and one in the afternoon. The morning session covered the UKWIR framework and how companies could present an economic case for catchment management. The afternoon breakout session focussed on customer engagement and how Ofwat methodology could support catchment management thinking.

Martin then facilitated the open discussion session at the end of the day. Noel Wheatley and Martin responded to further comments and questions.

Breakout session 1

Question 1 – any comments on the framework and how it can best be used

- The comments on the framework were generally positive.

- The framework is a vehicle to help demonstrate to regulators the need for catchment management.
- For metaldehyde there is not a large amount of data, as it has only been collected since 2008. This will affect the measuring section of the framework
- The benefits of ecosystem valuations – this is an emerging science

Question 2 – how would you present the economic case to support your business plan submission?

- By showing direct and measurable benefits.
- Companies can start by identifying the problems. At this stage (2 years from business plan submission) companies do not know what these are.
- The benefit of having a framework is that all companies will have the opportunity to use the same approach. As it is a new framework it can be modified in future if required.
- With more reliance on customer support, some companies will end up with better assets because of customers in some areas being more willing to pay.
- Partnerships are very important. Catchment management is unusual because of the wide range of stakeholders that need to be involved. How do companies know that they are working with the most effective stakeholders?
- Catchment management solutions are uncertain, and uncertainty will grow over time. Schemes may have to run for 60 years. One way to address the uncertainty is to make catchment management schemes very flexible. There could be multi AMP approaches.
- There is a diverse range of drivers. Catchment management could have support from the DWI, EA or a combination of the two. Perhaps the best solutions will be to use a combination of blending, catchment management and treatment.
- Companies are currently living with metaldehyde non-compliance. Regulators need to be clearer on what is acceptable

Breakout session 2

Question 1 – how can customers be engaged on catchment management and how can it fit with an outcomes approach?

- Companies can use WTP to poll customers, but catchment management staff need to understand these processes better
- Companies need to think about what the message should be eg for urban customers
- There are engagement issues because of the long timeframes for catchment management. Will customers want to pay now for benefits that may be seen much later?
- Engagement is not just for water companies. What about other sectors? Government?
- Highlight the benefits of catchment management: cheaper; more sustainable; greener. Highlight risk versus cost. There is a higher risk with catchment management around compliance. This could lead to customers paying twice.
- How far are customers willing to pay the polluter?
- Catchment management is a relatively small area of business plans.
- With treatment solutions, the company is in more control over design etc. With catchment management, companies are a back seat driver, as farmers and regulators are in the driving seat. With catchment management, companies have a weaker influence than with treatment solutions.

Question 2 – how can Ofwat's methodology for the next price review appropriately support catchment management thinking?

- Companies would like the methodology now.
- CBA is not an exact science, so companies would appreciate some leeway on this.
- There should be consideration given to the Strategic Direction Statements.

- It is early days in relation to the evidence base and data, and this should be taken into account. Ofwat should give companies time whilst this develops.
- There needs to be flexibility on the solution, and consideration that one solution will not fit all.
- Companies would like clarity on how the CCGs will feed into Ofwat's decisions
- Will catchment management be treated as capex? Opex? Or what will the totex approach mean?
- Is it ok if benefits will not be seen for ten years?
- What about using catchment management for prevention, and not as a solution to a current problem? Will this be allowed?
- What will the penalties for failure be? What if the outcome is not delivered? Is catchment management a special case because of the uncertainties?
- Who must be on the stakeholder list? Will this be prescribed?
- Do we need DWI/EA support or is customer support enough?
- What will happen if partnership funding dries up?

Facilitated discussion

Martin Furness introduced the facilitated discussion. The main points highlighted during the day were recorded and then formed the subjects for the facilitated discussion. These were split into two groups of issues; those for the water industry and those for Ofwat. The following issues were discussed.

Water industry

How far should we incentivise farmers?

- It has to be targeted
- Incentivise to give long term good water quality for a long term low price
- We have already seen positive farmer engagement at the local scale, but scale up could be a problem

- It should depend on what is acceptable for customers. The CCGs could be powerful.
- There should be a mix of incentives, regulation and enforcement – if you engage with farmers and build up a good relationship then there could be difficulties in approaching them if they have not carried out good practice

Baseline of “good” practice/stewardship

- We do not have a baseline of good practice/stewardship at the moment
- With the absence of a baseline we have to act now. We cannot wait for Government to introduce a baseline.
- The influence of partners can be substantial

More funding streams to protect water resources

- The water industry is currently funding 80% of WFD schemes, and this is not likely to change for the second cycle

Carbon capture/storage to be tradeable – land based accounting

- Water companies should push Government to sign up to land based carbon markets

Regulatory alignment

- Company plans are being developed before/alongside the development of Ofwat methodology
- There are timing issues with the next price review and the NEP

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Further guidance on use of “framework”

- On the whole the feedback on the UKWIR framework was positive

Capex/opex/totex guidance

- There were a variety of approaches at PR09

- What would totex mean for catchment management?
- Will companies be told what should be capex?
- Companies could treat the first five years of a catchment management scheme as an investigation and therefore as capex. If the investigation leads to on-going work then this could be opex.

Reflect longer timeframes – over several AMP periods

- Various questions as to whether Ofwat will support catchment management that runs over several AMP periods.

Outcomes – what does it look like?

- An outcome could be compliance with drinking water standards.
- There could be multiple outcomes. There would be the opportunity for wider thinking on outcomes. Outcomes could incorporate the water service and waste water.
- Measures of success could be environmental compliance, improved water quality, raising the ecological status from X to Y etc.

Preventative actions

- Various questions around whether Ofwat would support catchment management as a preventative action not, just if there is already a problem

Partnership funding / water customers

- Various comments that partnerships are crucial for success.

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