

Information notice

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Reducing the environmental impact of over-abstraction using the abstraction incentive mechanism (AIM) – next steps

This information notice sets out our next steps in developing an ‘abstraction incentive mechanism’ (AIM) to encourage monopoly water companies in England and Wales to reduce the environmental impact of over-abstracting water at environmentally-sensitive sites when water is scarce.

Background

Water supply is an essential service. Everyone depends on it in their daily lives. So, they need to be able to rely on it.

Across England and Wales we get most of our water from sources such as rivers, reservoirs and underground aquifers (or groundwater). To take water out of the environment (to ‘abstract it’) water companies and other water users – like farmers and industry – need to have a licence. They must also pay the [Environment Agency](#) – or [Natural Resources Wales](#) – an administration fee for these licences. In 2013 an [estimated 22 billion cubic metres of fresh water](#) was abstracted across England and Wales. Water companies used about 6 billion cubic metres of this

for public supplies. The rest was used by the energy sector, farming and other industries.

In some areas, too much water is abstracted from the environment. This can cause damage to wildlife and the habitat. This is a particular problem in areas where wildlife and habitats are sensitive to the amount of water available (‘environmentally-sensitive sites’).

The [UK Government](#) and the Environment Agency in England – and the [Welsh Government](#) and Natural Resources Wales – are aiming to change the way abstraction is managed. This will, among other things, reduce abstraction so that it supports our way of life and the environment.

As the economic regulator, we also have a role in encouraging the water companies we regulate to do better in the way that they plan for, source and use water. This will benefit customers, the environment and wider society.

In 2014 we set the price, service and investment package (‘price controls’) that monopoly water

companies in England and Wales must deliver in each of the five years from 2015-16 to 2019-20. As part of our process for setting price controls, we planned to include a system that financially rewards water companies for reducing the amount of water they abstract in environmentally-sensitive areas when water is scarce – or penalises them if they increase abstraction (the AIM).

We wanted the AIM to:

- complement the rewards that encourage water companies to trade water where this is the most efficient option for balancing supply and demand;
- complement the Environment Agency and Natural Resources Wales’ measures to restore sustainable abstraction; and
- help mitigate against over-abstraction before the UK and Welsh governments’ longer-term abstraction reforms are complete.

But in ‘[Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans](#)’, which we

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

published in July 2013, we announced that water companies did not yet have the quality of information to allow us to do this. Instead we said that we would:

- develop a system (a ‘reputational AIM’) where companies are rewarded with praise, or penalised with criticism, depending on how well they perform (‘reputational incentives’); and
- implement it during 2015-20.

In ‘[Setting price controls for 2015-20 – decisions on enhanced companies and next steps](#)’, which we published in April 2014, we explained that to resolve the data issues with the AIM would require significant effort. And we committed to work with a group of water companies and other relevant stakeholders (the ‘AIM taskforce’) to do this in 2015.

Below we summarise the taskforce’s purpose, membership and next steps. Further information is available on the [abstraction incentive mechanism taskforce](#) page on our website.

The AIM taskforce

Purpose

The taskforce will be responsible for:

- proposing to us by 1 October 2015 the requirements that all companies will need to report their performance against the current AIM (‘reputational AIM’) during 2015-16 to 2019-20;

- confirming to us the list of environmentally-sensitive sites that each company in England has agreed with the Environment Agency;
- agreeing solutions to the data issues identified in earlier work on the AIM;
- presenting options to us on how the reputational incentive should work; and
- providing advice on the development of a financial incentive (the ‘financial AIM’) that we can use with water companies in 2020-25.

In earlier work, Ofwat, the Environment Agency and Natural Resources Wales identified that several companies would not be covered by the AIM. This includes Dŵr Cymru and Dee Valley Water.

We are open to the taskforce taking an innovative approach to the AIM if this benefits the environment and customers.

We expect the taskforce will operate for as long as necessary to help the reputational AIM start to operate in practice and to provide advice on the development of the financial AIM.

Membership

As part of their price controls for 2015-20, five water companies proposed performance commitments related to the AIM. These companies were:

- Affinity Water;
- South East Water;
- Thames Water;

- United Utilities; and
- Wessex Water.

These companies have agreed to be members of the taskforce. They are jointly responsible for:

- appointing an independent Chair;
- co-ordinating taskforce meetings; and
- producing notes of key points from the meetings.

Ofwat and the Environment Agency will also be members.

Next steps

We encourage all other water companies to join and contribute to the taskforce, including those we previously identified as not being covered by the AIM. We also welcome any other stakeholders that may have an interest in this area to become members, including environmental bodies.

If you would like to register your interest in joining the AIM taskforce, please contact Jon Ashley at jon.ashley@ofwat.gsi.gov.uk by Friday 22 May 2015.

Enquiries

If you have any questions about this information notice, please contact abstraction@ofwat.gsi.gov.uk.

More information

[Environment Agency website](#)

[Natural Resources Wales website](#)

[Welsh Government website](#)

[Water companies' business plans and CCG reports web page](#)

[Annual water abstraction estimates for England and Wales, www.gov.uk](#)

[Protecting our water sources: the future of abstraction reform, www.gov.uk](#)

[Abstraction incentive mechanism taskforce web page](#)

[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans, July 2013](#)

[Setting price controls for 2015-20 – decisions on enhanced companies and next steps, April 2014](#)

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Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.

