

Ofwat's Water2020 proposals: How they will benefit our natural environment?

Water and wastewater services are vital for public health, for our economy and society. Across England and Wales we all rely on them every day. Delivering these services requires a healthy environment. But rising population growth and other challenges mean that, if we are to continue to have trust and confidence in these services, the way they are delivered needs to change and evolve. Our proposals are designed to protect current and future generations' interests, and bring resilience to our water supplies and natural environment beyond 2020. We welcome your views.

Key proposals

As the economic regulator, it is our job is to hold water and sewerage companies accountable for delivering services to their customers and the environment. The two main ways we do this are:

- deciding the price, service and investment package ('price controls') that the monopoly companies must deliver to customers that are unable to choose their supplier; and
- making sure that where markets exist for water and wastewater services they work fairly and in consumers' best interests.

It is important that we get it right because these things affect:

- the bills that customers pay and the services they receive; and
- the services that companies deliver to the environment and wider society.

A number of challenges now mean the way that water and wastewater services are delivered needs to change. For example, many rivers are at risk of too much water being taken out ('over abstraction'), especially those in the south east of England. Over abstracted rivers face environmental damage, while customers continue to require resilient sources of drinking water. So that's why we have been looking at how the sector needs to change– but also how we can continue to get the best deal for customers to 2020 and beyond.

We plan to build on our 2014 price review approach, which kept bills down and drove service up through...

Customer engagement

Conversations with a quarter of a million people

Outcomes for customers

522 tailored performance commitments

That won't be enough if we are to meet new challenges...



Stretched water resources and rising population

Forecast 20% population rise over 20 years, much of it in drier areas

Protecting environmental water quality

Four out of five water bodies do not meet appropriate environmental standards

Developing and maintaining resilience

Services and systems – such as financial and ecosystems – need to be able to anticipate trends and withstand and recover from shocks now and in the future

Tackling affordability

Bills will drop 5% in real terms by 2020, yet one in five customers do not feel their bill is affordable

Smarter water use

Potential benefits of £1 billion from encouraging water trading – better sharing of resources across company boundaries benefits customers and the environment

Releasing power from waste

Treated sewage produces sludge which can create energy and other things. A sludge market could unleash more sustainable energy generation and lower bills

Targeted intervention

Stepped in to reduce time lost to supply interruptions by a third

Encouraging innovation

Totex led to new approaches and helped deliver £3 billion savings

...and if we carry on regulating the same way, we will not drive the efficiencies we need

-£39

2000 to 2005

-£18

2005 to 2010

-£11

2010 to 2015

Value of efficiency savings (bill) (2012-13 prices)

When we set prices in 2019, we propose to keep what works well, while making changes to help the sector meet the long-term needs of customers, society, the environment and investors...

A better, more legitimate measure of inflation

Bills and company returns are linked to RPI inflation. A phased move to CPI will help maintain trust and confidence and reduce bill volatility

Better customer conversations and a long-term approach

Encouraging companies to move to a deeper understanding of what customers want, including over the short and long term

...but stability in this sector is vital so certain changes will require a managed transition. That is why we are continuing to protect investment made (the RCV) as at the end of 2020

In our [Water2020 consultation](#), which we published on 10 December 2015, we are seeking views on how we can improve water and wastewater services. Our plans could mean that:

- the sector is better incentivised to move water around, to help protect areas that already have pressured water resources.
- water companies will need to listen harder to what their customers want;
- customers' bills would be linked to the more appropriate consumer price index (CPI) rate of inflation; and
- water and wastewater bills are lower in the future by water companies making more energy from sewerage sludge.

Below we set out why these proposals will help deliver a better protected and more resilient natural environment.

What our proposals mean for our natural environment

The proposals on which we are consulting will provide more resilience to the environment in terms of:

- removing barriers to water trading; and
- incentivising the most sustainable solutions where water is a scarce resource.

Since privatisation, our natural environment has benefitted from billions of pounds of investment. Water companies deliver their environmental

duties through the Natural Environment Programme. We make sure that they have sufficient finance to be able to do this. But the challenges to the future of our natural environment mean we need to create a regulatory framework that enables companies to:

- take the right decisions for the benefit of the environment; and
- understand their customers' priorities.

Improving our natural environment

Already, 25% of water bodies in England and 7% in Wales are only reliable sources for companies to abstract about 30% of the time. That means rivers in some areas are only a reliable source of water for four months of the year. This is particularly true in south-east England, where population growth – and an increasing demand for water – is forecast to continue.

There is also more work that needs to be done for the rivers and other water bodies in England and Wales to be a healthy and sustainable environment, and satisfy the requirements of the Water Framework Directive.

The effects of climate change are predicted to impact further on the water that is available, especially in south-east England. On top of that, the UK's growing population is putting further pressure on the natural environment, which is resulting in too

much water being taken from rivers and other water bodies.

Trading water and addressing over-abstraction

We want to make it easier and more rewarding to move water around, especially in the south-east of England, where water is already a scarce resource. If water companies can move water between them, it may reduce the pressure in water-scarce areas, allowing water to be abstracted by other sectors such as agriculture without risking the environment.

All sectors need to work together across traditional boundaries to deliver the most sustainable solutions. No longer can providing a drinking water supply come at the expense of our natural environment. An improved natural environment and a safe drinking water supply relies on the resilience of the other. That is why by encouraging more water trading, and unlocking £1 billion of benefit the sector will deliver greater resilience, protect already overly-abstracted rivers, and share in the environmental and financial benefits. A win-win for customers, the environment and companies.

At the 2014 price review we committed to looking again at how the regulatory framework can incentivise better and

more sustainable abstraction. On 26 November 2015, we published a short consultation on the [abstraction incentive mechanism](#) (AIM). It will take a multi-solution approach to providing more resilience for our drinking water supplies and protecting the environment. Our proposals for the AIM – on water trading and preparing the sector for upstream reform, will remove barriers to more resilient supplies.

Developing new opportunities for sludge management and renewable energy

Water companies also take away our waste and stop it from polluting the environment. After treating that waste, companies are left with a product called 'sludge'. It used to be that sludge left at the end of the treatment process was thrown away or sometimes used as a fertiliser. But new technologies, some of which are used in other industries, mean that it can be used to generate power through anaerobic digestion. Our proposals aim to reveal information to show where water companies could work with other industries to maximise the benefits of energy from waste to deliver lower bills for customers and develop more sources of renewable energy.

If you want to find out more and contribute your voice on this vital public service, please read and respond to our consultation by 10 February 2016.

More information

[Water 2020: Regulatory framework for wholesale markets and the 2019 price review](#), Ofwat, December 2015

[Towards resilience: how we will embed resilience in our work](#), Ofwat, December 2015

[UK Consumer Price Statistics: A Review](#), Paul Johnson, January 2015

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.

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