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**Ofwat consultation:
Water 2020: Regulatory framework for wholesale markets and the 2019 price review**

The NFU represents more than 47,000 farming businesses in England and Wales and, in addition, some 40,000 countryside members with an interest in the countryside and rural affairs.

The overwhelming majority of our members rely wholly or partially on mains water supply to meet their domestic and/or 'general purpose' business needs such as cleaning processes and livestock drinking. Some horticultural producers, particularly those growing salads and fruit, rely on mains water for its quality and security of supply.

The farming and growing sector is particularly interested in future challenges related to water scarcity and the relationship between water security and food security, particularly during dry and drought conditions.

Our interest in Water 2020 is focused on farmers and growers as:

1. Customers of mains water

As business and domestic customers, farmers and growers are interested in the affordability of water, but perhaps even more - in view of the geographical isolation of farms - the level of service provided by their supplier. Farmers' interest in access to mains supply increases during times of water scarcity and droughts if they have to contend with, for example, reduced mains pressure (at the end of the pipe) and reliable access to water for livestock drinking. We suspect that farmers are a good example of customers who could be vulnerable and in need of protection when things go wrong.

2. Competing abstractors of water

Farmers and growers (particularly those who grow high value fruit and vegetables) rely on direct abstraction of water, especially in the more water-stressed catchments of the south and east of England. Irrigated crops need to receive water in the right place in the right volume at the right time. The licensed allocation of 'Water for Food' tends to be sufficient in years of normal/average rainfall but spray irrigation practices can face severe pressures during periods of drought and dry weather. We will be taking an active interest in Defra's abstraction reform proposals to understand where the essential need of water for food production sits alongside the essential need for public supply provision and the need to protect the environment

The continued development of water storage (on farm or otherwise) is the single most important means to improving water security and resilience to climate change. We would like to see water companies outline any steps that they are taking to work with farmers to identify opportunities for the construction of multi-use storage reservoirs or on rainwater harvesting projects.

The NFU is committed to engaging in discussions to find multi-sector solutions to water resource challenges whenever possible. For example, we are pleased to be involved in the

Water Resources East Anglia (WREA) project led by Anglian Water which is looking at long term water solutions for public supply, farming and the environment.

3. Land managers

The activities of farmers and growers can have an impact on the quality of drinking water.

One of the biggest challenges facing agriculture is the need to produce more food whilst minimising its impact on the environment. Farmers can deliver this ambition with the help of new technologies, good advice and access to research and development; and a supportive catchment management approach could be an important aspect to the mix.

In advocating further expansion of the catchment approach in the Water 2020 process, we would like to highlight a number of lessons learned that are critical elements to the success of future catchment management planning, including:

- Early farmer engagement and involvement
- The gathering and dissemination of good, robust evidence
- Appropriate, local, trusted advisory services
- Appropriate incentives.

4. Customers of sludge

The use of sewage sludge on farm as a fertiliser, under safe conditions for human health and the environment, is a good opportunity to reuse valuable nutrients on land. Reserves of nutrients such as phosphate are under continued pressure so their use as a fertiliser is a good reuse that also achieves aims outlined within the European Commission's circular economy package.

Consultation questions

SQ1 Do you agree with our proposals for making a greater use of markets in relation to sludge and water resources?

We understand that the proposals focus on wholesale markets and the opportunities for new resources to be traded between water companies. We agree that increased trading of water between wholesalers could help to secure long term supplies for customers and may have indirect benefits for other abstractors such as farmers and growers. These benefits could be particularly valuable in water stressed areas.

But how will these proposals work in practice? We still have some difficulty in reconciling the clear need for more resilience in the water supply network with the principles of greater competition in the market place for water company services as intended with introduction of upstream reform. Accountability and reporting responsibility around markets will have to be transparent.

Farmers and growers will have many questions about the future security of mains water piped onto farms. For example, what are the risks to customers if a public water company loses a significant proportion of its market share? Will it still have finances available to continue to repair and improve its assets? What could happen to the ownership of an asset if a proportion of customers being served by that asset transferred to another water company? Where bursts occur on farmland or there is a reduction in mains pressure, is there any risk of a delay in response as water companies contest responsibility?

It is not clear to us how upstream reform will impact on the investment by wholesalers in resource development; and we are concerned about how competition may impact on customer prices – particularly those farmer customers in rural locations who are near or at the end of the service pipe. We do not understand how the retail sector can or will contribute to improved water resource resilience.

The voice of British farming

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There may be some future enthusiasm amongst farmers to build reservoirs for storing surplus water for trading outside the sector, but we suspect that this will remain a low priority for them for some time. Notwithstanding licence trading opportunities to be made available through abstraction reform, there are still fiscal and planning barriers to overcome before such trading becomes financially viable.

An information platform to provide information such as costs and other company performance criteria would assist NFU members in understanding how much they should be paying for these services and increase competition in the market. But market distortion could arise as operators gain an understanding of the willingness to pay of different customers in different areas and sectors. It will be essential for Ofwat to develop a system that avoids any prospect of price fixing.

The existing biosolids assurance scheme has been established with collaboration from the majority of water companies to improve and homogenise the quality of sludge spread to land. An increase in the number of companies who undertake these operations, particularly where sludge isn't the primary waste type they treat, could undermine these developments. We are concerned therefore about a potential increased risk of sludge being provided to farmers which has not been properly treated. New operators should be required to demonstrate competence in sludge treatment.

SQ2 Do you agree with our proposals in relation to the future form of regulation for the sector?

The regulatory approach needs to achieve a balance between certainty and flexibility. We agree that the regulatory model should be capable of:

- Evolving over time to reflect changing pressures such as population growth and climate change;
- Catering for different pressures in different areas
- Reflecting the different characteristics of water and wastewater supply

We agree that the regulatory framework should be based on wider consideration of other stakeholders such as farmers who exert an influence over the water environment. For example the catchment approach offers opportunities for different sectors to work together towards meeting environmental objectives.

We also welcome the ambition of better co-ordination through engagement and partnerships that may help to improve the resilience not only of the public supply sector but of other sectors such as agriculture.

SQ3 Do you agree with our proposals in relation to customer engagement and outcomes?

In general, we agree with Ofwat's proposals in relation to customer engagement and outcomes. In our view, the creation of Customer Challenge Groups (CCGs) as part of the PR14 process was a worthwhile initiative that should be further developed in future.

Our experience of representing farmers and growers on CCGs was broadly positive but it is pleasing to note that Ofwat is aware of issues such as access to independent information, lack of technical expertise of 'layman' delegates, etc with a view making improvements to the process for PR19. We believe there is room for improvement in guidance setting out the role and remit of CCGs and their members.

We believe that CCGs could play a useful role in discussion of longer term plans and strategies (beyond PR19), particularly where they can adequately reflect different types of customers. We have already described farmers as both domestic and commercial customers, fellow abstractors, land managers and potential customers of biosolids.

We note with interest the potential for using alternatives to 'willingness to pay' research, which we welcome.

We do not think that the remit or membership of CCGs should be too prescriptive, and we agree that CCGs should be responsive to local geography and customer demographics.

We agree that CCGs would find it beneficial to be provided with some bench-marking of water company performance as part of the engagement process.

We also think that there is an important role for wider customer engagement beyond the CCG; they must not be perceived as a substitute for this wider engagement. This will be particularly important for customer engagement with the new market for non-household water customers.

SQ4 Do you agree with our proposal to extend protection of the RCV to 2020?

We have no comments to make.