

27th January 2017
Ref – GH/JB



Ofwat,
Centre City Tower,
7 Hill Street,
Birmingham,
B5 4UA

By e-mail to: water2020@ofwat.gsi.gov.uk
cc jon.ashley@ofwat.gsi.gov.uk

Natural England
Suite D
Unex House
Bourges Boulevard
Peterborough
PE1 1NG

Tel: 0777 044 2809

Email:-
jonathan.burney@naturalengland.org.uk

Dear Ofwat,

A consultation on the outcomes framework for PR19

Thank you for the opportunity to comment on Ofwat's consultation on the outcomes framework for PR19.

Water industry funding to reduce the harm and restore the damage to the environment caused by abstraction and waste water disposal makes a major contribution to biodiversity delivery and Natural England regards PR19 as a key delivery mechanism for both designated sites and the wider countryside. The latter includes where water company catchment measures overlap with our Area Team Focus Areas and link to our Catchment Sensitive Farming work.

Please find enclosed our comments. We are still developing our thinking on the application of performance commitments and Outcome Delivery Incentives in practice and therefore wish to explore with Ofwat how our ambitions around environmental metrics and biodiversity outcome measures can best be progressed.

Please do not hesitate to contact me if you would like to discuss any aspect of our response. Otherwise our PR19 co-ordinator, Graeme Hayes (graeme.hayes@naturalengland.org.uk), will be in touch to follow up on our comments.

Yours faithfully

A handwritten signature in black ink that reads "Burney".

Jonathan Burney
Director, Government Advice

- **Ofwat consultation on the outcomes framework for PR19**

- **Submission by Natural England**

- **1. Introduction**

- **1.1** Natural England was established under the *Natural Environment and Rural Communities Act 2006*. We have been charged with the responsibility to ensure that England's unique natural environment including its flora and fauna, land and seascapes, geology and soils are protected and improved.
- **1.2** Natural England's purpose as outlined in the Act is: 'to ensure that the natural environment is conserved, enhanced, and managed for the benefit of present and future generations, thereby contributing to sustainable development'.
- **1.3** Water industry funding to reduce the harm and restore the damage to the environment caused by abstraction and waste water disposal makes a major contribution to biodiversity delivery and Natural England regards PR19 as a key delivery mechanism for both designated sites and the wider countryside. The latter includes where water company catchment measures overlap with our Area Team Focus Areas and link to our Catchment Sensitive Farming work.
- **1.4** We are keen to explore with Ofwat how our ambitions around environmental metrics and biodiversity outcome measures can be progressed and, where appropriate, taken forward through the PR19 [Performance Commitment and Outcome Delivery Incentive] methodology.

2. Comments

2.1 General comments: We welcome inclusion of the environment in the Outcomes definition. The understandable customer focus is on the immediate issues such as customer service and bill affordability, but the benefits from an improved environment extend beyond those experienced by customers in a specific water company area. This means that water companies' investment needs to reflect the wider responsibilities than to their own customers alone. We would be interested in Ofwat's views on how this wider responsibility issue might best be addressed, including through the work of Customer Challenge Groups (CCGs).
In our comments below we suggest additional ways to measure performance to reflect the way in which water industry investment can generate not only immediate environmental benefits and resilience but also wider social benefits. We wonder if CCGs could be asked to work with customers to explore these aspects.

2.2 Key comments. We provide more detailed comments below around the consultation themes and questions, but in summary our key points are:

- A wish to explore with Ofwat the use of biodiversity comparative information, and how Performance Commitments and Outcome Delivery Incentives can be used to help the natural environment.

- We offer some specific suggestions on ways the proposed common performance commitments could be strengthened from a natural environment perspective.
- A desire to see the outcomes approach broadened to include the wider environmental and societal benefits from water company investment, with multiple public benefits delivered where possible from investment.
- A wish to ensure that the resilience of the natural environment is given due weight in the outcomes approach, acknowledging the need for ecosystems to be resilient and robust to pressures such as pollution and water availability in the context of other factors such as climate change.

Consultation SECTION 1: Stretching commitments:

Q1: What is your view on the use of improved information, including comparative performance information, to make performance commitments more stretching?

2.3 We are keen to explore the development of comparative performance information that supports biodiversity delivery by water companies and see potential in using the DiscoverWater 'strategic dashboard' to share associated comparative information. Areas that we are keen to explore, either for the 'dashboard' or as potential Performance Commitments include:

- Use of data we hold on water company contributions to the condition of Sites of Special Scientific Interest (SSSI). The water companies are represented on our SSSI Major Landowners Group (some of which e.g. Yorkshire Water already make regular use of our SSSI 'CMSi' database), so we will initiate a dialogue via this channel.
- Possible comparative information & Performance Commitments on how well water companies are delivering under their duty to 'have regard' to conserving biodiversity (including towards Priority Habitat and Priority Species) under The Natural Environment and Rural Communities Act 2006 (NERC Act). This could include whether water companies have up to date biodiversity action plans that look beyond their estate, including an associated implementation strategy and review regime.
- Measures of water company pollution impacts on both marine and terrestrial biodiversity designated sites may be another area for comparative information and help inform future performance commitments

We would be interested to explore these proposals further with Ofwat (as well as with the water companies on our Major Landowners Group and with Water UK).

Q2: What is your view on the common performance commitments we are suggesting for PR19?

2.4 'Water quality compliance' performance commitment (number 2). We suggest this might be better titled 'Drinking water compliance', to avoid any potential confusion with the water quality of rivers, coastal waters etc. We consider there is a genuine resilience dimension to this particularly with regard to future risks to raw water quality (impact of nitrates, metaldehyde etc) which then impacts on deployable output for supply. We would welcome Ofwat's use of the Performance Commitments or underpinning ODIs to capture how the company is proactively addressing those risks (e.g. through catchment schemes).

2.5 'Water distribution input' (number 4). We regard it as critical that companies set out how water scarcity has been factored in to their assessment of Sustainable Economic Level of Leakage (SELL). This should clearly reflect existing over-abstraction pressures on the environment and drought

resilience (reliance on drought permits from sensitive waters in the event of drought). Such 'externalities' are not readily monetised and are therefore often not factored into the assessment of economic levels of leakage. SELL should clearly reflect the higher value of water in water stressed areas where the environment is already under pressure and vulnerable to future pressures.

2.6 'Abstraction Incentive Mechanism' (number 5). We welcome inclusion of an indicator concerning the Abstraction Incentive Mechanism (AIM) and would be keen to input to the development of this. As identified in the consultation document, we appreciate that such an indicator will be focussed only on sites that are environmentally sensitive to abstraction and hence only a subset of water companies. We see its value hinging greatly on the integrity of the process by which AIM sites have been selected and baseline and trigger values set. We recognise this work is still in its infancy but note that rather few sites have thus far been included given the widespread nature of the problem revealed by EA's sustainable abstraction programme.

2.7 'Wastewater Pollution Incidents' (number 7). We support the use of Category 1, 2 & 3 pollution incidents that are readily reportable. However, we suggest it would also be valuable to include metrics on permit compliance. This can identify more chronic issues that need to be addressed, which don't necessarily cause acute pollution incidents but can be significant over time.

2.8 'Asset Health wastewater – Sewer collapses' (number 9). We suggest this is a rather narrow way to define wastewater asset health. Other data on blockages, spill events, pump failures, sewer infiltration rates, and CSO spill frequency would all help to build a more rounded picture of asset health.

2.9 'Resilience' (number 10). We recognise that the other Performance Commitments, if framed correctly, essentially contribute towards general resilience building in the environment as well as in the water and wastewater supply systems. It is important that that the ecological resilience of the natural environment is given due weight recognising that ecosystems need to be resilient and robust to pressures such as pollution and water availability in the context of other factors such as climate change. We would highlight the linkages between environmental resilience and water supply/wastewater system resilience such as:

- Natural Flood Management and SuDS approaches providing protection to Water Company Assets
- Good raw water quality improving flexibility in supply options
- River restoration improving resilience to abstraction and discharge.

In light of Ofwat's sustainability and resilience duty and the adoption of a long term perspective, one option would be to consider a common performance commitment focussed on delivery of environmental outcomes. This could be focused on maintaining and improving (or sustaining and restoring) the natural environment. We are aware Bristol Water is developing a relevant biodiversity metric and would be pleased to contribute to further discussions linked to this approach.

Q5: What factors should we take into account in our guidance on setting performance levels for bespoke performance commitments at PR19?

- **2.10** We are interested to explore the scope for a bespoke commitment(s) in relation to the pace of a water company's biodiversity delivery, such as the rate of improvement to the condition of SSSIs on their land or under their influence. As an illustration, we are aware that a comparable metric is included in a Severn Trent ODI that we understand is working well.

SECTION 2: More powerful Outcome Delivery Incentives (ODIs)

Q7: What is your view on the options for increasing the power of reputational and financial ODIs at PR19?

2.11 We are keen to better understand further how ODIs might apply to the types of biodiversity metric we have mentioned above, including the relative influence of financial as against reputational ODIs. Our awareness of use of a wastewater pollution ODI by South West Water suggests that a more standardised approach across companies could be helpful in some circumstances. We recommend any ODI related to waste water pollution must be focussed on the outcomes for the environment, i.e. reduction in harm to the environment from waste water pollution, rather than on the number of pollution incidents in a particular category.

SECTION 3: Reflecting better resilience:

- **Q8: What is your view on our proposals for better reflecting resilience within the outcomes framework?**

- **Q9: What is your view on the options and our preferred approach to asset health outcomes?**

2.12 We welcome the reference to: "...protect the natural environment now and in the future..." as part of the approach to resilience. However there is a need to enhance the natural environment as well as protect it, in order to deal with changing conditions including from climate change. We suggest an environment resilience metric that is different from those relating to infrastructure protection and protection of customers' water supply would promote the multiple benefits customers receive from water company activities (including for example access and recreational benefits).

We note and welcome the opportunity for further discussions on resilience, especially Ofwat's plan to hold a resilience event in March/April 2017 and would be pleased to contribute to further discussions on this aspect.

Natural England
27th January 2017