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A consultation on the outcomes framework for PR19

January 2017

WWF welcomes the opportunity to respond to this consultation and appreciates Ofwat's continued openness to work with us, and other NGOs, to ensure that the water sector delivers for customers and the environment. We have responded with the wider Blueprint for Water coalition and include some more specific comments below in addition.

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

- 1.1 WWF is supportive of Ofwat's proposed approach to set common, stretch outcomes for PR19 (whilst leaving space for companies to innovate and develop bespoke outcomes). With just 17% of English rivers in good ecological health – and the water sector responsible for a third of reasons for failure – combined with the pressures of climate change and population growth, action is urgently needed to drive progress above and beyond regulatory minimum.
- 1.2 Given the uncertainties associated with Brexit, and speculation about the future of the Water Framework Directive and Urban Wastewater Treatment Directive in particular, WWF continues to look to Ofwat to make clear the importance of compliance with European environmental obligations in this AMP. This must be reflected in the outcomes framework and Ofwat methodology for PR19.
- 1.3 We support the comparable approach, method to gathering information, regular public disclosure (reputational incentives) and Ofwat imposed financial ODIs. We are concerned that leaving the degree of financial reward to companies for the comparable set potentially undermines the extent that these measures are taken seriously and driven forward by company Boards and Management Teams. Financial ODIs should comprise upsides as well as downsides as appropriate. For example, we feel strongly that no company should have a performance incentive attached to wastewater pollution incidents (category 1, 2 and three). We agree that this is a crucial performance indicator but do not expect companies to be financially rewarded for compliance with the law.



President: His Royal Highness,
The Prince of Wales KG, KT, GCB, OM

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2. What is your view on the common performance commitments we are suggesting for PR19 (Q2)?

- 2.1 The outcomes should reflect Ofwat’s resilience duty and thus underline the importance of long term planning, the sustainable management of water and emphasise demand management. Given this, Ofwat should ensure that the final set of common performance commitments for PR19 include the following:
- 2.2 **An overarching environmental performance commitment – Good Status in relation to the Water Framework Directive is the critical indicator** given that it reflects all company impacts on the environment (wastewater, operations, water resources, etc). We suggest using: Total number of Reasons for Not Achieving Good attributed to each company – data which is already collected by the Environment Agency.
- 2.3 **Recast the AIM in terms of an outcome (the AIM is a mechanism). We suggest Proportion of total abstraction from sources that pose risk to the environment.** This can be calculated relatively simply using current Environment Agency and company data e.g. based on % abstraction from both groundwater sources that are in poor quantitative status and from surface water sources that are from catchments where recent actual flows are below the Environment Flow Indicator (EFI) at Q90¹. Such a metric is critical to understanding performance against Ofwat’s resilience duty given that there is specific emphasis on “reducing pressure on water resources”. A company with a greater proportion of its abstraction sourced from environmentally sensitive water bodies is going to be less resilient to future drought or population growth. Such a measure would also encourage alternative supply and demand side solutions to be progressed and encourage AIM-type innovation from companies (including use of scarcity shadow pricing, for example). We remain committed to the AIM and hope to work with Ofwat to ensure it is effective. Annex 1 outlines our thoughts on this.
- 2.4 **A demand management measure that fully reflects Ofwat’s duty to promote measures “to increase efficiency in the use of water and reduce demand for water” to secure resilience.** We believe that more emphasis (than currently proposed) on these activities in the common performance indicators will help comply with statutory duties. We do not agree that Ofwat should choose one of the measures proposed (distribution input, leakage and PCC) as all are important to measuring a company’s demand management performance in different ways. Instead, Ofwat should develop a composite demand management measure which must include:
- a. **“No net increase of water into supply” – a commitment to a water neutral PR19.** For example, in our ‘Blueprint for PR14’ we set and measured company performance against this outcome - keeping water into supply (distribution input) at or below 2010 levels - and in the last six months have met with the majority of companies to discuss progress against this. In the absence of a system that does not fully recognise environmental costs, we

¹ We recognise that the Environmental Flow Indicators (EFI) are indicators of risk only – and that before taking action companies work with the Environment Agency to understand impact. However, we believe that a simple approach is most suited to a comparable outcome and that this approach, focused on risk, is similar to the indicative approaches in the other comparable metrics Ofwat has proposed.

believed then that such a target would be more effective than individual leakage and efficiency targets and give greater flexibility. However, we have learnt that while an important measure, wider societal changes (such as decline in manufacturing or an increase in population) have been and can continue to be the main drivers in performance in such a measure, and so believe that it must be supportive by other measures to understand company specific action and performance on demand management.

- b. **Stretching targets on leakage – measured by total % water abstracted from the environment that is lost through company waste and leaks.** WWF is concerned that the company performance in this areas continues to be restrained by real and/or actual limitations associated with the ‘sustainable economic level of leakage’ (SELL). Feedback from customer research for PR19 confirms that customers – no matter where they are in the country - want more and continual action on leakage. We have therefore been surprised to the extent of some company’ ambition on leakage - perhaps believing that they are already doing all that they can, or not perceiving it to be a priority given surplus water resources. Regardless of the situation now, action on leakage is crucial to securing long term resilience. We suggest that Ofwat move away from the SELL and instead bring forward an indicator and associated ODI based on proportion of water abstracted that is subsequently lost through wastage and leakage. This would send a clear message that action is needed from across the sector as part of basic long term resilience.
- c. **Per capita consumption in a dry year and going beyond the average** Per capita consumption (PCC) is a useful measure and we urge Ofwat to require companies to publish information on both dry year and normal year annual average for all customers (i.e. not differentiating between metered and unmetered). Dry year PCC is crucial because this is the demand profile used in deployable output analysis for Water Resource Management Plans and therefore underpins one of the main drivers of pressure on costs to customers and the environment. WWF believes that demand management interventions that target dry year use (which is by its nature a completely different use profile to a normal year, including for example, much more outdoor water use) are the most crucial to securing resilience and reducing pressure on water resources. PCC is not a normal distribution: most people use a lot less than average PCC and the distribution is dramatically skewed with a small number of the population using high amounts of water (see figure 1) . Given this, companies should also be required to publish standard deviation, and Ofwat incentives set to encourage them to address high water use in particular.
- d. **Proportion of households with a water meter** The evidence shows that the single most effective way to cut water demand is to install a water meter (e.g. figure 2). There is also a strong evidence base (e.g. Walker Review) that metering is also a more socially progressive charging mechanism. Information about demand is absolutely crucial to ensuring long term resilience. By having a smart(er) meter that logs daily water use and allows analysis of geographic and temporal data, companies can understand water demand profile in different places and different times with different customer groups. With such data, companies can design bespoke, targeted interventions that maximise return on investment. For example, while it may seem expensive to offer a free plumber fix it service to tackle household leaks, such an approach targeted at highest users where leaks are suspected may

work out far cheaper than the current approach of offering every household a water efficiency kit (that may or may not even be inserted). What's more, meters give customers a financial incentive to reduce demand, which can be amplified by design of appropriate reward schemes or tariffs.

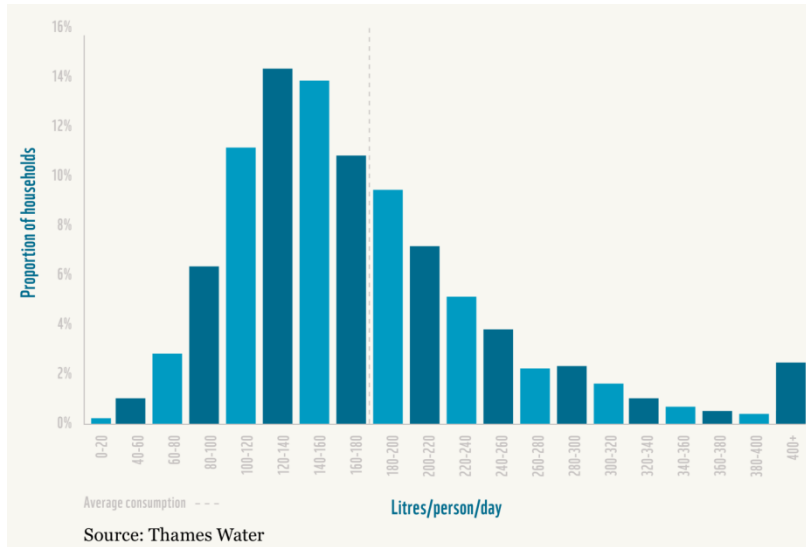


Figure 1: WWF worked in partnership with Thames Water and Waterwise on ‘Save Water Swindon’. The project urged every household in Swindon to save 20 litres. While the project was successful, over a third of households took part and 1 million litres of water saved per day, we learnt first hand how hard it is to convince everyone to change. Is there a more efficient way to do efficiency? We realised that a targeted approach may work better – given that water use doesn’t fit a ‘normal distribution’. While the average use – when we started in Swindon – was 164 litres per day, in fact majority of people were using a lot less, and the average was skewed by a smaller number of people using a very high amount of water.

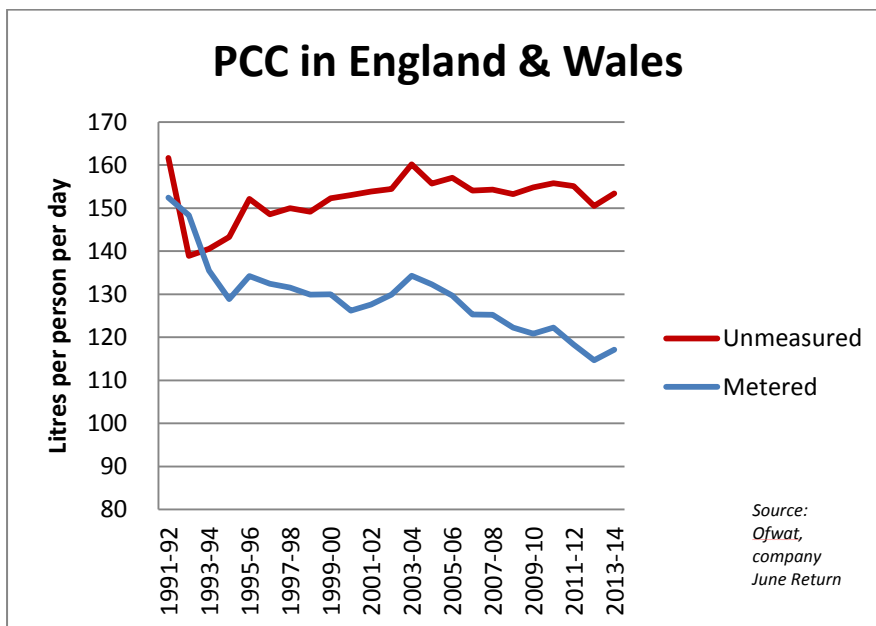


Figure 2: There has been a reduction in average water use over the last two decades – mainly driven by metering - but there is still huge scope for efficiency. Just under half of households in England and Wales now on a meter. Latest business plans forecast 60% households on a meter by 2020. The Walker Review recommended 80% by 2020 in order to deliver for customers and environment.

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

- 3.1 We support scope for companies to set their locally bespoke performance measures. It would be helpful if some common guidance on assessing performance could be developed. For example, many companies have indicators on catchment management and environmental stewardship and all are assessed in slightly different ways. Allowing flexibility while using comparable methodologies for key indicators would be helpful – more on this is included in the Blueprint for Water response.
- 3.2 On catchment management in particular, we propose working with Ofwat, companies, the Environment Agency and NGOs on developing stretch performance and ambition in PR19. In PR14, our Blueprint assessment showed that all companies were developing and pursuing catchment management, which was extremely welcome. However, there were large differences in ambition and extent of investment in catchments and natural capital. Indeed, in relation to ODIs, it was hard to determine whether financial rewards were for business as usual or for truly innovative and rewarding initiatives. It would be helpful if Ofwat, with the Environment Agency, could publish some specific guidance that help companies to show and reward varying performance levels specifically in relation to catchment management.
- 3.3 In PR14, we were most impressed where companies responded to customers and stakeholders and developed bespoke performance commitments on environment that went above and beyond what was required in the Environment Agency’s National Environment Programme (NEP). Examples included United Utilities’ programme of investment in relation to reaching Good Ecological Status and Southern Water’s beaches programme. Such initiatives are most welcome and show the extent that customers want their companies to be stewards of the environment. Ofwat must welcome such initiative in PR19. **It is therefore most important that Ofwat publish guidance on bespoke environmental schemes that go above and beyond the minimum – and in particular make clear Ofwat’s expectations on how to manage uncertainty, ‘show workings’ and share the burden risk between customers and the companies.** Companies that show real ambition for the environment – on the basis that it is what customers want – should be applauded. It’s important that they are supported through guidance to make their case, and early steps taken in order to prevent environmental leadership potentially being effectively penalised in the draft determination process.

4. What is your view on the new customer experience measure for PR19 (Q6)?

- 4.1 WWF supports development of a new measure to replace the SIM. In our experience, the SIM can work against companies’ efforts to engage customers on demand management. The SIM creates a perverse incentive not to reach out to customers nor to engage with them in any way. It creates a perverse incentive for companies not to roll out metering and tariff schemes. The SIM – or at least company perception of it - stifles customer

engagement – as it seems to be underpinned by a philosophy that no customer contact is good, and that any customer contact = complaints. So reform and development of a new measure to overcome and counter such perverse incentives (whilst still driving action on high quality service) can help herald a cultural shift in customer engagement, and help move from a paternalistic ‘predict and provide’ service to one where demand side response and promotion of individual behaviour change is paramount.

4.2 The eight key questions proposed do not reflect the importance of customer engagement in behaviour change, demand management and therefore security of long-term resilience. **Incentivising future customer service excellence must comprise a proactive and responsive service to enable and support customer behaviour change.** This is absolutely fundamental to securing the long term resilience of both the water resources and wastewater services.

4.3 It is essential that such a measure drives behaviour change in both water retail companies (and their offer to non-household customers) as well as household customers.

4.4 Such a measure must reward those companies that proactively seek engagement with customers. Performance indicators should therefore include²:

- Proportion eligible for a social tariff actually receiving a social tariff.
- Proportion customers on a tariff or scheme rewards water saving.
- Customer requests for water efficiency information, advice, and equipment (including a water meter) – normalised as a proportion of total customers.
- Opportunities to see behavioural change information on wastewater and water demand (e.g. through advertising, inclusion with water bills, etc) – normalised as a proportion of total customers.

4.5 WWF is keen to work with Ofwat and others on developing this set of measures, drawing from our experience in the water and other sectors in relation to behaviour change.

5. **What is your view on our proposals for better reflecting resilience within the outcomes framework (Q8)?**

5.1 WWF welcomes engagement from Ofwat on resilience. We (on behalf of the Blueprint) are actively working with the Water and Wastewater Resilience Action Group (WWRAG) to develop resilience metrics.

5.2 We are concerned that some companies may be thinking narrowly about resilience i.e. extent built infrastructure can cope with environmental pressures and the environment only considered as a cost to be borne when considering resilience to deliver for customers. Ofwat must make clear that resilience is about the whole water system- of which environment is a key component – it is the natural capital that underpins services to customers. Assessments of resilience should consider resilience of both green and built infrastructure to cope and respond to shocks. It should aim to result in dual outcomes – maintain services for customers and protect natural environment (aiming to ensure no deterioration on both counts).

² There are clear parallels with the package of engagement and behaviour change performance indicators compiled to assess progress related to household waste and recycling and much to learn. WWF suggest brokering a roundtable discussion bringing in expertise from outside the water sector on this in particular.

5.3 To address risks of any such narrow interpretation of resilience, and in addition to common performance measures outlines above, we advocate that Ofwat, in its preferred approach to resilience metrics, require all companies to assess and publicly report on the resilience of the ecosystems and natural capital on which their water and wastewater services rely. This should include setting out a forward plan for maintaining and enhancing resilience and should be reported on every three years. This is already a requirement of Welsh companies under the Environment Act 2015.

- 5.4 Ofwat performance metrics related to this could initially be
- a. assessment completed (2019),
 - b. forward plan prepared (2020),
 - c. plan implemented (2025).

5.5 The most significant factor in determining ecosystem resilience is the current health of the ecosystem. In 2010, WWF was asked by the World Bank to complete an international review of the water sector to develop climate adaptation guidelines for projects in order to mitigate ecosystem impact³. The report concluded that, in terms of ecosystem resilience, the most significant action that could be done to increase a system’s ability to adapt and respond to climate change related shocks and trends was to reduce current pressures and improve their current state of health. Good status, as required by the Water Framework Directive, is the most important indicator (as suggested in 2.2. above). Additional indicators (see table below) are also important to understand the current and future pressures on ecosystems in relation to water company operations.

<p><u>Water supply</u></p> <ul style="list-style-type: none"> • Proportion of total abstraction from sources that pose risk to the environment. • Per capita consumption – dry year annual average / peak day multiple
<p><u>Social/Economic</u></p> <ul style="list-style-type: none"> • Social tariffs - % households served eligible actually receiving social tariff • Reward tariffs - % households on a tariff or scheme rewards water saving and/or surface water disconnection
<p><u>Asset health</u></p> <ul style="list-style-type: none"> • STW that have capacity three times dry weather flow. • Percentage overflows that have event duration monitoring and % monitored that discharge for 48 hours or longer (or a threshold indicates risk).
<p><u>Wastewater</u></p> <ul style="list-style-type: none"> • Proportion of total discharges into water bodies failing to meet good status. • Population connected to the mains (% for wastewater & % for surface water).

5.6 Despite significant action addressing pollution from sewage discharges on our beaches (driven largely by European legislation including the Bathing Waters Directive), sewage pollution remains a significant issue on inland rivers and streams. With many sewage treatment facilities under-sized to deal with peak flows in wet weather periods, raw sewage can overspill straight into rivers and streams. Climate change – and likely heavy rainfall events up to 30% more extreme than the historic record – and population growth will exacerbate this. WWF believes that at the heart of the current problem are historic underinvestment and a lack of strategic long term planning by the water sector to ensure that the sewerage system has the capacity to cope with the demands placed upon it,

³ <http://www.floatingforward.org/>

without placing undue risk on the environment, and is resilient to future trends and variability. Given the resilience duty means Ofwat must promote appropriate long-term planning and investment, **Ofwat should require all sewerage companies to produce, consult on and publish statutory long term (at least 25 years) wastewater management plans that secure the delivery of resilient ecosystems and resilient wastewater services, to underpin a company’s submission of a compliant business plan.**

6. To what extent do you agree with our proposals for making performance commitments more transparent to customers (Q10)?

6.1 Action on transparency is urgently needed and an essential part of customer centred approach. Since companies stopped compiling information in publically available June Returns it has been incredibly difficult for us to understand performance. For example, it is almost impossible for us to determine progress against the ambitions we assessed in Blueprint for PR14 (made largely using information in the public domain) without directly asking and engaging with individual companies. The Discover Water dashboard is very welcome and we hope to work with Water UK to improve comparable information on the environment.

6.2 Open data is essential to building trust and confidence, working in partnership and delivering the catchment based approach. We advocate that Ofwat develop data sharing principles with the companies, and make key data sets available as part of the Catchment Data Explorer currently run by the Environment Agency.

6.3 In our experience, information is not always made available on request. Simple information – such as the GIS layer of water company boundaries – is not made available. We have encountered difficulty asserting our rights to information under the Environmental Information Regulations. There has been enormous variation in transparency and response between companies – some being enormously helpful and some being obstructive and even threatening.

6.4 Data sharing is absolutely crucial to customer engagement and building resilience. For example, even with the greatest budget and will, it would be impossible to stop every combined sewer overflow. Instead, the approach needs to be one of managing risk – sharing information to identify and mitigate those overflows that cause most risk to environment and people, and sharing information with the public so that they don’t enter the water during times when the risks are greatest. The Surfers Against Sewage Safer Seas app and data sharing arrangement with companies is an example of best practice and we look for similar initiatives and approaches to be extended.

6.5 Rather than Ofwat anticipating every data need and requiring companies to publish great reams of data, data sharing principles should be established, building on, and bringing in companies to the Catchment Data Explorer approach. WWF hopes to work with Ofwat, the Environment Agency and the companies in progressing this.

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Annex 1: An abstraction management ODI for common adoption by Water Companies

This note provides outline proposals for the development of the AIM. We have long advocated for a simple, commonly-applicable approach designed to deliver target environmental outcomes of water resource and environmental resilience value. We also reflect upon and also takes account of the perceived reasons for failure of the Abstraction Incentive Mechanism (AIM) to achieve real traction in the industry, to date.

Background

The goal of the AIM is to encourage and incentivise water companies to work within licence limits and conditions, rather than fully up to them, where and when they can, for environmental gains. WWF's original idea for the AIM was based on three observations:

- First, environmental water scarcity is time and place specific, and some rivers, like the Cray in Kent, are over abstracted not just during drought periods, not just during dry periods, but suffer from low flows caused by over abstraction for much of the time.
- Second, water companies plan to ensure that the sum of all their supplies can meet demand during the design dry year. This is the crunch period, when demand is at its highest, and natural water availability is low. However, the flip side of this means that in less dry years, supply will be surplus to demand and there may be flexibility in source selection.
- Third, to date, the order of the selection of sources is driven by least operational cost.

The **AIM hypothesis** is therefore, to offer incentives to change company operations within current licence limits so that they rest environmentally sensitive sources as much as possible.

Outcomes the AIM must deliver:

- 6.5.1 Sensitive management of abstraction from the environment, where and when it's needed most, leading to healthier and more resilient freshwater ecosystems, and to improved prospects for delivering sustainable future supplies at affordable costs to customers.
- 6.5.2 Reduced abstraction from identified sources, within licensed limits, where, when and to the extent it is possible and potentially environmentally-beneficial, with little cost to water supplies and customer bills.

WWF believes that a financial incentive is absolutely critical. The reputational approach has largely failed to date. A financial ODI should encourage companies to:

- take less than permitted from their most environmentally sensitive sources, in general and in high demand and low water availability periods in particular,
- to support the development of healthier flow regimes and more resilient ecosystems including by supporting recovery from drought.

Suggested measures, definitions and qualifying conditions:

Candidate Measures:

1. The percentage (%) of the total water abstracted from a Water Resource Zone (RZ) that is drawn from specified sources within that zone or area, measured daily and reported monthly, over time, with incentive rewards for reductions over time (and penalties for increases) in the % metric for one period versus another.
2. The absolute volume of water (Ml) drawn from specified sensitive sources, measured over time, with reductions over time being incentivised (and increases penalised) as above.

The frame of assessment would be change over time, for the data of each individual RZ. Comparative assessment between RZs or companies would not be appropriate. The % change measure (#1) would be affected by changes to the total abstraction denominator, and would need to be standardised. The volumetric measure (#2) is not affected by this problem.

Definitions:

The **selected sources** would need to be assessed as being those (in a particular RZ) from which reductions in abstraction are likely to yield the most environmental benefits. Using an existing classification scheme to identify sources which would benefit from a more sensitive abstraction regime than that applied to date would make good sense. Sources close to water bodies that have been classified as being in (say) EFI Band 3, &/or Band 2 &/or Band 1 on the basis of the magnitude of recent low flows compared to their natural flow value might well provide a list of candidate sites for selection. It is emphasised, however, that it is not necessary for a qualifying source/site to feature in an EFI Band 3, 2 or 1 category, not least in respect of the uneven spread of such sites. The essence of the proposal is that reductions in abstraction from a source that could reasonably be held to improve the local environment's resilience to low flow spells are valuable, and can be included in the proposed delivery incentive (subject to approval by customers, first and foremost). Our proposition is that the adoption of a sensitive abstraction philosophy should be made open to all companies, and encouraged by the use of incentives geared to the situation.

The reference period for the assessment of abstraction reduction or increase would need to be agreed as appropriate, in advance, again with an approved third party. Data could be aggregated to periods of 3 or 12 months, and compared against their immediate predecessors or prior year counterparts. Annual average, critical period, summer period and dry/drought period data could be derived and used to assess rewards or penalties.

The **qualifying conditions** of the use of the proposed measure normal and non-drought periods need not be limited to dry periods or drought spells. Managing abstraction in non-drought periods may enable aquatic ecosystems to develop resilience to dry and drought spells when they arrive.

We consider that the proposals we make here are straight-forward and are generally-applicable, in all areas, and on a simple, common basis, to support the maintenance and improvement of the environmental resilience of Water Companies' resource base, for the long run, at little if any net cost to water supplies.

Postscript:

The proposal applies the general application and value aspirations of the Abstraction Incentive Mechanism (AIM), as originally conceived and developed: to incentivise water companies to manage abstraction sensitively, within licensed permissions, doing what they reasonably can, where and when they can, to best environmental and resource protection ends. The use of the AIM was always intended to be multi-purpose, covering (but not exclusively):

- its temporary use before the implementation of final solutions under the Restoring Sustainable Abstraction (RSA) and Water Framework Directive (WFD) programmes;
- and
- its targeted use in addition to 'final' RSA and WFD solutions in those cases where the Environment Agency has agreed with the company that it would be disproportionately expensive to put in place permanent abstraction reductions on the licence. In these cases the Environment Agency has often agreed some kind of cheaper river morphological enhancement scheme to help mitigate (but not remove)

risks from abstraction and the AIM could be used in parallel to manage the ongoing abstraction risks.

- its targeted use as a counter to the risk that increased trading might trigger greater use of over-licensed permissions, with adverse environmental impacts;

but also

- its general and generally beneficial use as a platform to enable water companies to take less than fully licensed volumes from licensed sources where and when there may be tangible benefits to connected water bodies, with approval from customers, regulators and stakeholders.