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Dear Ofwat,

Delivering Water 2020: Consulting on methodology for the 2019 price review

Thank you for the opportunity to comment on Ofwat's consultation on the 2019 price review methodology.

Natural England wishes to work with water companies to achieve statutory outcomes but also to meet ambitious additional environmental outcomes where these have customer and stakeholder support. The Ofwat Methodology is key to facilitating this. We welcome the constructive dialogue between our organisations prior to and during the consultation.

If you would like to discuss any aspect of our response, please contact our PR19 co-ordinator, Graeme Hayes (graeme.hayes@naturalengland.org.uk).

Yours faithfully

A handwritten signature in black ink, appearing to read "J Burney".

Jonathan Burney
Government Advice Director

Natural England response to Ofwat PR19 Methodology consultation, July 2017

Introduction

- 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.
- 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'.
- Natural England wishes to work with water companies to achieve statutory outcomes but also to meet ambitious additional environmental outcomes where these have customer and stakeholder support. The Ofwat Methodology is key to facilitating this. We welcome the constructive dialogue between our organisations prior to and during the consultation.

Summary comments

Natural England welcomes the continued emphasis on an outcomes approach in PR19 planning, with companies encouraged to be ambitious, innovative and to take a long term approach. We especially welcome Ofwat's guidance that companies should meet their statutory obligations now and in the future and the expectation for companies to take into account the wider expectations of NE and EA in WISER (Water Industry Strategic Environmental Requirements) when developing their business plans. We support Ofwat's guidance that the water industry should consider resilience beyond just hard assets, to apply to the environment that supports its functions. We welcome the requirement for companies to have at least one environmental bespoke Performance Commitment.

We have focussed our more detailed comments on the following key points:

Customer engagement

- We agree with Ofwat that it is important that companies' plans reflect the needs and requirements of future generations as well as current customers. We encourage Ofwat to consider customers in the broadest sense of all beneficiaries from water company actions, not just local bill-payers, and welcome your encouragement to water companies to consider all relevant aspects of the needs of customers and society in current and future generations.
- We are encouraged by the additional expectations in the current consultation that water companies play a role in educating and informing customers, including to 'change the behaviour of farmers and local authorities' (p31).
- We would welcome Ofwat's support to CCGs in their oversight of companies' planning to reflect the multiple public benefits that water company actions can bring for society as a whole. Examples could include how a company's decisions on its management in a catchment might bring downstream flood reduction benefits to communities beyond its direct landholdings and influence.

Chapter 4 Delivering outcomes for customers. Q1. Do you agree with our proposals for common and bespoke performance commitments?

- **Common Performance Commitments:** We support the development of comparative performance information that can support the expectations and good practice set out in WISER. We think that the proposal for a wastewater pollution incident PC is potentially useful. Alongside category 3 incidents, we would also recommend including the more serious incidents for the environment i.e. category 1 & 2.

We would support compliance with EA's wastewater discharge permits as a common performance commitment. This could help identify more chronic issues that need to be addressed, which don't necessarily cause acute pollution incidents but can be significant over time.

Chapter 4 Delivering outcomes for customers. Q1c. Do you agree with our approach to bespoke PCs including areas that bespoke PCs should cover?

We welcome the requirement for companies to have at least one bespoke performance commitment for the environment. Linked to this:

- We look forward to further discussion with Ofwat on developing ambitious and innovative water company actions for the environment under bespoke environmental performance commitments. For example to promote landscape scale wetland creation to deliver biodiversity and public benefits where supported by customers and stakeholders.
- We have refined our previous suggestions included in your consultation document. We would be grateful for these to be included in the final Methodology as illustrative of the areas Natural England wishes to develop further with companies. Our revised PC suggestions are:
 - Number of Sites of Special Scientific Interest (SSSIs) or number of hectares of land designated as SSSI that changed from unfavourable or recovering condition to favourable condition as a result of actions taken by the water company.
 - Specified increase in one of more of the following provided by catchment management delivery actions taken by the water company:
 - the area of priority habitat and / or pollinator habitat,
 - length of naturalised watercourse length or area of more naturally functioning water body / wetland (including for flood management),
 - projections of quantity of stored carbon.(This could include delivery of one or more large scale catchment projects that enable biodiversity enhancement and wider public benefits).
 - Specified increase in the total score of Defra's biodiversity offsetting metric when it is applied to land managed and/or owned by the water company (For further information on the metric see Defra (2012) [Technical paper: The metric for the biodiversity offsetting pilot in England](#)).

Bespoke Performance Commitment – Abstraction Incentive Mechanism (AIM)

- Whilst broadly supportive of AIM to complement the existing abstraction regime, for example where it might allow abstraction pressures on the environment to be tackled more effectively, we are keen to better understand the balance between incentive and regulation in discussion with both Ofwat and EA. For protected sites at least, we do not currently see AIM as providing an alternative to an effective abstraction licencing regime that ensures that the quantity of water permitted for abstraction is kept within environmentally sustainable limits that meet the sites' objectives.
- We understand AIM is to move from a reputational to financial incentive mechanism and can see the merit in a financial penalty for abstraction which exceeds an AIM baseline. However, as we understand AIM at present, we are concerned that a financial reward for a positive performance in relation to the AIM baseline may not truly reflect polluter pays principle. Performance above the AIM baseline may still constitute unsustainable levels of abstraction depending on how the baseline has been set.

- We welcome the highly transparent and consultative process set out in the original 2016 Guidelines on the AIM, from filtering of AIM sites through to determining the AIM baseline and AIM trigger point envisaged.

Chapter 5 Securing long-term resilience. Q1. Do you agree with our resilience planning principles?

- We welcome 'Principle 2: A naturally resilient water sector' and the statement on resilient ecosystems and biodiversity. We think that this principle should go further to explicitly include the resilience of the ecosystems that the industry may impact on, irrespective of its role in supporting water industry services, in line with their statutory duty to have regard to biodiversity.

Chapter 6 Targeted controls, markets and innovation: wholesale controls

- **Water trading:** We are aware that some of the barriers we face in tackling unsustainable abstractions arise from constraints on companies seeking shared solutions to water supply. We therefore welcome the principle of trading and use of incentives that encourage companies to share resources. We would expect Ofwat to promote sustainable abstraction by ensuring that abstraction licencing controls will continue to provide the main mechanism to ensure water trades are not driving unsustainable abstraction.
- **Water resource provision:** The draft methodology proposes that water companies publish information that will facilitate third parties to bid for providing water resources. We would like to be reassured that measures will be in place to prevent a water company from acquiring more water resources than it needs and that the environmental impacts of third party bids to supply water resources will be assessed and if necessary controlled.
- **Calculating a company's water resource capacity,** following adoption of a separate price control for water resources.
 - Available volume for abstraction remains a key mechanism to ensure protection of designated sites. Ofwat should ensure that company PCs and its assessment of Business Plans enable the provision of alternative supplies where needed to protect the environment. We would welcome approaches that complement the aims of abstraction reform.
- **Bioresources** - Atmospheric (as well as aquatic) emissions from sewage spread to land can have adverse impacts on nearby sensitive wildlife sites. We are keen to ensure that the development of markets for bioresources will be subject to effective controls and best practice to ensure atmospheric emissions do not result in harm in sensitive locations.

Chapter 9 Securing cost efficiency, Q3. Do you agree with our proposals to funding unconfirmed environmental requirements? Which of the two options do you consider is more appropriate, and why?

- We do not have a fixed view on the options presented but would expect Ofwat to ensure that companies are given an allowance sufficient to enable them to meet their environmental obligations for the measures associated with 'green' and 'amber' traffic lights as set out in EA's managing uncertainty traffic light system.

Chapter 9 Securing cost efficiency, Q7. Do you agree with our proposals for the transition programme?

- We would welcome Ofwat promoting a transition programme to enable the early investment in environmental measures, such as before the formal start of AMP7 where measures have a high level of certainty.

Chapter 14 The initial assessment of business plans: securing high quality, ambition and innovation. Q2. Do you agree with our proposed approach to assessing a company's ability to deliver results for customers and the environment from innovation?

- We welcome Ofwat's encouragement for companies to be innovative, that may offer opportunities regarding investment in the environment. We will look for opportunities to encourage high quality plans for the environment and biodiversity delivery, as well as for the sharing of learning in delivering environmental outcomes. In our WISER document we suggest best practice, including:
 - Further embedding the catchment based approach to bring together interested parties and ensure all sectors contribute to protecting and improving the environment.
 - Building upon our experience of partnership work in areas such as Catchment Sensitive Farming and Countryside Stewardship to enable innovative and cost effective catchment management approaches in future.

We would welcome any encouragement Ofwat can give to such catchment approaches in its final methodology.

29th August 2017