

INFORMAL CONSULTATION RESPONSE



John Russell
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Date: 30 August, 2019

Dear John,

Setting water company price controls for 2020-25 – Draft price controls determination notice: slow-track and significant scrutiny companies

The Environment Agency welcomes the opportunity to respond to Ofwat's draft determination of price controls for the slow-track and significant scrutiny companies.

Our role throughout the 2019 price review (PR19) period has been to work with water companies and ensure that their business plans meet the environmental, resilience and flood risk requirements, as set out in the Water Industry Strategic Environment Regulations (WISER).

We are keen to ensure that water companies are investing sufficiently to deliver long term outcomes for people and the environment. The water infrastructure that our lives and the economy rely on is at risk from the growing threat of climate change. The water sector must prepare for the impacts of climate change and invest in resilient systems and catchments. We expect water companies to meet all their obligations and to continue to comply with public safety requirements like reservoir safety.

We are pleased that the Water Industry National Environment Programme has been included in all water company business plans and allowances made for Water Framework Directive requirements. We support the interventions you have made to ensure that environmental improvement schemes are implemented in a timely manner. As you know, we expect companies to deliver the whole of their agreed programme of measures by December 2024, even if they have not requested up-front funding in their business plans.

We acknowledge that most water companies have accepted the upper quartile challenge for pollution incidents. This will result in a 34% reduction from the 2024/25 predicted baseline. We are pleased with the ambition shown by Northumbrian Water to reduce their pollution incidents and ask that it is reflected in your final determination. However, we are still concerned that the pollution incident performance incentive mechanism is counter to our position on rewards for reducing pollution incidents.

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We welcome Ofwat's additional allowance for companies to look at strategic regional water resources solutions. We expect to be involved in the decision about the final dates for the gated process to ensure it aligns across both our regulatory duties. Over the next 3 years, it will be vital for both our organisations to work together to ensure decisions are made on these new strategic schemes. We welcome the formation of the regulators' alliance for progressing infrastructure development which will help facilitate this response.

In general, there has been good consistency between water resources management plans and business plans. We need to work through the discrepancies between leakage reduction ambitions and option selection which the draft determination process has highlighted. There are outstanding issues with Anglian Water and the challenges that have been set by yourselves. We need to ensure that the water resources management plans including the company's justification of need for drought resilience and security of supply options are all included. We will be discussing all of the above with David Black in due course.

We will continue to work together to understand the financial impacts on water companies following our water resource strategic review of charging (SRoC). We have started engagement externally and plan to formally consult, subject to Ministerial approval through the autumn. Feedback throughout this process will be provided to ensure any charge increases and decreases that may affect water companies can be taken into account

It is good to see that all water and sewerage companies have provided a commitment to deliver appropriate Drainage and Wastewater Management Plans (DWMPs). We expect these companies to make a step change in how they deal with internal sewer flooding. This should include an appropriate mix of mitigation, hydraulic solutions, and sustainable solutions in their business plans to remove surface water from the sewer network. The development of DWMPs lays the groundwork for the companies' next business plan submission in 2024. Companies such as Northumbrian, Yorkshire and Wessex Water are leading the way with this work. We ask that this is recognised in your final determination.

We encourage water companies to work in partnership to reduce the risk of flooding, as this often delivers better outcomes for communities for less cost, to the benefit of water company customers. Northumbrian Water and Anglian Water have embraced the flood risk expectations we set out in WISER. It is government policy to seek partnership contributions where other parties benefit from government funding to reduce flood risk. We therefore support their proposed investment in partnership programmes where it demonstrates that it provides clear benefits, improved resilience and better value to communities and customers.

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We expect Ofwat's final determinations to ensure that water companies are well placed to invest for the future to improve resilience, able to meet their WISER obligations, fund the implementation of water resources management plans, perform their risk management authority roles, contribute to the objectives and measures in our national flood and coastal erosion risk management strategy, and improve performance. We are specifically looking for Southern Water and Yorkshire Water to improve upon their recent poor environmental performance and for Thames Water to get leakage under control.

We will continue to work with all the companies and Ofwat on any outstanding PR19 issues to make sure that the water company schemes, actions and outcomes are effectively implemented during AMP7 and any future performance issues are addressed.

If you would like to discuss this matter further please contact please contact me at: anne.dacey@environment-agency.gov.uk, or James Cope at: james.cope@environment-agency.gov.uk

Yours sincerely

Anne Dacey
Deputy Director, Integrated Water Planning
Environment Agency

CC.

Harvey Bradshaw, Executive Director, Environment and Business, Environment Agency
Pete Fox, Director, Water, Land and Biodiversity, Environment Agency
Catherine Wright, Director, Flood and Coastal Risk Management, Environment Agency
Sarah Chare, Director of Operations, South East England, Environment Agency
Mark Sitton-Kent, Director of Operations, West and Central England, Environment Agency
David Dangerfield, Director of Operations, North of England, Environment Agency