May 2021

Green economic recovery: Overview of draft decisions

Ofwat

Introduction

Water companies play an essential role in a successful society, economy and a thriving natural environment. This has been highlighted not only by global issues like climate change and increasing demand for water, but also the industry's quick and effective response to the Covid-19 pandemic.

In July 2020, we – alongside Defra, the Environment Agency, the Drinking Water Inspectorate (DWI) and CCW – invited English water companies to play their part in the green economic recovery from Covid-19[1]. We set out our ambition to build back greener from the pandemic: meeting the economic and social challenges England faces, while delivering lasting environmental improvements for current and future generations.

In January this year, we were pleased to receive formal proposals to enhance the environment and public health from five companies: Severn Trent Water, South Staffs Water, South West Water, Thames Water, and United Utilities. These proposals aimed to deliver significant benefits for customers, society and the environment.

These companies, along with seven others in England, have also brought forward £1.9 billion worth of additional statutory environment schemes into the 2020-25 period[2]. A number of these companies are also accelerating parts of their existing 2020-25 plans, investing hundreds of millions more when it matters most for the green recovery, at no extra cost to customers.

In this document, we set out our draft decisions on the green recovery proposals we have received from the five companies. Over the past few months, we have collaborated with government, regulators and CCW to carefully assess each proposal and maximise the benefits they offer. We have been conscious of the financial impacts of Covid-19 on customers and we asked companies to minimise the immediate bill impacts on customers as far as possible. And we have worked with CCW to make sure that companies had demonstrated there was customer support for the proposals and that they were affordable for customers. We are pleased that customers will not start to pay for the majority of this investment until 2025, when the economy is likely to be stronger.

Overall, our proposed green recovery package results in an additional £2.8 billion of environmental investment, on top of the existing five-year PR19 package.

The proposals offer a wide range of benefits, including innovative trials to grow learnings across the industry and discover new ways of working.

1. Ofwat, Defra, Environment Agency, Drinking Water Inspectorate and CCW, 'Green economic recovery – the water industry's role in building a resilient future', July 2020.
2. Affinity Water, Anglian Water, Bristol Water, Northumbrian Water, Severn Trent Water, Southern Water, South Staffs Water, South West Water, Thames Water, Wessex Water and Yorkshire Water will deliver £1.6 billion of formerly 'Amber' WINEP schemes in 2020-25, at no extra cost to customers. Severn Trent Water and Thames Water will also deliver an additional £109 million and £198 million of schemes, respectively, all of which will be funded at PR24.

The proposed extra investment will include:

Taking action to eliminate harm from storm overflows. This is on top of the £1.1 billion that wastewater companies are investing to address the issue during 2020-25, as well as the commitments recently agreed through the Storm Overflows Taskforce[3].

Conducting bathing water trials to explore how water companies can contribute most effectively towards improving our rivers to bathing water standards.

Embracing partnership working to deliver flood protection through 'blue-green' solutions, rather than traditional infrastructure.

Delivering low-carbon water treatment solutions, helping us to learn how these solutions could contribute towards net zero emissions.

Helping customers and improving public health by repairing and replacing supply pipes, enabling lessons to be shared across the industry around lead reduction and customer-side pipe replacement.

Working with partners and stakeholders to deliver nature-based solutions and catchment management schemes.

We set out the benefits of the schemes in more detail in this document.

We are now consulting on our draft decisions, and after considering all responses we will publish our final decisions in July 2021. If you would like to respond to the consultation, please see our accompanying document, 'Green economic recovery: Draft decisions' for details.

3. Defra, 'Taskforce sets goal to end pollution from storm overflows', January 2021.

Our draft decisions

United Utilities will invest around £63 million, including:

- £44 million to improve the river environment by increasing sewer capacity;
- £13 million to develop nature-based solutions through partnership working; and
- £5 million to investigate ways to reduce harm from storm overflows.

South Staffs Water will invest £8 million to improve water quality while reducing carbon emissions – and Severn Trent Water will contribute an extra £7 million to the project, under existing agreements for this shared resource.

South West Water will invest over £81 million, including:

- £25 million to upgrade the Knapp Mill water treatment works;
- £23 million to increase water supply resilience by supporting water transfers;
- £17 million to trial ways to help customers save water, protect customers from the costs of supply pipe failures, and reducing health risks from lead pipes;
- £9 million to use nature-based solutions to reduce flood risk and enhance natural habitats; and
- £7 million to reduce harm from storm overflows and improve river quality.

Green economic recovery: Overview of draft decisions

Severn Trent Water will invest around £565 million, including:

- £169 million to improve river quality by upgrading sewage treatment works, treating and reducing spills from storm overflows, and installing river quality monitoring;
- £140 million to increase water supplies in a low-carbon, reduced-chemical way, through a combination of supply- and demand-side solutions;
- £78 million to trial the creation of two bathing rivers, including reducing harm from storm overflows by reducing spills into the area during the bathing season;
- £76 million to protect homes from flooding through nature-based solutions;
- £75 million to replace and repair customer supply pipes, reducing health risks from lead pipes in two trial areas; and
- £20 million to help customers save water by installing smart water meters.

Thames Water will invest up to £146 million to help customers save water by installing smart water meters, including in areas that currently use water from chalk streams.

Photos © Severn Trent Water, South Staffs Water, South West Water, Thames Water and United Utilities Water

Benefits of the green recovery

Our draft decisions will allow water companies to take extra action on the most pressing environmental issues.

Severn Trent Water, South West Water and United Utilities will all invest millions to reduce harm from storm overflows. This will include reducing discharges and increasing screening of sewage, as well as expanding investigations and building models to better understand where interventions should be made. It also includes delivery of natural flood management and green urban landscape solutions, helping to reduce rainwater entering the system in the first place. We will also see some companies taking steps towards their joint goal of net zero operational emissions by 2030. For example, Severn Trent Water and South Staffs Water will both introduce innovative low-carbon ways of treating water, which also have the potential to reduce the use of chemicals.

Customers will also see significant benefits from the schemes.

A number of Thames Water, Severn Trent Water and South West Water customers will benefit from the expansion of smart metering, helping customers to manage their water use. We're also pleased to see companies step up to embrace innovative partnership working and secure third-party funding to maximise public value while reducing costs for customers. United Utilities will deliver a range of nature-based solutions in partnership with local stakeholders, while Severn Trent Water will work with closely with local authorities to reduce flooding using 'blue-green' infrastructure. Delivering many of the green recovery schemes now rather than later can reduce costs for customers in the long run.

The green recovery will trial a number of innovations ahead of the next price review.

Our draft decision proposes funding for Severn Trent Water and South West Water to improve river quality to meet bathing water standards. We will be able to learn about the measures required to control river pollution and the potential interventions required at PR24. Both companies will take on trials to remove lead from customer supply pipes while reducing leakage and water consumption. We expect that these pilots will create health benefits for customers, as well as conserving water and reducing the potential for chemical use. Several proposals also make great use of the type of nature-based solutions that need to become significantly more widespread in future, using innovative partnership working to co-design, co-deliver and co-fund schemes.

At the same time, green recovery funding will help the country to recover from the impacts of Covid-19.

The extra £2.8 billion of investment allowed by our draft decisions will provide a significant economic stimulus while offering thousands of extra jobs and training opportunities. The majority of this investment will be concentrated in the next two to three years, delivering a boost when it is needed most. We think the green recovery initiative demonstrates how water companies can work in the public interest to deliver wider value for customers, society and the environment.

How we made our decisions

The green recovery initiative is a great opportunity for companies to play a leading role in the recovery from Covid-19. At the same time, we need to consider the impacts on customers, given the financial challenges that many face.

We took these issues into account in our assessment criteria. We asked companies to consider affordability issues in their proposals, including when they would charge customers for the investments and how they would support those customers who would struggle to pay.

Together with Defra, the Environment Agency, the DWI, and CCW, we set out our green recovery assessment criteria in November 2020[4]. We set out a number of tests that companies needed to meet to qualify for additional customer funding:

- **On-track delivery:** companies needed to be on track with their existing investment programmes and performance commitments before taking on any extra commitments to facilitate a green economic recovery.
- **Delivery of green recovery schemes:** companies needed to show that their proposals were deliverable alongside their current commitments, while maintaining an appropriate level of financial resilience.
- **Managing affordability pressures:** companies needed to demonstrate that their proposals would not reduce affordability for customers, or otherwise how they would manage any affordability pressures.

Where we had concerns about companies meeting these tests, we worked with them to arrive at a deliverable package that better served the interests of customers and the environment.

To assess the schemes themselves, we used a similar approach to the one we used for enhancement proposals at PR19. We expected companies to provide high-quality evidence that schemes would provide value for money. This included showing that costs were efficient, providing evidence of customer, environmental, and social benefits, considering a wide range of options, and demonstrating a clear need for the scheme. We expected companies to explore alternative funding arrangements to reduce the burden on customers. We also wanted to see evidence that customers supported each scheme, and we worked with CCW to assess the evidence provided. In assessing the proposals, we collaborated with Defra, the Environment Agency, the DWI and CCW, and took their views into account.

4. Ofwat, Defra, Environment Agency, Drinking Water Inspectorate and CCW, 'Green economic recovery: Regulatory assessment process', November 2020.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533

© Crown copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL