

Consultation on RAPID discussion paper – the regulatory and commercial framework for strategic water resource solution

South East Water response

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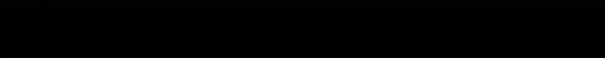
1. Introduction

Thank you for your paper on the framework for strategic water resource solutions.

Although we are not directly involved in any SROs, we expect that we will be in the future. We think that RAPID is a major improvement to the industry's regulatory structure. We are very optimistic that the RAPID process will prove the key to unlocking the factors that have prevented progress in SROs and improving resilience in recent times.

In particular, we think there is a strategic risk to the resilience of water supplies in South East England in the context of climate change and economic growth, that has been overlooked for a long time. We don't think it is in the interests of the country to take this risk, and that RAPID provides a pragmatic and practical way to reduce or even eliminate this risk in decades to come.

Any queries in relation to this document should be sent to



2. Answers to questions/ response

Q1. Which aspects of our initial thinking do you agree with or disagree with? What other approaches would you advocate and why?

We agree with the reservations that are expressed about using markets to encourage trades. The lack of homogeneity and costs of transport, make the analogy with power (where such markets work well) too remote. We agree that an open mind should be kept on this subject, as the possibility remains that future developments may overcome these problems.

We agree that the DPC delivery model is inherently well suited to SRO projects, and that indeed it should be the presumed option where more than one company is involved as the CAP is well positioned to resolve some of the problems identified with resource sharing throughout the document. We are not close to the discussions on multi-party procurement, but it seem sensible to explore the merits of this model

We are currently not involved in any DPC or SRO schemes, but we expect this to change in years to come. As one of the smaller companies in the industry, we are concerned about the resources that may be required to deliver such schemes, and the suggested move towards contract standardisation would be very helpful to us in this regard.

We agree that drinking water quality considerations are a complex and critical consideration in water transfers, and the 'no deterioration' stipulation can be quite problematic in the way that it is interpreted by the DWI. We agree with NERA's recommendation

It is difficult to comment on charges, as they are specific to each individual project. However we think the principle that "*companies should have a similar level of confidence about the recovery*

of efficient costs of investment as if they were developing the resource entirely for their own customers.” Is a sound one

We think it is correct to observe that water companies are unlikely to come to agreements on efficient costs in SROs and that Ofwat costs assessment is sensible way to resolve this problem. However Ofwat need to be careful of making ‘heroic assumptions’ in such cost assessments as that might act as a disincentive for companies to engage in the process at all, for fear of being unable to finance it. If fixed charges are set efficiently, the variable costs are the obvious solution to variable charges. This calculation can be complicated by economies of scale.

We concur with section 2.7, that a ‘fair shares’ basis is the ideal approach to ‘stress’ events, but note that this can be difficult to define and regulate. The role of a CAP may help to resolve these issues where judgements cannot be avoided. We have not sought legal advice in responding to this consultation, but note that the section 37 duty identified is an issue which must be overcome. We have a few specific comments to add on the environment section (2.8):

- Page 28, para 1 – It is our view that to prevent transfer of INNS could be very expensive – e.g. screening out Zebra Mussels. It would therefore need to be accepted that the cost of mitigation could prove to be very high.
- Page 28, para 2 – We would like to see more detail on this to fully understand the process. Our understanding is that it would be criteria such as no deterioration, if so, would being unable to deliver 10% net gain make a pipeline unviable?
- Page 28, para 2 – It is our view that this will require significant trade-offs, and we think that it would be difficult to persuade or local councils to accept a negative impact to allow for greater environmental benefits elsewhere.
- Page 29, 1st bullet point – We feel that mitigation would have to be at source so would have to be agreement on how this is funded. Otherwise transfer via open water poses a potential risk of transfer via recreational pathways.
- Page 29, 2nd bullet point – Our understanding is that this would have to be delivered locally e.g. within same catchment or watercourse. If that is the case they may have to be WQ driven catchment options so that DO can be maintained.
- Page 29, para 2 – We feel that this seems slightly different to other directions of travel within the EA. We can see how this might benefit companies in our area, e.g. allowing easing off on chalk streams, but again the trade off against impact to source may prove difficult.
- Page 29, para 3 – We agree that this sounds problematic given the long lead in time required to develop an SRO and will need careful consideration and planning.

Q2: Do you have any other comments or views on the proposal for mandatory standardised reporting for operational GHG emissions, beyond those included in responses to last year’s RAGs consultation?

No - we support mandatory standardised reporting of operational GHG emissions.

Q3: We welcome views on our proposed next steps, including additional activities that we should be undertaking.

The table doesn’t allow for reporting of other emissions reduction activities, such as carbon capture, tree planting, other renewable products etc... This would seem prudent to ensure offsetting activities are recognised to reach net zero. You are proposing location based reporting for Scope 2 emissions. Our preference is to report in parallel, the use of market based methodology to align with industry net zero approach

Q4: We welcome views on NERA’s recommendations and our initial thinking on them.

Generally speaking, the NERA study is sound and identified a lot of key issues in the development of SROs specifically, and water trading more generally. Unfortunately it is easier to identify issues than to find solutions. To some extent, solutions to problems such as dividing the gains of trade need to be specific to specific situations. We welcome RAPID's responses to the ten recommendations

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