



To: [REDACTED]

By e-mail only

6th January 2022

Response to Ofwat paper “PR24 and beyond: Long-term delivery strategies and common reference scenarios”

The Wildlife Trusts welcome the opportunity to respond to Ofwat’s discussion paper on Long-term delivery strategies and common reference scenarios – we consider these to be important approaches in enabling greater environmental outcomes to be achieved through Ofwat’s regulation of the water industry.

Long-term delivery strategies

Through our joint response with other members of Blueprint for Water, we welcomed the proposed focus on the long-term set out in the previous ‘Creating tomorrow, together’ consultation, and are keen that PR24 delivers significant progress towards integrating long-term considerations more fundamentally into the price review process. Many environmental issues will require action over the long term, and can be disadvantaged by the ‘stop-start’ nature of PR periods and the related absence of long-term certainty over priorities.

We welcome that, unlike the previous Strategic Direction Statements, long-term delivery strategies will be part of the five-year business plan submission. This will aid holistic planning and delivery by ensuring that priorities from all the strategic planning frameworks and from wider activities are brought together in one place, and will aid understanding and engagement by stakeholders, by providing a much clearer line of sight. Given their strategic nature, we agree that the statements should focus on setting out future enhancement expenditure (needed to meet long-term performance ambitions), rather than base expenditure, and that the Price Review represents a sensible review point for strategies to be refreshed.

Common requirements

We agree that common reference scenarios should be used to provide sufficient consistency and comparability between companies’ strategies, and are pleased to see ‘Climate Change’ and ‘Environment’ as two of the four scenario topics proposed.

In terms of common requirements for the strategies themselves, ‘Ambition’ should explicitly set out environmental ambitions including (for English companies) contributions to achieving 25 Year Environment Plan goals (in particular, Good Ecological and Chemical Status of waterbodies) and targets currently being developed under the Environment Act 2021, as well as ambitions over and above any statutory requirements.

Regarding ‘Strategy’, we welcome the focus on adaptive planning; however the graph used to illustrate this concept implies a ‘just in time’ approach – in the case of catchment- and

nature-based solutions, predicting the lead-in time before such solutions deliver their full benefits can be complex and so a more precautionary timetabling approach may be necessary. The same is true of behaviour change work such as for water efficiency. With both areas, early investment is not likely to be significantly more costly, so there is limited benefit in delaying action until later on in the delivery schedule; strategies should therefore aim to deliver such interventions on a 'no regrets' basis. Indeed, the Water Strategy for Wales highlights the importance of *'taking adaptive and incremental measures in the short and medium term, given uncertainties around the rate and impact of climate change'*, and the same could be said with regards to environmental degradation. As such, it is important that appropriate decision points are set which allow for sufficient lead-in times and permit early investment, rather than finding that by the time a decision point is reached, certain options are already 'written off'. To be truly adaptive, decision points must also be early enough that they allow forward plans to be amended or refined based on learning and feedback from what has come before.

Whilst we understand the rationale behind the statement that 'pathways should be presented separately for water and wastewater', the strategies should also be encouraged to identify opportunities for more holistic management of the water environment that consider the interplays between water and wastewater. Such strategic oversight would aid in achieving alignment with key points within Defra's Strategic Policy Statement and the WISER document. We welcome the direction that that adaptive planning should be used for WRMPs and DWMPs as well.

Common reference scenarios

Ofwat's document highlights the risk of both under- and over-investment given inherent uncertainties - but the consequences of these differ; companies should be encouraged to consider the detrimental outcomes associated with these alternative risks, and their severity, in order to provide a steer on which way to err in the face of uncertainty. For example, whilst over-investment may result in stranded assets, it is perhaps more likely, at least within an adaptive pathway, to result in assets simply being available before they are fully needed. By contrast, under-investment may be more likely to result in environmental damage, which may result in greater cost to rectify in future, and loss of customer trust.

We recognise the merit of considering the impacts of individual Common Reference Scenarios individually, but agree that companies should identify any interplays and potential dependencies between the scenarios, particularly where this affects the likelihood of scenarios occurring – for example, there will be key interplays between climate change and environmental quality.

On Climate Change:

Regarding Climate Change we acknowledge that consideration of both high (4°C) and low emissions (2°C) scenarios is appropriate, but suggest that making strategies 'flexible enough to efficiently deliver long-term ambitions under each scenario' should not be the only consideration; this could skew selection of options towards those that deliver equally well under a high emissions scenario, but that do not necessarily contribute towards *securing* a 2°C (or less) future. This would be detrimental.

As well as consideration of the UKCP18 projections, companies should consider the levels of risk set out in the latest UK Climate Change Risk Assessment and explain how all of the risks related to their functions are being addressed, in quantitative terms. The risk assessment gives estimates for the actual impacts on water availability - so would be valuable to consider alongside UKCP18 - as well as identifying broader key risks facing the sector as a result of climate change.

On environmental ambition:

Aligning with the environmental destinations being developed for Regional Water Resources Plans / Water Resources Management Plans will provide consistency with this area of work and is welcome. In England, using the 'Business as Usual' and 'enhanced' scenarios from the EA's National Framework as the 'low' and 'high' scenarios respectively will again provide consistency, but companies should also be encouraged to employ any more detailed scenarios that have been developed at regional / company level, since the EA scenarios were not designed to be adopted directly but used as a starting point for consideration. In particular, where greater environmental ambition is supported by stakeholders, scenarios that detail this should be referred to.

It is a notable omission that the environmental ambition scenarios focus only on water resources. We suggest that high and low scenarios are also included that consider water quality. For example:

High environmental ambition scenario

- Plan investment to achieve a target of zero pollution incidents (categories 1, 2 and 3) by 2030
- Plan investment to bring all CSOs to 'satisfactory' asset standard by 2030 and end harm from Storm Overflows by 2040 (*assuming that this is sooner than is required to meet Environment Act wastewater targets on Storm Overflows*)
- Plan investment to exceed Environment Act wastewater targets on phosphorus.

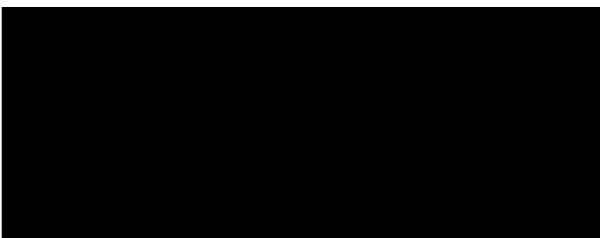
Low environmental ambition scenario

- Plan investment to achieve Environment Act wastewater targets on reducing phosphorus loadings and storm overflow events (i.e. minimum legislative requirements)

We suggest that scenario proposals which overlook wastewater issues would be an omission given the significant public and political interest in Storm Overflows and water pollution more widely.

We would be pleased to discuss any of these points further.

Best regards,



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The Wildlife Trusts