

Future Water response to OFWAT Draft PR24 Methodology consultation

Future Water is an association that represents companies and organisations working throughout the water sector. We are a non-political organisation working collaboratively across the sector with SME's representing over 70% of our membership. Our members supply goods and services across the sector and in particular to the water companies, therefore how they are regulated is of paramount importance to Future Water members

In responding to the consultation Future Water outlines the following principles that we consider critical:

Future Water Principles:

- There should be cross sector regulation, for example delivering smart metering, pipe network monitoring, asset visibility, real-time systems, is dependent on broadband/WiFi/4G/5G networks across the country – cross regulatory approaches should be a key part of regulation process
- Performance commitments need to be set within a 10-15 year time horizon particularly for leakage, sewer rehabilitation, in order for progress to be made across AMP periods
- Water companies must ensure that risk registers are developed with regard to/in consultation with the supply chain (as the supply chain delivers up to 70% of water utility outputs and is a major part of any risk register), this a cr
- Provide a regulatory framework that supports the financial resilience of not just upstream wholesalers but also the retailers and the non-household market, plus recognises the supply chain resilience
- Resource re-use (wastewater treatment for potable use) should be part of water company commitments
- The Water Companies must work to develop a sector wide approach to the 'skills for the future', taking account of Equality, Diversity & Inclusion (EDI), especially as up to 45% of the sector is due to retire before 2025
- OFWAT should have regard to the 'whole system impacts' of water utilities, and the relationships with agriculture, energy, relevant stakeholders who operate across catchments
- A critical part of delivering for customers is ensuring that standards are up to date across the sector as this drives performance, quality, and innovation

In terms of comments on specific sections, Future Waters comments are:

Ch2 – Regulating through the price review

Q2.1: Do you agree with the challenges facing the sector and the ambitions for PR24 we have identified?

- Future Water agrees with the challenges as outlined by OFWAT and the broad ambitions set out for PR24. However, critical to meeting the challenges is the focus on the long-term and Future Water urges OFWAT to set long term

performance commitments, stretching across AMP periods, especially for water mains, for leakage and sewer systems, which are critical infrastructure systems.

- If businesses are to be defined as ambitious and get enhanced status Future Water wants to see enhanced status for companies who put forward and increased their focus on infrastructure investment and maintenance, a drive towards metering and an increased focus on customer side leakage.

Q2.2: Do you agree that continuing to use our three building blocks helps push companies to meet our ambitions for PR24?

- Future Water supports an outcome driven approach that focuses on efficient expenditure, whilst aligning risk and returns. However, the balance must be struck between the drive to net carbon zero, the need to increase expenditure for the Water Industry Environment Programme (WINEP), Water Resource Management Plans and the Drainage & Wastewater Management Plans (DWMPs). Future Water believes that there should be some commentary about how the balance needs to be struck and how it trade offs will be assessed, in terms of the 'building blocks'.
- The proposal to support more nature-based solutions is positive development which Future Water supports. Future Water wants to see the increased focus towards less capital-intensive solutions drive much higher levels of operational maintenance.

Q2.3: Do you agree that we have struck the right balance between what's in and what's outside of the price control?

- Broadly yes but some Future Water members have questioned the need to have the Bioresource market as part of the price control process.
- In terms of finance ability Future Water believes that the scope of review must include the supply chain, which delivers much of the water company output. The ability of the supply chain to be resilient after the shocks linked to Brexit, Pandemic, input prices and now people availability, is a major challenge. Suppliers often work across sectors which means working with supply chain in terms of resilience, an essential part of the finance assessment process.

Q2.4: Do you have any comments on our approach to evaluating progress? What specific evaluation questions (based within the four key ambitions) do you think an evaluation should look to answer?

- In terms of focusing on the long-term, Future Water members are concerned about investment in in the largest asset – pipes and sewers – there must be an evaluation process that challenges the progress in the areas of pipe surveys, increased asset monitoring, rehabilitation (of pipes and sewers) – increased maintenance and focus in these areas is critical.
- Future Waters own work in Innovation has highlighted that 'failure' is a measurement of success and this could be part of the evaluation process, along

with growth in IP, which we have highlighted in our response to the Innovation Fund competition. Greater environmental value could be measured by growth in technology, for example real-time water quality monitoring

- General Comment: Future Water is pleased to see that the Innovation Fund is being proposed into the next AMP period. It is important that this process continues and drives forward thinking across the sector. The support for 'open data' is also welcome and this approach should default for all operations.

Ch3 – Design and implementation of price controls

Q3.1. Do you agree that in our final methodology we should commit to introducing either an adapted water trading incentive or a new water trading incentive at PR29? If you have a preferred approach, please provide reasons, including any thoughts on how the options we set out in Appendix 2 could be improved.

- Future Water supports the continuation of the water trading incentives, but the trades must take account of environmental impact, that all possible demand side measures have been implemented. The system of trading also needs to take account of regional challenges such as droughts, which are expected to be much more frequent going forward (CIWEM in 2012 highlighted that droughts are going to increase in frequency <https://www.ciwem.org/assets/pdf/Policy/Policy%20Position%20Statement/Managing-drought-in-the-UK.pdf> and this has been further highlighted by the Met Office <https://blog.metoffice.gov.uk/2022/07/27/july-2022-a-dry-run-for-uks-future-climate/>)
- Future Water also argues that whilst RAPID is established to take forward water resource projects across company boundaries, RAPID role, or process of assessing projects, must reflect water resource challenges for England & Wales as a whole, not just each water company. This may need the remit of RAPID being changed.

Q3.2. Developer Services

- Future Water does not have specific comments on developer services other than water efficiency and demand management is critical. There must be incentives to support the introduction of Sustainable Drainage Systems, along with water efficiency measures – both of which will help with resources, management of flooding and inflows into sewer networks. Future Water would argue that the developer service charges must have these incentives built in to the charging mechanism.

Q3.5. Do you agree with our proposals: a) To raise the size threshold above which companies should deliver schemes through DPC to around £200m lifetime totex?

- a) For companies to deliver schemes through DPC by default above this threshold?**

- Raising the DPC level to £200 million, makes sense if it encourages greater use of such a mechanism and supports Design, Build, Finance, Operate approaches, especially for RAPID projects, which need an accelerated timescale. Future Water welcomes that DPC will be geared towards major projects with a total lifetime cost of £200m and we support the move towards making it a requirement to use DPC at this level. Design, build, operate, finance, and maintain is a tried and tested method that delivers value.

Q3.6. Do you have any views on any other aspect of our proposals in relation to: a) The design of price controls; b) Water resources; c) Developer services; d) Retail activities; e) Bioresources; f) Other controls; g) The revenue forecasting incentive mechanism; or h) Direct procurement for customers?

- Future Water doesn't have any additional comments on specifics but the work in our Regulations & Standards has highlighted the importance of standards, where standards are old and where they are not supporting the work of the sector. There should be support the review and update all relevant standards.

Ch4 - Reflecting an understanding of customers and communities

Q4.1. Do you agree with our approach to making sure that companies' price review submissions and our determinations reflect an understanding of customers', communities' and environmental concerns?

- Future Water supports fully the need to engage with and capture customers and communities views and environmental concerns. IT is important to set out that water is often the forgotten service most people just want to turn on the tap and flush the toilet, the end customer is largely ignorant of the challenges that are being managed within a water company catchment area and engagement if often through customers groups, pressure groups etc that are not fully reflective of the population at large. Should there not be a water industry focus to have a national education campaign?

Q4.2. Do you agree with our proposal to conduct open challenge sessions?

- Future Water agrees that open challenge sessions are valuable and there has to be increased engagement with end customers. Future Water is concerned that customers are not engaged fully and the sector is poorly understood, so concerns raised during challenge sessions will tend to reflect the view of customer groups, pressure groups and not customers as a whole.
- There should be a way to adapt the sessions and work being done via Manchester University on 'Citizen Science Engagement' offers an alternative way to involve the public (<https://www.socialresponsibility.manchester.ac.uk/news/february-2020/citizen-science/>)

Q4.4. Do you have views on how the outcome of collaborative customer research can contribute in the context of the collaborative approach in Wales

- The collaborative approach in Wales is interesting and a similar approach across England would be a move forward but again it is critical to involve the population not just the representative groups

Ch5 – Delivering outcomes for customers Performance commitments

Q5.1. Do you agree with our proposed package of common performance commitments? Is water demand best incentivised through separate performance commitments on business and household consumption and leakage or through a performance commitment measuring total demand?

- Future Water supports the proposed package of common performance commitments and that they have been streamlined for PR24. However, Future Water Networks Group is critical of the Supply Interruptions target – this does not drive efficiency in terms of network management and can actually be a disincentive towards maintenance. The group argues that it is better to have targets for planned and unplanned interruptions and targets that operate across longer time scales and across AMP periods.
- Introducing a performance commitment (distribution input target) that measures total demand is something Future Water supports but this would need to be combined with support for a major increase in domestic metering. Total demand can only be properly measured if there is near 100%-meter installation across England and Wales.

Q5.2. Do you agree with our proposed guidance for bespoke performance commitments? Standard incentive rates

- Future Water recognises that the water companies have different challenges and it is important to reflect this in the price review process. The challenges and plans for Stormwater reduction is an example where expenditure will predominantly fall onto three of the Water & Sewerage companies.

Q5.4. Do you agree with our proposed approach to the measures of experience performance commitments, including to increase the size of C-MeX?

- Future Water supports the proposal to increase the size of the C-MeX linked to ODI's and thereby drive greater customer engagement and support. Future Water would point to our previous answer and the importance of increased engagement with customers.

Q5.5 Do you agree with our proposed approach to estimating marginal benefits for common and bespoke performance commitments?

- Future Water supports this approach with the proviso that the customer engagement research uses the citizen science approach.
- In terms of Biodiversity Future Water recommends that account is taken of the outputs from: <https://www.ukri.org/opportunity/improving-observation-capabilities-of-biodiversity-in-uk-waters/> to the determination of the commitments. Green House Gas emissions is a major operational challenge for the water sector and performance commitments must be 'common' applying across the sector as part of the Net Carbon Zero commitment.

Q5.6. Do you agree with our proposed approach to incentivising asset health performance? Enhanced incentives

- It is better to have targets linked to network surveys, replacement rates for example – when pipe replacement rates were higher in the 1990s into the 2000s, innovation was driving world-leading approaches to network management.
- Also using the same Performance Commitments for PR24 as used for PR19 in relation to Asset Health, does not support the objective of improving resilience, there should be targets to support and drive network surveys, repair, and replacement rates.
- In terms of pipe networks/sewers this is one area where if targets are set for surveys, replacement, repair rates, such commitments must stretch across PR24 into PR29 in order to drive change required. The largest water company asset is underground and it is essential to have a 25 year forward approach to managing the asset.

Q5.16. Do you have any wider comments about the ODI framework at PR24?

- Future Water would like to reinforce the message that there needs to be a greater drive towards network and sewer maintenance. The association has committed its resources to driving this agenda by establishing an annual month-long programme of events exploring how best to deliver proper management of networks and sewers, Networks November official launches this year. There should be additional performance commitments for Asset Health as stated above, in answer to Q.5.6

Ch6 – Setting expenditure allowances Providing companies with an efficient cost allowance

Providing companies with an efficient cost allowance

Q6.3. Do you agree that companies that submit the most stretching and well evidenced business plans should receive the most favourable cost sharing rates at PR24?

- Future Water supports this approach as it drives companies to focus on efficiency and outcomes.

Funding for water companies to maintain good asset health and resilience

Q6.4. Do you agree that resilience enhancement should be used to fund companies to manage increasing risks to specific hazards that are beyond their control and not covered by base expenditure and other enhancement areas?

- Future Water supports this approach as we have seen in the past several years with 'Beast from the East' through the pandemic, floods and now droughts – climate change is having a significant impact on the industry. The hazards to be managed are increasing and are not readily predictable in terms of frequency and impact.

Delivering service improvements to customers and the environment from expenditure allowances

Q6.5. Do you agree with our proposed approach to setting performance commitment levels at PR24? & Q6.6. Do you agree with our view on what performance commitments should be set using common or company specific performance commitment levels? Facilitating efficient investment over 2025-30 and the long term

- Future Water supports the approach to setting performance commitments and facilitating investment but we believe that it is critical to balance the challenges of achieving Net Zero, with WINEP, DWMPs and WRMPs - in light of the Environment Bill, the push towards Nutrient Neutrality - Future Water believes that the methodology should set out how trade-offs must be managed, which targets have priority and need focus in the business plans? Agreeing the trade-off priorities must come from the regulators.
- Delivering for customers requires longer term performance commitments to underpin the long-term delivery strategies. So the priority targets should therefore be supported with PC's over two or three AMP periods.

Q6.7. Do you agree with our proposed approach to incentivising and funding efficient investment in reducing greenhouse gas emissions and reducing the use of storm overflows?

- Future Water supports the approach but as outlined above, there is need for an integrated 'trade-off' discussion, reducing GHG emissions and managing Storm Water Overflows, requires a change in the way the 'system' functions, the system being our drains and sewers, the treatments plants, capacity to manage flow volumes. There will have to be trade-offs along the system, who determines these? In our view it is the regulator.

- Future Water has also argued that in relation to stormwater overflows it is imperative that support is given to the development of 'real-time' monitoring equipment, for example for monitoring water quality. There is a need to determine the impact of the overflows on receiving waters as this will help to determine the action (and investment) that needs to be undertaken. This is not dealt with in the Stormwater Reduction Plan recently issued by Government.

Q6.8. Do you agree with our proposed approach to implementing nutrient neutrality in the PR24 regulatory framework?

- Future Water supports the approach recognising the need for better monitoring systems in real-time.

Q6.9. Do you agree with our proposed approach to encouraging companies to deliver best value through our cost assessment?

- Future Water supports the best value approach as this promotes the focus on societal outcomes, health benefits, environmental benefits and more. Future Water welcomes the recognition that scheme/investments can span multiple price control periods. Multi-period investments are essential if the key challenges are to be met and Future Water wants to see such investments over AMPs be allowed for plans to improve asset health through increased pipe replacement, greater sewer surveys and linked upgrade works emerging from the surveys.

Q6.10. Do you agree with our proposed approach to removing the potential disadvantage that nature-based operating expenditure solutions may face in relation to the treatment of enhancement operating expenditure?

- Future Water believes that nature based solutions are a crucial part of delivering benefits linked to floods, droughts, water quality etc – they can also lead to societal and environmental benefits, which are difficult to put in economic terms, so removing the potential disadvantages is an important step.

Ch7 – Aligning risk and return

Q7.1. Do you have any comments on our approach to the overall balance of the PR24 incentive package, our proposed guidance on producing risk ranges, and our view of the balance of risk facing the notional company?

- Future Water has regularly argued that the supply chain is such a significant part of the operation of the sector that risk and return for a water company, must include an understanding of supply chain risk to operations. Future Water would like to see more emphasis being put on the supply chain as part of this process.

Q7.2. Do you agree with our proposals on the regulatory regime for managing companies' exposure to uncertainty over 2025-30?

- As above the exposure to uncertainty must include Supply Chain risk. Future Water would like to add that another area critical to uncertainty capacity to deliver, with increasing pressures on people (there being enough), the industry

in absence of a national campaign to increase numbers across the whole sector (water companies and supply chain), there will be a major loss of knowledge within the next three years!

Ch8 – Financeability

Q8.1. Do you agree with our approach to assessing financeability?

- Future Water believes that the supply chain must be a key part of the assessment in terms of financeability, given how much output is delivered with the supply chain.

Ch9 – Promoting financial resilience

Q9.1. Do you agree with the proposed standard set of scenarios for testing financial resilience?

- Future Water argues that Financial test must include a supply chain element, perhaps by developing a supply chain risk register.

Ch10 – Companies' PR24 submissions

Q10.1. Are the PR24 submission requirements clear and sufficiently specified?

Q10.2. Is any data missing, or included but not required or areas we need to look at again?

Q10.3. Are the limits on the number and size of documents workable? Should we be more prescriptive in terms of file and folder structures etc?

- Future Water believes that the proposals seem workable and 'less is more' – the important aspect is openness.

Ch11 – Encouraging quality and ambitious business plans

Q11.1. Do you agree with the framework we propose to encourage the best business plans? Specifically, do you agree

- **that we should first assess 'quality' followed by 'ambition'?**
- **with our proposed allocation of rewards and penalties for performance on each?**

- Future Water supports the approach to encourage the best business plans but the plans must have a focus on investing to manage total water demand, along with investment to upgrade the performance of pipe networks and sewers'.
- Future Water believes that there must be a focus on 'people' in the sector, with recruitment and EDI being at the heart of the drive.

**Q11.2. Do you agree with the proposed scope of our 'quality' assessment?
Specifically, do you agree:**

- **we should have minimum expectations in the six areas described above?**
- **with the minimum expectations we specify in each of the six areas?**
 - Future Water supports the approach to minimum expectations which must show ambition!

Q11.3. Do you agree with the proposed scope of our ambition assessment?

Q11.4. Do agree with our proposed reputational, financial and procedural rewards and penalties, including the overall package of reward and penalty?

Q11.5. Do you have any other comments regarding our proposed approach to business plan incentives at PR24?

- Future Water supports the incentives, especially for Bioresources, again we would like to stress the importance of focusing on the underground, Future Water believes the incentives need to be increased to encourage investment in the networks and sewers.

Appendix 6 – Performance Commitments Customers receiving excellent service every day

QA6.1. Do you have further views on whether the proposals laid out for C-MeX are appropriate?

- Future Water views are given in the main response.

QA6.4. Do you consider evidence suggests that the current water supply interruptions performance commitment is inhibiting innovation? If so please provide it.

- Future Water members, through our Networks Group would happily meet with Ofwat to

QA6.5. Do you agree with our proposed definition for the biodiversity performance commitment?

- Future Water has commented in the main response

QA6.6. Do you agree with our proposal to have separate operational greenhouse gas emissions performance commitments for water and wastewater, which are based on a normalised measure?

- Future Water agrees with the proposals but we also recognise that water is used throughout the economy and it is important to reflect the carbon emissions from the economic activity of the sector.

- Net Carbon Zero drive must reflect 'water cycle' and water as a system across the economy.

QA6.7. Do you agree with our proposal that the performance commitment on serious pollution incidents should only apply to water and wastewater companies?

QA6.8. Do you agree we should focus the bathing water performance commitment on the outcome that customers have received and should continue to develop an alternative definition to do this?

- Future Water agrees that this makes sense, as long as funding supports the improvement of sewer networks. Future Water also wants to highlight that the knowledge and expertise of how to manage sea outfalls is decreasing rapidly and represents a major risk in terms of bathing water performance commitments.

QA6.9. Do you agree with our proposal for the river water quality performance commitment to measure the reduction of phosphorus entering rivers?

- Future Water supports nutrient neutrality approach

Appendix 13 – Data and modelling

QA13.1. Do you agree with our proposed approach to mechanisms at PR24?

- Future Water believes that the proposed approach makes sense, and we support openness.

Future Water is happy to discuss any aspects of this response.

Kind regards,



Paul Horton
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