



Biodiversity

Purpose: This performance commitment is designed to incentivise the company to conserve and enhance biodiversity in the exercise of its functions.

Benefits: The benefits of improved biodiversity are reduced extinction risk, increased resilience to climatic and water resource changes and enhancements in ecosystem service provision such as water quality, localised climate regulation, pollination, clean air, and physical and mental health benefits.

Version control

Version	Date of issue	Performance commitment changes
0.1	22 December 2022	Published at final methodology, changes to definition from draft methodology identified in red text.
0.2	17 May 2023	<p>Removal of red text. Term "river" changed to "watercourse". References to "land for which the company provides monopoly services" changed to refer to the company's "area" as defined in its instrument of appointment.</p> <p>Section 1.1 - Reference to Biodiversity Metric 3.1 updated to 4.0, footnote added to explain the approach where sites have been surveyed using an earlier version of the biodiversity metric. Change to clarify land can be nominated at any time, and that once the initial survey of such land has been completed that land cannot be excluded.</p> <p>Section 1.1 - References to "original survey" changed to "initial survey".</p>

		<p>Section 1.1 - clarification that changes are recorded in surveys at four-year intervals, based on site visits made at appropriate times.</p> <p>Section 1.1 – provision to record a zero net change on a site where access is prohibited.</p> <p>Section 1.2 clarification that public funding received by the company does not count towards the company's investment.</p> <p>Section 1.2 – clarification that Biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), may be included in the calculation of biodiversity units.</p> <p>Sections 1.2 and 1.4 - Clarification on the identification of, and engagement with, relevant stakeholders.</p> <p>Changes to sections 1.1 and 1.4 to replace "all sites" with "all other company owned sites".</p> <p>Section 1.4 – added item to section 2 of Table 1 that appropriate management is in place to conserve biodiversity.</p>
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Performance commitment definition and parameters

1.1 Detailed definition of performance measure

This performance commitment measures the net change in the number of biodiversity units on nominated land per 100km² of land in the company's area.¹ A biodiversity unit is a measurement of an area's value to wildlife. It is based on the size and quality of habitats, and whether the habitat is sited in an area identified as being of strategic significance for nature.

Biodiversity units will be assessed in surveys, using information gathered from site visits conducted at appropriate times by an appropriately qualified person, for each given piece of land nominated by the company. The initial survey and all subsequent surveys will use the baseline pre-intervention assessment of the Natural England joint publication [Biodiversity Metric 4.0](#) of March 2023 (the 'biodiversity metric'), as published on our website.²³ Natural Resources Wales (NRW) will set out advice in relation to distinctiveness or condition of habitats for companies to apply to the scoring of land in Wales. This may include how data should be gathered and recorded.

The company can, in consultation with relevant stakeholders, nominate areas of company-owned land as well as other land where habitat is improved in the process of a water company carrying out its functions. Land can be nominated at any time. Once the initial survey of such land has been completed it cannot be excluded. The company will provide assurance that overall biodiversity across all other company-owned sites which are not included in the performance commitment is not deteriorating.

Surveys will be repeated every four years. The change in biodiversity units on a given piece of land will be the aggregate change between the latest survey and the initial survey. No change can be recorded in the years between surveys. Once the initial

¹ The 'company's area' means "the Area" as defined in Condition A of the company's instrument of appointment.

² Note - we expect to use the version which is in effect at the date of our PR24 final determinations, subject to the outcome of the PR24 determinations process.

³ Where an earlier survey of a site is conducted using an earlier version of the biodiversity metric than that stated in the current version of the performance commitment, the next survey must collect sufficient information to be able to calculate: i) the change in biodiversity units between the earlier survey and that next survey in relation to the relevant site; and ii) the new baseline against which future changes in biodiversity units relating to the relevant site will be assessed in accordance with the biodiversity metric stated in the current version of the performance commitment.

survey has been completed for the purpose of the performance commitment, the company must continue to survey that land every four years.

Assessors must have relevant professional accreditation or very substantial experience and particular experience and relevant training on the specific habitat types that they assess. The company must also have processes and collect relevant information to ensure that assessments are undertaken in as similar way as possible across a pair of surveys over time.

The company may also need to measure the change in biodiversity at a site using the full biodiversity metric for purposes other than this performance commitment. This is not directly comparable with the units measured under this performance commitment. The biodiversity metric measures the forward-looking projected change between the baseline pre-intervention assessment and the number of 'post-intervention' units which are projected to be provided after the development or change in land management at a future date that may be decades in the future. This performance commitment measures observed changes in habitat.

For the purpose of this performance commitment the company will report all habitats together, including irreplaceable habitats or habitats designated as Sites of Special Scientific Interest. However, the company must also record and report separately the net change in biodiversity units based on:

- area;
- hedgerow; and
- watercourse.

Where the site stops being appointed land and/or biodiversity stops being associated with the water company carrying out its functions on that site the company will report a net biodiversity change of zero.

Where the survey shows a positive net change in biodiversity on a site, the company will continue to restate that change each reporting year until the next survey as long as:

- the change is not reported more than four times without a further survey;
- appropriate management is in place to, at a minimum, conserve biodiversity; and
- the company has no information that there may have been a loss in biodiversity, that it has not taken proportionate action to address.

If, in relation to a site, the company cannot meet these conditions because access to the site is prohibited by an appropriate agency or the UK or Welsh government, it will

report a zero net change on that site, providing that the company gives sufficient and convincing evidence that compliance with the conditions resumed (and, in the case of the first condition, that a further survey was conducted) without unreasonable delay upon removal of the prohibition. In the absence of such evidence, and in all other cases, if any of the conditions do not hold, the company will record zero biodiversity units on the site, resulting in a negative net change on that site.

Where the survey shows a negative net change in biodiversity on a site, the company will continue to report this until a further survey demonstrates biodiversity units on the site have changed.

Where the company knows, or has information that should make it suspect, that habitat has deteriorated before the initial survey, it will adjust the assessment to reflect the condition of land subject to this performance commitment at its most favourable condition since 2020.

1.2 Additional detail on measurement units

Where the company collaborates with one or more organisations on this performance commitment, it will claim units proportionate to the level of its own financial investment incurred to date. Investments in the form of public funding (e.g. a grant) paid to the water company should be treated as third party contributions and do not count towards the company's investment. Where payments are spread over time these will be converted into the net present value using the appointee cost of capital for the company assumed in the latest final determinations of price limits.

The company should undertake and keep under review a comprehensive mapping exercise to identify relevant stakeholders throughout the period. The company will consult and work with those stakeholders whom it is reasonable to consider would want to be involved in the consideration of which land is most appropriate to nominate. The Company will choose the sites in Wales from within areas of Strategic Significance defined and agreed in advance with NRW. For the avoidance of doubt, these same Strategic Significance areas will also be used when calculating biodiversity units.

For land in Wales, where the biodiversity metric would normally require areas to be classified using the UK Habitats Classification these areas should instead initially be classified in accordance with the JNCC Handbook for Phase 1 habitat survey.⁴ Phase 1 data should then be translated to UK Habitat Classification System in accordance with additional advice issued by NRW to create the baseline pre-intervention assessment for the biodiversity metric. Particular care will be needed to ensure correct translation of

⁴ JNCC Handbook for Phase 1 habitat survey – a technique for environmental audit, JNCC, Peterborough, 2010, ISBN 0 86139 636 7.

degraded peat and Ffridd habitats for example. Phase 1 survey data should be recorded and retained for third party assurance purposes and a copy also submitted to the relevant local record centre.

Land in the company's area will be calculated separately for the water supply area and the sewerage services area as defined in Schedule 1 of the company's instrument of appointment and combined. Therefore, where a square kilometre of land is included in both areas this will be counted as two square kilometres.

Biodiversity benefits arising from WINEP/ NEP, requirements (including on Sites of Special Scientific Interest), may be included in the calculation of the change in biodiversity units.

1.3 Specific exclusions

Improvements in biodiversity that arise as a result of conditions or obligations relating to other forms of regulation, including planning processes will be excluded from this performance commitment. This includes biodiversity units associated with credits from the Secretary of State as outlined in Section 101 of the Environment Act 2021. Records of biodiversity units that are excluded that are measured on appointed business land should be recorded separately.

1.4 Reporting and assurance

The company is to provide external third-party assurance (by those with appropriate qualification and experience), including appropriate engagement with those stakeholders whom it is reasonable to consider would have an interest in the company's activities relating to this performance commitment, for the following:

- information has been reported in line with this definition;
- the company has identified, engaged with and conscientiously taken into account the views of those stakeholders whom it is reasonable to consider would want to be involved in selecting the sites it has surveyed for the first time in the reporting year and that management interventions have been guided by appropriate expert ecological advice;
- the company has implemented appropriate processes in selecting assessors that are appropriate to the habitat being surveyed;
- the company has implemented appropriate processes to collect relevant information so that assessments on each site can be undertaken in as similar way as possible across a pair of surveys over time; and

- overall biodiversity across all other company owned sites which are not included in the performance commitment is not deteriorating.

The company shall follow the assurance processes they set out in its 2024 business plan in line with any guidance Ofwat issues. Ofwat guidance will take precedence where there is a conflict.

For any land in Wales, the company should prepare a “Net Benefits for Biodiversity Report” as part of its annual reporting detailing how the additional biodiversity units it has delivered, or is working towards, are contributing to the maintenance and enhancement of biodiversity and promoting ecosystem resilience. In presenting the contribution that its plans make to ecosystem resilience the report should, in addition to the biodiversity metric, use the attributes presented in DECCA (Diversity, Extent, Condition, Connectivity and other Aspect of ecosystem resilience) to describe this contribution from an initial baseline. The company should follow any guidance issued by Welsh Government about the scope, format and content of this report.

The company shall ensure that its outcome delivery incentive payments only relate to real performance changes and not definitional, methodological or data changes in performance commitments.

Compliance Checklist

The company should complete the checklist below and report to Ofwat if any element is not green. Where an element is not green, we may intervene to protect customers and ensure that the company does not benefit from insufficient data quality. See Annex 1 for assessment rules for each element.

Table 1 – Biodiversity compliance checklist

	Component	Component R/A/G	Reason for any non-compliant component	Confidence grade
1	Appropriate actions are taken to conserve and enhance biodiversity			
1a	Stakeholders help direct areas of land that are nominated			
1b	Management interventions are guided by appropriate expert ecological advice			

2	Assessments are undertaken to assess changes in biodiversity on nominated sites			
2a	Assessors are selected that have training/experience appropriate to the habitat being surveyed.			
2b	Information is collected so that assessments on each site can be undertaken in as similar way as possible across a pair of surveys over time.			
2c	Site surveys are carried out at four-year intervals using the baseline pre-intervention assessment of the biodiversity metric (and, where necessary, any earlier version of this metric in accordance with section 1.1).			
2d	Appropriate management is in place to conserve biodiversity and the company has no information that there may have been a loss in biodiversity, that it has not taken proportionate action to address.			
2e	For any land in Wales the company follows the advice issued by NRW.			
3	Overall biodiversity across sites not included in the biodiversity metric is not deteriorating			
3a	The company follows the assurance processes set out in its 2024 business plan and in line with any guidance Ofwat issues.			
3b	For any land in Wales, the water company has prepared a "Net Benefits for Biodiversity Report" in line with guidance issued by the Welsh Government.			

Table 2 Definition parameters

Parameters	
Measurement unit and decimal places	Biodiversity units per 100km ² of land in the company's area. Measured to two decimal places.
Measurement timing	Reporting year
Incentive form	Revenue
Incentive type	Outperformance and underperformance payments
Timing of underperformance and outperformance payments	In-period
Price control allocation	Split equally between the water resources, water network plus and wastewater network plus – for water only companies this will only be water resources and water network plus.
Frequency of reporting	Annual
Any other relevant information	<p>Reporting to be also provided split across area, watercourse and hedgerow units.</p> <p>The biodiversity metric uses habitats as a proxy for biodiversity. Although this is a rational means of measuring biodiversity value, it is a simplification of complex ecological processes which are not readily captured. Moreover, in this performance commitment, area based biodiversity units, hedgerow biodiversity units and watercourse biodiversity units are summed together which adds further simplification to the original biodiversity metric. The biodiversity metric and its outputs should therefore be interpreted, alongside ecological expertise and common sense. It is not a guide on how to best manage a site or to meet statutory duties. Protected and locally important species needs are not considered through the biodiversity metric, they should be addressed through existing policy and legislation. Management interventions should be guided by appropriate expert ecological advice.</p> <p>After we receive business plans we will consider whether the company's area still appears the most appropriate normalisation and specify an alternative in our determinations if it is not.</p>
Links to relevant external documents	N/A

Annex 1 Compliance Checklist

This annex sets out the criteria on which to report checklists where specified in the performance commitment definition.

Compliance for elements is reported against:

R	Not compliant with the guidance and having a material impact on reporting
A	Not compliant with the guidance and having no material impact on reporting
G	Fully compliant with the guidance

An overall RAG to be assigned for each component based on the following rules:

Compliance for overall components is reported against:

R	There are one or more red elements in the component, or the combined effect of amber elements is considered to produce a material impact.
A	Half or more of the elements in the component are amber and the combined effect of the amber elements is considered not to produce a material impact
G	More than half of the elements in the component are green

For each component on the checklist, and for the overall performance measure, the company will report a confidence grade. Confidence grades provide a reasoned basis for the company to qualify the reliability and accuracy of the data.

The company shall employ a quality assured approach in the methodology used to assign confidence grades, particularly if sampling techniques are in place. The confidence grade combines elements of reliability and accuracy, for example:

A2 - Data based on sound records etc. (A, highly reliable) and estimated to be within +/- 5% (accuracy band 2) Reliability and accuracy bands are shown in the tables below.

Reliability Band	Description
A	Sound textual records, procedures, investigations or analysis properly documented and recognised as the best method of assessment.
B	As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation.
C	Extrapolation from limited sample for which Grade A or B data is available.

D	Unconfirmed verbal reports, cursory inspections or analysis.
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Accuracy band	Accuracy to or within +/-	But outside +/-
1	1%	-
2	5%	1%
3	10%	5%
4	25%	10%
5	50%	25%
6	100%	50%
X	Accuracy outside +/- 100 %, small numbers or otherwise incompatible (see table below)	

Certain reliability and accuracy band combinations are considered to be incompatible, and these are blocked out in the table below.

Compatible confidence grades				
Accuracy band	Reliability band			
	A	B	C	D
1	A1			
2	A2	B2	C2	
3	A3	B3	C3	D3
4	A4	B4	C4	D4
5			C5	D5
6				D6
X	AX	BX	CX	DX