

Wessex Water response to the consultation ‘Updating the storm overflows performance commitment definition for the 2024 price review (PR24)’

Q1: Do you agree with our proposals to set a performance commitment based on average spills, with financial consequences for companies that do not meet their targets?

Overall, we are concerned about this as a performance commitment for three reasons:

1. A concern that it does not measure an outcome
2. The fact that the Environment Agency has not yet concluded how permits will be applied under different technological solutions
3. A company’s ability to control storm overflow spill frequency is hugely dependent on the weather and will continue to be so even with the most ambitious expenditure programmes in AMP8.

Outcomes

We are generally supportive of an outcomes approach to incentive-based regulation. Equally, Ofwat’s methodology¹ states “*we propose to not set performance commitments on outcomes that significantly duplicate or underpin other performance commitments*”

The purpose of storm overflows is to protect properties from flooding. They should also not adversely affect the environment nor increase public health risk. In that respect, outcomes are/will be measured by:

1. the number of flooding incidents (a performance commitment)
2. the number of overflows affecting the environment - this is currently measured by WFD RNAGs associated with intermittent discharges and will in the future be measured by continuous river water quality monitoring
3. the number of overflows affecting bathing water classification (Bathing Water classification is a proposed performance commitment)

The Environment Agency will also monitor delivery against Government targets for storm overflow improvements – measured by the WINEP and the Environmental Performance Assessment.

Whilst points 1-3 above measure the outcome resulting from the operation of storm overflows, the proposed PC (the average number of discharges/overflow/year) does not measure an outcome. In this vein, the Ofwat methodology also states that “*we expect that our proposed performance commitments will cover the key areas of focus of an outcomes-based approach to WINEP/NEP such as river and bathing water quality*”.

Importantly, some storm overflows actually discharge water that is cleaner than the river and support river flows. It would be counterintuitive to incentivise companies to reduce storm overflow discharge reduction where they provide benefit to the environment.

¹ Appendix 6 Section 2.1.1.

Potential solutions

It is not yet clear what type or scale of solution will be regarded by the Environment Agency as counting towards spill frequency reduction. Until this is confirmed, it is not clear how far companies will be able to progress with different approaches and may make the proposed commitment less appropriate. Given that the Environment Agency will be monitoring delivery against its plan and can take enforcement action, we do not see a need to provide extra regulatory cover here.

Ability to control

As rainfall and groundwater table levels will easily be the most material single variable affecting over and under-performance in the first 5 years (regardless of even the most ambitious investment programmes), we are concerned that the proposed metric will reward companies for dry weather and penalise them for wet weather.

Ofwat's methodology² further states "*But we do not consider that an outcome has to be fully within a company's control for it to be worth incentivising. Where they have a **material** influence over the outcome, they should be incentivised to use this, even if other factors may also have an impact.*"

And also "*Overall, we do not consider our proposal places excessive risk on companies. As set out in Appendix 8, we are proposing to set symmetric incentive rates for most performance commitments as PR24, so external factors may lead to outperformance payments as well as underperformance.*"

For example, between 2020 and 2022, (for the 935 storm overflows monitored in both 2020 and 2022), the average discharge count dropped by 36% from 31 to 20, and discharge hours dropped 56%, despite significantly lower levels of investment in discharge reduction than will be taking place in AMP8. The variability was mostly due to the weather.

Year	Nr. Monitored Overflows	Av. Discharge Count	Sum Discharge Count	Av. Discharge Hrs	Sum Discharge Hrs	% reduction from 2020
2020	935	31	28,888	255	238,049	-
2021	935	23	21,455	143	133,600	44%
2022	935	20	18,307	112	104,762	56%

Q2: Do you agree with our proposed approach to unmonitored storm overflows?

This is a reasonable way of filling data gaps.

Q3: Do you agree with our proposed approach to mid-period changes?

Our view is that any changes in overflow numbers (which occasionally happens) will be dwarfed by weather patterns and so will make no material difference to the average number of discharges per storm overflow.

² Appendix 6 section 2.4.2

Q4: Do you agree with our proposed approach to emergency overflows?

Monitoring of emergency overflows is an ongoing process (with U_MON6 drivers in AMP8). Therefore, we agree with the approach.

Q5: Do you have any further comments on this performance commitment?

No.