Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Future Water Resources Management: Reform of the Water Abstraction Regulation System	
Lead Department/Agency	Department for Environment, Food and Rural Affairs	
Stage	Consultation	
IA Number	DEFRA1365	
Origin	Domestic	
Expected date of implementation (and SNR number)	Post 2015	
Date submitted to RPC	14/10/2013	
RPC Opinion date and reference	15/11/2013	RPC13-DEFRA-1933
Overall Assessment	**AMBER**	

RPC comments

The IA is fit for purpose. There are a number of assumptions that will need to be tested through consultation, and where the final stage IA will need to be strengthened. The final stage IA will need to provide a break down of the identified costs and benefits, including justifying the estimates and assumptions used in developing those figures. This should include quantifying the environmental impacts where possible.

To enable the OITO assessment to be validated the IA will need to assess the direct costs to business and justify the assessment that the benefits of reduced adaptation costs for business and the benefits of electronic licences can be considered as a direct impact of the regulatory proposals.

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

Water, in rivers and aquifers, is a common property resource and therefore needs a system of regulation to manage its use. This use, called abstraction, is currently regulated by a system of licences set up in the 1960s. This system is not flexible or responsive enough to deal with the challenges of climate change and predicted increases in water demand with pressures already on the environment. Reforming the abstraction regulation system effectively is key to successfully regulating access to water in the future to promote resilient economic growth and protect the environment in a manner which is fair and adaptable at a reasonable cost

What are the policy objectives and the intended effects?

The UK Government initially committed to reform of the abstraction regulation system in the Natural Environment White Paper published in June 2011 and then set out the proposed direction, principles and process for reform in the Water White Paper in December 2011. We are committed to introduce a reformed water abstraction regulation system in England able to promote resilient economic growth while protecting the

environment in a manner which is fair and adaptable to future uncertainty at a reasonable cost. We intend to go out to consultation in December 2013 and legislate early next Parliament.

Identification of costs and benefits, and the impacts on business, civil society organisations, the public sector and individuals, and reflection of these in the choice of options

The consultation will be used to test two options for improving the use of water resources through enabling a more flexible and responsive system for the management of abstraction licences. The two options contain a number of similar features, and are estimated to deliver broadly similar benefits. As such the IA does not identify a preferred option at this stage. Both options build on the current system to identify catchment areas where the proposals would be likely to introduce more benefits than costs and, for those areas, enable closer links between water availability and permitted abstraction. The 'current system plus' (option 1) would replace seasonal conditions with water flow based conditions, enabling additional water to be taken during high flow periods and introducing graded restrictions at low water flow levels. The process for amending abstraction licences conditions will also be amended so that all licences are of a consistent length and subject to consistent rules and time periods for the amendment of conditions. In addition to these changes, the 'water shares' option (option 2) would introduce a system to allocate portions of available water and enable abstractors to trade their allocations to reflect the variability in flows and different business demands.

Details of costs and benefits. The IA includes high level estimates of the overall costs and benefits of the proposal. While this is acceptable for a consultation stage proposal, a more detailed breakdown of how the overall figures are calculated will be required at final stage. The IA identifies a best estimate total benefit to business of administration cost savings of around £36 million and adaptation cost savings of around £190 million. The figures are broadly similar for both options.

The IA will need to demonstrate that the estimates include all the relevant costs and benefits, and provide sufficient detail of the time profile of costs and benefits to show that the NPV and EANCB have been calculated appropriately. In addition, the IA should include further information on the likely impacts on abstractors, for example thermal electricity generation abstractors (page 25), as a result of changes to levels of abstraction. The IA should also provide greater detail on the expected environmental impacts, monetised where possible, to better inform decisions about the trade off between the costs and benefits of the proposal.

Smart meters. The costs of installing smart meters, to enable the more responsive and flexible approach to water usage, are referred to in the SaMBA section of the IA but are not covered in detail elsewhere. Given the £850 cost of installing a smart meter and the potential number of businesses affected, the final stage IA will need to demonstrate clearly how these costs are accounted for in the overall estimates.

Justification of assumptions. There are a number of assumptions that will need to be justified to enable the estimated EANCB to be considered robust at final stage. These include the use of the mid-point between the high and low estimates. Given the size of the estimates, the IA should explain why the mid-point can be considered a more robust best estimate than other points between the two bounds. In light of

the detailed modelling and scenarios developed it would appear that some scenarios are more likely to occur than others, and this should be reflected in the process used to identify the best estimate.

Market regulation. The IA should explain why it is considered reasonable that the benefits will be achievable without additional regulation of the market in water sharing trading. The IA identifies that the facilitation of trading markets will introduce the potential for market abuse and distortion (risks, page 36). If the benefits of the facilitation of trading would require additional regulation to be realised, those benefits should be scored against the additional regulation, and not these proposals.

Electronic licensing. It appears that the move to electronic licensing will be an important part of the overall benefit of the proposals. The final stage IA should be clearer on whether electronic licensing might (or can) happen independently of the regulatory changes proposed here. As part of providing the more detailed breakdown of costs and benefits at final stage, the IA should, where possible, separately identify the benefit specifically associated with the introduction of electronic licences.

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

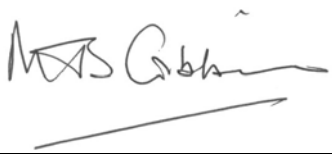
The proposals regulate business and are intended to come into force after April 2014.

As a consultation stage IA the SaMBA is considered to be sufficient. At final stage it will need to be strengthened to provide greater detail on the expected impacts on small and micro businesses and why exemptions or mitigations are not considered appropriate. In particular the IA will need to explain clearly why the department consider that the costs of smart meters will be outweighed by the benefits to individual businesses of having to install them.

Comments on the robustness of the OITO assessment.

The IA says that this is a regulatory proposal that is in scope of OITO and would have a net benefit to business (an 'IN' with Zero Net Cost). However, based on the evidence presented it is not possible to confirm this assessment at this stage.

In particular, for the measure to be validated as an IN with a zero net cost the final stage IA will need to show that the direct benefits of the regulation will outweigh the costs of implementing the changes, such as those associated with familiarisation and the installation of smart meters. As part of this, the Department will need to address whether all of the benefits, in particular adaptation cost savings, can be considered to be direct and whether electronic licences could be introduced (and therefore any benefit realised) without change to regulation. The adaptation cost savings appear to result from businesses changing investment behaviours in response to the proposals, rather than as a direct result of the legislation. It also appears that electronic licences could be introduced without regulatory changes, and as such the IA will need to demonstrate that the benefits of electronic licences can be considered as arising from the regulation.

Signed 	**Michael Gibbons,** Chairman