 <b>Regulatory Policy Committee</b>	<b>Opinion</b>	
<b>Impact Assessment (IA)</b>	Transfer of private water supply pipes to Water and Sewerage Company Ownership	
<b>Lead Department/Agency</b>	Department for the Environment, Food and Rural Affairs	
<b>Stage</b>	Final	
<b>IA number</b>	Defra 1502	
<b>Origin</b>	Domestic	
<b>Expected date of implementation (and SNR number)</b>	SNR7	
<b>Date submitted to RPC</b>	25/10/2013	
<b>RPC Opinion date and reference</b>	17/12/2013	RPC13-DEFRA-1735(2)
<b>Overall Assessment</b>	<b>GREEN</b>	
<b>RPC comments</b>  <p>The IA is fit for purpose. The IA responds to the concerns raised in our consultation stage opinion of 24/4/2013, in particular through setting out the expected costs and benefits of the secondary legislation that will later be enacted using the enabling power. The One-in, Two-out assessment of the proposed regulations appears reasonable, but the estimated equivalent annual net cost to business will need to be validated when such regulations are brought forward.</p>		
<b>Background (extracts from IA)</b>  <p><b>What is the problem under consideration? Why is government intervention necessary?</b></p> <p><i>There is a lack of awareness of responsibility for repair and maintenance of private water supply pipes. Customers can be faced with large unexpected bills if they have not taken out the correct insurance policy or Water and Sewerage Company assistance is not available. There are also poor incentives for unmetered customers to repair leaks due to externalities. Furthermore, where private supply pipe owners do repair or replace pipes, this tends to be reactive rather than planned and not economically efficient. Intervention is necessary because investment and repair of important water supply infrastructure is not currently being undertaken in a socially optimal way due to the above mix of information and co-ordination failures and externalities.</i></p> <p><b>What are the policy objectives and the intended effects?</b></p> <p><i>The policy is to provide clarity over ownership of existing and future laid supply pipes to achieve the most efficient cost for society in terms of economies of scale and an equitable spread of the burden of repair costs across customers. This in turn will provide the basis for a long term resilient strategy for managing water supply pipes which will allow for improved opportunities for innovation and for the engineering and management of the whole service pipe to be addressed.</i></p>		

### **Comments on the robustness of the OITO assessment**

The IA says that the proposal would create an enabling power, which when exercised will be a regulatory measure that is net beneficial for business (an IN with a 'zero net cost'). Based on the evidence presented, the creation of the enabling power itself will have no direct impact on business and should be considered out of scope of One-in, Two-out. This assessment is consistent with the current One-in, Two-out Methodology (paragraph 1.9.8 i of the Better Regulation Framework Manual). Any use of the enabling power will need to be accompanied by sufficient evidence to enable the EANCB estimate to be validated, including fuller details on how household and non-household administrative cost savings are calculated.

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

The proposal for primary legislation does not regulate business and therefore the SaMBA is not applicable. The SaMBA will be applicable for the secondary legislation. The IA accompanying the secondary legislation will benefit from including further consideration as to whether more could be done to work with water companies to mitigate the potential impacts of the proposal on small and micro plumbing businesses who may lose work.

### **Quality of the analysis and evidence presented in the IA**

The proposal will create an enabling power in primary legislation, with a view to making regulations that will require water companies to adopt existing and future laid water supply pipes that connect properties to the mains water supply. Such pipes are currently the responsibility of the property owner. For One-in, Two-out purposes such transfers are considered as a regulated transfer of assets (Paragraph 1.9.23, Better Regulation Framework Manual), with the estimated direct benefit of the transfer estimated "*using the present value of the regulated return from the asset*". The increased liability of the transferred asset will be passed through to customers through the price review mechanism.

Water companies will also benefit from being able to take co-ordinated action to reduce wastage from leaks. Encouraging more proactive and planned action should enable repairs of pipes to be taken more efficiently than is currently the case, due to economies of scale and avoidance of emergency repair charges. The increased costs of repairs and administrative burdens for water companies are estimated to be £537.5 million and £54.9 million respectively. These increased costs will be recovered from customers through the price review mechanism. However, the IA estimates that business customers will save £56.4 million in reduced repair and replacement costs, and £1.7 million in reduced administrative burdens associated with arranging repairs and replacements, with household customers saving £590 million in reduced costs of repairs and replacements, and £17.3 million in reduced administrative burdens (present value figures). As the expected increases in costs for customers through the price review mechanism are lower than their existing liabilities the proposal is estimated to be net beneficial.

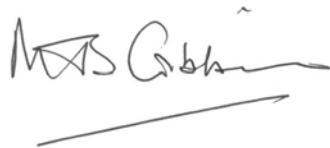
Additional savings are expected as a result of reduced wastage of water, but there is insufficient evidence regarding the potential different impacts between the options to allow for robust monetisation.

*Net present value (NPV) of the preferred option.* The preferred option for how the enabling power will be used has a positive NPV and as such can be expected to deliver a net benefit for society. However, the other options for future secondary legislation that are presented appear to have a greater NPV than the proposal as discussed. While recognising that the introduction of the secondary legislation will require a further IA, the IA for the enabling power would benefit from including a more detailed discussion regarding why the current proposal is preferred to more beneficial alternatives, such as only requiring the adoption of household pipes. The discussion on page 23 of the IA states the “*difference is not significant*”, but there is no supporting evidence for this statement. This should be tested, for example through sensitivity analysis.

*Business as customers.* The EANCB includes the gross full benefit of the transfer of private water supply pipes to water companies. However some owners of non-domestic properties will themselves be businesses, and as such the transfer will be between two businesses. In these cases the transfer of assets will have no net impact on business. This should be reflected in the EANCB.

*Basis for administrative cost estimates.* The IA sets out the likely costs of using the proposed enabling power, and as such the level of detail is considered sufficient at this stage. However, the IA accompanying the regulations created under the power will need to include further detail on how the administrative costs and cost savings have been developed to enable them to be considered robust enough to be validated.

**Signed**

A handwritten signature in black ink, appearing to read 'Michael Gibbons', with a long horizontal line underneath it.

**Michael Gibbons, Chairman**