

Competition and Markets Authority

Email: waterdetermination2020@cma.gov.uk

19 May 2020

RE: Ofwat Price Determinations for 'PR19'.

Dear CMA Inquiry Team,

The Royal Society for the Protection of Birds (RSPB) would like to make the following submission to the Competition and Markets Authority (CMA) appeal process on the Water Services Regulation Authority (Ofwat) Determination of Price Controls for the period from 1 April 2020-2025.

The RSPB is the largest nature conservation charity in the United Kingdom, consistently delivering successful conservation and inspiring others to stand up and give nature the home it deserves. RSPB has many successful partnerships with water companies to deliver outcomes for nature and is continuously aiming to achieve improved environmental outcomes.

The RSPB is concerned that Ofwat's final determination risks insufficient investment in **water efficiency** and demand programmes. We query if **Ofwat's Resilience Duty**, the importance of **environmental investment**, and **customer preference for public good** have been duly considered in Ofwat's approach to this price determination.

Throughout our submission we highlight examples shared with us by the water industry to demonstrate particular points. However, we believe it is not our place comment on Ofwat or the water companies' areas of disagreement. We instead use these examples to indicate areas where we perceive there have been missed opportunities for positive environmental outcomes.

Water efficiency

Reducing the demand for water is essential to increase the resilience of our water supplies as well as investment in new and better-connected supply infrastructure, such as reservoirs and water transfers. This twin track approach is central to government policy and is a crucial element in water resource planning. Environmental organisations have

long argued that ambitious demand management should be undertaken as a priority over investment in supply-side (whilst recognising both measures will be needed).

As well as increasing the resilience of our water supplies, the more efficient use of water:

- reduces bills for customers
- reduces energy use and our carbon footprint
- leaves more water in the environment for continued population and housing growth
- reduces pressure on our environment, such as on our protected chalk streams
- increases resilience to extreme events, which will become more frequent with climate change, such as drought.

By increasing water efficiency and reducing baseline water use, it is easier to accommodate additional demand when external events intervene and increase water needs. For example, the current pandemic has seen household demand for water increase by 15-20% as water-using behaviours have changed during lockdown and companies have had to reduce some aspects of their water efficiency programmes, such as home water audits and retrofits.

The RSPB is concerned that Ofwat's final determination which focussed on a reduction on customer bills risked water companies' reducing their focus on improving customer water efficiencies and achieving the above outlined benefits. Whilst the RSPB is very mindful of the need for bill affordability, particularly in response to the Covid-19 pandemic, Ofwat must consider whether the short-term financial gains are in the best interest of the customer over the long-term.

Reductions to funding for water efficiency and metering programmes are a false economy, as highlighted in research by fellow 'Blueprint for Water' member, Waterwise. Waterwise found that reducing water consumption by around 20% could cut UK household water and energy utility bills by £36bn over the next 25 years (£40 per household per year). To prioritise a short-term bill reduction now reduces the long-term saving potential associated with metering and water efficiency, removing the potential for customers to better manage their own water use, eliminating the associated savings on energy bills (linked to water heating) and carbon emissions, and sacrificing the ability to reduce abstraction pressures on the environment.

Ofwat's Resilience Duty

The increasing challenges we face around water demand and supply and the resilience of our water supplies are well documented, and have been set out by the National

Infrastructure Commission (NIC) ([Preparing for a Drier Future](#)), [Water UK](#), [Ofwat](#), and the UK government ([December 2018 Water Conservation Report to Parliament](#)). Concern over the lack of investment in water supply resilience led directly to the *Water Act 2014* (clause 22) including a new primary duty on Ofwat to ‘further’ the resilience objective (in England and Wales). Several of the companies appealing have cited the risk to resilience in their submissions.

Examples include:

1. Restrictions to Anglian Water’s strategic pipeline will mean that the system has in-built bottlenecks, reducing the resilience of the system by limiting water volume and requiring future upgrades.
2. Northumbrian Water’s water transfer scheme in Essex was developed with long-term resilience in mind, enabling water intra-company transfers and providing resilience to climate and pollution events. In the context of increased regional water resources planning to ensure the most sustainable use of water resources, this kind of scheme will surely become more necessary.
3. Northumbrian Water’s proposed sewer flooding prevention scheme would use nature-based solutions to ensure that rainwater is kept out of sewer systems, preventing sewer flooding that damages homes, risks customers’ health and pollutes the environment. The scheme would protect not just areas currently at risk of this, but additional areas predicted to be at risk soon due to climate change and increasing urbanisation.

Such schemes are valuable, easing pressure on stretched systems, creating additional headroom which provides biodiversity and amenity benefits, and preventing the need for alternative ‘grey’ infrastructure. Northumbrian Water informed us that Ofwat felt the sewer flooding prevention scheme should be undertaken using base funding and that this isn’t feasible with the level of investment needed.

The RSPB are concerned by any decision-making processes which reduce water resilience and the implementation and installation of nature-based solutions, such as proposed by Northumbrian Water. We believe that Ofwat has a role as a public body to promote and support ambitious multi-benefit approaches through the Price Review process by enabling appropriate funding or performance measures.

Environmental investment

The RSPB recognises the huge role water companies play in environmental stewardship, investing over £1 billion per year in the environment. We have successfully invested in

partnerships with water companies on the development and delivery of various projects, such as Southern Water, Anglian Water, Yorkshire Water, Wessex Water and United Utilities to improve land management and deliver positive outcomes for nature. We would like water companies to increase their use of nature-based solutions, including constructed wetlands. The RSPB is concerned that Ofwat's support for nature-based solutions and other multi-beneficial approaches does not appear to translate to the methodology and price controls for PR19.

For example, Yorkshire Water noted their intention to utilise catchment schemes to enhance water quality was limited by the need to avoid penalties from failing to deliver the required outcomes within a 5-year period. Catchment solutions often require a longer timeframe to deliver the same level of performance as traditional civil engineering solutions, such as end-of-pipe treatment and we would hope this would be taken into consideration.

More comprehensive consideration of the benefits of such schemes could be achieved by taking a 'natural capital' approach to the assessment of plans, building on work being undertaken already by several companies. A natural capital approach could identify the greatest multi-benefits to be delivered by a scheme and should consider give extra weighting for schemes with considerable customer support.

The RSPB would like to see Ofwat drive a greater industry focus on nature-based solutions for PR24.

Customer Preferences for Public Goods

The RSPB is aware there is significant customer support for increased investment to improve resilience now and for future generations; including investment in improving water efficiency and public goods, such as nature recovery. We are concerned that the water companies have reported Ofwat's lack of support for ambitious schemes with public good outcomes, supported by their customer base.

For example, Northumbrian Water's two resilience schemes (one on sewer flooding in the north east, the other on water resources in Essex) had strong customer support for ambitious action, despite sacrificing a bill reduction. Customers have told Anglian Water that they want to see investment now, not 'kicking the can down the road and requiring us to pay more later', and customer support for the plan as a whole was within the context of supporting a long-term strategic direction that requires early investment for later benefit. Yorkshire Water have highlighted a significant increase in support for environmental schemes within their PR19 plan compared to PR14, reflecting the shift in environmental awareness and concern across society.

Ofwat's methodology for the Price Review discusses that there may be a need to 'intervene in ... plans to ensure that companies deliver the step change required by customers', yet these examples suggest the opposite. We are concerned that three companies have decided to appeal citing insufficient funding to secure desired levels of resilience and determinations that seem at odds with customer feedback.

Overall, we are worried that if water companies across England and Wales have not made sufficient investment in improving resilience, both customers and the environment will suffer. A failure to invest sufficiently in resilience is likely to result in increased numbers of pollution incidents and reduced water quality, supply interruptions, and sewer flooding, negatively impacting on biodiversity across the water environment. This will also have consequences for home owners and communities in the long-term, both financially and with regards the health and wellbeing benefits that such investment could deliver.

We feel the PR19 determinations risk undermining significant gains made on customer recognition of the importance and value of water, and the need to actively invest in its future to create a sustainable water industry and healthy water environment.

Regards,

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The RSPB is part of BirdLife International, a partnership of conservation organisations working to give nature a home around the world.

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