

21 September 2022

Ranil Jayawardena MP
Secretary of State
Department for Environment, Food and Rural Affairs
Seacole Building
2 Marsham Street
London
SW1P 4DF

Dear Secretary of State

It was very helpful to meet on 7 September and discuss the important issues facing the sector. I welcomed the opportunity and your interest in hearing about our plans to address areas of key concern.

I hope you understand from those discussions that water companies have different approaches on these issues and different levels of performance. This is as a result of a range of factors; the end result being that companies are not a homogeneous group as is sometimes portrayed in the media. I feel a more differentiated response from Government and regulators would accelerate best practice exchange and aid focus where rapid improvement is needed.

I am pleased to set out the position for Northumbrian Water in relation to the questions raised. We provide water and wastewater to 2.7 million customers in the North East of England, and water to 1.8 million customers in the south east operating as Essex and Suffolk Water.

Maintaining our leading environmental performance

Our commitment to the environment runs through the heart of our business and is central to our purpose. We have achieved the highest possible Four Star performance in the Environment Agency's Environmental Performance Assessment in each of the past two years. 32 out of 34 bathing waters in our North East region are classed as Excellent or Good, and the status of the others is thought not to be due to our assets. We were also the first, and are still the only water company to use 100% of our sewage sludge to create renewable energy through advanced

anaerobic digestion at our Green Power Stations at Howdon in North Tyneside and Bran Sands in Teesside – a crucial factor in putting us on course to achieve our net zero goal by 2027. We are recognised by Ofwat as the most efficient water company in this area in the last review, helping to ensure that our wastewater bills are the lowest in England. We will continue to place a strong emphasis on our impact on the natural environment in future, noting that environmental standards and requirements are increasing all the time.

We also recognise that expectations on our sector are changing. We understand the high levels of concern among stakeholders about discharge of wastewater into rivers and seas, and that meeting the regulatory obligations currently placed on us won't be enough in future. In light of this we have been developing plans to accelerate improvements in these areas.

Addressing discharges from Storm Overflows

Earlier this year, we published a new report, *A vision for our coasts and rivers*, (available at www.nwg.co.uk/coastsandrivers), which includes nine ambitious pledges looking towards 2025 and setting out our commitment to enhance our water environment. Our pledges are:

1. We will work with the Environment Agency, Natural England, The Rivers Trust and Catchment Partnerships to identify, and have plans in place to eliminate, all impediments to our rivers achieving good ecological status caused by our operations.
2. We will invest in monitoring to provide 100% near Realtime Data on all Storm Overflows by 2023.
3. We will introduce final effluent, in-river upstream and downstream monitoring to get a greater understanding of environmental impacts of treated water by 2030.
4. We will implement Water Quality monitoring at the highest priority Storm Overflow locations by 2025.
5. We will reduce spills from Storm Overflows to an average of 20 per year by 2025.
6. We will work closely with The Rivers Trust through our strategic partnership and North East Catchments Hub to focus on river needs for investment through catchment and nature-based solutions, and to identify at least two inland bathing water sites where applications for designation can be made at the earliest opportunity. We are proud that already 95% of the NE population lives within an hour's drive from a beach with Good or Excellent bathing waters.
7. We will work with partners to achieve 100% of coastal bathing waters at Good or Excellent by 2030.
8. We will work in partnership to improve 500km of bluespaces (such as river banks and accessible water environments) for the public to enjoy in our regions by 2030.

9. We will double the number of our Water Rangers – our citizen scientist volunteers who are trained to help us monitor environmental conditions around rivers and take action to address wider river issues such as littering, fly tipping or signs of pollution.

We are investing more than £90m between 2020-25 to make improvements. As in our pledge, this will see us reduce average spills per Storm Overflow (SO) from 25.3 per year (already among the lowest in the industry) to 20 per year by 2025. Ofwat have highlighted this commitment as setting the pace for the sector.

Over the last year we have engaged fully with Defra's Storm Overflows Task Force to support the developing approach to this issue. Our Drainage and Wastewater Management Plan, which is currently out for consultation, sets out four options under which we will meet the requirements of the Storm Overflows Discharge Reduction Plan.

We do have concerns, though, that the timescales indicated for improvement will not allow sufficient time to deliver the most sustainable and affordable solutions. The targets are likely to drive mostly traditional 'grey' concrete infrastructure rather than nature-based solutions that would bring wider environmental benefits. From our experience of working through our award-winning Northumbria Integrated Drainage Partnership – a pioneering approach between ourselves, the Environment Agency and all local authorities in our region to jointly deliver drainage projects – we understand that to get the best outcome from such projects it is essential for agencies to work in collaboration. This, however, takes time that will not be afforded under current proposals. We are also concerned about the affordability of these investments for customers, given the current economic context.

We would urge you in your new role to revisit this. While we recognise the need for progress and ambition in the pace of reducing discharges to the natural environment, some different phasing would allow a much better overall outcome. This would provide more time for partnerships to develop solutions with larger environmental and public value benefits and would allow for some of the inflationary pressures on household budgets to recede. We also know our customers prefer these types of solutions. A revised approach need not reduce the overall target of ensuring no spills with an adverse ecological impact by 2050 or have a material impact on the pace of change.

Another important element in reducing discharges from SOs is reducing blockages from our network. We launched our 'Bin The Wipe' campaign after 64% of blockages in our sewer network in 2019 were found to have been caused through wet wipes being flushed. We have now taken this approach to more than 130,000 homes in hotspot areas that have had the highest number of call outs in relation to wipes. This has led to a 49% reduction in blockages across these areas.

The campaign is now being adapted for a national roll-out. However, this issue can only be fully tackled through regulation to stop the sale of unflushable wipes.

Addressing water security

In relation to water resources and supply resilience, we face most acute challenges in our Essex and Suffolk operating area, which includes the driest area of the UK. However, although parts of our area have been in drought status this summer, we have been in a position where we have not implemented a temporary usage ban. Our position is supported by the £150m investment we made to extend Abberton Reservoir, the nation's largest and only major reservoir development in the last 25 years; a major construction project which led to improved environmental outcomes in the area thanks to our partnership with Natural England and the Essex Wildlife Trust. We are consistently among the best performers in the industry for leakage in this area, and the best among WASCs. Last year our leakage represented 12.8% of total distribution input, compared to an industry average of 18.0% and the worst performer at 23.3% (again highlighting that companies are not homogenous). We continue to improve and are confident we can reach our stretching targets.

Winter recharge will nevertheless be crucial to ensure our position into next year. We are therefore prioritising options to support winter refill including accelerating capital schemes and maintenance.

Our forthcoming Water Resources Management Plan will set out proposals to invest further in supply options including new treatment works, pipelines and storage, as well as managing demand. We would hope to see an approach to this that enables us to deliver a plan that will have the best overall impact for customers and the environment; we are, however, concerned that a more stringent approach to abstraction constraints would push us towards solutions that are more carbon intensive, as well as generating a bigger impact on bills.

In our North East operating area we have 100% security of supply. However, we will continue to manage demand, including through 50% leakage reduction by 2050.

We are providing additional investment to strengthen our leakage performance by 2025, including additional Leakage Technicians, continuing to improve data quality for all water balance components, and maximising the benefit of existing pressure management schemes. We also continue to innovate in this area, with work over the past year including surveying 6,000km of mains via satellite to highlight potential leaks in pipes; developing digital twins of the network to tackle problematic areas by identifying specific points of focus for our leakage technicians; and acoustic logging trials.

In support of this demand management, I would urge you to deliver on the Government's commitment on mandatory water labelling, and build on this by introducing more stretching building regulations and minimum standards for appliances.

Supporting our customers

We recognise the significant financial challenges many of our customers face with the increased cost of living, and are determined to work in partnership with Government and other agencies to help make sure our customers get the support they need.

We were the first water company to set an ambitious goal to eliminate water poverty in our operating area by 2030. In support of this, we have committed to a five-year partnership with the charity National Energy Action, funding their Water Poverty Unit – a hub for research and sharing national best on affordability, from which the whole sector stands to benefit. We have already made great strides towards this goal, reducing the proportion of customers in water poverty from 18% in 2018 to less than 10% this year.

We see the development of a single social tariff as crucial to make sure there is coherent and consistent support in place for financially vulnerable customers. We are disappointed at the current pace of progress and would urge you to accelerate progress.

Earlier this year, we were pleased to be supported through Ofwat's Innovation Fund for our 'Support for all' project – developed at our annual Innovation Festival – exploring a solution to allow Priority Services Register data to be shared among utility companies on a regional level, ultimately leading to a national platform.

Nevertheless, there are a number of drivers, several of which I have referenced in this letter, that will put pressure on bills. This is against a background where by 2025 average water and sewerage bills across the sector will have been flat or falling before inflation for 15 years. We are concerned that customers might not support some of the statutory targets that are being suggested when the bill impacts are clear to them, especially in aggregate.

Fair rewards

During our discussion you emphasised that monopoly businesses like ours had a greater responsibility to justify their returns from strong performance. I totally agree with that sentiment and the importance of this issue for retaining customer and stakeholder trust. That is why, for some time, we have had the most transparent and stretching policy on executive reward across

the sector. That policy, praised by Ofwat, sets clear and ambitious service level targets for management to achieve and short and long-term incentives are only paid if those targets are met.

We have also undertaken substantial work on our dividend policy, recognising the need for similar transparency in that area too. Our revised policy draws a very direct and clear link between distributions and service performance for customers. We believe that the new policy is both the best in the sector at retaining customer trust and also goes much further than the recent licence amendments proposed by Ofwat on this subject. It remains of vital importance to maintain investor confidence in the sector given the level of private capital required in future years. In this context Ofwat's proposed licence amendments risk inflicting significant damage to that confidence for little or no demonstrable benefit.

Planning for the future

Addressing these important issues around resilience and environmental improvements will be among a series of major challenges we must tackle as we approach our PR24 business plan covering the 2025-30 period.

The drivers we have outlined, together with others like nutrient neutrality, are leading towards a potential investment programme between 2025-2030 that is many times larger than this current five year period. As noted above, these challenges need to be faced while maintaining affordability for customers in the current cost of living crisis – a very substantial challenge.

We have significant concerns about whether the current obligations and requirements are driving the best overall outcomes. We would therefore recommend dropping the Technically Achievable Limits (TAL) requirement for nutrient neutrality. The requirements remove options for any catchment and nature-based solutions and effectively mean we won't have the capacity or incentive to become a facilitator for catchment improvements. The investment required by this approach would mean more energy, more chemicals, increased process emissions and require more concrete, increasing our total greenhouse gas emissions. We would recommend replacing it with support for a catchment-based approach in the Levelling-up and Regeneration Bill that will still allow the achievement of the same environmental outcomes and save hundreds of millions of pounds of investment going onto customer bills; and using secondary legislation to enable catchment nutrient balancing, nutrient budgets and nutrient trading to be applied to deliver the Environment Act Targets and to support a flexible approach to nutrient neutrality.

We, alongside a small group of other leading companies, have been engaging with your officials and regulators on these topics and we would welcome further discussions on this as our plans enter an important stage in their development. It is vital that companies, Government and

regulators work together to make sure we can maintain customer trust in the sector and the essential services we deliver.

You also raised the question of our approach to development, which I have set out in the Annex attached.

We look forward to working with you in the years ahead, and we would be delighted to invite you to visit Abberton Reservoir in Essex, and our Green Power Station at Howdon on Tyneside to see how we are investing to meet the needs of our customers and the environment, now and for generations to come. I recognise your diary will be under considerable pressure, but I hope you do not mind if Ross Smith (ross.smith@nwl.co.uk) from my team makes contact with your office to follow up this invitation.

I hope this letter is useful in following up the items discussed earlier this month. Please do get in touch if you have any queries or if any further support would be of help.

Yours sincerely

A handwritten signature in dark ink, reading "Heidi Mottram". The script is cursive and fluid, with the first name "Heidi" and last name "Mottram" clearly distinguishable.

Heidi Mottram CBE
Chief Executive

Annex: Northumbrian Water approach to development

Although water companies are not a statutory consultee within the planning application process, the local planning authorities we work with treat us as if we were, and allow us to provide them with a full consultation response on all major planning applications. Our approach is to work in positive partnership with local authorities and developers, and are usually able to agree changes of approach where there are environmental concerns, including through use of conditions to delay the start of projects until appropriate measures are in place. However, where we need to raise objections, we do so, as set out below. Any network reinforcement required as a result of new development is paid for by the collection of infrastructure charges.

We are a statutory consultee for the more strategic Local Plan making system, and fully engage with this, providing us with an excellent line of sight of development plans, the ability to identify areas of incapacity and agree timescales for new infrastructure, and opportunity to positively influencing planning policies in favour of sustainable flood risk management, water quality and water efficiency.

Although we try to work with local planning authorities and developers to avoid inappropriate applications, we do sometimes have to submit objections particularly due to encroachment on our infrastructure. Examples include:

- Oakwood House, Lanchester, Durham – an application for 76 dwellings adjacent to our sewage treatment works at Lanchester. The scheme has not been given approval.
- Teal Farm, Washington, Sunderland – an application for 95 dwellings next to our sewage treatment works at Washington. However, the planning committee approved the scheme despite our concerns and the development site is now complete with some of the issues for residents we anticipated in our objection now coming to pass.
- Boulmer, Northumberland – application for a caravan park with 80 pitches next to our sewage treatment works at Boulmer. However, the planning committee approved the scheme despite our concerns, although this has yet to be developed.