Our ref: SSW PR14 Plan - EA MIDS 021013
Your ref ;
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Barbara Julye (Head of Customer Engagement)
South Staffs Water
Green Lane
Walsall
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Dear Barbara

PRICE REVIEW 2014
SOUTH STAFFS WATER - THE FUTURE IS YOUR cH_2Oice CONSULTATION

Thank you for the opportunity to comment on the South Staffs consultation *The future is your cH_2Oice* consultation. We have of course, been part of the engagement process that South Staffs have undertaken in getting us to this stage but welcome the opportunity to respond through this formal process.

As part of the South Staffs Customer Challenge Group (CCG) and associated working groups, we have made consistent contributions throughout the PR14 process. Our key priorities for PR14 have links with the outcomes identified by South Staffs in this consultation and we support proposals which;

- **Secure water supply with properly managed demands to ensure enough water for people and the environment**
- **Ensure no deterioration in the current quality of the environment and deliver catchments at or moving towards good ecological status or potential.**
- **Create a resilient water industry that manages its infrastructure to reduce flood risk and meet the challenges of growth, development and climate change.**
- **Promote and allow greater collaboration on the delivery of environmental improvements (Partnerships)**

In terms of this consultation, we will endeavour to answer all the questions posed on page 23 of the document although we clearly have a more inherent interest in some aspects rather that others - we will focus our responses in the key areas of ;

- **Excellent water quality (now and in the future)**
- **Secure and reliable supplies (now and in the future)**
- **Operations that are environmentally sustainable**

Overall

Q – Which region supplies your water ?

A – *This is an organisational response on behalf of the Environment Agency which incorporates comments from our Midlands region and Anglian region colleagues following the merger between South Staffs Water and Cambridge Water Company.*

Q – Do you agree or disagree that the five aims are the most important to customers ?

A – *The shift from outputs to outcomes is an approach supported by the Environment Agency and the long term objectives identified by the company reflect the broad component areas that make up South Staffs business plan. We support the move towards companies setting outcomes that their customers' value, believing that this will create greater company ownership for the environmental programmes delivered. These outcomes should of course be reflected in the scale of investment and importance placed on them accordingly.*

Flexibility in managing the outcomes based approach will be needed, giving well performing companies more freedom to explore innovative solutions. At the same time we would like to see appropriate checks and balances embedded to ensure that challenging measures and metrics are linked to outcomes that deliver a good service to both customer & environment. Companies that do not fully embrace the change to outcomes should of course maintain their statutory and discretionary environmental performance. Within this framework, companies should remain aware that many environmental requirements are statutory and not subject to choice or trading. However, some environmental objectives required by, for example, the Water Framework Directive contain the scope to consider wider, innovative, ambitious and more sustainable solutions. The Environment Agency welcomes open engagement with companies to use the outcomes based approach to this end.

In broad terms (and based on the Willingness to Pay survey results) South Staffs have identified 5 Outcomes which are reflective of customer preferences.

Q – Do you agree or disagree that the ways in which we will measure our success are the right ones and will help us to improve in the future ?

A - The Environment Agency welcomes working with South Staffs (and the CCG) in defining specific, measurable and achievable outcomes and performance measures and in identifying opportunities for regulatory innovation and efficiency. Success will require outcomes and associated outputs to have a high standard of challenging performance measures to be set by the CCG. For us we would like to see ;

- *A clear direction and plan, that is risk-based to ensure investment in assets is sufficient to meet climate change risks and future growth.*
- *A strong and clear message that the company will take ownership for the delivery of partnership solutions to manage flood risk and resilience to achieve joint outcomes.*

- *A clear assessment methodology to quantify the benefits for catchment management options, working with land owners and managers to reduce pressures on the water environment associated with water company activities. Ultimately this approach can deliver outcomes, reduce costs to water customers and deliver a wider range of benefits to society.*

- *A strong commitment to Water efficiency work in businesses and homes, preferably with an incentive mechanism to reduce demand.*

There is clearly some way to go in defining measures of success and incentives and the Environment Agency is committed to working with South Staffs to establish a fair balance between risk and reward in these areas.

Q – Metering : Do you agree or disagree that the Company should continue to meter on change of occupier within a property ?

A – *We support the outcome of the Walker Review that the future charging system for water should in general be based on the volume of water used and therefore on a metered system. Evidence shows that metering helps manage household demand for water downwards, thereby reducing abstraction demands and benefiting the environment.*

We recognise that water affordability is an issue for some customers, and more could be affected by increased water metering. We acknowledge that a solution to this issue needs to be developed side by side with any proposal to apply metering more widely.

We support the South Staffs position of continuing to meter on change of occupier. In general terms it is disappointing that SSW have missed the excellent opportunity to highlight progressive water efficiency initiatives (such as Plug-in) when helping customers reduce water usage. A case study here would have emphasised the importance of this area in the overall company strategy.

Q – Taking care of the environment – Do you agree or disagree with our draft proposals for taking care of the environment ?

A - *We support the broad outcome measure outlined by South Staffs yet at the same time expect the Company to be ambitious regarding the scale of environmental investment and the pace at which this should be made. There is clear research which prioritises environmental investment towards the top third of customer priorities and there is also expectation that this should be made sooner rather than later. Couple this with customer preferences around linear bill increases and we expect the company to produce a comprehensive, ambitious and challenging programme for PR14 that delivers for the environment.*

Whilst recognising that we will now be focussing on outcomes rather than outputs, we are concerned that the increased ambition and commitment expected by customers in this area may not be achieved in this context. We expect that the ratio of outcomes for the environment (inclusive of the NEP) should increase to reflect this.

We would prefer that any increased investment in this area is concentrated in achieving more WFD classification improvements. In terms of the approach, we are supportive of the outline proposals for 2015 – 2020 which capture key principles such as catchment initiatives but feel there is more which could be achieved in terms of partnership working and believe that South Staffs could do more to drive improvements in this area.

Overall the environmental commitments from South Staffs do not shine through enough in the plan with the subtext being that UK and European laws are driving outcomes in these areas rather than company culture. There are some good examples of catchment and community initiatives which could have been showcased more and the company may wish to reflect on this for future price reviews.

There are still some challenges around measuring biodiversity activity and believe the company could go further. A Strategy for England's Wildlife and Ecosystem Services (otherwise known as The England Biodiversity Strategy or EBS) was published in August 2011. The EBS contains a number of key outcomes around biodiversity which the Environment Agency believes should be reflected in South Staffs' business planning.

As stewards of large landholdings and SSSIs such as Blithfield Reservoir and Hayley Green, the EA believes that South Staffs' Water is in a good position to make an important contribution towards delivery of the EBS targets through actions it can take either independently or in partnership with others. We believe that this could be undertaken in a way which minimises the cost to the public.

We recommend that in order to gauge environmental sustainability, a measure of success is devised around hectares of priority habitat (eg wet woodland or grassland) created by the water company on either water company owned or managed land. Another measure could be priority habitat created through support to third parties such as Wildlife Trusts and others such as Local Authorities. If well targeted, such habitat can frequently contribute to other objectives such as improved water quality and progress towards good ecological status/potential required under the Water Framework Directive.

We also recommend that it would be appropriate to include a more explicit measure of success that quantifies progress on delivery of the water company actions to either improve the condition of SSSIs or to prevent them from deteriorating. This would be a way of measuring a pro-active contribution from the water company to the England Biodiversity Strategy SSSI target (outlined above). The measures could be devised from the SSSI reporting system (known as ENSIS) used by Natural England and the Environment Agency. We would be happy to assist in this process.

Other measures to track the companies contribution to environmental sustainability include the number of projects supported that help deliver actions for priority species such as water vole, otter and lapwing. We would strongly support the water company taking a proactive role in supporting and promoting Nature Improvement Areas.

However the references to Eel regulation requirements could be mis-leading (particularly the cost estimates and associated impact on bills) and does not reflect the stated commitment from EA as a regulator to help manage these requirements in consultation with the Company.

In specific engagement terms, the Environment Agency have had a good and open relationship with SSW during the PR14 process. SSW have been happy to include the NEP flow measurement schemes for water treatment works discharges and we support the progressive proposal to develop a catchment management team to address ongoing issues.

Q – Maintaining our underground pipes : Do you agree or disagree with our draft proposals for maintaining our underground pipes ?

A – *We support the principles of developing infrastructure to ensure resilience but we caution against unnecessary expenditure on large capital infrastructure projects at the expense of environmental investment.*

We would expect to see robust evidence that all capital expenditure proposals are required over the AMP6 rather than a phased approach option. EA would not support an increase in activity which results in levels of service greater than the SELL if it were to impact on other areas of environmental investment.

Q – Major spending on up to four Nitrate Removal Stations : Do you agree or disagree with our draft proposals for Nitrate removal stations ?

A - *The provision of good quality drinking water consistently ranks high in customer priority research and South Staffs WtP is no exception. However the standard of the South Staffs product is already high, and we should always balance investment in measures that result in a disproportionately small improvement in performance.*

We have no concerns with the broad approach adopted by South Staffs in this proposal. However we re-iterate our support of catchment based solutions. We note and support the catchment based proposals for metaldehyde as part of the plan and would support similar options being extended/investigated as part of longer term duel solution for Nitrates. This would be an excellent additional opportunity in using catchment approaches and partnership approaches to deliver improved quality standards.

Q – Major spending on up to four storage reservoirs : Do you agree or disagree with our draft proposals for reservoirs ?

A - *We support the principles of developing infrastructure to ensure resilience but we again ask for assurances that expenditure on large capital infrastructure projects is done in a timely manner and is not at the expense of environmental investment.*

Q – Helping Customers : Do you agree or disagree that the Company should offer a social tariff which would help customers in genuine need to afford their water bills ?

A – *We recognise the economic pressures facing customers and understand the response from South Staffs in positioning itself to minimise the impact of water bills accordingly. However we should resist the attraction of developing the most affordable business plan and instead seek to ensure the "best value" for customers.*

We have no concerns with the broad approach adopted by South Staffs in this area.

Q – Do you agree or disagree that the savings from merging South Staffs Water and Cambridge Water should be used to support customers struggling to pay water bills ?

A – Nil response

Thank you for the opportunity to comment and contribute to your proposals. I look forward to seeing our responses reflected within your final business plan.

Yours sincerely

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