Response to South Staffordshire Water

Introduction

The final price review methodology confirms that Ofwat expect the Environment Agency to highlight in the Customer Challenge Group report whether your business plan will meet your statutory obligations (section 4.2.1 Setting Price Controls for 2015-2020, Ofwat, July 2013). As part of our engagement with your Customer Challenge Group, we have been working with you to be assured that your business plan is in accordance with these requirements.

The following report summarises our views of the evidence provided. These views are based on a high-level review of the processes as described in the letter explaining our expectations sent to you in August 2013.

This response covers the whole of South Staffordshire Water's operating area incorporating Cambridge Water Company.

Overview

We are satisfied with the way South Staffordshire Water have approached Ofwat's changes to the price review process and have worked with my colleagues in Midlands in an open manner. There has been an undertaking of customer and stakeholder engagement which has resulted in a satisfactory standard of engagement and provision of information. This in turn has informed South Staffordshire Water in the design of your plan and the component parts have been constructed using this information. Your approach has been collaborative and we have been able to help shape the plan.

Your plan reflects customer preferences and there is a link between willingness to pay, acceptability research and the draft plan consultation.

The methodology and thinking behind your outcomes and measures of success has been discussed with stakeholders and early thinking on incentives has been shared. More work in this area is however, required before they can be fully endorsed.

For South Staffordshire Water we welcome your inclusion of all National Environment Programme (NEP) requirements within your business plan. For Cambridge Water we note that you were given an opportunity to review "no deterioration" investigations that may be needed under the WFD, but haven't yet done so, we encourage you to include these.

The environmental investment elements of the business plan remain to be fully tested for cost benefit by the company and subsequently further assurances will be needed before we can be assured that their inclusion is guaranteed to be delivered in AMP6.

In summary, the Environment Agency Midlands Region supports the plan that you have built for PR14 but feel that more could have been done in the delivery of environmental improvements. Opportunities have been missed to include measures of success which could have specifically addressed low flow issues in rivers and increased partnership working opportunities at a catchment scale.

We support:

- Delivery of statutory and environmental requirements as defined in Defra's Statement of Obligations as a minimum requirement.

- Plans that include all measures identified within the NEP and their delivery options.

In addition, we are pleased to note:

- The positive strides you are taking to include Eel screening measures in your plan. We recognise there is a need to work collaboratively in order to understand the best way of managing implementation. We are committed to working with you to ensure that the requirements of the Eel regulations are fully met in an appropriate timescale.

- Your commitment to continue with your Water Forum structure in the future and that you see the Environment Agency as having a key role in setting targets and performance assessment.

We do not support:

- Proposals that would lead to a significant back-loading of river basin management plan obligations. Defra is looking for assurance of early delivery wherever possible.

We need to see:

- Your company addressing the need to propose a change mechanism for any in-period changes to cover spend on environmental commitments as certainty increases during AMP6.

- The company reviewing reasonable assumptions about future statutory requirements which are currently uncertain. These include the measures likely to be included in second cycle river basin management plans within phase five of the NEP.

We have made more specific comment on the following areas:

These are our observations on the replies you have made to the questions posed in response to the expectations letter.

1) Delivery of statutory and environmental requirements.

We welcome the commitment you have made to meet your environmental obligations. We believe that you have presented sufficient information in your response to demonstrate how your business plan will allow South Staffordshire Water to meet the statutory environmental requirements set out in Defra's Statement of Obligations.

2) Measures identified within the National Environment Programme (NEP).

We are encouraged by your agreement to include all of the measures set out in the NEP within your final business plan. We believe that the programme will allow you to deliver what is best for both the environment and your customers.

3) Evidence of options and proposals for reducing the impact of a company's abstractions from the most seriously affected sites.

We are pleased to see that your company is putting forward options and proposals within your business plan to reduce the impact of its abstraction from the most seriously affected sites. We note that you have:

- included the confirmed sustainability changes set out in NEP phase three in the water resources supply-demand component of its business plan.
- assessed whether planned increases in abstraction may cause deterioration in WFD water body status.
- considered which abstractions would fall within Ofwat's Abstraction Incentive Mechanism.

4) Alignment of the Water Resource Management Plan options and business plans.

Defra expects that the Water Resources Management Plan (WRMP) will form the water resources supply-demand balance component of the business plan. We welcome your assurance that the main water resources supply-demand components of your business plan will be consistent with your WRMP statement of response.

5) How the company is fulfilling its risk management authority duties?

It is important that your business plan demonstrates how you intend to secure compliance with your risk management authority duties. There is a real opportunity work with us on flood risk management plans and lead local flood authority strategy partners to deliver cost effective solutions for customers and the environment through effective cooperation.

Companies have statutory duties on flood risk management. You have described what you have been doing now on these new duties and your commitment to continue to do this in the in the future. We look forward to working with you on engagement during AMP6.

Reservoir safety

We note your intentions to maintain reservoir safety. This is an important duty given the potential high impact your reservoirs pose to public safety. You have provided some information on the programme of work and your teams. Your continued maintenance and capital investment is essential for public safety.

Defra set out their expectation in the Statement of Obligations that companies will prepare reservoir plans. We would expect you to continue to develop and maintain on-site plans and we would recommend that you work with partners on off-site plans to manage the risks.

Under the Flood Risk Regulations, the Environment Agency is required to develop Flood Risk Management Plans for England that include objectives and measures to manage flooding from reservoirs. We look forward to working with you as reservoir undertakers to set out the measures and timescales for delivery.

6) What mitigation measures have been adopted to manage future risks?

We are satisfied with your response on climate risks and resilience. You have said you have followed relevant guidance from Ofwat and others, and provided evidence that you have done so. It is important to keep raising awareness of these issues so that the impacts are fully understood.

7) Environmental outcomes

We are generally satisfied with the outcomes included in your business plan as they reflect the important role that your company plays in protecting the environment. However, we have not yet seen the full details of the measures and targets and would like more information. We would of course be happy to work with you to improve these.

Delivery and incentives

Your approach for setting delivery levels ambition and using incentives appears acceptable, and could ensure at a minimum that environmental outcomes are achieved. However, the lack of detail means we cannot comment on whether your ambitions are sufficient or your incentives strong. Balancing the results of quantitative research on customer preferences with your own incremental costs is essential to ensure sufficient ambition. Strong incentives should, wherever possible, financially reward or penalise delivery in line with customer preferences. Measures of success need to ensure that the company, rather than your customers hold delivery risks, so that the outcomes delivered are the one that customers agree to pay for.

8) Change mechanism.

At previous price reviews, Ofwat have used the “change protocol’ mechanism for managing in-period changes to the risks and costs. This time you are being asked to put forward proposals for dealing with such changes. It is imperative that new statutory commitments can be delivered whilst maintaining levels of ambition around customer priorities, so we want to see a clear process for dealing with predictable but, nonetheless, uncertain new commitments you could face during AMP6. This was missing from your submission.

Interim determinations of K provide a route to deal with genuinely unforeseeable events that meet Ofwat’s materiality criteria, and of course you have more discretion over expenditure than in previous price reviews. However, to be assured that important “discretionary” outcomes are not prejudiced by additional legislative requirements, we believe you do require an explicit change mechanism for dealing with such changes and we would welcome your assurance that you are developing one.

9) Eel regulations

We are committed to working with you to ensure that the requirements of the Eel regulations are fully met and welcome the positive strides you have taken to include Eel screening measures in your plans.

You have sought clarification regarding the costs and benefits associated with the implementation of Eel Regulation measures. For all existing intakes or outfalls, we are adopting a phased approach to requiring action for eels depending on position in the catchment, useable eel habitat obstructions, amount of water abstracted and the

predicted presence of eels. Any scheme can be put through cost benefit to validate the approach being proposed at any given site.
This will always require a very site specific discussion for each scheme. Current water company trials are giving a positive outcome and are proving to be a cost beneficial to continue.

Concluding remarks and recommendations

In conclusion, we would like to thank you and your company for the way you have engaged during the PR14 process. This has helped build a foundation for environmental improvements in Midlands over the AMP6 period.

At a specific level, we request that we are involved in the refinement of measures of success, targets and incentives to ensure risk and reward are balanced effectively.

We also ask that we receive written board assurances regarding the delivery of the National Environment Programme at the earliest opportunity. This is the final piece of information required which will enable us to fully confirm our position (in our regulatory role) when communicating with Defra.

We look forward to working closely with you over the next few weeks to finalise your business plan so we can ensure delivery against statutory obligations and facilitate the achievement of better environmental performance.

Greg Marshall
PR14 Co-ordinator Midlands
30 October 2013