

David Black  
Ofwat

*By email*

Wednesday 31<sup>st</sup> May 2023

Dear David,

## **Re: Promoting a transformational Price Review**

We are writing to you as the Chairs of Blueprint for Water, a unique coalition of environmental, water efficiency, fisheries and recreational organisations with an interest in water.<sup>1</sup>

Water is the thread that ties together England's diverse geographies and ecosystems, so a well-functioning water sector is a vital pre-condition of achieving the country's wider nature recovery objectives. The issues facing our waterways are finally getting the attention they deserve and we welcome various moves from Ofwat in recognising the role of regulation in reducing incentives for harmful activity, including proposed actions on performance related pay. We are thankful to your team, who have been incredibly proactive in engaging the NGO sector.

We also welcome some of the technical amendments to the Price Review methodology intended to level the playing field for non-traditional infrastructure, such as catchment and nature-based solutions (CNBS). We have heard encouraging noises from the sector that the WINEP investment programme this forthcoming AMP is expected to scale up significantly from AMP 7. If this proves to be the case, particularly against a backdrop of difficult economic conditions for households, it is imperative that maximum environmental and social value can be demonstrably achieved through this historic investment programme.

Based on the information that we have been able to glean from water companies' public consultation events, discussion with sector colleagues and in assessing the recently announced accelerated investments, there still appears to be a strong bias in favour of traditional engineered solutions at the expense of CNBS. Given the overwhelming political and public focus on sewage and drainage issues, we are also concerned that critical issues relating to abstraction, resources and "softer" WINEP drivers will be crowded out.

We appreciate that the role of the regulator is to ensure that statutory functions are properly and efficiently funded, but that the underpinning legislation and targets are set by Parliament and the Government. However, Ofwat has a key role in interpreting those targets and setting out the specific conditions under which the allowed funding will be made available to the companies. Through the development of Regional Water Resources Plans we have seen consideration of CNBS, but this does not seem to have followed through into the proposals that Regional Groups have put forward.<sup>2</sup> The

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<sup>1</sup> Blueprint for Water is part of [Wildlife and Countryside Link](#), a coalition of 70 organisations working for the protection of nature. Together we have the support of over eight million people in the UK and directly protect over 750,000 hectares of land and 800 miles of coastline

<sup>2</sup> We raised this in our response to the draft Regional Water Resources Plans consultation, available here: [WCL Blueprint Response Regional Plans Feb 2023.pdf](#)



Groups have seemed cautious, and unclear as to whether such investment will be supported. As we have seen from the accelerated investments, this is somewhat of a creative endeavour, with the novel tool of Price Control Deliverables (PCDs) opening up new possibilities for innovative regulatory commitments.<sup>3</sup>

We were pleased to see some companies in particular commit to quantified and ambitious targets for nature-based solutions and source control in relation to storm overflow targets. We were equally disappointed however that no catchment nutrient balancing (CNB) approaches came out of the Nutrient Neutrality (NN) actions. We know from the River Petteril and nascent CNB schemes in Wessex and elsewhere that such approaches can represent best value for consumers and the environment. This juxtaposition is instructive. It shows that the *potential* for innovative CNBS is there, though highlights that there is more for the regulator to do in de-risking innovative approaches so that all companies and all relevant drivers maximise the opportunities available.

With PR24 deadlines looming, we ask you to consider how these types of initiatives can be mainstreamed within the forthcoming AMP. In particular:

- **Set an aspirational sector-wide target of 10% of WINEP investment towards CNBS**

A clear commitment from Ofwat will send a strong signal to water companies that Ofwat is expecting them to think beyond traditional solutions in AMP8. Where a water company proposes schemes that contribute towards this target, Ofwat should indicate a willingness to seek appropriate exemptions and flexibility with respect to legislative drivers that can act as a drag on innovation. If 10% ultimately proves to be too ambitious for AMP8, the process would nevertheless be instructive to learn what can and can't work and what a reasonable mandatory target might be in AMP9.

- **Encouraging companies to follow emerging best practice in PCDs** in their business plans, such as that highlighted above.

The Quality and Ambition Assessment can be a powerful incentive here, though the assessment criteria are vague and opportunities for meaningful scrutiny on detailed proposals by stakeholders ahead of final submissions is limited. Ofwat should write to companies to set out its expectations in relation to ambition with reference to emerging best practice.

- Even where detailed proposals for CNBS cannot be made within the timescales available for final submission, Ofwat should **encourage companies to commit to outcomes** rather than narrow outputs in their plan, and ensure the revenue risk is no greater from doing so.

For example, statutory NN actions must be in place no later than 2030. Appropriately worded PCDs should be readily capable of allowing companies to defer decisions in the WINEP on specific WwTW upgrades in favour of analysing opportunities for achieving equivalent P reductions in the wider catchment where economic to do so, bundling together other nutrient reduction drivers such as Environment Act targets. Working with EA, Ofwat and the water companies can develop innovative approaches to permitting to ensure that such solutions comply with the effect of the narrow legal requirements set out in the Levelling Up and Regeneration Bill, seeking derogations as necessary.

Likewise, biodiverse and attractive retrofitted Sustainable Drainage System must be a cornerstone of surface water management approaches to storm overflows, even though benefits may not be easy

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<sup>3</sup> Our response to Ofwat's April 2023 consultation on the 'Accelerated Infrastructure Delivery Project' draft decisions can be found here:

[WCL Blueprint response Ofwat Accelerated infrastructure delivery project draft decisions May 2023.pdf](#)



to model in terms of impact on the spill numbers required by the law. Ofwat has a key role in assuring companies that compliance and associated revenue risks do not act as a barrier to uptake.

- **Ramp up expectations of voluntary benefit sharing.**

Expenditure on storm overflows and water quality promoted by public anger will see water company Regulatory Capital Values massively expand by the end of AMP 8. This is a policy windfall. Investors in the sector benefit from inflation adjusted returns which are particularly generous in the current period of high inflation. Given the deep reputational crisis that the sector is facing, Ofwat should be encouraging companies to go beyond their appointed business activities and share the benefits of this massive expansion with customers, particularly in addressing short-comings of the statutory targets they are delivering. For example, many coastal storm overflows are excluded from the statutory target despite high public expectation for and value in clean beaches, even where statutory bathing water status doesn't apply.

- Finally, whilst we accept the likely practical constraints of mainstreaming CNBS in the upcoming AMP, **we would be incredibly disappointed to find ourselves rehearsing the same arguments in PR29**, when our nature recovery and climate challenges will be all the more acute and public expectations and engagement will have grown further still.

Flexibility and bold decision-making now are an essential precursor to transformative action in the next Price Review, so we urge Ofwat to take every effort in allowing innovation to flourish; accepting some level of constructive and rigorously monitored failure without penalising companies for endeavouring to go beyond a traditional asset management approach that is inconsistent with the country's low carbon and biodiversity rich future. Ofwat also needs to be clear about the future direction of travel. Companies need to start thinking now about a transformative PR29, using all available levers in the current PR methodology to get confident with new ways of service delivery and customer relations.

In summary, whilst we are pleased to see much needed investment in our water sector, despite record outlay and even if targets are met, a status quo AMP 8 is not likely to address deep and widespread public concerns about the sector.

We urge the sector to get on the front foot and deliver visible, nature-positive assets that the public can be proud of. The upcoming regulatory settlements are essential in addressing the short-term pressures the sector is facing whilst putting us on track for a transformative AMP 9.

We would be pleased to discuss any of these points further.

Many thanks, and kind regards,

Ali Morse, Water Policy Manager, The Wildlife Trusts, and Chair, Blueprint for Water

Nik Perepelov, Senior Water Policy Officer, RSPB, and Vice Chair, Blueprint for Water