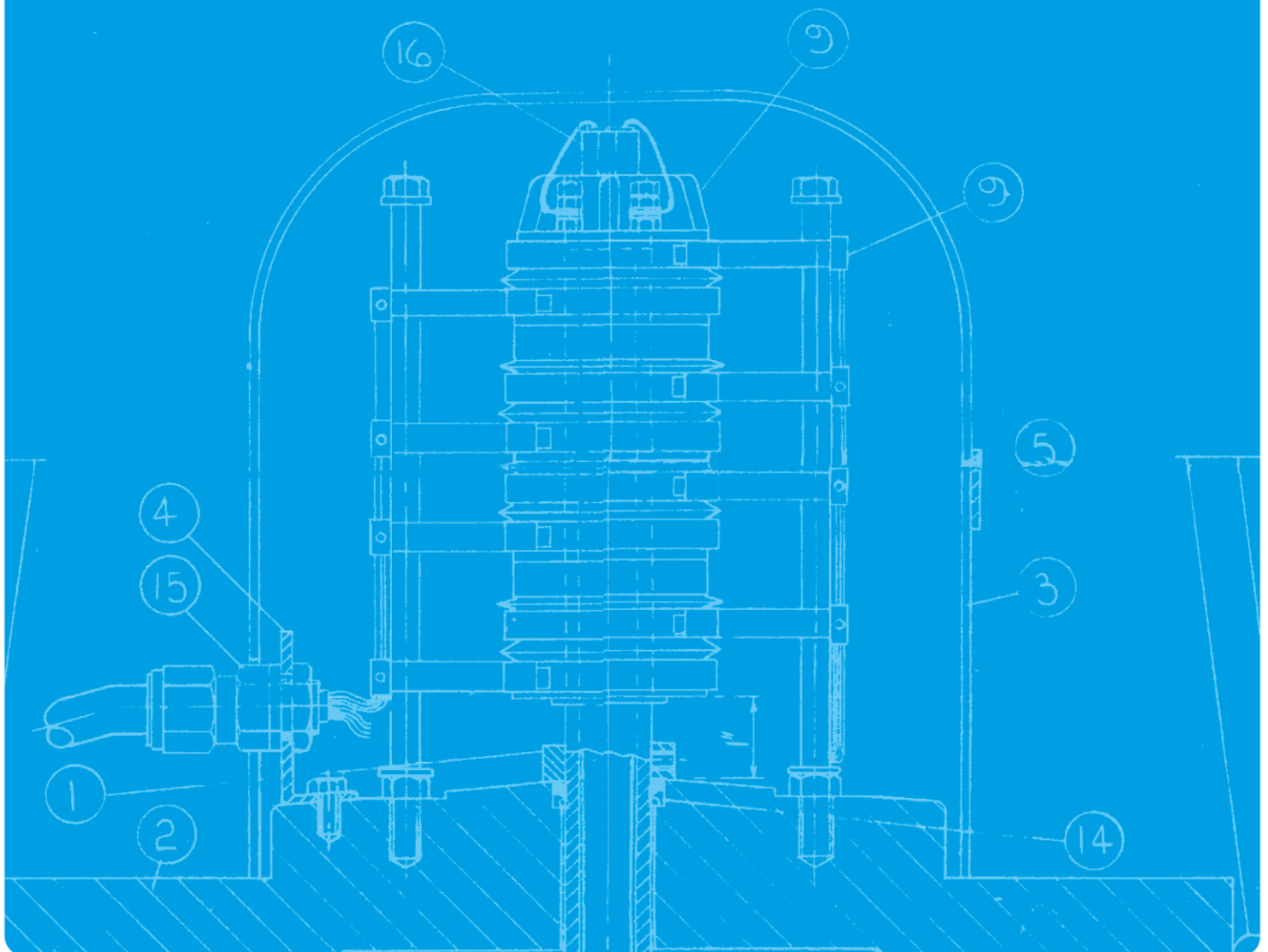


STW's response to Ofwat's Abstraction Incentive Mechanism consultation

14 January 2016



Q1 *What are your views on the AIM taskforce's proposals? (Chapter 2)*

The steps described in the proposals seem reasonable in principle, and would provide a transparent basis for justifying any AIM sites companies might put forward. We support the use of incentive mechanisms of this type as one of the ways in which abstraction reduction can be encouraged where it is having an environmental impact.

The need to recognise alternative approaches to incentivise environmental sustainability is an important point because the relationship between abstraction and river flow can be complex, and companies will already have been working at different rates to improve the environment. This is the case with Severn Trent.

Our region is dominated by sandstone aquifers and regulated rivers. Prior to AMP6, we followed a progressive approach to the Restoring Sustainable Abstraction programme whereby we reduced or stopped abstraction from those sources known to contribute to low flow problems, and put alternative, sustainable sources of supply in place. By the end of AMP5, we had no obvious sites where a short term reduction in abstraction would lead to an immediate improvement in river flow.

For AMP6, we developed a programme to deliver the long term abstraction reduction and flow improvement measures needed to achieve the remaining WFD concerns about abstraction in our region (these are at a water body / aquifer scale, and relate to long term abstraction rates and the relationship with groundwater recharge. The improvements will generally be seen over years as sandstone groundwater levels slowly recharge and so cannot be measured in the short term). We will also be carrying out our largest ever programme of environmental investigations into the impacts of our ongoing groundwater abstractions and the implications for surface water features.

We recognised that the nature of our programme meant that AIM was not an appropriate incentive mechanism. We therefore developed an innovative ODI (WD-1) which incentivises us to do our fair share to improve the WFD ecological status of a number of water bodies across our region. In each of the targeted water bodies we have quantified the impact that our abstractions are having on stream flows, and have agreed with the EA the mitigation measure that will remove our impact and help move the water body to good ecological status. The structure of our ODI performance commitment gives us a direct incentive to go beyond what is named in the NEP and undertake specific improvement measures to help move water bodies to good ecological status where it is cost beneficial to do so.

We would also like to reiterate our recommendation that the AIM proposals are reviewed in the light of the Environment Agency's most recent advice on WFD 'no-deterioration' requirements (as referenced in the current WRMP draft guidelines). The no-deterioration test means that any under-utilised licence capacity is at risk of being lost unless companies can demonstrate that increasing abstraction above recent actual levels will not cause deterioration in WFD class. We believe this is contra to the stated intention of the AIM which is to incentivise companies to reduce abstraction without permanently reducing their abstraction licences, thus retaining the ability to abstract when circumstances require. AIM therefore needs to be reviewed alongside the recent EA no-deterioration guidance to ensure that security of supply is not inadvertently put at risk.

Q2 *How could Filter 3 be defined more precisely, and what assurance is required to make sure any additional filters included in Filter 3 are appropriate? (Chapter 2)*

Our experience from our ongoing programme to reduce unsustainable abstraction is that gathering site evidence and properly understanding environmental conditions is essential to validate high level WFD assessments of desired flow conditions, EFIs and ecological condition. Having a site-specific evidence base can ultimately lead to lower cost environmental solutions, and in some cases can demonstrate no ecological harm at all.

Therefore, filter 3 should be based on site specific evidence linking abstraction to ecological impact and test whether there are measurable benefits. For example, we note that the AIM site example given on page 24 of the consultation states that previous detailed site studies had demonstrated abstraction had no significant impact on river ecology. We think that this site evidence would be grounds to filter this site out of the AIM list. We would not expect to be rewarded for reducing abstraction at a site where no measureable benefit will result.

Q3 *What are your views on the number of abstraction sites the water companies are proposing for the AIM? (Chapter 3)*

It is difficult to comment on the number of sites being put forward by different companies. As explained in responses to Questions 1 and 2, the suitability of abstraction points for inclusion in AIM will be dependent on the site specific conditions and the maturity of the water company's ongoing restoring sustainable abstraction programme. Therefore, it is not possible to assess the numbers of sites proposed without knowing the company specific context.

Q4 *What are your views on our proposal that water companies should engage with their customer challenge groups (CCGs) on the abstraction sites they are proposing to include in and reject from the AIM, and their reasons for doing so? (Chapter 3)*

We support the proposal that water companies should engage with the CCG on the sites being proposed or rejected. We believe that Ofwat / EA should refresh the initial list of sites / water bodies put forward in 2013 to provide a robust and accurate baseline for the engagement.

The need for an updated baseline can be evidenced by changes that have affected Severn Trent. In our case, the initial list given to us by Ofwat in 2013 included 114 groundwater abstraction points under 51 different abstraction licences. Midlands Environment Agency subsequently reviewed the list and, following work by its groundwater specialists, provided us with an update which shortlisted those groundwater abstraction sites that they identified as having a reasonable relationship between groundwater and surface water and which therefore may be most appropriate to include in the AIM. This revised list only included five groundwater abstraction sites, all of which are being addressed through our AMP6 WFD improvement programme. For those groundwater sites not on the shortlist, Midlands EA's view was that there is no significant relationship between short term abstraction and surface water impacts and they should not be included in the AIM assessment.

Q5 *What are your views on our proposal that water companies should publish their reasons for rejecting abstraction sites from the AIM? (Chapter 3)*

We support the objective of greater transparency for stakeholders. As such, it is important that the information published is meaningful, robust and accurate. If companies are required

to publish the reasons for rejecting abstraction sites from the AIM, then this should reflect changes from an updated baseline as explained in Question 4.

Q6 *What are your views on the AIM taskforce's reporting and monitoring proposals? (Chapter 4)*

If companies are to report on actual AIM performance in year, then we agree that it would make sense to use the annual review of our WRMP and the annual reporting processes for this purpose. We also support the proposed reporting approach.

Q7 *What are your views on our additional proposals to increase the transparency of the AIM (that companies should consult with their CCGs and publish information relating to their proposed abstraction sites, trigger points and baselines)? (Chapter 4)*

As per our response to Questions 1 and 2, any requirement for companies to publish their reasons for rejecting AIM sites should be based on robust and accurate data, including an updated baseline of potential AIM sites in the region.

Q8 *What is your view on the use of AIM as a comparator of company performance? (Chapter 4)*

As stated in the response to Question 1, we support the use of incentive mechanisms to encourage abstraction reduction where it is having an environmental impact. As stated in response to Question 5, we also support the objective of greater transparency for stakeholders through the publication of meaningful, robust and accurate information. As stated in response to Question 3, the suitability of abstraction points for inclusion in AIM are dependent on the site specific conditions and the maturity of the company's ongoing restoring sustainable abstraction programme.

All of these points support our view that AIM targets are specific to each company and other incentives that reflect progress against environmental objectives may exist. As such, we believe companies should not publish AIM performance in a raw or un-contextualised way. Stakeholders should be provided with fuller information on progress against environmental objectives. AIM would be part of this, alongside information on other innovative incentives companies may have.

Q9 *What are your views on Ofwat publishing companies' AIM outturns on our website? (Chapter 4)*

As stated in our response to Question 8, we support the publication of AIM as part of a contextualised update on delivering environmental objectives. This could form part of the annual performance reporting process.

Q10 *What are your views on the future development of the AIM? (Chapter 6)*

As we explained in response to Question 1, there are limited AIM opportunities in our region. We believe companies should have greater freedom to innovate and create measures to incentivise delivery of WFD obligations. Our current WFD ODI incentivises us to find ways of helping water bodies along the pathway to good ecological status, and to go beyond the environmental improvement targets set out in the NEP. We will be exploring ways of expanding this ODI thinking for PR19 to create holistic water / waste catchment scale interventions that will help with achieving the WFD objectives. We would be happy to share our thinking with Ofwat and to investigate how this approach could sit alongside the AIM as an incentive mechanism.