



Public Bill Committee

Written Evidence to the Committee on the Water Bill

November 2013

Background to CIWEM

1. The Chartered Institution of Water and Environmental Management (CIWEM) is the leading professional and qualifying body for those who are responsible for the stewardship of environmental assets. The Institution provides independent comment, within a multi-disciplinary framework, on the wide range of issues related to water and environmental management, environmental resilience and sustainable development. CIWEM welcomes the opportunity to submit this written evidence to the Public Bill Committee.

Summary of CIWEM's position on the Water Bill

2. The Water Bill is a blueprint for introducing partial competition into the water market, in pursuit of anticipated gains in efficiency and innovation, and through those, in affordability and environmental protection.
3. We consider that as drafted, the Bill is insufficient in scope and design to achieve the hoped-for ends, particularly in respect of balancing the needs of the environment with those of customers and the economy, in the face of likely limitations on willingness and ability to pay for non-statutory environmental protection. It requires significant modifications and the addition of important safeguards for protecting the environment.
4. We summarise below the **four key areas** in which we believe the Bill to be deficient and provide suggestions as to how it might be improved to render it more fit for the stated purpose of delivering both better customer service and protection for the environment.
 - ◆ **Managing demand**
 - ◆ **Managing abstraction**
 - ◆ **Upstream competition**
 - ◆ **Planning for resilience under increased competition**

Detailed comments

Managing demand

5. The Water Bill pays insufficient attention to the imperative of reducing household demand and, particularly, to using meters and smart tariffs to:
 - signal the availability and value of water to all
 - protect vulnerable customers
 - limit the cost of water used for essential purposes

- discourage high discretionary use, when & where availability is low (by facing users with the true marginal cost of discretionary consumption, to incentivise changes in behaviour)
6. The Walker Report noted that the current system of charging for water is unfair, and regressive. The 40% of low income households who occupy high Rateable Value (RV) properties cross-subsidise water use by other users, including high income households living in low RV homes.
 7. The current system is also environmentally pernicious. Water consumption has zero marginal cost in the 50% of homes that now remain unmetered and hence provides neither a signal of the need, nor an incentive to act to reduce consumption. This creates a second perverse cross-subsidy in water charging, this time from measured to unmeasured households. Furthermore, since water is generally charged at a flat rate in metered homes, no signal is provided and no progressive incentive is offered to reduce consumption as water becomes increasingly scarce and more valuable.
 8. We consider there to be an indisputable need for fast-tracking the introduction of affordable but escalating tariffs (and the meters to enable them to be applied) to more than 90% of the household stock, country-wide.
 9. The Water White Paper *Water for Life* side-stepped this issue, by cataloguing the ways that customers could choose to use water more wisely, whilst avoiding endorsing, let alone mandating the use of meters and tariffs to provide incentives for wise use and disincentives for wasteful or profligate use of increasingly scarce resources. We urge positive support for balanced tariff charging for water management in the Bill. Well-designed baskets of tariffs can deliver affordable water charges for all, without increasing the cost of water for essential purposes, and can provide powerful signals and incentives for the use of water where and when it is in short supply.

Managing abstraction

10. The Bill recognises the need to protect our sources of water and to stop those sources being over-used. But the means to deliver so appear to be lacking, given the continued absence of funding (in all but statutory or customer-supported situations) to implement the Restoring Sustainable Abstraction (RSA) programme of measures to correct historical over-licensing of withdrawals from the environment.
11. Legacy over-abstraction and over-licensing are excluded from consideration in the proposed licence reform measures, on the premise that the problem will be addressed out-with and prior to the 'efficient allocation of sustainable resources' problem addressed by that longer term reform plan. CIWEM considers that without prior resolution of the legacy over-licensing problem, the proposed plan for licence reform is doomed to fail.
12. We therefore consider that the Water Bill has to enable the delivery of the RSA programme, and not just for those sites that have statutory obligation or customer-mandate drivers.

Upstream competition

13. We consider upstream competition to be economically questionable in normal conditions, and both economically questionable and environmentally damaging in dry or drought spells, for the following reasons:
- Most if not all users have sufficient water in most years, i.e. normal conditions, thus there is minimal demand for any available surplus.
 - In times of drought, especially in wide or deep droughts, most users have little or no surplus water available. Thus there is little or none available to service the demand that does then exist as a result of the drought.
 - In dry years, some users may have surplus while others have deficits, but the spatial and temporal uncertainty that characterises drought spells makes transfers less straightforward than appears to have been recognised:
 - Water surplus and demand vary spatially. It would be possible to make informed judgements and build key (bi-directional) connections to link places with different drought propensities, using knock on, rather than continuous transfers, but there will always be uncertainties over the effectiveness of these.
 - Whilst it is possible to quantify drought frequency (and climate change-related increases in drought frequency) predicting when they may occur and their length is not so simple.
 - Therefore, demand and supply considerations suggest that there will be infrequent need for the resources that new entrants may be able to provide. Additionally, given the need to cover the capital and operating costs of connecting areas of surplus and demand within the unit cost of water taken, or reserved, it is doubtful whether there will be sufficient demand from buyers and sufficient return to sellers to make this economically attractive, particularly given the spatial and temporal uncertainties described above. The average incremental social costs (AISCs) of such new water could compare unfavourably with those of new in-house sources.
14. There are also environmental consequences to consider, including:
- The issue of whether any new water made available for purchase, when it is needed, is likely to be environmentally benign, or damaging to its donor catchment.
 - The carbon and energy costs of transfers.
 - Water quality and ecological issues related to mixing water from one catchment with that of another.
15. The points made above question the commercial viability of upstream competition, in principle. But should it prove to be otherwise, we consider there is a need to attach environmental safeguard provisions to upstream competition. We propose the following pre-conditions for the introduction of upstream competition, to safeguard against the possibility of damaging abstraction to service sales and trades:
- The introduction of a primary sustainability duty on Ofwat, to ensure that environmental considerations are not overridden by economic and affordability considerations, as could now be the case.
 - Funding of the RSA programme, to ensure that any abstraction servicing upstream competition is limited to sustainable withdrawal rates.

Planning for resilience under increased competition

16. Competition is envisaged as the means to drive customer service, efficiency and innovation, and to keep prices down under increasing pressure on water resources from population growth and climate change, as well as environmental protection obligations.
17. Economic, social and environmental resilience against supply deficits under those challenges is likely to require integrated management of the resource base and the increased use of water storage, transfers, re-use and desalination; and even if not sufficient alone, demand reduction through behaviour change and technological development. In addition, planning in advance for resilience against future water supply deficits, rather than during the event, is evidently required, as the events of 2012 amply demonstrated. Without the unusually heavy and prolonged period of rainfall from April onwards, the economic, social and environmental damage of continued drought could have been critical.
18. We consider that increased competition in the water sector need not, of itself, prejudice integrated planning to deal with broad and/or deep drought events. However, frameworks and protocols supporting active collaboration as events require would need to be established in advance and trial tested. We consider that a co-ordinating body with executive action powers needs to be constituted and empowered.
19. We acknowledge that retail separation could indeed increase the extent and penetration of demand reduction services from customer-focused new operators. However, retail separation could complicate and blur the incumbent company's ability to 'reliably' forecast demand for water supplies across the totality of its direct and indirect customer base, with consequent risks to its ability to manage its supply-demand balance and its reputation. Retail agents must be required to provide their wholesale water providers with reliable forecasts of scenario demands.