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THE WATER REPORT

POLICY | REGULATION | COMPETITION

Staying afloat

Coping with the pandemic – and rescuing a retail market in crisis

COMPETITION WATCH

- The UK Water Retailer Council's Phill Mills on serious underlying problems in the market.
- Business market told to pull its weight on water efficiency as part of a national effort.
- Priority changes made to incentivise meter reads.
- Castle subsumes Affinity for Business

THE WATER REPORT COMPETITION WATCH

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EDITOR'S COMMENT

Salvaging something good

It's hard to think about anything other than the Covid-19 pandemic at the moment. Water companies' immediate focus is rightly on the health and wellbeing of customers and staff, as well of course as on continuing to provide precious essential services. The situation is fast moving, but the sector deserves credit for the way it has immediately risen to this unprecedented challenge (p4).

The retail market is a different story. It has been knocked for six and through no fault of their own, many retailers find themselves facing imminent collapse as closed businesses cease to pay their bills. Should a large supplier actually fail, we could be into a domino effect with the whole market tumbling. The cruelty is intensified as this falls on the market's third birthday. It was never going to be a wild party, but now it's about survival.

The truth is, as UKWRC chair Phill Mills sets out on p32, the retail market was ailing before the Coronavirus crisis hit. It is inefficient and complex. Few retailers are profitable, most customers are disengaged and even among those who have got involved, few are really benefiting as was envisaged pre 2017.

Ofwat has acted to save the market, by introducing a wholesaler-financed temporary bailout. We should be asking not only whether the market will survive, but also should it survive as currently constructed? Virtue should be made of a necessity and a market that actually works designed at pace. A High Level Group has been scrambled to deal with Covid-19 impacts; once the immediate threat has passed, this group would be ideally placed to do that, with extensive customer input.

›Note: some of the content in this issue was produced before the height of the pandemic. It feels strange to be talking about, say, water resources in 2050 (p14) or reviewing two decades of the not-for-profit water model (p8) when we all face an immediate threat. But ongoing issues do matter, and I hope 'business as usual' information remains of interest, even though we are living in the most unusual of times.

Please stay in touch through the lockdown and stay safe.

Karma Loveday, editor,
The Water Report

Feedback, comments and suggestions very welcome.

Contact me on karma@thewaterreport.co.uk or 07880 550945.

STAYING AFLOAT

The water sector is coping with Covid-19 – and has just thrown a lifeline to the retail market to stop it going under.

It's not quite a week into the lockdown and we are already in an unrecognisable world. Water companies are playing a crucial, if largely unsung, role in the battle against Covid-19 by keeping people on supply while keeping staff safe. Contingency planning and operational flexibility is being tested to the limit, and on top of that, companies are doing what they can to help customers through their economically devastated lives by providing relief on bills.

The sector has risen admirably to the challenge. But beneath the surface, the business retail market is facing an existential threat, which has potentially huge knock-on effects for wholesalers too. There are unanswered questions about how the PR19 financial mechanisms coming into play only this week (1 April) will be implemented. And long term questions too about whether we've had our priorities and market structures right all along.

> A major incident at a time like this is almost unthinkable.

Incident management

The sector's contingency planning for a no-deal Brexit has proved a really useful dry-run for firms as they have responded to the Coronavirus pandemic. The industry has come together, using well practised structures for operational coordination. As one commentator observed: "Companies are quite good at doing this sort of thing. Most have experienced one sort of incident or another. It's all been escalated very quickly."

Welsh Water's Peter Perry and Thames Water's Steve Spencer lead the top-tier Platinum Incident Management Group which, with Water UK, liaises with Defra and regulators on critical issues. Beneath this group sit work streams, each with a chair and company leads, on crucial subjects including chemical supplies, non chemical supplies, regulatory intervention, communications/reputation management and vulnerable customers. Participants speak multiple times a week and flag up emerging issues and risks promptly to the Platinum group.

The lines of communication between stakeholders are open; the secretary of state has spoken directly with company chief executives among others, including to confirm the sector has key worker status and can keep its staff at work to keep the country supplied.

Despite this slick response, the situation is unprecedented and fast moving, and hasn't peaked yet. One commentator confided that it's hard to keep ahead of issues in this environment; the right thing to do one day may not be the right thing to do another.

Safe, secure supplies

There is currently no concern for water production or security of supply. From water companies' perspective, nothing of concern is coming through from the supply chain yet either (see box). Again Brexit exercises have been valuable in establishing good lines of communication with suppliers, particularly of water treatment chemicals.

World Health Organisation and Drinking Water Inspectorate (DWI) advice confirms water remains safe and healthy to drink. Speaking on a briefing call hosted by British Water, deputy chief inspector Milo Purcell explained the actions the DWI has taken in response to the situation in the key areas of sampling, laboratory capacity and supply chain functioning.

It issued an information letter very promptly in early March on sampling public water supplies and followed that up with another on private water supplies – important, Purcell explained, as some food manufacturers have their own sources. The DWI has signed off revisions to the normal sampling regime, such as to hold back on sampling at customers' taps; set out its expectation that consumer or contractor contacts must be acted on; and is in daily contact with all companies.

Lab capacity as the pandemic progresses is a concern. The DWI remains engaged on this and has already said that should the level of resourcing in labs become an issue, microbiological analysis should be prioritised over chemical analysis. Purcell flagged a particular concern regarding securing approvals under Regulation 31 of The Water Supply (Water Quality) Regulations 2016, which very strictly controls all chemicals and construction products used by water undertakers, from source to tap. There is, he pointed out, very limited lab capacity for approvals on that and the DWI is pressing to build that up. One participant on the British Water call said Reg 31 lab capacity was a "critical blocker" to new products and innovations coming through. He noted: "A simple item has taken over 20 months and counting to go through the process."

The DWI supported the government's decision not only on the designation of water company staff as key workers, but also those involved in chemical production and delivery. It remains engaged to ensure priority is given to the production of water treatment chemicals on UK sites. Purcell was clear that maintaining the supply of chemicals was "an absolute priority".

Finally, Purcell said he was "very sympathetic" to water companies' difficulties right now in bringing staff from contractors or alliance partners on site for operations and maintenance work. A water company representative reported a particular difficulty is accommodating workers as hotels are not available, and that his company is starting to see serious delays in work as a result. Purcell emphasised that "routine maintenance should continue as far as possible," to ensure business as usual water delivery. Separately, he observed: "A major incident at a time like this is almost unthinkable."

Protecting human resources

Human resources and operational challenges are many and various. The water company workforce is already depleted through illness and self-isolation and social distancing policy has limited routine operations.

The sector has sensibly prioritised the provision of core water and wastewater service provision; only emergency or essential work is being carried out, and staff are only entering customers' homes when absolutely necessary.

Office staff have moved to home working where possible, with many dispersed offices closed. Where sites have to be manned or visited – control rooms, treatment works and the like – steps have been taken to restrict access and keep staff safe.

The biggest challenge on the staff side is, however, contact centres. Those whose technology is up to it have switched to a virtual model with agents working from home. That's not possible for all, so again, steps have been taken to keep staff apart. Reduced capacity means customers are experiencing busy lines and have been asked only to contact companies in emergencies or if they need financial support (see box, p7).

One source warned this whole situation will worsen as call centres outsourced overseas are hit by Covid-19. Business continuity plans cater for individual centres going offline but not for simultaneous worldwide pressure. This warning also applies for other outsourced business processes, such as accounting and payroll.

Another not entirely resolved issue is what happens with capital projects. This mirrors the wider discussion in the country about construction workers: should they down tools or carry on? A source said water projects are being considered on a case by case basis but are "by and large carrying on". The biggest project of all, Thames Tideway, has opted to reduce activities across the project with only safety-critical and essential work continuing at the present time.

Revenue hit

While companies are rightly pulling out all the stops to respond to the health crisis, another crisis is brewing, hidden from the public eye, but also very real. We are only in the foothills of understanding the ramifications of the economic fallout of Covid-19 for the water sector. The business retail market is the immediate casualty. As businesses shut up shop, virtually overnight retailers saw the prospect of recouping the money they owe to wholesalers evaporate. And with the next settlement run scheduled for 30 March, there was the imminent prospect of another month of debt accruing, much of which retailers stand little prospect of repaying.

The government has made it clear businesses shouldn't be cut off or chased for payment as they themselves struggle to survive. Customers are cancelling their direct debits and the effect is already biting and real. Retailers find themselves blindsided by an existential threat, particularly those with weaker financial structures, and particularly as this comes on top of a whole set of pre-existing and already serious market problems (see interview, p32).

We'll return to retailers in a moment, but what it means for water companies – wholesalers in retail market parlance – is the

SUPPLY CHAIN IMPACT

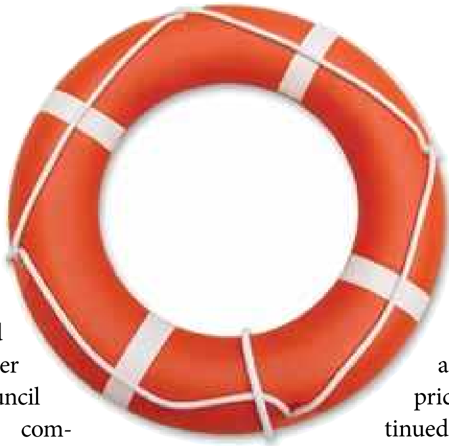
British Water has been hosting weekly Covid-19 calls for members since 20 March to keep them abreast of developments and to help them share information.

Chief executive Lila Thompson reported: "Early indications are that water companies are engaging well with the supply chain, especially at the tier 1 and tier 2 level, though some of the smaller companies reported that information is not necessarily filtering down…We ask that they have early sight of requirements, wherever possible, to ensure timely manufacture and shipping."

British Water has picked up two issues emerging from the first call to work on. First, seeking clarity on whether the government's key worker designation for the utilities sector also applies to workers in its supply chain. And second, working with water companies to standardise the requests for help and information that are going out to supply chain firms. One member reported each water company has asked for slightly different information, which is inefficient and slows down responses.

Other than coping themselves with the changed situation, the following were among other issues arising from supply chain companies on the British Water calls:

- Delays and penalties – the lockdown has hit right at the end of AMP6, with some hefty projects yet to be completed, as well as anything from a three to nine month delay on the start to AMP7. While the health and wellbeing of customers and staff need to be prioritised now, supply chain companies need clarity on the position on forbearance and penalties.
- Site closures – this would hit contractors hard and could lead to lay-offs. One tier 1 contractor said the pressure now was to keep sites open in a safe way, but that his company was planning for both eventualities as the pandemic evolves.
- Manufacturing adaptation – companies have been keeping plant open longer and introducing split shifts to keep production going during social distancing.
- Payment terms – will water companies relax payment terms to help suppliers cope?



prospect of a massive shortfall in revenue recovery from business customers. Monthly settlement through CMOS is around £210m, and wholesalers' biggest fear must be multiple retailer insolvency. And down the line, significant cash shortfalls from businesses will very likely be compounded by more domestic customer defaults. Wholesalers, left with little financial flexibility under the PR19 final determinations (FDs) and already under credit ratings pressure, are themselves in a very difficult place.

One company source confides wholesalers are "scratching their heads" in the immediate term about the business retail situation. Income from businesses via retailers that was "virtually guaranteed" has suddenly been pulled away at a time when many were already "at the absolute edge of their financial capability" because of the FDs. Cash conservation strategies were already in play because "we already didn't have enough money to do what we need to do". Coming on top of that, Covid-19 related non payment is financially very serious.

Liquidity bailout

In an initial letter to wholesaler bosses, Ofwat chief executive Rachel Fletcher said she expected them to adopt "a reasonable and pragmatic approach to the collection of wholesale charges from retailers who may be facing difficulties in obtaining payment from their customers".

On 27 March, action was taken to stem the immediate threat posed by the 30 March settlement run. Ofwat timetabled and the panel recommended code change CPW093 for immediate implementation. This will defer retailers' obligations to pay a percentage of their charges – initially 50% but with the "or otherwise determined by Ofwat" caveat – for March, April, and May settlement. Retailers will not be regarded as defaulting trading parties as a result.

The proposal also obliges retailers, "to the extent that they are in receipt of payment from their own customers, and can finance their own costs, to pay as much of the deferred charge as they are able, notwithstanding the amount actually invoiced". It is as yet unclear how ability to pay will be assessed.

Prior to this, Ofwat had issued a Call for inputs on late payment and said it had taken account of alternative proposals put forward by Water UK and the UK Water Retailer Council (UKWRC) in coming to its preferred solution.

Water UK had offered extended credit terms to improve short term liquidity for retailers, provided Ofwat gave a "clear and unambiguous commitment" that liquidity provided to the market would be recoverable. It said without a clear route to long term recovery, some wholesalers' ratings and banking covenants would be at risk. It sought for Covid-19 debt to be spread across the rest of the business customer base over time. It saw the alternatives as: market failure and wholesalers taking business customers back as a last resort; or the need for direct government support to prop up retailers.

UKWRC proposed a phased programme of relief, with immediate deferral of 100% of 30 March payments from retailers, supported by government loads to help with retailer and wholesaler operating costs. This would move in phase 2 to a "pay when paid" position.

Ofwat is understood to have factored in the financial distress of some wholesalers as well as the dire circumstances of retailers into its 50% plan. Nonetheless, its stance has left both sides worried.

Material exposure

From retailers' perspective, the 50% deferral may not seem enough given the situation on the ground. One described Ofwat as "in its own world" and overly concerned with wholesalers' position when the risk facing retailers is immediate and clear. Payment terms from wholesalers are retailers' top priority.

Wholesalers however do not support the modification. It does not reflect their input to the RFI and, while they are willing to support the retail market rescue effort, feel the change leaves them materially exposed without the strength of commitment from Ofwat they needed on compensation for the transfer of risk. One source commented that Ofwat has "mandated wholesalers to provide up to £630m of liquidity to non household retailers without any equivalent adjustment to wholesale price controls". And continued: "This could exacerbate substantial liquidity challenges already faced by some wholesalers as a result of a tough PR19 settlement and late payment of domestic bills, and so make it harder – not easier – for companies to respond to the crisis."

There was also speculation about why Ofwat might be reluctant to provide wholesalers with the indemnity they sought. One industry insider said: "Whilst these are unusual times, by formally sanctioning a support package of this scale, Ofwat would be making a bet that the non-household retail market is worth saving. Since the market has deliver limited benefits so far – with high set up costs, limited savings, and a substantial increase in complaints – that is not obviously a sensible public policy decision."

On top of all that, some have raised questions about governance over the episode. Reportedly, Ofwat changed its modification in three key ways in the 24 hours before it was presented – deferring three months of charges rather than one, giving itself a power to require up to 100% of charges to be deferred, and dropping assurance to wholesalers that they would be indemnified from bad debt risk.

Ofwat is understood to have subsequently offered an olive branch to the industry, pointing to its need to act immediately ahead of the 30 March settlement run to prevent the imminent collapse of the market, and committing to engage constructively on an enduring solution and provide more assurance.

Meanwhile in the Scottish market, the Scottish Government, Scottish Water, WICS and the Central Market Authority have agreed that from 1 April, Scottish Water will relax pre-payment arrangements for wholesale water charges on licensed providers. Worth about £60m, this is designed to give retailers flexibility to support their customers. In a letter to all licensed providers, environment secretary Roseanna Cunningham said: "The interests of customers in Scotland are of paramount importance and in responding to these measures the Scottish Gov-

"Customers are cancelling their direct debits and the effect is already biting and real.

ernment look to all licensed providers to give that the absolute priority."

Damage limitation

Beyond the obvious problem of non payment and the resulting financial peril, retailers like wholesalers also face operational challenges from staff shortages and social distancing. Their call centres are in a similar position to those of wholesalers, and getting meter reads when premises are shut or not admitting third parties is another major headache. Most have asked customers who can to submit their own reads.

The absence of meter reads creates extra problems for retailers. There are Market Performance Standard penalties under business as usual conditions for falling short of meter reading expectations. Moreover, an additional challenge for the March and subsequent runs is that CMOS will generate a read if one isn't presented based on past usage, binding the retailer to pay the associated primary settlement charge to the wholesaler. Not only is that a liquidity problem for all the reasons cited above, but for businesses which have scaled back or closed operations, these charges will be a huge overestimation on actual use.

MOSL along with Ofwat and Defra has acted quickly to mitigate these easier-to-manage impacts. MOSL chief executive Sarah McMath said: "We're listening, we're not following the usual processes." A High Level Group comprising senior representatives from Ofwat, Defra, MOSL, CCW, Water UK, UKWRC and wholesalers and retailers has been convened and had conversations to consider necessary actions.

An urgent panel meeting was held on 20 March to implement the following code changes immediately, which McMath described as "no brainers, to give immediate relief":

- Waive performance charges with effect from 1 March, for a limited period, given the difficulty reading meters resulting from social distancing advice and premises access issues. Retailers were told to keep reading meters where safe to do so and to encourage customers to provide reads.
- Suspend a January code change, which allowed 2019/20 performance charges to be put into a market improvement pot; these will now be recycled back to trading parties, with effect from April.
- Enable retailers to offset 2020/21 Market Operator charges against prior year performance charges, with effect from April. This benefit was not extended to wholesalers "to protect MOSL's cash flow".

The Panel meeting on 27 March that recommended payment deferral also passed code change CPW091, which allows retailers to change the occupancy status of a premises that has shut or retrenched significantly to 'vacant' in CMOS, for the period up to 30 June (but extendable at Ofwat's discretion). CMOS does not calculate any estimated volumes or estimated charges against vacant sites, preventing charges becoming payable between the wholesalers and retailers.

Penalties and priorities

Beyond its immediate efforts to rescue retail and set customer protection and service expectations of companies, how Ofwat responds on medium and long term issues arising from the Coronavirus crisis will be vital.

In retail, alongside immediate concerns relating to payment terms, vacancy flagging, and MPS charges, the UKWRC called for a fundamental review of how insolvency risk is allocated. "It seems inevitable that under the current circumstances there will be a material increase, and we ask that Ofwat consider how this risk could be more equitably shared between wholesaler and retailer." This is part of a much wider debate on the balance of risk between wholesalers and retailers and the structure of the market.

In the wholesale and domestic retail space, companies will need clarification of how slippage on Performance Commitments and the associated penalties at the tail end of AMP6 and start of AMP7 will be treated. In her initial letter to CEOs, Fletcher endorsed water companies' choices to prioritise meeting their core service obligations over wider PCs while they are short staffed and restricted by social distancing advice. Fletcher said: "For the avoidance of doubt, incentives and penalties in our regulatory regime should not get in the way of effective prioritisation in the interests of customers." She confirmed there would be consideration of ex post adjustments to the regulatory settlement as part of the normal reconciliation process. "This will require that companies can demonstrate how their operations have been impacted by Covid-19 and how they made their decisions."

While health must take priority, detail on the regulator's position is needed too. One source said there is "lots of angst in companies" about penalties; will Ofwat be understanding and wave through exemptions or changes promptly, or will it take a harder line once the dust has settled?

Looking further down the line, there will undoubtedly also be scrutiny of whether resilience and sustainability have had sufficient regulatory attention compared to efficiency – topics that are on the agenda already for PR19 appeals at the CMA (see p13). TWR

SERVING CUSTOMERS

Household customers: water companies have acted to reassure, advise and help customers in the face of Covid 19 adversity. Those with difficulty paying bills have been urged to contact their supplier to seek help from existing support schemes. Companies are proactively offering payment holidays and adjusting payment plans too, as well as offering alternate payment methods to those confined to their homes. All collections visits and enforcement actions have been stopped.

Water UK has produced a set of customer FAQs, and each company website also has advice including on service prioritisation and operation during the outbreak, water safety and quality, online services, billing, security of supply, making contact, staff protection, unflushables and meter reads.

Business customers: Ofwat's Fletcher also advised wholesalers to suspend business disconnection during the crisis, even if this is requested by retailers: "We would not expect to see customers disconnected for non-payment where the delay in payment is caused by factors relating to coronavirus". Ofwat said it was considering changes to the Customer Protection Code of Practice to require retailers to treat non payment during these times as force majeure events, thereby not qualifying for disconnection. Defra told retailers it does not expect them to chase customers for non-payment during this time.

> **Ofwat has mandated wholesalers to provide up to £630m of liquidity to non household retailers without any equivalent adjustment to wholesale price controls**

RAISE A GLAS

Chris Jones is bidding farewell to Glas Cymru, 20 years after creating it specifically to acquire and run Welsh Water as a not-for-profit company. The model has more than proved itself – but Glas' ambition continues.

Not for profit Glas Cymru was a purposeful company 20 years before 'purpose' became popular for business. Two decades on, and with its only remaining founder – Welsh Water chief executive Chris Jones – moving on, Glas has taken the opportunity to take stock of its achievements, reassert its purpose, and look ahead to what comes next.

The Glas model

The history, for those who are unfamiliar, is that Glas Cymru was created in 2000 by Jones and Nigel Annett (subsequently managing director) as a single purpose company to own, finance and manage Welsh Water. It achieved that goal 18 months later, in May 2001, when it acquired Welsh Water from Western Power Distribution, financed by a £1.9bn bond issue. At the time, that was the largest ever non government backed sterling corporate bond issue.

Jones says: "The company was very much built to deliver a specific purpose. The purpose came first, then the company came afterwards. At the time, we called that purpose a better way to finance and run a water company, better for its customers. That's what the whole idea was.

"At the time that was a bit unusual. Certainly it was driven by the idea that it would be better for customers and communities, but also that it would be very effective from a financing point of view because that single minded purpose of the company would actually be very attractive to long-term investors and enable us to finance the transaction in the first place."

To look more at the detail, there are a few things that make Glas special within the UK water sector, and more widely. It is a company limited by guarantee and operates with commercial discipline, but has no shareholders and is not-for-profit. Its single focus is to act in the best interests of its customers, with any financial surpluses retained for the benefit of those customers. A board performs the usual corporate governance functions, supported by around 70 volunteer 'members' appointed to promote the good running of the company in customers' interests.

The model also specifically set out to reduce asset financing costs – the water industry's single biggest expense, with Welsh Water alone raising a further £2bn since 2001 to finance investment. The single focus strategy – devoid of any diversification risk or dividend pressure – offers secure, long-term credit quality to investors such as pension funds and insurance companies, enabling Glas to raise finance at the cheapest possible cost. In a virtuous circle effect, financing efficiency savings have been used to further improve credit quality and keep financing costs low.

The purpose came first, then the company came afterwards.

Value proved

This was a new model for water when it was created, and a bold move by Jones and Annett. Jones recalls the 85-odd investor roadshows they held "to explain what this was all about" back in 2001. But, 20 years on and in what is a huge personal and professional achievement for the founders, the model has stood the test of time and more than demonstrated its advantages.

First, Jones says, the model has delivered what was anticipated of it:

- **Financing** – "We thought this would be very successful from the point of view of financing long-term investment in infrastructure and it definitely has been. We've generally had the highest credit rating in the UK utilities sector. We've had a recent downgrade on the back of PR19 but that wasn't entirely unexpected or indeed entirely isolated. I think it's still the best [credit rating] in the water sector; I think it's still as good as any of the gas and electricity companies as well." He illustrates further:

TABLE 1 – RETURN OF VALUE TO WELSH WATER CUSTOMERS SINCE 2001		
Period	**Type**	**Value**
2001-2005	Customer rebates	£23m
2006-2010	Customer rebates	£129m
2011-2015	Social tariffs	£22m
	Additional investment	£114m
2015-2020	Social tariffs	£37m
	Additional investment	£116m
Total to date		**£441m**

TABLE 2 – THEN AND NOW: KEY PERFORMANCE IMPROVEMENTS OVER 20 YEARS		
Performance measure	**2000/01**	**2018/19**
Serious pollutions	9	2
Leakage	260Ml/d	169Ml/d
Distribution input	899Ml/d	810Ml/d
Written complaints	13,000	3,500
Health and safety (RIDDORs)	42	9

"We've just done a successful half a billion [pound] bond issue a couple of weeks ago. One of the banks involved in that said it was the lowest interest rate ever achieved for a 10+ year bond by a mainstream corporate in the UK – not government backed."

- **Customer benefits** – "We hoped we could plough profits back in to the business for the benefit of customers that would otherwise have been distributed out…we are running at about £450m of value that has been returned to customers so far" (see table 1). Initially this was through reductions in all bills, but more recently bill support has been targeted at those most in need of help to pay. Jones comments: "We have [social tariff] HelpU and so on; we run at a much higher rate of support than the other companies because we can put millions of pounds of our own money into that." On top, the company has been able to reinvest more in infrastructure, resilience and long term improvements than funded through the price review.
- **Performance improvements** – Jones describes the "huge tangible achievements" Welsh Water has made since 2001 (see table 2). "Because you don't often look back over 20 years, you don't usually see just how far we've come. Year by year progress may be unexciting, but 20 years adds up to an awful lot."

On top of these predicted gains, Jones explains unanticipated benefits have also materialised from the model. These include being the most trusted water company in England and Wales for the past couple of years according to CCW research, and a more stable political environment. "The fact that we are owned on behalf of our community has given us stronger support from our customers, our stakeholders, the communities we serve and so on, and that has been reflected in, for example, the lack of political controversy around the water sector in Wales. Whereas in England ahead of the general election it was highly contentious. So there's been that whole side of public support and customer support that's really come through.

"The other thing is how it comes through in our recruitment and colleague engagement…It's striking how strongly that social purpose and environmental ethos act as a motivation for people to want to come to work for us and to do a great job for our customers and the environment."

Changing with the times

The Glas model has evolved over time, of course, as the context it operates in has changed and as it has learned lessons along the way. Jones highlights two examples.

First, that from being the highest geared company in the sector back in 2001 (93%), Welsh Water now has amongst the lowest gearing (59%). "Our gearing was very high at the start because we had no money – that was fairly straightforward," he admits. "Two individuals going to buy the business using borrowed money had to find a way that would sustain that." However: "The fundamentals of the idea worked over time, so naturally as well as providing more value to customers, by retaining money in the business and not paying it out as dividends, we've been able to move our gearing position from what was the highest in the sector to what is now around the lowest. That's absolutely right because as a non-shareholder company, ultimately, we've got to have a very strong balance sheet and strong liquidity position."

He adds: "Also if you think how the return on capital has come down over that period – regulation has quite rightly followed the markets down – to maintain the same sort of credit metrics and credit quality in the world of a sub 2% cost of capital, is different from one of a 6% cost of capital in 2000. Hence our gearing has had to come down."

We are running at about £450m of value that has been returned to customers so far

HOW WELSH WATER'S ACTIVITIES MAP ONTO THE WELSH GOVERNMENT'S WELLBEING GOALS

		A prosperous Wales	A resilient Wales	A healthier Wales	A more equal Wales	A Wales of more cohesive communities	A Wales of vibrant culture and thriving Welsh language	A globally responsible Wales
Drinking water	1. Safeguarding clean drinking water through catchment management	■	■	■				■
	2. Enough water for all		■	■				
	3. Improving the reality of drinking water supply systems	■	■			■		
	4. Protecting our critical water supply assets	■	■	■				
	5. Achieving acceptable water quality for all customers		■		■	■		
	6. Towards a lead free Wales		■	■	■			
Customers and communities	7. Working with customers and communities	■	■	■		■		
	8. Ensuring affordability of services delivered to customers		■		■			■
	9. Supporting customers in vulnerable circumstances	■		■	■			
	10. Addressing our 'worst served' customers	■			■	■		
	11. Employer of choice	■		■	■		■	
	12. Leading edge customer service				■		■	■
	14. Smart water systems management	■	■					
Environment	15. Supporting ecosystems and biodiversity	■	■	■	■	■		■
	16. Using nature to reduce flood risk and pollution	■	■	■	■	■		■
	17. Cleaner rivers and beaches	■	■	■				■
	18. Protecting our critical waste water assets	■	■	■				
	19. Promoting a circular economy and combating climate change	■	■					■

Second, Welsh Water has altered its operational model significantly over time. Operations were outsourced in 2001, to secure a predictable cost base and to drive efficiency. They were brought back in house in 2010. Jones explains: "After ten years it had sort of run out of steam and to deliver more efficiency and better value going forward it really required a longer term perspective, more enabling investment to deliver savings and improvements, and actually that was much easier to do through an in-house model… We changed at that point because we thought that would deliver an effective benefit for customers and that is how it has proved."

> **One of the ironies of this is, although our performance has, on most measures, never been better, I would say as an organisation we've never been more ambitious to be better in the future and less satisfied with our performance.**

Looking across the two decades as a whole, Jones is pleased with Glas' choices. "Some things we had to adapt, some things we didn't anticipate. I got plenty wrong in the detail but overall I don't think I would change too much around the model."

Modern purpose

Before co-founding Glas in 2000, Jones served as Welsh Water's regulation director from 1995. He subsequently took the role of Welsh Water finance director in 2001 and became chief executive in 2013. Last July, he announced he would step down at the end of March 2020.

The prospect of Glas' 20 year anniversary, combined with Jones' move, legislative developments in Wales, and the wider business community's increasing focus on 'purpose,' prompted the board to take stock. "It's a good opportunity for us to do a bit of looking back at what have we learned, what do we need to do better, and what could we tweak to take that forward over the next five, 20, 30 years," says Jones.

Three key developments have followed.

First, in May 2018 and following extensive customer engagement, Welsh Water published a long term vision setting out both the challenges it faces over the next 30 years, and how it plans to address them. *Welsh Water 2050* identifies 18 strategic responses to “enable us to become a truly world class, resilient and sustainable water service for the benefit of future generations”. This is aligned with the Welsh Government’s Well-being of Future Generations Act (Wales) 2015, which sets goals for a prosperous, resilient, healthy, more equal, cohesive, globally responsible Wales with a thriving culture. The vision is also aligned with the Environment Act (Wales) 2015 and Natural Resources Wales’ position. The document reckons all the required actions will have a net cost over 30 years of between £4.5bn and £9bn. And: “To put this in context, we presently spend in the order of £0.5bn to £1bn in each five-yearly period on improving our services and resilience.”

Second, the company has articulated a refreshed statement of purpose: ‘To provide high-quality and better value drinking water and environmental services, so as to enhance the well-being of our customers and the communities we serve both now and for generations to come’. In early December at an Extraordinary General Meeting, the new purpose was embedded in the Articles of Association of the company – “so that is now entrenched in the company’s legal documentation. So it doesn’t matter whether the founder generations or followers or those in years to come” are at the helm; purpose is locked in.

Third, just last month, Welsh Water published a series of *Well-being Commitments*, which map out how the company’s activities over the coming five years will contribute to the seven goals set by the Well-being of Future Generations Act (see table 3). Jones comments: “I’m not sure any other organisation in Wales has done this. There is something similar from Transport for Wales, which is good to see, but we may be the first organisation to set out ‘so ok, for prosperous Wales for example, what are we actually going to do over the next five years to help deliver that’?” He explains the clarity should help other service bodies plan what they are doing, for collective advancement. “We’ve seen from working in water catchments how much more you can achieve if you align what individual bodies are trying to do,” he illustrates.

There is an accompanying *Well-being Commitments* scorecard, which will enable stakeholders to chart Welsh Water’s delivery against each goal and hold it to account. Jones: “That’s obviously the danger with long term planning and strategising, that it can be great, but it’s 25, 30 years out so it can feel a little bit unreal. This says, ‘great, *Welsh Water 2050,* you’ve got that long term objective which should be driving things like future price reviews. But in the meantime, how are we actually doing on those things we can do to contribute to cohesive communities or a globally responsible Wales?’ That’s certainly a first for us, and hopefully gives a real tangible meaning to it.”

The overriding message from Glas Cymru as it turns 20 is that is it more ambitious than ever, despite its achievements to date. Jones expands: “One of the ironies of this is, although our performance has, on most measures, never been better, I would say as an organisation we’ve never been more ambitious to be better in the future and less satisfied with our performance. I think that is really good cultural thing… Far from resting on our laurels, the fact that we have made a lot of improvement, as the whole sector has, has made everybody more confident, more questioning. If we’ve managed to find better ways of doing things in the past, by definition there must be better ways than we are doing things now.”

WELSH WATER’S FINAL DETERMINATION

Ofwat prescribed a 9.4% average bill cut, compared to the company’s proposed reduction of 5.5%. It increased Welsh Water’s draft determination totex allowance by £150m, but a 6% totex gap remained. The gap stood at £171m (22.5%) on enhancement and £25m (10.9%) on household retail, offset by £10m more on base than Welsh Water’s business plan requested.

In common with all companies, Welsh Water faces tough performance commitments, which include a 15% cut in leakage, a 6% cut in per capita consumption, a 58% fall in supply interruptions, and a 55% fall in pollution and internal sewer floods. Outcome Delivery Incentives offer a Return on Regulatory Equity range of -1.03% - +0.6%. Moody’s said it expected penalties of £30-40m during the period. £83.5m of revenues were advanced to improve financeability.

On the back of Welsh Water’s acceptance of its FD, Moody’s downgraded from A2 to A3 the corporate family rating of Welsh Water, as well as the senior secured debt ratings of Dwr Cymru (Financing) UK.

PR19

The most immediate test for Welsh Water will of course be managing under the PR19 final determination (FD) it has just accepted. “Things are much tighter,” Jones says. “We have some advantages as a business in terms of our capital structure. But in our own plan, we put forward very challenging efficiency targets which we’ve got to deliver; and the whole performance regime is there with very significant penalties and rewards – but particularly penalties.” He says meeting the cost efficiency targets will be “a massive agenda for us” over the coming five years, and that the company will struggle to meet some performance commitments, including supply interruptions.

“So we’ve got to deliver our costs targets and we’ve got to do everything we can to get as close as possible to performance targets which we’re going to struggle with. And then we’ve got to work out were we can outperform on other measures, maybe customer service where we are doing well and can try to earn rewards to offset the penalties. Across the board, everybody in the company has to be focused on their impact on service; in everything we do, we have the vision of earning the trust of customers, of customer-led success. Everybody in the business understands that ultimately what they do impacts on customer satisfaction.”

The not-for-profit model does offer some advantages in rising to PR19 challenges – including low gearing and no dividend pressure from shareholders. Nonetheless, like all others the company is exposed to the drastic cut in allowed returns and, unique to its model, faces being able to return less value to customers in AMP7 than in previous years (Moody’s – which has downgraded Welsh Water since its FD acceptance – estimates £55m could be available for return to customers across the AMP, compared with £40m last year alone). “That is just financially inescapable,” Jones

You do have a different context here, you have different actors, and also frankly Wales is only one-twentieth the size of England. It should be much easier to get everyone around the table and come up with that common view.

agrees. "Our return comes ultimately from the cost of capital… it's straightforward maths: it's bound to have to come down."

The company was robust in its representation on its draft determination (DD), but was one of the first non-fast tracked firms to accept its FD. Jones explains: "We have to look at the PR19 FD in terms of what is the best thing to do for the customer – to appeal against it or not? We thought, given the helpful moves Ofwat made between the DD and the FD, that wasn't the right thing to do. But that doesn't mean we were happy with everything in the PR19 FD or indeed in some of the methodologies that led up to there. We wanted to put those points on record and discuss them further with Ofwat going forward."

Jones' letter to Ofwat formally accepting its FD therefore flagged up its key issues. These included that its retail business will be loss making across the AMP; and that some of its Performance Commitments are not achievable. Its *Welsh Water 2050* consultation work also demonstrated customers preferred investment to bill cuts.

Looking ahead, the company urged the regulator to set "efficient Performance Commitments" which take into account company specific costs and benefits; for common measurement of data across the sector given the impact of Outcome Delivery Incentives; and for a more robust retail cost assessment model. On the first point, Jones comments: "We always thought that in setting costs for companies, you need to …think very hard about what the right level of cost should be, given all the particular circumstances the company operates in… equally, then, what is the optimal level for service measures in those particular company circumstances? It would be mathematically very unusual if you did that work and found everybody should have the same target. We think that should be on the to do list for regulation going forward."

Five year planning horizons are not a problem if they are part of an agreed 30 year kind of approach.

A fully collaborative PR24

Also on Welsh Water's to do list for future regulation is a fundamental turnaround in how investment is planned. In his letter to Ofwat, Jones called for a "fully collaborative approach" for AMP8 and AMP9, based on a common understanding of the optimal investment programme for customers and the environment, before PR24 gets underway.

He explains: "What we would hope to do for AMP8 and beyond is change the planning narrative around somewhat and be thinking much more, at an early stage before the price review, about what are the long term objectives we want to be working to? That's got to be a very cooperative process, so it's going to need ourselves, regulators, government, other bodies like our customer challenge group and our environmental advisory panel and so on feeding in to that.

"Five year planning horizons are not a problem if they are part of an agreed 30 year kind of approach. So where we'd like to get to for PR24 is, when we're putting forward our plans it's against an agreed set of objectives – like, we should be carbon neutral by whatever date and everybody buys in to that, or we should have a resilient water infrastructure to a certain level of service by a certain date. Each price review period then becomes a milestone along the way to that ultimate objective."

Does the Welsh context support such a move? There's a different government with different legislation in play, a different environmental regulator and – coming soon – a Welsh branch of Ofwat, all of which suggest the opportunity for a bespoke Welsh arrangement, perhaps something akin to the way the Scottish water sector is approaching climate challenges?

Jones: "Personally I think there is. You do have a different context here, you have different actors, and also frankly Wales is only one-twentieth the size of England. It should be much easier to get everyone around the table and come up with that common view…The Senedd has declared a climate emergency, I'm sure that means they might set views for policy objectives for carbon that are different for those in England. But even if the timescales are the same, I find it hard to believe those actors won't want to come together to have a much more common view of what needs to be done to get there together across a whole range of sectors."

Those discussions will be in the hands of Jones' successor, Peter Perry, from 1 April. Perry has had a long career with Welsh Water, serving most recently as managing director. Jones reflects that it will, understandably, be a "personal wrench" for him to leave but that he couldn't be happier with the transition. "I'm really pleased to be able to step down from a business that's in a sound position financially and that's got a great team ready to take over from me, champing at the bit…Twenty years on, it's like seeing this 'baby' finishing at university and heading off…

"The organisation is whatever the opposite of resting on its laurels is; it's so ambitious and so keen to take on these challenges and do an even better job going forwards. You couldn't really ask for more than that." TWR

APPEALS PROCESS GETS UNDERWAY

Ofwat makes its CMA submission, saying "four companies believe customers should pay more and receive less".

Ofwat came out guns blazing when it formally kicked off the process through which four companies will appeal their PR19 final determinations.

Last month, the regulator made its submission to the Competition and Markets Authority, stating its case on the determinations of Yorkshire Water, Anglian Water, Northumbrian Water and Bristol Water. It said: "Despite our detailed analysis of operational best practice and historic performance, our scrutiny of business plans and evidence of returns in capital markets, it seems four companies believe customers should pay more and receive less. We do not think the evidence supports that."

Among the suite of documents Ofwat submitted were an overview of the PR19 process and the price control framework; the companies' determinations; details of how decisions were reached; and further details on the "cross cutting" issues of stretch, returns and financeability. It emphasised it had been transparent, thorough and had listened throughout the review and had been "motivated by all our duties" including "looking to the long term and making sure companies can earn a reasonable return and can finance their functions".

Ratings agencies have been working through each regulated company's situation since the FDs were published. As they forewarned, the overall direction of travel is downwards but obviously the individual situation of each company dictates its treatment. *The Water Report* has been covering the ratings actions weekly through our online newsletter *The Week In Water*. One of the most recent actions was Moody's downgrade of Thames Water from Baa1 to Baa2.

Ofwat also summarised for the CMA the outcome of its decisions in the round – featuring around £50bn of spending including investment to promote long term drought resilience (see p20) and a £200m innovation fund (see p23) – as well as in each individual company's case (see box).

Timetable and process

The CMA provided details of the special reference group it expects to appoint to oversee the appeals (see box) and said it will publish an administrative timetable shortly, outlining the key milestones and proposed timeframe for the completion of the redeterminations. The next step will be each company's submission of a statement of case.

Ofwat noted in its submissions: "We recognise that we are making our submission at a time of wider uncertainty related to Covid-19, which has arisen since our final determination. We are considering how this could bear on the CMA's decisions and we would welcome the opportunity to make further representations on this in due course."

Rachel Fletcher, Ofwat chief executive, also confirmed: "As this review carries on, we will press ahead with our work to transform the sector: in its performance, its preparedness for facing future challenges like climate change and population growth, and its work to rebuild trust by showing the value it can create for society and the environment." TWR

We are considering how Covid-19 could bear on the CMA's decisions and would welcome the opportunity to make further representations.

OFWAT'S SUMMARY OF ITS FDS FOR EACH APPELLANT

- "Our final determination gives **Anglian Water** £5.6bn over the next five years to improve services to customers and the environment, 17% more than it has spent historically. Anglian Water customers would see bills fall by 10%, they would see investment of £305m to help move water from other areas in the region, they would see pollution incidents fall by a third, and carbon emissions down by 10%.
- Our final determination provides **Bristol Water** with £462m over the next five years. Their customers would see bills fall by 15%, they would see over £8m invested to improve water mains resilience, they would see 48,000 water meters installed, and they would see plans for 85% of vulnerable customers to be left satisfied with the help they receive.
- Our final determination provides **Northumbrian Water** with £2.9bn over the next five years, 5% more than it has spent historically. Their customers would see bills fall by £26, they would see greenhouse gas emissions fall by 28%, they would see an increase in bathing spots rated good or excellent, and they would see more than 450,000 smart meters be installed.
- Our final determination gives **Yorkshire Water** £4.4bn over the next five years, 10% more than it has spent historically. Their customers would see bills fall by 9%, they would see almost a third more land enhanced in the region, they would see 50% more customers on social tariffs and WaterSure, and they would see pollution incidents fall by 41%."

THE SPECIAL REFERENCE GROUP

- Kip Meek (chair)
- Robin Cohen
- Anne Fletcher
- Roland Green
- Paul Muysert

For biographies, see: https://www.gov.uk/government/publications/cma-panel-member-biographies-and-disclosures-of-interest/panel-members-biographies

PR19 RECONCILIATION POLICY

Ofwat is consulting until 29 April on its proposed approach to the reconciliations that will be required during, and at the end of, the 2020-25 price control period, to adjust the amount of money water companies receive.

The regulator said the approach is "a significant evolution of our approach at the 2014 price review reflecting a further development in how we undertake reconciliations". It features more in-period reconciliations and additional reconciliations "to ensure companies' allowed revenues are appropriate".

The reconciliation rulebook will be finalised Autumn. In the 2019 price review, reconciliations resulted in a net revenue adjustment of more than £1.8bn.

NUMBER CRUNCHING ON CAPACITY NEEDS

The first National Framework for Water Resources shows England needs 4,700Ml/d extra capacity by 2050 for all water users, including to boost drought resilience and green ambition.

Prepare to be impressed: the team working on creating a National Framework for Water Resources has succeeded in identifying England's national and regional strategic water needs, across all sectors, through to 2050. Among other things, this has involved accumulating a common data set for all regions, to provide a consistent national picture; modelling a wide range of scenarios, including forecasting the demand of sectors outside of public water supply (PWS); and looking at the long term needs of the environment.

Detail of the content is set out below, but in short, the messages are stark. Many areas of England will be short of water by 2050 if no action is taken. So we need a twin track approach of managing demand and, regardless how ambitious that is, increasing supply. Demand side actions can be delivered quickly, are scalable and relatively cheap, but uncertain. Supply side actions are pretty much the opposite.

It falls now to the five regional water resource groups – Water Resources South East, Water Resources East, Water Resources West, Water Resources North and West Country Water Resources – to plan exactly which actions are right for each region (see p14 for details on the South East plan). For that reason and despite the enormous achievement, the National Framework report is very much the start of something rather than the end.

> **The group agreed to work to an initial planning assumption of reducing average PCC to 110 litres per person per day by 2050 nationally.**

Capacity crunch

The National Framework found that if no action is taken between 2025 and 2050, around 3,435 million litres per day (Ml/d) extra capacity is likely to be needed in England by 2050 to meet future pressures on PWS (household and businesses supplied by water companies). The report added: "This need is likely to grow further by the end of the century. Projections beyond 2050 carry increasing uncertainty. However our analysis suggests something in the region of 5,500 to 6,000 Ml/d additional water may be needed between 2025 and 2100."

Meanwhile non PWS needs by 2050 – those of direct abstractors in agriculture, power generation and industry not supplied by water companies – are estimated to require an additional 1,287Ml/d.

So without investment in additional capacity, there will be shortfalls in water supply across England. This means, in a nutshell, that households and businesses would experience more frequent interruptions to supply and the environment be put under greater pressure from water abstraction.

Each region faces challenges, but these are not spread evenly. Around half of the national PWS need is in the south east. Beyond PWS, consumptive water use is most significant in the east, where agricultural use of spray irrigation dominates.

The map shows England's water needs by 2050, incorporating for PWS increasing resilience to a 1 in 500 year drought (see below), high population growth, the most ambitious abstraction reductions and water company analysis of climate change impacts; and best estimates for non PWS. The accompanying commentary on each region gives an overview of the position of each regional water resource group.

Demand and PCC

To tackle the shortfall, the report first put forward a package of demand side measures. It said regional groups should:

- Contribute to a national ambition on average per capita consumption (PCC) of 110 litres per person per day (l/p/d) by 2050, to be reviewed every five years. (Other scenarios considered were 119l/p/d and 127l/p/d).This came in advance of the government's response to its 2019 consultation on measures to reduce personal water use and its 2018 commitment to set a personal water use target. The report explained: "In advance of the government's response to the consultation, the national framework senior steering group has agreed the case for making ambitious demand savings. Based on the best available evidence, the group agreed to work to an initial planning assumption of reducing average PCC to 110 litres per person per day by 2050 nationally. This is the lowest PCC that can realistically be achieved without government action in addition to water company action. However it can be achieved more cost effectively and at lower risk with action from government and the water industry."
- Reduce leakage by 50% by 2050 from a baseline of 2017-18.
- Pursue ambitious reductions in non-household demand and contribute to the evidence available on the potential savings.
- Identify ways to reduce water use outside of PWS.
- Explore how to coordinate the use of temporary use bans among the water companies operating in the region.

On top of these actions, the Framework said government and regulators should support the management of uncertainty around demand side savings by introducing a new framework to monitor and report on progress on demand management. To be scoped this year, this will track "decision points" in regional plans. "If there is under-achievement against

Understanding England's future water needs at 2050

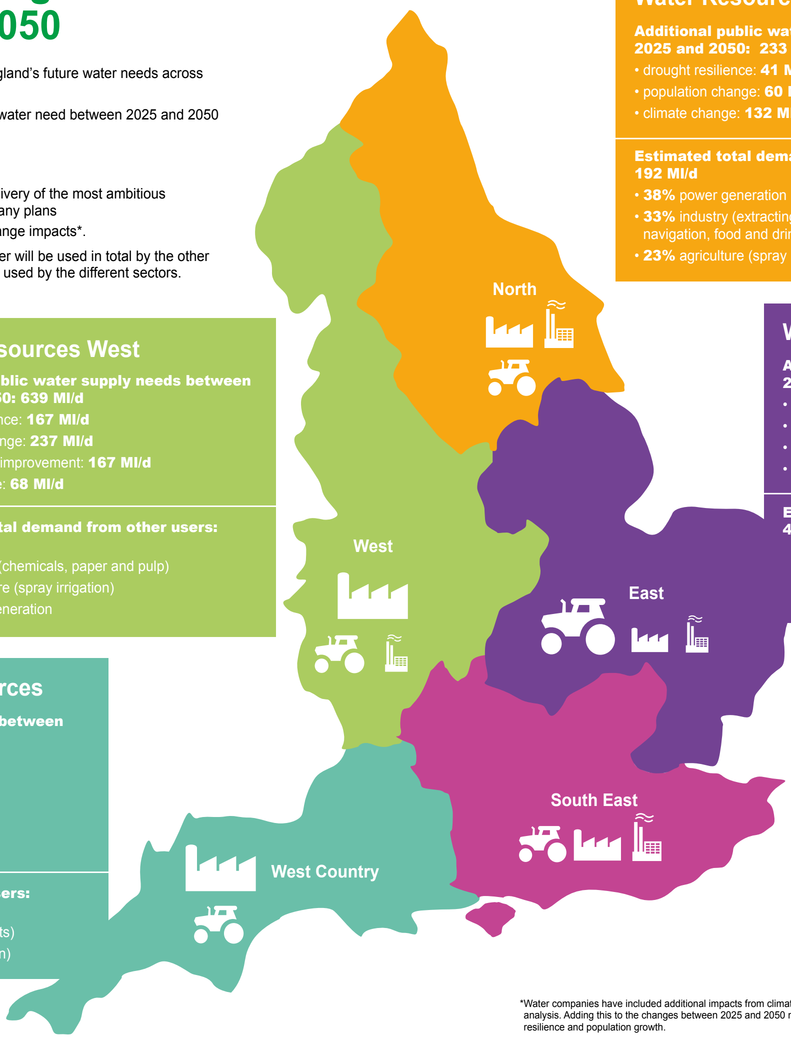
The National Framework provides a picture of England's future water needs across each of the regional groups by 2050.

For public water supply the estimated **additional** water need between 2025 and 2050 is based on:

- increasing resilience to a 1 in 500-year drought
- high population growth
- high environmental improvement through the delivery of the most ambitious abstraction reductions identified in current company plans
- individual water company analysis of climate change impacts*.

We also show our best estimate of how much water will be used in total by the other sectors in each region and the proportion of water used by the different sectors. We have shortened million litres per day to Ml/d.

Agriculture
Industry
Power



Water Resources North

Additional public water supply needs between 2025 and 2050: 233 Ml/d
- drought resilience: **41 Ml/d**
- population change: **60 Ml/d**
- climate change: **132 Ml/d**

Estimated total demand from other users: 192 Ml/d
- **38%** power generation
- **33%** industry (extracting minerals and materials, navigation, food and drink, paper and pulp)
- **23%** agriculture (spray irrigation)

Water Resources West

Additional public water supply needs between 2025 and 2050: 639 Ml/d
- drought resilience: **167 Ml/d**
- population change: **237 Ml/d**
- environmental improvement: **167 Ml/d**
- climate change: **68 Ml/d**

Estimated total demand from other users: 283 Ml/d
- **59%** industry (chemicals, paper and pulp)
- **27%** agriculture (spray irrigation)
- **12%** power generation

Water Resources East

Additional public water supply needs between 2025 and 2050: 570 Ml/d
- drought resilience: **226 Ml/d**
- population change: **193 Ml/d**
- environmental improvement: **75 Ml/d**
- climate change: **76 Ml/d**

Estimated total demand from other users: 444 Ml/d
- **64%** agriculture (spray irrigation)
- **7%** power generation
- **14%** industry (food and drink, paper and pulp)

West Country Water Resources

Additional public water supply needs between 2025 and 2050: 227 Ml/d
- drought resilience: **71 Ml/d**
- population change: **86 Ml/d**
- environmental improvement: **47 Ml/d**
- climate change: **11 Ml/d**
- other: **12 Ml/d**

Estimated total demand from other users: 193 Ml/d
- **63%** industry (manufacturing mineral products)
- **23%** agriculture (livestock and spray irrigation)

Water Resources South East

Additional public water supply needs between 2025 and 2050: 1765 Ml/d
- drought resilience: **640 Ml/d**
- population change: **459 Ml/d**
- environmental improvement: **431 Ml/d**
- climate change: **111 Ml/d**
- other: **124 Ml/d**

Estimated total demand from other users: 175 Ml/d
- **32%** industry (paper and pulp, golf courses)
- **30%** agriculture (spray irrigation)
- **20%** power generation

*Water companies have included additional impacts from climate change of around 640 Ml/d in their plans up to 2025 which is before the start date for this analysis. Adding this to the changes between 2025 and 2050 makes the total impacts from climate change comparable to the two biggest drivers, drought resilience and population growth.

these triggers the group would recommend steps to turn this around, for example, policy change or behavioural change campaigns." Government and regulators were also advised to use the recent consultation on reducing personal water use to inform national policy on interventions that will support consumption reductions.

Supply lines

Supply side infrastructure is required even with the most ambitious demand savings. The report pointed out infrastructure is also important in managing the uncertainty associated with demand reduction and in reducing reliance on drought measures (see box, p17) that carry environmental risks. It said regional groups should scope a wide range of supply options, such as reservoirs, water reuse and desalination, with a clear understanding of how long each would take to be implemented, to allow options to be brought forward if demand is not reduced as expected. This should include exploring the strategic options funded as part of Ofwat's gated PR19 process (see interview p18) and identify new options that are not included in the current plans. This should include engaging in the catchment based approach, particularly in priority catchments, to develop cross-sector options that provide broad benefits to society.

On transfers, the National Framework team endorsed increasing connectivity within and between regions. It supported both short distance transfers that increase resilience to supply interruptions, and longer distance transfers of over 100km that also include water storage to increase drought resilience. National modelling showed when reservoir storage in a catchment is stressed, there is a 40% chance that the neighbouring catchment will also be stressed. This increased to a 70% chance when looking at a system

Each region faces pressures on water resources. We expand on this graph to set out the relationship between the pressures faced in each region, the options they have available and highlight key areas for each of the regional groups.

Water Resources North
The North has a significant surplus of water which, if it could be made available, could help offset the future water resource and environmental challenges we face and potentially be made available to other regions. The options identified in the relevant water company WRMPs – in this case Northumbrian Water, Yorkshire Water and Hartlepool Water – are enough to meet the higher need estimate but if water users in the region can become more efficient, through reducing how much they use, more water could be available to transfer elsewhere.

Water Resources West
The West will face pressures in the future; however, it has a significant surplus, the potential to make savings by reducing demand further, and options to supply more water. The options identified in the company WRMPs – in this case United Utilities, Severn Trent Water, Dŵr Cymru Welsh Water and South Staffs Water – are enough to meet the higher need estimate explored in the modelling and again, if greater reductions in water use can be achieved or further options brought forward, there is potential for more water to be transferred to other regions.

Water Resources East
The East faces significant pressure and has little surplus water available. Our modelling shows that the amount of water needed is equivalent to all the new supply options selected in the company WRMPs – in this case Anglian Water, Essex and Suffolk Water, Affinity Water, Severn Trent Water and Cambridge Water – but more ambitious reductions in water use and potentially additional capacity is necessary to meet the higher need estimate. Water Resources East's focus will be on reducing the demand for water by all users and increasing the amount of water available through new water resource options and transfers. Exploring the potential for schemes that benefit other water users is also a priority given the high level of demand from other sectors in this region, particularly agriculture.

Water Resources South East
The South East faces the greatest pressures on public water supplies. If surplus water can be made available, the region will still need to develop options to supply more water, equivalent to all the new water resource options and transfers selected in company WRMPs – in this case Thames Water, Southern Water, South East Water, Affinity Water, SES Water and Portsmouth Water. This is as well as achieving ambitious efficiency reductions. If it can't access the surplus water, then demand in the region will need to be reduced further or further resources developed. Water Resources South East needs to track progress on demand management particularly closely because, if savings are less than expected, it could develop a large shortfall which may reduce resilience, limit progress on environmental improvements or lead to more frequent use of drought measures.

West Country Water Resources
The West Country sees relatively modest pressures. However, these are more significant when viewed as a proportion of the water supplied in the region. It has a significant surplus in parts of the region and if this can be used to meet the pressures faced by the region, the options in the company WRMPs – in this case South West Water, Wessex Water and Bristol Water – will deliver the extra water needed. West Country Water Resources' priority is to make the region more efficient by achieving the ambitious reductions in water use and leakage; and to explore the potential to transfer water to other regions – particularly the neighbouring South East.

Progressing strategic options

Work is already underway to explore a number of the strategic options that will be needed to meet the nation's future needs, including new water resource infrastructure and transfers already identified in company Water Resources Management Plans.

Up to £469 million of funding is available between 2020 and 2025 for water companies to progress this work with the support of RAPID – the Regulators' Alliance for Progressing Infrastructure Development – a team made up of experts from the Environment Agency, Ofwat and the Drinking Water Inspectorate. RAPID's work will be co-ordinated with that of regional groups and the National Framework.

without reservoir storage, such as direct river abstractions. "In other words, longer transfers have a greater chance of matching locations where water is available with locations where water is needed in a given drought situation."

When exploring transfers regional groups should: consider the potential to make them reversible so that they can increase the resilience of both parties; be clear on how transfers would be used during droughts, including when one or both supplier or receiver is implementing drought management tools; and work with regulators' alliance RAPID (see p18) to make sure planned transfers are feasible and that any issues are carefully managed.

Transformative change

The National Framework is not a plan for business as usual. Alongside known changes such as that population will grow, policy choices have been built in – including on what level of resilience to drought is acceptable and to reflect the government's commitments to the economy and the environment. This means the aim is not just to meet the pressures and keep a steady state, but to meet the pressures and improve the environment by reducing the impact of water abstraction.

Jean Spencer, who independently chairs the framework's senior steering group, summarised: "The framework provides a strategic direction to long term water resource planning built on a shared vision to leave the environment in a bet-

TIMELINE OF NEXT STEPS

Date	Activity
March 2020	National Framework published, and regional groups set out their initial statement of regional water needs
July 2020	Regional groups publish the approach they will take to developing their plans.
February 2021	Regional groups update their statement of regional water needs
August 2021	Regional groups share their draft plans to ensure alignment.
January 2022	Informal consultation on draft regional plans
August 2022	Regional groups publish final draft regional plans
September 2023	Regional groups publish final regional plans

WRSE: FUTURE WATER REQUIREMENTS FOR SOUTH EAST ENGLAND

TABLE 1: FUTURE PUBLIC WATER SUPPLY PROJECTIONS 2025 TO 2100

Category	Time period	2025	2030	2040	2050	2070	2100
Public Water Supply - Distribution Input	Annual	4637.4	4686.6	4838.5	5015.2	5262.8	5537.1
Baseline amount of water available	Annual	315	-86.6	-321.0	-519.1	-806.7	-1143.2
Environmental protection	Annual			-273.7	-273.7	-273.7	-273.7
Drought resilience	Annual			-210.0	-210.0	-210.0	-210.0
Net resources available	Annual	315	-86.6	-804.7	-1002.8	-1290.4	-1626.9
Public Water Supply - Distribution Input	Summer	5246.5	5308.9	5498.2	5714.6	6038.4	6413.4
Baseline amount of water available	Summer	515	50.2	-221.5	-458.0	-818.0	-1247.5
Environmental protection	Summer			-273.7	-273.7	-273.7	-273.7
Drought resilience	Summer			-210.0	-210.0	-210.0	-210.0
Net resources available	Summer	515	50.2	-705.2	-941.7	-1301.7	-1731.2

Please note the figures in the table are in million litres per day (Ml/d)

TABLE 2: FUTURE NON-PUBLIC WATER SUPPLY PROJECTIONS 2020 TO 2100

Category	Time period	2025	2030	2040	2050	2070	2100
Spray irrigation		26.81	28.64	32.30	35.964	43.29	54.28
Other agriculture		16.61	16.73	16.98	17.22	17.72	18.45
Power		29.18	30.21	32.27	34.34	38.47	44.66
Paper and Pulp		33.84	34.51	35.83	37.16	39.82	43.80
Chemicals		1.81	1.87	2.00	2.13	2.39	2.77
Food and Drink		1.23	1.28	1.38	1.48	1.68	1.97
Other Industry		15.67	15.60	15.46	15.32	15.03	14.60
Private Water Supply		6.46	6.38	6.22	6.06	5.73	5.25
"Other" non-PWS sectors		25.27	25.27	25.27	25.28	25.29	25.30
Total Non-PWS input	Annual	156.88	160.49	167.72	174.95	189.40	211.08
Net resources required	Annual	-3.61	-7.23	-14.45	-21.68	-36.13	-57.82

Please note the figures in the table are in million litres per day (Ml/d)

According to Water Resources South East (WRSE), the total additional water needed by all water users in the South East region is projected to be just over 1 billion litres per day at 2050 and almost 1.7 billion litres per day at 2100.

The regional water resources planning group, funded by Affinity, Portsmouth, SES, Thames, South East and Southern Water, published current projections of *Future Water Requirements for South East England* last month. This sets out the challenges facing the region; its forecast of how much additional water will be needed between 2025 and 2100 to secure supplies for the public water supply and other major users; and options identified so far to meet these needs.

The report found 5bn litres of water a day is provided for PWS at present; the amount of surplus water available in the region for PWS will drop to 315m litres ter state than we found it, improve the nation's resilience to drought, minimise interruptions to water supplies for all users of water and support growth while underpinning a thriving economy."

Consequently, there are various elements of what amount to transformative change about the National Framework:

Regional planning – Regional plans, rather than water company specific Water Resource Management Plans (WRMPs), are very much the focus of the work. WRMPs are considered alone to be "unlikely to deliver the right strategic solutions for the nation as a whole. By putting aside company boundaries and considering the needs of the whole region – including other water users – and how these needs fit with the national picture, we can deliver the step-change in resilience and environmental protection required."

Multi-sector – WRMPs cater for households and businesses supplied by water companies through PWS. The Framework envisages more collaboration between water wholesalers, retailers and New Appointments and Variations, to better align the approaches taken to household and non household PWS. But it goes beyond this, to factor in water directly abstracted by agriculture and industry as well. Such abstractors face many of the same challenges as water companies, and it is believed that considering PWS and non PWS needs together will be more efficient and unlock new solutions. Understanding how water demand is likely to change outside the water industry is low and needs priority attention. EA chair Emma Howard Boyd described considering the needs of all users together as "an opportunity to rethink water and help everyone make decisions on water supplies that can deliver the resilience and environmental enhancement we all want to see".

Collaboration – While conducted under the auspices of the Environment Agency, the work has been a huge collaborative feat. The senior steering group brings together leads from each of the five regional water resource planning hubs; direct representatives of the larger water

Longer transfers have a greater chance of matching locations where water is available with locations where water is needed in a given drought situation.

a day by 2025 and by 2050 the deficit could reach 1bn litres a day, rising to 1.6bn litres a day by 2100. Table 1 shows this is more detail, including the impacts of increasing drought resilience and environmental protection. WRSE explained the differences with the National Framework PWS need by 2050 (1,765m litres a day) saying the Framework uses different (more ambitious) planning assumptions.

Non PWS uses 153m litres a day at present in the south east; this is estimated to rise only slightly to 175m litres by 2050 and 211m litres by 2100. Table 2 shows this is more detail. Table 3 sets out the overall anticipated resource requirement for the south east, taking both PWS and non PWS into account, under one scenario.

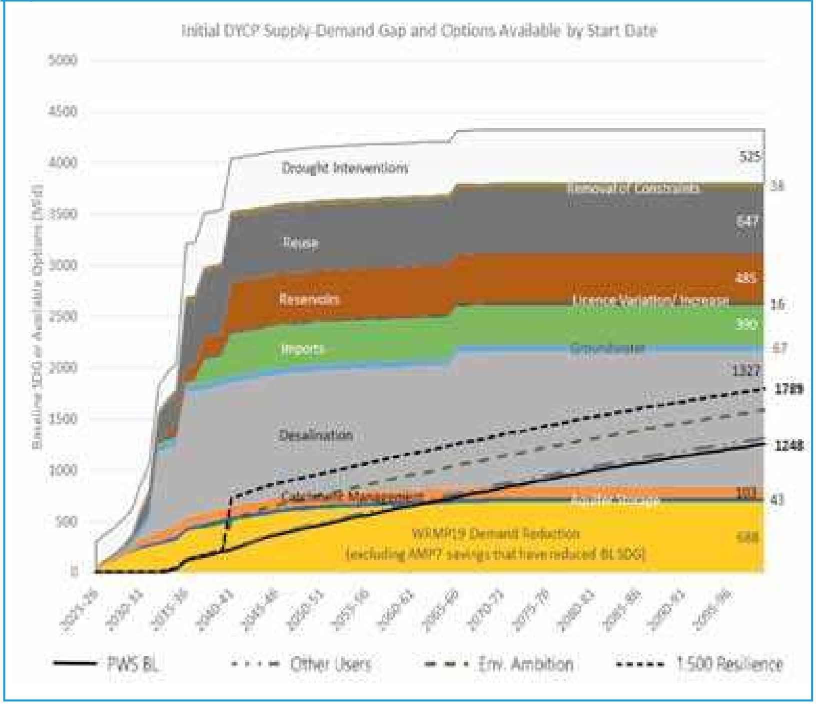
The chart shows the amount of water that could be saved, imported or generated within the region using different options. The dotted and dashed lines show future water requirements. WRSE said: "What this shows is that we have a number of options in the South East to meet the anticipated future challenges, including the needs of other water users, increased environmental ambition and the extra water needed to achieve 1 in 500-year resilience to drought."

WRSE said the publication was the first step in the development of a multi-sector, regional resilience plan and invited others to put forward options for consideration in that plan by 17 July. This included third party options, where others may have water available or be able to make demand reductions to include in the plan.

TABLE 3: TOTAL FUTURE WATER SUPPLY PROJECTION FOR SOUTH EAST ENGLAND FROM 2025 TO 2100

Category	Time period	2025	2030	2040	2050	2070	2100
Total demand	Annual	4794.3	4847.1	5006.3	5190.2	5452.2	5748.2
Net resources available	Annual	311.4	-93.8	-819.2	-1024.5	-1326.5	-1684.7
Total demand	Summer	5403.8	5469.4	5666.0	5889.5	6227.8	6624.5
Net resources available	Summer	511.4	43.0	-719.7	-963.4	-1337.8	-1789.0

OPTIONS FOR MEETING THE SUPPLY/DEMAND GAP



companies and those with resource challenges; Water UK; Defra and the Welsh Government; the EA and Natural Resources Wales; the DWI; Ofwat; experts from the Universities of Oxford and Manchester; Blueprint for Water; Energy UK; the National Farmers Union; the Canals and Rivers Trust; and the Association of Drainage Authorities.

Drought resilience – The National Framework considered different levels of drought risk: the 1:200 baseline and the 1:500 level the National Infrastructure Commission discussed. Although it will need to be formally locked in by the government when it publishes its National Infrastructure Strategy (this was expected last month but has been pushed back to later in Spring), the framework plans for increased drought resilience by the 2030s so Level 4 restrictions are expected to be implemented no more often than once in 500 years on average – with an annual chance of no more than 0.2%, or a 5% chance of these restrictions being used over a 25 year period. The report cautioned: "Increased resilience should not rely on the increased use of drought measures to boost supplies by, for example, allowing additional abstraction during drought, where this is environmentally damaging. Drought permits and orders should be used less frequently in future, particularly in sensitive areas." Moreover: "Water companies in regional groups should revisit their planned frequencies of use for non-essential use bans in the light of the planned increase to drought resilience, recognising the benefits to customers if frequencies reduce. The planned implementation of non-essential use bans should not become more frequent to achieve the reduction in the use of more extreme restrictions such as standpipes and rota cuts."

> **An overall reduction in abstraction of between 1,200 million and 2,200 million litres per day may be needed by 2050.**

Environmental enhancement – Regional plans should seek to pro-actively enhance the environment and increase ambition, under the framework. This includes meeting the water requirements of sites specially protected for nature conservation; restoring sustainable levels of abstraction to freshwater and wetland habitats of principal importance, particularly chalk rivers and other sites identified as priority habitats for restoration; restoring river flows to support the recovery of fish populations; and embedding the principle that new development should result in net environmental gain. The framework pointed out regional groups will need to work closely with the environmental regulators and green groups to meet needs in each area, and ensure plans are in line with water sector net zero commitments (see p20). It said the work should consider specifically: where the largest abstraction recovery might be required; how the greatest environmental benefits can be realised; what the opportunities are to access more water without compromising ecology; and the potential to reduce reliance on direct river abstraction at low flows by working across sectors to make better use of stored water. The assessment of water needs from current water company plans assumes that around 700 million litres per day of water that comes from unsustainable abstractions will need to be replaced by other means between 2025 and 2050. However, the National Framework indicated more will need to be done; modelling suggested an overall reduction in abstraction of between 1,200 million and 2,200 million litres per day may be needed by 2050. More work needs to be done to refine this.

Adaptive planning – The framework cautioned that uncertainty risk must be carefully managed. In particular, planning for ambitious reductions in PCC and leakage introduces a risk that those reductions are not realised as planned. It advocated close monitoring and the identification of "clear decision points where alternative approaches need to be brought in". It added: "This adaptive planning approach should not be limited to demand. Regional groups should also track other sensitive drivers of water need including population, climate change and the need for environmental improvements to make sure that their plans remain up to date."

Next steps

Each of the five regional groups will now produce a plan providing a more detailed picture of the future water resource needs

A `BEST VALUE' FRAMEWORK FOR WATER RESOURCES PLANNING

UKWIR, the organisation which manages and delivers a strategic programme of research projects to drive transformational change in the water industry, will produce a new framework for the sector to develop 'best value' water resources plans. In essence, this means plans that deliver wider benefits to customers, society and the environment over the long-term. This is a marked shift away from the `least cost' approach that has been required in the past.

In collaboration with water companies, regional groups and RAPID, UKWIR will develop a legally robust decision-making framework which will then be incorporated into the guidance for water companies and regional groups to use as they develop their plans.

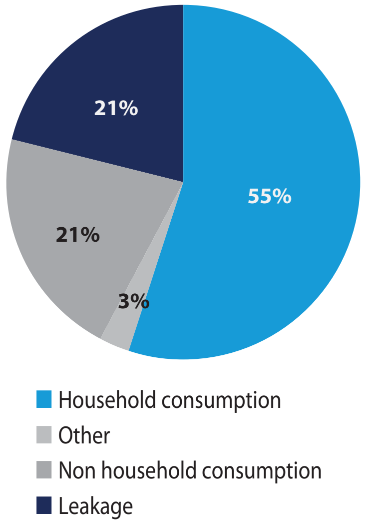
South West Water's Paul Merchant is the programme lead for UKWIR. He said: "What this means in practice is that the regional plans must be developed in a consistent way to assess the value delivered by the different options they have available to them, beyond cost alone."

This will include considering if the option:
- could become redundant if things change in the future
- plays a role in a range of future scenarios that we might face
- will deliver net-gain for the environment
- will increase resilience
- has benefits that outweigh the costs
- meets the environmental assessments required.

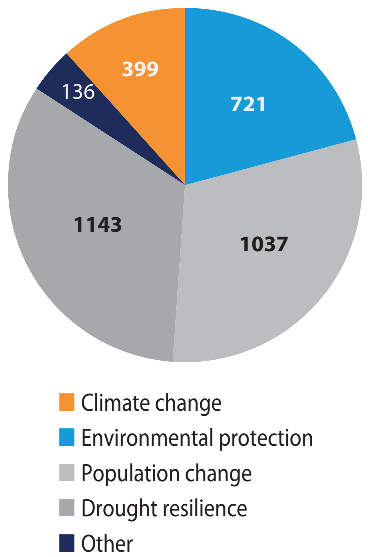
Merchant explained: "If we don't develop a best value framework there will be inconsistencies across the regional plans, and indeed water company-specific plans, which could result in them being misaligned and delaying the delivery of important strategic schemes, particularly those that cross different regions in England. This could reduce the resilience of our water supplies and increase the risk of restrictions during a drought which will impact on society, the economy and the environment."

UKWIR said the development of a common framework will also benefit companies outside England by enhancing their decision-making process and supporting the development of schemes that may cross national borders. It will publish the framework in July 2020 so it can be used to help develop the draft regional plans which will be published in August 2022, and will be used to directly inform the water companies' statutory draft Water Resources Management Plans which will be published later that year.

AVERAGE NATIONAL PWS WATER USAGE 2018-19



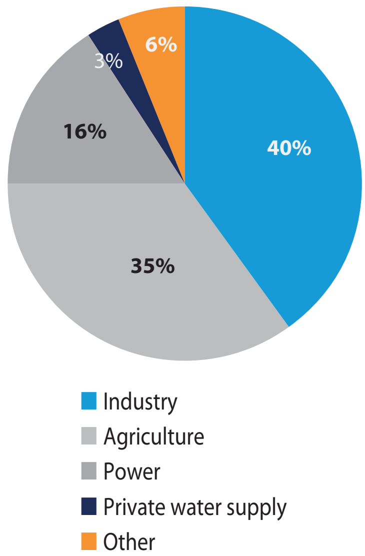
CONTRIBUTION OF EACH PRESSURE ON PWS TO 2050 ADDITIONAL NEEDS



of its region, setting out the type and scale of the challenge under a range of future scenarios. Over the coming years (see timetable, p14), each will devise a preferred plan for the region – delivered through a set of options that present the best value to customers, society and the environment, rather than simply least cost (see box). These will inform WRMPs and business plans. Together, the five regional plans must add up to meet the collective national need.

The National Framework team appreciated the scale of the task for regional groups, and said it would support them with priority work as follows:

BREAKDOWN OF WATER USE NATIONALLY, EXCLUDING PWS AND NON CONSUMPTIVE SECTORS (EG HYDROPOWER)



- Supporting the development of a clear long term destination for environmental improvement and an agreed approach to getting there. The team will work with Natural England in particular in this regard as well as develop with the regional groups an agreed timetable for sustainability changes that will allow longer term planning and flow through WINEP into the plans. As part of this, the Environment Agency will also work with Defra on a two-year research project aimed at improving understanding of environmental water needs. In parallel, the National Framework team is developing a methodology for including natural capital valuations in decision making as part of water resources planning.
- Improving the sophistication of its models and evidence, particularly to support decision making around the right mix of options from a national perspective.
- Drought measures – The report said regions must not increase their drought resilience at the cost of the environment. "However, we recognise that understanding the environmental risk of each drought measure is complex. We therefore want to work with the regional groups and water companies to improve this understanding. Our intention is that drought permits and orders are used less frequently in future, particularly in sensitive areas."
- Developing technical methodologies that improve risk management and decision making.
- Improving the links between abstraction management locally and strategic planning regionally through the catchment based approach.
- Addressing the remaining barriers to collaboration identified through its work.
- Longer term work around reviewing regulatory frameworks and the roles of different organisations in planning. "One of the alternatives we will work with RAPID to scope is one that sees a deeper role for the national framework. This would see it scoping the detailed needs of the water industry, removing some of the planning function from the water companies themselves. We will also consider the case for broadening the scope of regional plans beyond water resources. This could improve links with the new wastewater and drainage plans and, for example, closer links with flood management." TWR

DROUGHT RESPONSE LEVELS

- **Level 1** responses include increased communications with customers and low risk winter drought permits that allow additional water to be taken from rivers or reservoirs.
- **Level 2** responses include temporary use bans, formerly known as hosepipe bans, and low impact drought permits to allow increased abstraction in summer.
- **Level 3** actions include restrictions on non-essential water use for businesses and drought permits that carry higher environmental risk to allow additional abstraction.
- **Level 4** restrictions include standpipes and rota cuts – impractical and the last resort.

One of the alternatives is a deeper role for the national framework. This would see it scoping the detailed needs of the water industry, removing some of the planning function from the water companies themselves.

RAPID PROGRESS

Paul Hickey has moved across from working on the National Framework to head up RAPID, to ensure strategic water resource schemes get shovel-ready by PR24.

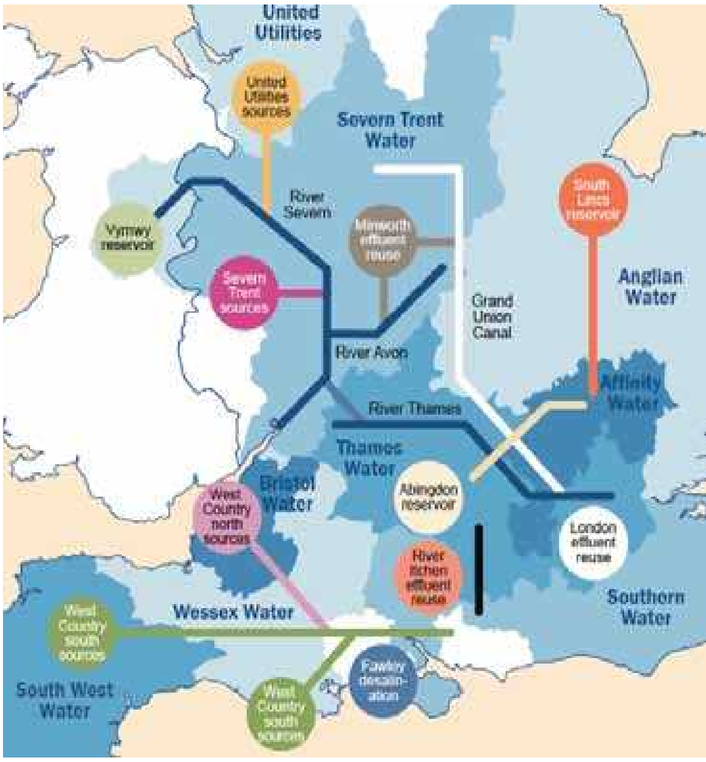
In his former role as deputy director of water resources at the Environment Agency, Paul Hickey played a key part in developing the National Framework – building on work led by Jean Spencer for Water UK and more recently the National Infrastructure Commission. The National Framework team has just mapped out England's strategic water needs across all sectors through to 2050, and will work with regional water resources groups on solutions tailored to the needs of each region (see article, p12).

Hickey is perfectly positioned, then, to serve as managing director of the Regulators' Alliance for Progressing Infrastructure Development (RAPID), which will help facilitate strategic supply side water infrastructure schemes – a role he has just been seconded to for two years. It is right, he confirms, to see RAPID as a partner to the National Framework; the Framework and the regional groups will identify infrastructure schemes that have the potential to help meet future water needs, and RAPID will identify how to do "practical stuff" like coordinate, facilitate and regulate the largest and strategically most important of them. He adds a caveat that "it's important we don't lose sight of demand management," pointing out there is activity outside of RAPID afoot to push that agenda too.

Look to the future

While Hickey fully appreciates the scale of the challenge ahead – the National Framework identified a need for 4,700Ml/d extra capacity by 2050 for public water supply and other users – he is excited by the ambition on environmental enhancement and drought resilience the Framework has built in, and the opportunities for new ways of working it facilitates. "This is a period of transformation," he enthuses, referencing the new regional rather than water company specific approach, and collaborative, cross sector working. "It's multiple sector and multiple benefit," he continues, and he believes it is set to deliver more for society than the old ways of working. This chimes with social contract conversations in the sector and Ofwat's new strategy which elevates public value and the environment as regulatory priorities.

"All regional groups are working towards delivering this new integrated agenda. WRE is most advanced," Hickey offers. One of the schemes regional group Water Resources East is developing and RAPID will be working on is a potential new reservoir in Lincolnshire, the Future Fenland Adaption Strategy. As well as water resource benefits, this is being crafted with a host of other benefits in mind – from flood alleviation and navigation, to regional regeneration.



Strategic schemes identified at PR19

So Hickey's stance is, in contrast to the often "gloomy" mood music about the scale of the challenge ahead: "Let's look to the future." At present of course, everyone is heads down trying to cope with the Coronavirus situation. But once we are through this, he urges everyone involved to seize the rare opportunity where "the planets are lined up" to support development, and there is a "coalition of the willing" featuring government, regulators, water companies and many other stakeholders eager to rise to the challenge.

Shovels at the ready

RAPID is set to play its part. A collaboration between three partner regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate – the structure is innovative and has been formed with the express intention of speeding up the regulatory side of, and addressing barriers to, strategic infrastructure development to provide a more resilient future (see box).

Under Ofwat's PR19 final determinations, £469m of customers' money has been set aside for the planning and pre-construction delivery of a number of strategic water supply schemes, to get them so-called "shovel ready" for PR24.

Hickey accepts the timetable is tight, but argues large complicated projects such as those being considered take a long time to actually deliver, so they need to be ready to fund and get going on at the next price review. There's a balance to be struck, he says, between pushing ahead with implementation because of the clear need to act, but also "taking people with us".

Immediate priorities

One of RAPID's primary roles is to create or adopt a regulatory and commercial framework for joint (multi-company and or multi-sector) infrastructure projects. There's an awful lot we could unpack there, including: how to finance multi-stakeholder assets; commercial arrangements for water trades; how competition could be used to increase cost efficiency and how collaboration squares with that; legal and licensing requirements; and managing water quality issues. Hickey says RAPID will publish in the coming few weeks a Forward Programme setting out its priorities, but gives a sneak peak at what the team will be focusing on:

- Work to coordinate the various strands of activity including between the National Framework, regional groups and RAPID's process for progressing strategic schemes.
- Tackling priority policy issues, which will include biosecurity, no deterioration, and finding "an equitable framework to finance and enable these schemes" – RAPID has recently let a piece of work to look at potential commercial frameworks.
- "Taking the opportunity to do really good things for the environment". This includes building in a "paradigm shift" in how projects are evaluated, moving from least cost to best value (see p16). This is a "once in a generation opportunity," he enthuses, offering the example of taking the opportunity to help chalk streams or re-plumb parts of the network when evaluating options to build a new reservoir. Looking beyond individual projects, Hickey says he will also have an eye to "how to hardwire that [best value] into the statutory water resources policy framework".
- Making time "to listen; to ask, 'what do you think the issues are'?" RAPID has committed to 'responsive regulation' – to listen to and work with other stakeholders in the space. Hickey comments that there are, for example, "sometimes perceived barriers as well as real ones" that have the potential to really impact progress. He offers the examples of perceived tension between collaboration and competition rules; and whether commercial water transfer arrangements would actually hold up in a drought situation. "Would a company actually share? Could a recipient company depend on a transfer?" RAPID will seek to mitigate such concerns.

Gates and a golden window

RAPID's task will be the opposite of easy given the scale, cost and controversial nature of some of the strategic schemes it will be working to facilitate. Just taking a single example – that the National Framework modelling has recommended there will be a need for 100km+ long transfers as well as more local ones to provide resilience to drought – there are, Hickey volunteers, "clear tensions with that". Among them will be concerns about carbon emissions given the water sector's net zero ambition, and water quality issues. He anticipates "healthy challenge" between the RAPID partners as well as from third parties, given "each regulator has different duties and priorities".

Meanwhile RAPID will also oversee (question and monitor rather than project manage) project progress over time, and interface with the industry through the gated process Ofwat set out at PR19 for firms to access the £469m funds.

In the running for that are 17 schemes currently, chosen from WRMPs. Hickey explains some are preferred options, other still either/or options, and some dependent on others progressing. The 17 would provide over 1,500Ml of capacity, which is above the 1,300Ml recommended by the NIC.

Addressing concerns about Ofwat 'picking winners' (and possibly getting it wrong), there is a gated process to ensure multiple projects can be scrutinised and reassessed as they progress. Some of the current schemes are therefore unlikely to come to fruition. Hickey is clear that rather than a capacity shortfall necessarily resulting, there is a mechanism to build new schemes in to RAPID's schedule. He characterises RAPID as "curious and open minded" and explains it had let a piece of work to model the best approach from here – "what schemes, what sequence".

The team will "look at this as a programme rather than as individual projects" and is seeking a balance between "a sense of pace" to get to construction ready for PR24, but also "not to close doors to options". "So we need energy around exploring the 17 schemes and a mechanism for additional schemes to be included." A wider point is that the whole system needs to be "much more adaptive going forward" so, for instance, more supply side capacity could be developed if demand management ambitions fall short in practice.

There are five gates (see table). There is also an accelerated schedule, which Hickey explains is solely for the Southern Water Hampshire Zone, where the Environment Agency has imposed a licence change to prevent damaging abstraction on the River Itchen related to the Habitats Directive. There is a legal agreement to have an alternative strategy in place by 2026, so time is of the essence. Options include desalination, water reuse or a new reservoir and transfer from the West Country.

Time is of the essence more widely, too. Hickey believes the next six to 12 months are crucial because they come at a good time in both the price review and WRMP schedules; there is, he suggests, a "golden window in each cycle" when the time is right to act, and that is pretty much now. TWR

REGULATORY TRAILBLAZING

RAPID-style formal regulatory cooperation is new. Hickey calls it a "regulatory experiment" that is "really culturally exciting" to be a part of. If it proves successful, it could in fact be a "trailblazer," he says, given there are other challenges that collaborative, joined up regulation could help address.

Around 15 will staff join Hickey on the RAPID team, most seconded from the three sponsor regulators, though he points out it would be "wrong if this was a little bubble floating around" – so there is regular engagement with governments, regional groups, and other stakeholders.

Terms of reference approved in December envisaged RAPID will exist as a programme for four years. The 2019-20 budget was £2.93m. There is a board, chaired by Ofwat's chief executive and formed of senior representatives from the sponsor regulators.

RAPID GATES

Gate	Gate start (submission) dates	Accelerated gate start (submission) dates
Gate 1	July 2021	September 2020
Gate 2	October 2022 (aligned with draft WRMP24 consultation period)	September 2021
Gate 3	Summer 2023 (aligned with final WRMP24 publication)	June 2022
Gate 4	Summer 2024	April 2023
Gate 5 (if required)	Winter 2025	Autumn 2024

Environment Agency

STARTING DOWN THE PATH TO NET ZERO

Water UK hosted Ricardo and Mott Macdonald to present the first phase of their work to get water to net zero emissions by 2030.

About a year ago, the water sector collectively took the bold decision to commit to a net zero carbon by 2030 goal, as part of the Public Interest Commitment. Water was the first whole sector to make the pledge, and consequently it is in the vanguard of working out how to apply such a commitment to a whole industry.

Baseline emissions

In its favour is the fact that unlike many other industries, it has been compiling detailed operational emissions data from all companies for about ten years. This provides confidence around the ambition and shows the sector has already made great strides.

There was a 47% reduction in greenhouse gas net operational emissions between 2011/12 and 2018/19, despite upward pressures from population growth and regulations. In 2018/19 operational emissions were 2.6MtCO2e.

To support the reduction over the decade, water companies have:

- Increased their own renewable electricity generation by 43% (333GWh increase, from 770 to 1100 GWh per year).
- Increased exports of renewable energy to the national grid - 260% increase in renewable electricity exports (~280GWh).
- Implemented new technologies to create biomethane from sewerage wastes and injected this into the national gas network for use in homes and businesses. Over the past four years the industry has injected approximately 35,000m3 of biomethane into the grid mitigating 68,000 tonnes (CO2e) of emissions.
- Purchased green electricity from wind farms and other renewable schemes (>2000 GWh – equivalent to powering all the households in the UK for around a week.

Sector-wide framework

Water UK commisioned consultants Ricardo and Mott Macdonald to create a framework to chart a sector wide net zero trajectory to 2030. They started by defining the boundaries, and settled on the operating emissions from appointed water businesses. This is in line with reporting to date and, while that importantly excludes capital emissions, Ricardo's Ian Behling said other emissions may be brought into the portfolio as progress is made. Moreover, individual companies are free to go beyond operations, but this scope is acceptable sector wide so is a good place to start. The framework will seek to put the sector's 2030 operational emissions in balance with mitigation measures.

Ricardo and Mott Macdonald's initial analysis suggests emissions could fall from 2.4MtCO2e in the baseline 2018-19 year to 1.1MtCO2e by 2030, with upward pressures from population growth compensated for principally by 100% green tariff purchases and decarbonisation of the grid (see chart). The bulk of the sector's carbon emissions in the baseline year are associated with grid electricity emissions for pumping and the like; for methane and nitrous oxide, process emissions are significant and need further work to understand.

Decarbonisation options

A Water UK event last month, to present the work done so far, marked the end of phase 1 of this monumental project. Phase 2 has just begun, at the end of which the consultants plan to publish a report containing a route map and decarbonisation plan. Mott Macdonald's Priyesh Depala explained there is a hierarchy of options:

- Tier 1, emissions reduction – energy efficiency and emissions avoidance
- Tier 2, netting off – from renewable energy purchase and production
- Tier 3, offsetting – carbon insets and offsets.

Depala was clear tier three should be considered the final option. "This is not an offsetting challenge – we can't plant our way out of this," he said.

Phase 3 (around July) will involve sharing tools and guidelines for individual companies to use in developing their own corporate strategies.

There is clearly a lot yet to be worked out, but one clear message from the day was that "acting early has huge benefits," Behling emphasised. Some things simply take time to deliver; more time also allows for technology gaps to be identified and research conducted; and for water companies to get in early before competition for green tariffs and offsets ramps up.

Crucially, it is also cheaper to act earlier. The whole project has not been costed yet. TWR

TRAJECTORY TO 2030

BREWING NEW IDEAS

An update on Ofwat's progress to develop an Innovation Fund and galvanise strategic thinking on innovation in the sector.

Published in December as part of the final determinations package, Ofwat's plan for *Driving transformational innovation in the sector* was initially engulfed in the wider PR19 conversation. But four months on and senior director of strategy and planning John Russell says he is very encouraged by the response from the sector. He recaps that Ofwat's message is innovation is "an essential thing for the sector, not a nice to have" and that while there are already pockets of inspiring activity, "we don't see an overarching sense of striving for innovation in everything we do" and "we want to drive transformational change".

December's decisions confirmed an Innovation Fund will be created, funded by customers to the tune of £200m, with each company's contribution proportionate to its revenue. Ofwat settled on an annual competition running for four years, rather than the other option consulted on – rewards at PR24 for the successful rollout of new ideas. It said the competition would give more certainty and be more effective and less complex. Beyond the Fund, the other strands of the July consultation were also confirmed, namely that the sector is expected to establish an innovation strategy including a Centre of Excellence to advance the cause. So what's happened since?

Innovation Fund

Clothilde Cantegreil, principal and innovation lead, says Ofwat remains on track to pilot a competition at the end of this year. This will be open to the 17 statutory water companies and New Appointments and Variations, with explicit encouragement of collaborative bids (with each other, supply chain partners, interests from outside the sector and so on).

As noted, the funded innovation must be "transformative" and the regulator said "focused on addressing long-term strategic challenges". It came up at Water UK's net zero carbon event that the fund could, for example, be used to further that mission (see p22). Cantegreil clarifies that while Ofwat expects to fund a number of large projects, that doesn't mean smaller ones, or quick wins, will be left out in the cold. "We are looking to be quite flexible," she comments.

Since December, the team has been working on outstanding policy matters. It plans to consult on these early this financial year. Key issues include developing further customer safeguards, match funding (one point being smaller organisations do not have the financial clout of larger ones), clawback arrangements if funds are misspent, managing Intellectual Property rights, and the process for reviewing the competition.

On funding, Russell stresses that while Ofwat has been clear that it expects companies to fund a portion of project costs, there is "quite a lot of money out there" from other sources such as government and corporates and part of the picture might be that the "sector needs to get smarter on how to access this extra money".

The second strand of work has concerned setting up a process for appointing an organisation to help design and run the competitions. Ofwat intends to run a tender in summer. Russell says there has been "a lot of interest". Among those understood to have pitched in are the Energy Innovation Centre, which would obviously bring a cross sector dimension. The Ofwat team won't be drawn on the merits of any particular organisations, but Cantegreil cites independence and expertise as desirable characteristics. "Otherwise, we are open minded." Russell adds that given Ofwat is defining innovation broadly "we have to make sure whoever administers it has breadth and is able to grasp what we've been talking about: transformational innovation."

Innovation strategy

While the Innovation Fund has understandably attracted the most attention – the concept is new for water and it is a sizeable pot of money – Russell's view is that the wider innovation strategy Ofwat has called on the sector to produce is "almost more important than the fund itself". He explains: "The fund is a catalyst, not the be all and end all." It is also time limited, whereas a strategy for innovation should be both embedded and enduring. "The sector owning this and where it goes is the most crucial part," he continues. "We're bringing our bit [stimulus funding and faciliation] to the table, but it is for the sector to pick up."

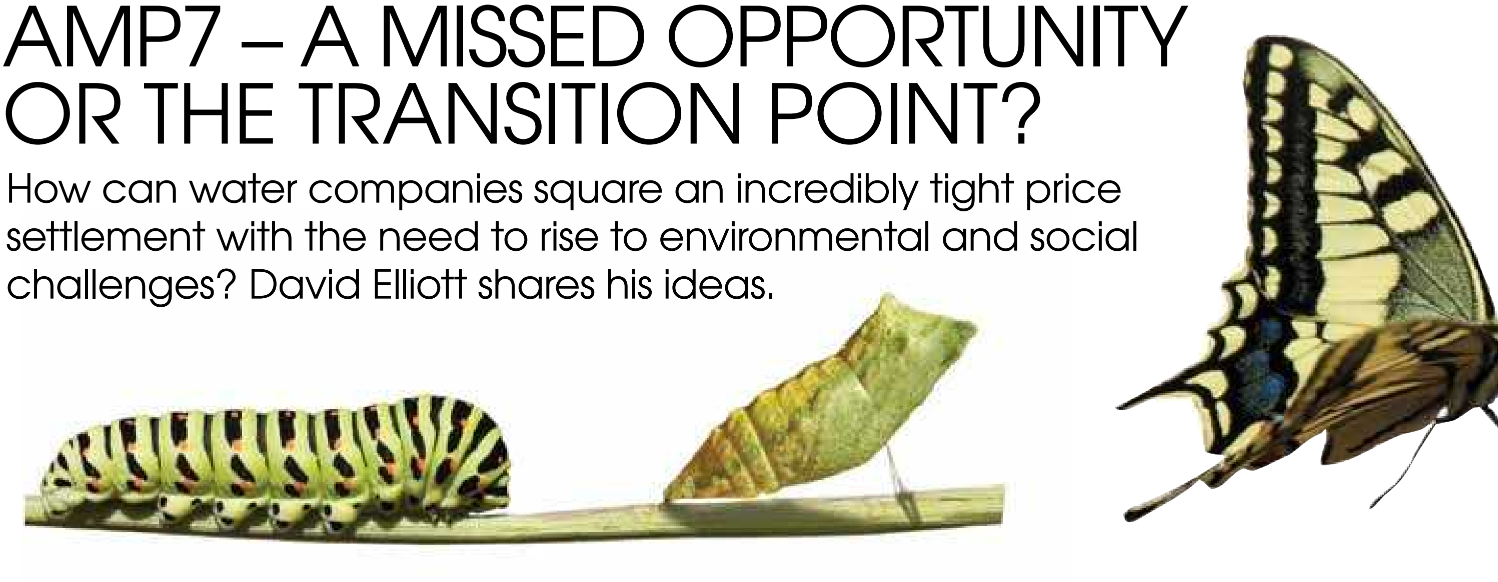
Ofwat has, however, specified that a Centre of Excellence of some kind should be part of the picture. Other, often more competitive, sectors have equivalent bodies, such as the Energy Systems Catapult. Ofwat is keen for water to create what Russell calls an "architecture of innovation" including through open data protocols and an academic framework to support joined up action on shared challenges, like the AMP7 15% leak reduction target. It could also support practical action so, for instance, supply chain companies can test their products and services centrally rather than one water company at a time. Cantegreil says Ofwat is "willing to consider funding architecture through the innovation competition".

The December paper also confirmed Ofwat would trial a 'one stop shop' service for companies and their partners to seek advice or clarification on innovation matters. Russell says it is talking to fellow regulators the EA, NRW, DWI and strategic water resource alliance RAPID (see p20) about this, which suggests it may end up more of a regulatory one stop shop than an Ofwat one stop shop. This would be in keeping with moves for more regulatory joint working. TWR

INDUSTRY COMMENT

AMP7 – A MISSED OPPORTUNITY OR THE TRANSITION POINT?

How can water companies square an incredibly tight price settlement with the need to rise to environmental and social challenges? David Elliott shares his ideas.



We have entered a new era – or in water terms a new AMP – and apart from some discussions pending with the Competition and Markets Authority, company plans are mapped out for the next five years. This will be a challenging time. Less cash and tough performance commitments could result in companies pulling up the drawbridge and hunkering down to try to reduce costs. However companies can't afford to ignore rising concern over social and environmental challenges, or the backlog in asset maintenance of both built and natural assets. Five years is half a decade, and any loss of impetus on dealing with these cross cutting issues could stall progress for nearly a decade.

So what is to be done? Below I outline seven key strategic shifts for AMP7 that the water community needs to consider if we are to make progress on challenging outcomes.

1. Whole system collaboration

The prevailing model in the water sector is 30 years old and concerns the water utility. It was developed at a time when access to capital was a concern, to deliver the major investment needed to modernise water and public health assets to comply with European regulation. It is broadly a consumer supplier model, with water (potable and waste) as the commodity to be transacted. The utility 'piece' of water has been separated from the rest of the natural system and customers asked how much they were willing to pay companies to make problems go away.

Apart from a shift over the last few years to address broad customer sentiment, the holy grail in terms of customers has been to achieve zero contacts; for water services to be accessible and affordable enough, and resilient enough, that customers never had to contact their company. There are a number of serious flaws in this model in the context of the challenges today:

- Customers have no discernible contract with water companies. A contract implies a two way relationship where both parties have a part to play.
- There is no resilient relationship to fall back on when times get tough -this was most evident during the run up to the last election when support for renationalisation of water services was high. We shouldn't delude ourselves that this sentiment has gone away.
- The commodity status of water is reinforced by language and behaviour. 'Supplier', 'consumer', 'water bills', 'retail competition' has been the language that the customer has been most exposed to. I doubt many customers would know what WINEP (Water Industry National Environment Plan, if you need reminding) stands for - yet this is a major component of the bill as mandated investment to improve the environment.

In AMP7, Wessex Water will be the single largest private investor in the environment in its region. For a number of years it has pursued an alternative approach: a catchment based water model, that seeks to make trade offs between asset solutions and land based solutions delivered by others, through an open and transparent B2B market. This is intended to optimise outcomes for the money available.

> **Five years is half a decade, and any loss of impetus on dealing with these cross cutting issues could stall progress for nearly a decade.**

The early signs are encouraging and a marked improvement on the traditional water utility model. Wessex's independent trading platform, EnTrade, has allowed for system scale collaboration. What started as a collaboration on water quality outcomes with farmers is evolving rapidly to include other major (and increasing tradable) benefits, such as less soil erosion, improved biodiversity, and less carbon – even sequestration.

However, more is to be done to involve the other bodies who utilise and invest in the water environment (more than 50 of them). In AMP7, Wessex is shifting to an Open System model, which brings those excluded communities, and the knowledge and resources they have, into play to collaborate on challenges. Wessex has created a 'Marketplace for water' starting in its four major catchments, and the collaborative partnerships formed will be key to delivering the wider public health and resilient environment outcomes crying out for attention. This will enable transactions to move beyond the B2B to include B2C communities. It will also allow financial and other

resources to be shared to make faster and more efficient progress on commitments than if Wessex acted alone. There are even opportunities for cross company collaboration through the market place.

The Open System model may also prove a catalyst for a shift in focus away from regulators and towards communities; with the democratisation of water, energy and environmental outcomes creating the "movement" required to achieve key shifts in progress. But how?

2. Green investment and sentiment shift

The state of our climate, our nature and our resilience in the face of the challenges is increasingly THE biggest area of mutual concern that binds water companies and their communities, and it's an opportunity the sector must grasp.

Other than the very few customers who have had to contact their water company (increasingly a positive experience), the prevailing window into the sector is what is reported in the press, which is predominantly about bills and failures.

As noted above, Wessex Water is the single largest private investor in the environment in its region. It operates on a daily basis well within its consented or "contracted" performance. The company goes further by increasingly seeking collaborative ways to maximise environmental outcomes in the way it invests.

Yes, things occasionally go wrong; sewers block or assets fail causing (hopefully) short term detriment. But the sector has a good story to tell in the round, with daily outperformance ensuring 'blips' do not comprise overall outcomes in terms of stripping out nutrients and pollutants from water. And it would be far easier for companies to work with communities to prevent events caused by flushed wipes and the like, if the context was one where communities invested openly in improving the environment through their agent – the water company. There could be a much more productive incentive-based relationship than the pass/fail regulation prevailing today.

3. Customer relationships

The narrative we use about water is incredibly important to the nature of our relationship with customers and the communities. The 'supplier-consumer' narrative is becoming increasingly outdated and reinforces the 'us and them' nature of the traditional relationship. Assessing what services we need to develop through 'willingness to pay' exacerbates that further – it implies "what will you pay us to sort the problem out so that you don't have to?"

The challenges we face are systemic and significant enough to make supply side solutions alone too little too late, unless those solutions are designed to support customers' increasing willingness to act. We need a relationship that encourages customers to work with us by creating pathways for them to act. We need to assess what assets and services could maximise demand side opportunities.

This will require the sector to give much more information to customers about the part they can play, and to build trust with customers by being open and transparent about company performance. It may even be that companies can communicate better through organisations that communities trust or regularly transact with. Information and the way it is communicated can build a continually reinforced

David Elliott is the outgoing group chief innovation officer at Wessex Water, and is joining Indepen as a director in May.

positive narrative that is effective at tackling challenges and seizing opportunities across the system.

4. Regulatory relationships

This theme continues when we consider the future of regulation and regulators. Open and transparent information (perfectly achievable in the digital age) and performance are critical to building a relationship where regulators feel confident enough to back off to a point where they are primarily architects, setting direction and pace, and addressing intergenerational challenges.

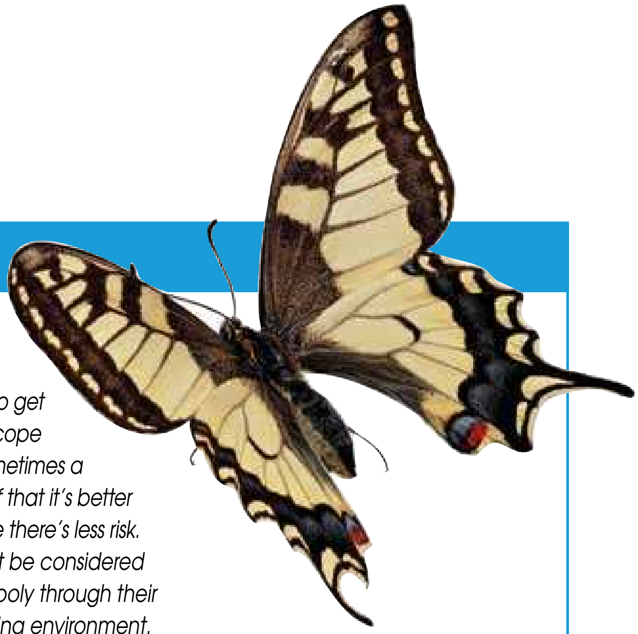
Regulators aren't renowned for their innovation. That's not surprising given much regulation is designed to address what has happened rather than what might be. Regulation likes certainty but the 'might be' scenario likes permission to fail, provided failure is part of the learning process and not a symptom that the evidential bar is too high.

In an open system, innovation can thrive. The challenge for regulators is how do they keep pace with innovation and not throttle it at birth because the demand for certainty and the perfect is incompatible? The answer most likely lies with the regulators' ability to connect and adapt to information as it presents, rather than save interventions to a moment in time every five years.

Which brings me to another odd outcome of regulation: the incentive that prevails is to build an asset and then to make it as 'efficient'

Continued on p26 ›

"The 'supplier-consumer' narrative is becoming increasingly outdated and reinforces the 'us and them' nature of the traditional relationship.



INDUSTRY COMMENT *continued*

as possible by operating it with as little headroom to the contract or consent possible. In markets the incentive would normally be to sweat the assets you have to see what productive gain you can make before considering other interventions, and then chose the next best intervention which may be another asset or a service.

We need a much wider adoption of outcome based approaches, such as catchment permitting currently being trialled by regulators and Wessex Water. AMP7 is the second period of this pilot of smart regulation without any discernible progress on making this approach business as usual. The use of pilots and trials is important in the process of making failure an acceptable outcome of innovation, but only if it then leads to faster adoption and operationalisation. There is a saying in the sector: "We have more pilots than Heathrow Airport and more trials than the Old Bailey." I first heard that saying two decades ago, and it still very much applies today which is a reflection of the size of the challenge.

5) Digital business models

Digital business models are the key to enabling faster progress in an open system, and faster exposure of opportunities. Consider the rapid growth and evolution of businesses built on this principle: Amazon, AirBNB, Netflix to name a few. Even some stalwarts of vertical integrated production are finding their future is more successful through digital channels, such as Apple and Microsoft.

These models are built on the ability to mobilise mass transactions in a very simplistic way, and the rapid prototyping and introduction of new services to fill opportunities exposed. As such you can influence activity and behaviours by acting at a community level across the system, as EnTrade has done.

> **New skills and retraining of the workforce will also be required, as data, information and connections become the means of growth and productive efficiency**

Digital tools will also empower the workforce to make better decisions through better information, enhanced by AI (assuming the data is good in the first place). However to make the most of the opportunities these models present, water companies will need to adapt their business models and regulators will need to adapt to understand the markets that are exposed, rather than simply rely on comparative competition. New skills and retraining of the workforce will also be required, as data, information and connections becomes the means of growth and productive efficiency. This in turn may also see new types of investment come into the sector depending on the appetite for risk and return.

6) Competitors mean opportunity

Water companies have a history of doing things themselves. We are not alone in this; it is increasingly an aspiration of the state 'monopoly' as well. But it is a very rare that monopolies can do everything very well. In fact it is very unlikely; services tend to get captured by scope creep and sometimes a mistaken belief that it's better inside because there's less risk.

Apple might be considered to be a monopoly through their closed operating environment. You can't build your own PC or phone and use the Apple operating environment. Yet Apple's value in the eyes of its customers is enhanced because its assets allow a rich market of services to develop to operate on them. Typically you might only use a fraction of Apple's services compared to those provided by others. However their strict application of design guidelines protects the integrity and experience of the service. Indeed it might be considered "risky" for Apple to develop its own services if they are are competing against mature and popular services developed by others.

A similar approach can be adopted in water. There is nothing to stop water companies encouraging the development of services that enhance the outcomes they provide or the experience of their customers. Consider how landowners can help companies to improve water quality or decarbonise, or how new entrants serving new developments can introduce water recycling systems that optimise peak capacity use.

7. Blend the finance

These system issues are not the sole responsibility of water companies to invest in. Collectively the state and the private sector invest £13.4bn/yr (not including carbon) on environmental outcomes – the £0.4bn is the cost to administer the investment, delivered largely through a series of siloed approaches. Broadly a third is delivered by the private sector (mainly water companies), while government farm payments, grants, public services and subscriptions make up the rest.

Behind these silos lies a raft of European regulations that signal where funds are to be allocated. It is a hugely inefficient way of investing. Our departure from Europe, and a government signalling a shift way from regulatory equivalence, is an opportunity to deliver environmental equivalence (or preferably betterment) in a much more efficient and effective way. To enable that, government will need to find ways of blending private and state funding.

If system co-ordination is to be optimised, the siloed approach needs to be reduced and opportunity exposed by markets for investment in natural and built infrastructure and services. We need trading platforms (such as EnTrade) that optimise the investment opportunities by allowing multiple buyers and sellers to combine resources across multiple nature and environmental outcomes. What better way is there to demonstrate why leaving Europe had a purpose? TWR

> **We have more pilots than Heathrow Airport and more trials than the Old Bailey. I first heard that saying two decades ago, and it still very much applies today which is a reflection of the size of the challenge.**

OPEN MINDED ON THE SINGLE MINDED

What can water companies learn from single interest groups? The Indepen Forum explored.

Single interest groups have always been able to challenge companies and hold them to account, but massively increased connectivity and social media now means what may have stayed low key or small scale movements can spread rapidly. Think #MeToo or Extinction Rebellion on the global scale, or chalk stream activists closer to home.

The last Indepen Forum before the Coronavirus stopped play, looked at what providers of essential services like water companies might learn from single interest groups – on engaging the public and inspiring activity – as well as at the merits or otherwise of working with them.

Together or alone?

The chair kicked off the meeting by asking participants to consider how they would go about delivering change if they ran a pressure group. Would they work with governments, regulators and others to achieve change, or would that "trash your rebel brand?" What if you ran a big utility whose operations were drawing fire from an activist group. Do you cooperate with them, ignore them, or pick groups whose causes align with the preferences of your customers, and work with them proactively to make a virtue out of a necessity?

The first speaker led a group whose sole purpose is to stop plastic pollution at source. She reported collaboration is vital to its mission, both on a philosophical level (plastic is everyone's problem) and a practical level. From partnering with a single water company back in 2015, it now collaborates with the entire water sector and others, and in the process has reached far more people with its message than it could ever have alone. Moreover, the group's values are based on positive action – "a tickle is better than a punch," the speaker explained.

The second speaker, from a regulator, endorsed the sentiment. Citing the classic combos Ant & Dec, Simon & Garfunkel, and Thelma & Louise, she said people work best when they work together – though with activists and 'the establishment', that's not straightforward. She advised organisations seeking to work with interest groups firstly to be open to collaboration. This requires dialogue, "symmetry and equality" between the parties, and "listening to not talking at". Secondly she advocated looking for shared purpose – for instance, water companies want to change people's behaviour to stop them wasting water and flushing the wrong things down the loo. This can lead to shared concerns or "an overlapping sense of purpose" with certain interest groups.

One participant from the floor observed some campaigners – such as XR – are most effective without collaborating. The second speaker noted that organisations should always consider how they will respond to challenge where activist groups have no interest in working with them. She told the cautionary tale of underwear brand Victoria's Secret. An activist group set up a fake Victoria's Secret online site and pictured its underwear ranges alongside anti-rape messages. The company chose to send a 'cease and desist' letter, and fell foul of public opinion in the process. Many people argued Victoria's Secret should have embraced the activism and supported its anti-rape message, rather than prioritising corporate interests.

Turning that point on its head, the first speaker said she believed interest groups should be willing to respond to those whose activities they are challenging too. She herself (as an campaigner against plastic waste) was practising what she preached and a few days after the Forum was off to the "lion's den" of a packaging industry conference.

Listen and learn

The second speaker went on to say that while utilities used to deliberately seek to be 'invisible' services, increasingly, younger people "look to companies to speak out". Utilities find themselves front and centre of the climate change challenge in particular, and have an opportunity to champion a response.

In doing so, there are lessons to learn from interest groups. Campaign-style communications can be powerful, and utilities could learn a lot from the methods used – for instance, on social media, through effective storytelling and on making messages relevant to what people are already talking about.

The first speaker cited the following as among the reasons for her campaign's success (particularly bearing in mind "no one had heard of us a few years ago"):

- It taps into people's existing motivations, including to save money and improve health as well as prevent plastic waste.
- It offers positive brand association for partner organisations.
- It has strong brand recognition at 40% of households – a level which competes with big consumer brands.

There was also discussion of how companies might keep the momentum up and conversations going once they are engaged with customers on an issue. The first speaker suggested breaking issues down into bite-sized chunks to engage people, particularly for huge issues like climate change, where she said people can feel like "rabbits in the headlights" if big problems are treated as a block. TWR

> **Utilities find themselves front and centre of the climate change challenge in particular, and have an opportunity to champion a response.**

A WAR FOOTING FOR WATER

A new group to unlock climate finance for water services was one strand of a battle plan to emerge at WaterAid's Water and Climate Summit last month. Anastasia Maseychik reports.

"We have until 2030 to avoid catastrophe" were some of the first words spoken at WaterAid's Water and Climate summit in London in a video showing how the climate crisis most severely affects the world's poorest communities. The summit's recurring theme was that those who had contributed the least to climate change would suffer most from it. The summit's message was clear, with "action" and "urgency" the key words of the day.

A specific action emerging from the summit was the formation of a new group to unlock more climate finance for water services in vulnerable countries. A high level roundtable hosted by WaterAid president HRH The Prince of Wales and the charity at the event resulted in the launch of a high-level expert group to develop proposals to unlock greater sums of climate finance to invest in vital water services in developing countries, to tackle the twin water and climate crises. The group aims to conclude its work ahead of the Glasgow Climate Summit in November.

The people who will struggle most will be those who already struggle to find water.

HRH told the roundtable: "We have no time to waste if we are to change our current trajectory to a sustainable future. Water being so utterly essential to life, it's clearly vital that we recognise the link between water and climate change. With the urgency that now exists around avoiding irreversible damage to our planet, we must at all costs put ourselves on what can only be described as a war footing. The current battle against coronavirus at least demonstrates how quickly the world can react when we identify a common threat."

Currently 3.6bn people live in an area of water scarcity where they struggle to get water for at least one month of the year. That figure is predicted to rise to 5bn by 2050 – the equivalent of one person per second being added to water scarce areas between now and then.

WaterAid said: "For the poorest people, the most immediate and widespread impacts of climate change are felt through water – extreme droughts, sea level rises, vast floods and powerful storms. Access to clean water is uniquely vulnerable as climate change piles more pressure on already overstretched water sources and services. Floods disrupt sanitation services leading to diseases, longer droughts mean women have to walk even further to collect water, and rising seas pollute water supplies making it too salty to drink."

Panel: we need hundreds of billions of pounds over the next 10-15 years

Research published by the charity last month found the countries with the lowest levels of access to clean water get as little as 17 cents (13p) per person per year from climate finance to help them adapt their water services. Just 5% of global climate finance is currently spent on adaptation – despite a global commitment that finance should be split equally between mitigation and adaptation.

Heroes and advocates

The plenaries at the summit reinforced the core message that action is needed urgently. Broadcaster Rageh Omar pointed out: "The people who will struggle most will be those who already struggle to find water." Short films then played of 'water heroes' – people from around the world who are fighting on the front line of the water-climate crisis to push back against climate change and provide clean water and sanitation.

Some of these 'water heroes' were invited to the stage to speak about their experiences. Christopher Tumwine, an industrial chemist from Uganda, emphasised the importance of ensuring leaders and governments deliver on their promises to combat climate change and improve water and sanitation conditions.

Yvonne Aki-Sawyerr OBE, mayor of Freetown in Sierra Leone, spoke of how migration of rural people into her city due to climate change was causing fast development and deforestation, leading to flooding as water catchment areas are laid bare. Whilst she and her team have committed to planting a million new trees in 2020, she remarked: "I'm doing this with one hand tied behind my back" – stressing the importance of preventing development in hazard prone areas and preserving water catchment forests.

Henry Dixon, member of the WaterAid committee at Yorkshire Water, highlighted that the need for climate-conscious water systems wasn't just in the developing world but everywhere and that solutions "don't need to be expensive, big or shiny" to work.

Lord Callaghan, minister for Climate Change and Corporate Responsibility, returned to the theme of finance, mentioning the UK government's plans to encourage commitments around the world

Above: Prince Charles: "We need to act now"

Left: Rageh Omaar with a stark message

to create £11.6bn of climate finance over the next five years, as well as the development of the UN's Risk Informed Early Access Partnership to create early action financing systems, social protections and insurance machinery for identified risks.

In the plenary, HRH Prince Charles emphasised the need for a "thoroughly integrated approach" to combating climate change, requiring not just the water sector but everyone to come together to fight for sustainability and to decarbonise the economy. "This is the biggest threat humanity has ever faced and time is running out. We need to act now," he urged.

The urgency of the climate crisis attracted more royal attention as the following panel included HSH Prince Albert II of Monaco who also stressed the need for a co-ordinated effort. Also present was economist Lord Nicolas Stern from LSE; Bernie Mensah, co-head of global fixed income, currencies and commodities at the Bank of America; Cecilia Chatterjee Martinsen, CEO of WaterAid Sweden and Aki-Sawyerr. The themes of the panel were that the next ten to 15 years will be decisive in reversing climate change and that hundreds of billions of pounds per year needs to be raised to really address the problem. Martinsen summarised WaterAid's three priorities: to get more investment, to invest more in human capital and to prioritise.

Businesses' business

The second plenary focussed on the roles and responsibilities of business leaders and private companies and included a panel of Rebecca Marmot, chief sustainability officer of Unilver, Kate Gibson, director of Diageo in Society and Christine McGourty, CEO of Water UK. Discussion focussed around the environmental stewardship role of businesses and how financial and moral choices for businesses have now merged. "The financial and the moral are now completely intertwined – it's not a choice anymore" stressed Marmot. "Building trust with customers is inextricably linked to growth and customers are raising their expectations".

McGourty reinforced this message. "Consumer facing advertising campaigns are *the* way of operating now," she stated and emphasised that brands have enormous power to mobilise change. McGourty highlighted the brand Ben & Jerry's as a great example of a company who "really put themselves behind" the cause of environmental protection – successfully engaging customers to sign petitions, go on marches and fight actively for change.

Gibson stressed the urgency of these measures and told the summit "we are coming into the fastest and most radical transformation of society and economy through the climate crisis". Addressing the present business leaders, Gibson warned them that "the cost of doing nothing in this space is not nothing" both financially and environmentally. She highlighted the need to make the business case for water and sanitation across supply and manufacturing chains to reduce water footprints, a part of bringing wider recognition to the fact that water is a prized resource. Rounding the discussions to a close, McGourty expressed happiness at the environmental commitments that had already taken place but reminded the audience that we're still short of the list of plans and solutions which are desperately needed.

The final plenary revealed the outcomes from other roundtable discussions held at the summit. Amongst the comments shared were those from Tim Clark, chair of WaterAid UK, who stated it was key to educate the public on water, as it has been on carbon: "People on the street understand carbon now. We need to make water like that."

Executive director of Unicef Henrietta Fore aptly summarised in the closing plenary. "It is our duty to protect and manage the environment for our children and our future, and it demands a global response. We need the private sector to help us". TWR

IN BRIEF

Severn Trent has promoted its head of economic regulation **Shane Anderson** to director of strategy and regulation.

Pennon Group has agreed to sell its waste management arm **Viridor** to Planets UK Bidco for £4.2bn.

Market researcher **Accent** has won a £1m three-year contract with **Ofwat** for research among domestic customers (C-Mex) and developer customers (D-MeX).

Anglian Water CEO Peter Simpson has been appointed co-chair of the UK Corporate Leaders Group, a group of businesses seeking to accelerate UK progress in tackling climate change.

WaterAid has awarded SES Water's recently retired managing director **Anthony Ferrar** its highest honour, the President's Award, for his fundraising efforts.

The government has appointed James Heath, director of digital infrastructure at the Department for Culture, Media and Sport, as the **National Infrastructure Commission**'s CEO.

The Ethisphere Institute has named **Northumbrian Water Group** as the world's "most ethical" water company for the ninth time.

Severn Trent showcased to investors plans to spend £1.2bn on long term sustainability commitments in AMP7. This included £0.7bn on restoring natural habitat, £0.2bn on a Triple Carbon Pledge, £0.25bn on managing water scarcity; and £0.05bn on its role in society.

Andrex Washlets have secured **Water UK's** Fine to Flush standard.

DPC licence changes mooted

Ofwat is consulting until 6 April on its views on the licence amendments that will be required to implement schemes associated with direct procurement for customers – where a water company competitively tenders for financing and delivery of the project by appointing a third-party competitively appointed provider (CAP).

There are two proposed modifications:

- A new licence condition to establish the processes by which the water company could undertake the procurement of a CAP. In particular, Ofwat proposed it would need to agree for the company to undertake a DPC procurement and obtain designated status; enter into a contract with the CAP; vary the contract; and revoke designated status.
- Amendment of an existing licence condition (Condition B) to permit the water company to recover from customers, outside of price controls, the designated charges that the water company has to pay to the CAP for services. These services will normally include the design, build, financing, maintenance and operation of assets. The CAP charges for these services have not been included in price controls as these will be determined through a competitive tender.

Ofwat said it would use responses to inform a statutory consultation on the final form of the modifications later this year. Initially, the changes would apply only to water companies where DPC schemes have been identified or where there exists the possibility of a DPC scheme being procured within the 2020-25 control period: Anglian Water, Welsh Water, United Utilities, Southern Water, Affinity Water and Bristol Water.

Ofwat raises the bar for inter company loans

Water companies will only be granted consent for inter company loans if Ofwat is clear the arrangements will serve customer interests.

The regulator last month published guidance updating its policy on requests for consent for derogations from the regulatory ring fencing framework, alongside a conclusions document following its 2019 consultation. It said water companies wanting to enter financial arrangements which are ordinarily prohibited, such as intercompany loans from the water company up to the parent company, will receive consent only if the arrangements clearly serve customers' interests.

This could include direct customer benefits (such as bill reductions), or indirect benefits (such as arrangements that improve efficiency). It said the guidance set "a high bar" for companies to clear before such arrangements will be approved.

Ofwat said it has received support from the sector on the guidance and pointed to companies that have already started unwinding legacy arrangements, including:

- Anglian arranged the full repayment of its £1.6bn intercompany loan
- £220m of Thames Water's intercompany loan was repaid
- Southern Water ensured the settlement of £682m of its intercompany loan
- South Staffordshire Water arranged the early repayment of a £15m intercompany loan before its contractual maturity date.

Environment Bill paused

The passage of the Environment Bill has been paused during the coronavirus pandemic.

Since our last edition, the Bill has had its Second Reading and evidence been taken in Committee. In a briefing for MPs ahead of the Second Reading, Greener UK said while there were welcome measures, "considered as a whole, the bill does not achieve what has been promised: gold standard legislation, showing global leadership for responding to the environmental crisis, and a world-leading watchdog".

On water specifically, Greener UK called for:

- Clause 81, which is a wide ranging power to amend the regulations that implement the Water Framework Directive, to be deleted or amended to ensure that targets and standards cannot be weakened without thorough public consultation and scientific advice.
- The Bill to tackle water consumption. "It must lead to a target for rapid and sustainable reduction in water consumption, both household and non-household. Anything less will be a significant missed opportunity, as the next legislative vehicle to deliver this may be several years away." Waterwise confirmed Clauses 49 and 50 "can be used to introduce mandatory water labelling linked to minimum standards across the four countries of the UK, if the governments choose to do so".
- The bill to include a power to establish 'no abstraction zones' around priority freshwater habitats where there is evidence of damage by abstraction.
- A shorter timeframe for action (currently action is for 2028) for Clause 80, to improve water abstraction, given the pressure on globally important chalk streams.

Covid-19: impact on the retail market

We report on the impact of Covid-19 on the retail market as part of our wider coverage of the virus outbreak. **See the article starting p4.**

Business market must pull its weight on water efficiency

The Environment Agency and Ofwat have told wholesalers and retailers to take a series of actions "as a priority" to boost water efficiency in the business market and therefore the contribution the business sector makes to the national water resource position.

In a joint letter to trading party chief executives from Ofwat's Rachel Fletcher and the Environment Agency's executive director for the environment and business Harvey Bradshaw, the regulators cited companies' statutory duty under the Water Industry Act 1991 to promote efficient use of water by their customers. They set out three required actions:

- **WRMP24** – Within six months, wholesalers and retailers need to produce a joint plan of action setting out how they intend to work together to develop and deliver 2024 Water Resource Management Plans that deliver "significantly improved levels of water efficiency in the business sector". The regulators suggested the Retailer Wholesaler Group's new water efficiency sub group would be "ideally placed" to coordinate production of the plan.

Ofwat and the Agency clarified their position on wholesaler concerns that they cannot act in the business market because of their Competition Act 1998 obligations, saying: "Provided wholesalers, retailers and other stakeholders act in compliance with competition law, we see no reason why they should not work together towards identifying and delivering ways for business customers to use water more efficiently and reduce leakage. This means among other things that a wholesaler may work with retailers on a non-discriminatory basis to offer water efficiency advice and services to end business customers, and in ways which preserve retailers' and other stakeholders' scope to do the same." They cited as an example Thames Water's scheme to reward in-region retailers with a one-off payment of 5p per litre per day of water saved for each of their customers.

Fletcher and Bradshaw told trading parties the action plans would be presented to a group to be set up this year as part of a new monitoring and reporting framework to report on progress on demand management, as part of the National Framework.

- **Meter reads** – Trading parties were told to support work to address the lack of complete, accurate and timely meter reads in the market, and to come forward with their own suggestions on going further. "Wholesalers and retailers can pursue amendments to market codes. This includes those relating to metering and meter reading, or where amendments may facilitate better or more cost effective provision of water efficiency services."

- **Supply restrictions and other incidents** – The regulators noted work to encourage good practice on communicating with customers when wholesalers need to introduce restrictions during supply shortages, but want to see more. "This is a good starting point but we think more could be done to proactively reduce and manage the risks and impact of any supply restrictions. For example, we expect wholesalers to gauge if and where restrictions on use may need to be prioritised, and to work with retailers to ensure this data is shared with customers in a timely manner."

Fletcher and Bradshaw also welcomed suggestions on what more could be done from industry and other stakeholders. The idea of a joint letter was a recommendation from a Waterwise workshop on raising the bar on water efficiency for business customers last year. Waterwise head of policy and strategy Nathan Richardson described the letter, and in particular the requirement for an action plan within six months, as "a huge step forward".

The regulators pointed out the business retail market accounts for nearly a third of all water delivered to customers in England and therefore that improved business water efficiency could contribute significantly to meeting national needs, as set out in the Environment Agency's new National Framework for Water Resources (see p12). However to date, water efficiency service uptake has been small, "which means the business sector is not currently playing its part in meeting national needs for delivering water on a long term, sustainable basis".

Castle to 'merge' with Affinity for Business

The market saw further consolidation this month, when Castle Water subsumed Affinity for Business on 1 April.

Affinity for Business' 50,000 customers will join Castle's 350,000 in the merged portfolio. Castle said the deal would "allow more efficient billing, reduced administration and improved customer service for the many Affinity for Business customers already served by Castle Water" – a product of geography for many, since Castle acquired Thames Water's business customer base. Many Affinity for Water's water customers are supplied with sewerage services by Castle.

Blairgowrie headquartered Castle will add Affinity for Business' Welwyn Garden City base to its regional office portfolio, which already includes London, Leeds, Ayr and Portsmouth.

Affinity for Business staff will be transferred over.

UNDERLYING HEALTH PROBLEMS

The Covid-19 pandemic could put some business retailers on the critical list (see p4). Speaking before the current crisis hit, UKWRC chair Phill Mills said the market was already ailing and in need of urgent attention.

Ofwat and MOSL have said they plan to establish a senior trading party group to consider the risks posed by late payment and bad debt in the wake of the economic devastation caused by the Coronavirus. Retailers have been calling for such a group to be set up for some months now – but to urgently fix wider problems in the English business market.

Through the auspices of the UK Water Retailer Council (UKWRC) which represents retailers serving 99% of supply points in England (see small box), their message is that the market is not working as intended when it was created three years ago and that 80% of customers are not benefiting. UKWRC chair Phill Mills is calling for "fundamental change and a strategic direction from a high level group, driven from the top".

Low priority for wholesalers

Mills explains that from retailers' perspective, the problems with the market are many and serious. These are summarised in the large box on p34. To properly address them, cooperation is needed. But meaningful collaboration has – from some quarters – been in short supply.

Take wholesalers. These have been firmly in Ofwat's sights since chief executive Rachel Fletcher wrote to them last May in blunt language asking how they were supporting the market. Mills says while wholesalers can't all be tarred with the same brush, as a group they are falling short. He cites, for instance, that he only got six replies to 16 letters sent to wholesaler chief executives setting out retailers' common concerns in the wake of Fletcher's communication. "To be fair to the six, they set out what they are doing in response to our concerns; supported us seeking Ofwat engagement in this; and were generally supportive," Mills says – "but we had hoped for more [replies]".

He points out too that all the signs are the retail market is not a priority for wholesalers collectively. "We [UKWRC] represent retailers serving 99% of SPIDs. There doesn't seem to be unified representation for wholesalers." He notes that Water UK is directed by its members (wholesalers), and runs many effective special interest groups so would have set one up to interface with retailers if that was a member priority. "So this harks back to how seriously do you take the retail market?"

Mills takes time to praise the work of the Retailer Wholesaler Group (RWG) and acknowledges the wholesaler involvement there – including to develop the R-MeX mechanism being implemented this month and a series of good practice guides. However, he notes that the practice doesn't always live up to the theory. Take leak allowances, for instance. Despite high quality RWG guidance, "wholesalers do their own thing" resulting in leak allowances that are very variable and difficult for customers with premises in different areas to understand.

Finally on wholesalers, Mills notes that the PR19 final determinations, with their reduced revenues and stretching Performance Commitments, means life for wholesalers is "going to get even harder" – and that no one has a good measure yet of the toll that will take on the retail market.

UKWRC BASICS

The UKWRC was set up in April 2018. Its fundamental purpose is to make the market work better, principally through:

- Identifying and tackling key strategic issues around how the market works.
- Being an effective voice for the business retail community.
- Acting as a sounding board for key stakeholders.
- Sharing best practice in market behaviour.

The Council, with meets in London quarterly with additional calls mid term, is attended at the highest levels, including by retailer CEOs, MDs and directors. It is open to all 'active' retailers – those switching at least 25 SPIDs per quarter – and represents "retailers across the spectrum," says Mills, from the smallest to the biggest; independents and those with wholesaler associates.
Members supply 99% of SPIDs in England and 96% of SPIDs in Scotland.
Mills reports that there is "remarkably good agreement" despite the variety in the membership. "They have completely different business models but are facing the same frictions and challenges."

Ofwat standing back

Mills says the UKWRC has in the past had good engagement from Ofwat at a senior level, and that retailers were "pleasantly surprised" by both Fletcher's letter to wholesalers and the more detailed follow up letter sent by Ofwat's senior director Emma Kelso. "They picked up a lot of things we are saying," Mills recalls.

However, he says that since the conclusion of the Retail Exit Code review which set price protections for 2020 onwards, engagement from Ofwat has tailed off. Mills appreciates the regulator has had its head down in PR19 – but he is left with a number of frustrations.

Firstly, and fundamentally, his view is that there "seems to have been an annoying and frustrating ignoring of the retail market within PR19". Few retailers were consulted by wholesalers during the extensive customer engagement phase, and consultation with business customers was far from prominent. There has been little communication of, or clarity on, how business customers will be affected by the FD decisions.

Second, as far as the REC review is concerned, Ofwat did ask retailers to submit their cost to serve data through a request for information. However it largely dismissed retailers' costs as "not robust enough" and tweaked rather than overhauled the default tariffs for smaller (0-0.5Ml) customers, although there was more movement for the larger (0.5 -50.0 Ml) customers. Ofwat said it would look again in two to three years time. Not only does this leave retailers under-recovering the cost of operation in many cases, but there has been no information on what that review in two to three years will look like. "They need to tell us what the process and methodology will be," Mills urges, adding it feels the whole topic has been kicked into the long grass.

Looking ahead, he says there is only a fleeting mention of the market in Ofwat's 2020-21 forward work programme, and that is to schedule another State of the Market report publication. And there is a general feeling amongst retailers that the regulator has "been a bit hands off and left MOSL to get on with it".

The pinnacle came perhaps after the UKWRC wrote to Kelso last October, suggesting "there would be benefit from greater engagement and direction from the regulator to help resolve the key policy issues currently holding back development of a well-functioning market". It proposed Ofwat-led action to get trading parties around the table, specifically: "UKWRC members believe Ofwat should take a lead in setting up and/or chairing such a forum or series of workshops… Members feel it unlikely, without a demonstrative and hands-on approach from Ofwat, that little will change in the general approach from wholesalers and the market will, at best, continue to benefit only 20% of the customer base or, at worst decline with more retailers exiting the market, voluntarily or otherwise."

Mills reports little has come of this suggestion so far, with Ofwat pointing to resource limitations in its response.

A high level group

Retailers, both on their own account and on behalf of customers, feel their options are running out and only a high level, multi-stakeholder group can cut through the treacle. "This needs authority and influence," Mills asserts.

Ideally around the table would be Defra, Ofwat, MOSL, CCW, UKWRC, Water UK, RWG and representatives of wholesalers and retailers. The objectives would be to define what a successful market looks like; to identify what needs to be done to deliver it; and to develop and monitor a delivery plan.

> **He only got six replies to 16 letters sent to wholesaler chief executives setting out retailers' common concerns**

Mills notes that UKWRC supports and welcomes MOSL's work under chief executive Sarah McMath to become a more intelligent market operator, but says MOSL only has the funding and authority to do so much. It will take wider collaboration and a "higher authority" to take a lead on the changes needed. "Fundamental political and structural issues can only be addressed by a high level group," he argues.

It is extremely welcome, then, that Defra is getting back in the game. The department stood down its retail market engagement to focus on Brexit preparations, but has now reestablished a team with the business market in its remit. Moreover, it is working on a refreshed Strategic Policy Statement this year, which will set out the government's priorities for the water sector, and provides an opportunity to include requirements for the retail market.

Mills reports Defra officials have met the UKWRC twice already, with quarterly meetings scheduled. The Council has put forward the idea that a high level group – similar to that which existed in the run up to market opening – be convened. Mills says the early signs are good. "Officials understand the market's not working as it should do," he says. They were "generally positive" about the high level group suggestion, and asked the UKWRC for more details on how it might work. In response, the

Council compiled the following principles to underpin the work:

- One national market – at present, lack of standardisation means England feels more like multiple regional markets than a single unified one.
- Fair and efficient cost recovery – economic cost allowances that cover the cost of trading.
- Access to the market for all customers – not just the largest 20%.
- Equal access to new technology – wholesalers, retailers and customers should have access to consumption data, not least to help manage usage down. As more wholesalers start to roll out AMR technology, this data should be shared in a standard format. Mills comments: "Retailers don't want perpetuation of the bilaterals issue… but at present, different companies are running ahead and doing their own thing."

The alternative

Mills paints a pretty bleak picture for both retailers and business customers if the market is allowed to creak along as it is, with its costly frictions and low allowable costs. He says there will, without a doubt, be fewer retailers. "Some will go voluntarily, some will be forced to go." He points out that as things stand, only one retailer is making a profit.

He expands: "Take bilaterals. It's potentially two to three years before we have a solution and it's been three years already. There could be a lot less retailers around in three years if nothing changes." Should a large retailer exit the market, there are real questions about whether others would be able and willing to pick up its customers, especially those in wholesaler regions where the costs of operating are higher. Fewer retailers will mean less choice for customers. If that leads to more disillusion and disheartenment, customer engagement could decline further and the market really start to wither.

Mills wraps up: "Big things need to be done, and that takes leadership and engagement." On a positive note, he points out the Conservative government is keen to see competitive markets working, and knows water market failure would be a reputational hit. "Defra don't want this," he says, adding that while ministers are yet to form a view, officials are clear the market "does not meet government expectations". TWR

UKWRC PRIORITIES FOR CHANGE

1. Practical and targeted harmonisation

Wholesaler tariffs – There are over 11,000 wholesale tariff elements in CMOS. The huge variation in wholesalers' pricing structures and methodologies baffles customers, makes comparing quotes complex, and makes it impossible for retailers to offer customers a unified price across a multi-site or national contract, "which is what customers were led to believe would be possible once the market opened". Moreover the complexity causes retailers considerable operational and service problems. "The potential for error in processing tariffs is high, and the extent of manual intervention required pushes up cost to serve, both of which have knock-on implications for customers."

According to UKWRC: "We recognise that full harmonisation of tariff structures across the market is probably not realistic in the short-term. However, we believe that a significant step change can be made in terms of customers' ability to understand and compare their charges as well as market operational efficiency by some or all of the following":

› Aligning on a common set of volumetric bands, consistent with the price bands set by Ofwat as part of the REC process.
› Agreeing a set of standards for (a) seasonal charging; (b) block charging; and (c) start of the financial year.
› Where meter sizes are used for charging, the size brackets could be aligned across all wholesalers, e.g. < 15mm, < 20mm, etc. rather than these varying from wholesaler to wholesaler.
› Charging consistently for the same services, for example (i) charges for surface water drainage by surface area (the cost reflective way) are applied in some areas but not others; (ii) the use of samples in trade effluent charging is inconsistent (some retrospective and some forward looking).
› Agreeing a common methodology for allocating fixed and variable charges.

Wholesaler policies – Because wholesalers are free to set their own rules in relation to many of the policies handled through bilateral arrangements, there is a high level of variation between regions. Key examples include leak allowances, return to sewer allowances and data logger policies. There is also no consistency on how each policy works, the service level agreements (SLAs) that apply, charges levied by wholesalers for carrying out tasks, or how each wholesaler communicates with retailers. Retailers are unable to standardise and automate processes and have a greater reliance on manual intervention. This makes for potentially slower and inconsistent responses to customers and increases cost. The UKWRC recognises the good work of the RWG but, Mills says, market wide consistency "could only be delivered through the imperative coming down from on high".

Bilaterals – work is underway from MOSL and Ofwat to introduce a unified solution to improve data flow, market operation and customer outcomes. "But there is still considerable scope to influence the size and shape of the solution. We believe that not only is it important to have a single portal, but that the key processes are aligned and standardised, and that the solution provides a common tool for monitoring SLAs."

2. Improving data quality

The UKWRC supports MOSL's work to improve market data, and recognises individual wholesalers' actions. For example, it points to Southern Water, which undertook an initiative to tackle unread meters, investing ~£50 per meter (£200k in total) to identify and resolve issues associated with 4,000 'not found' meters. "But we believe that a more holistic approach is required to address the extensive data quality issues remaining… There also needs to be agreement over how improvements will be funded. We would expect wholesalers to meet the costs of correcting data provided at market opening."

Particular action is needed to address how vacant sites are treated and – a perennial – meter reading. Retailer frustrations include the cost and capacity of independent and wholesaler meter reading, as well as access to wholesaler metering technology.

3. An effective wholesaler incentive framework

The UKWRC proposed a financially incentivised B-Mex, a C-MeX for business customers. So far this has not been adopted, though Mills says the reputation-incentivised retailer measure of satisfaction, R-MeX, is "a move in the right direction" and there "may be financial incentives down the line".

4 Cost allowances

In serving SME customers in particular, costs and risks for retailers outstrip allowed costs, UKWRC explains. This effectively leaves 80% of the market unable to access its benefits, and retailers restricted in offering value added services. There are also concerns than the implications of the PR19 final determinations will mean even lower revenues for retailers from April as the price controls for larger 0.5 – 50Ml customers are based on a uniform gross margin on reducing wholesale charges.

Priority changes made to incentivise meter reads

Ahead of a wide ranging review of the retail Market Performance Framework (and the coronavirus situation), Ofwat approved a package of priority changes to improve data submission.

Two change proposals, CPW078 and CPM020, seek to: enhance financial performance incentives; encourage better submission of meter reads and improve data quality.

The changes introduced include increasing the cap on charges trading parties incur for under performance against Market Performance Standards (MPS), and extending the time parameters for meter read submissions. Ofwat's explained: "Under the current MPF, the uncapped charges of trading parties have been far higher than their capped charges. This is largely due to the charges driven from MPS 18 [missed cyclical meter reads]. This has resulted in little incentive for trading parties, in particular retailers, to improve their performance in order to avoid additional charges.

"Additionally, trading parties have been charged for the late submission of meter reads but not penalised for meter reads that they take but that they do not subsequently submit into the central system. Finally the five day submission window has caused trading parties to submit estimates rather than actual reads. As estimates are likely to be less accurate than actual meter reads, this can have a negative impact on the quality of consumption data, which has been identified as a principal market friction. This change proposal seeks to improve incentive mechanisms in the market in order to address these issues."

The changes were scheduled to come into force on 1 April. Ofwat said there will be a much larger impact on retailers than wholesalers, "primarily due to the significant volume of MPS 18 (Missed Cyclical Meter Reads) tasks and charges, as well as the number of Retailers currently exceeding the cap in most months".

All market performance charges are, however, currently suspended to help retailers cope with coronavirus related problems (see p4-5).

New Panel appointments

MOSL has appointed Mike Rathbone, market change manager at Severn Trent, as the new wholesaler member on the Panel, following the resignation of Ian Dearnley. Rathbone is an active member of the Market Performance Committee, the Operational Performance Standards working group and the Code Advisory Group for the bilateral transactions project.

It has also reappointed intellectual property barrister Helyn Mensah as an independent member, and recruited new independent member Pamela Taylor – an executive coach and former Ofgem director.

John Vinson, who was appointed as a Panel member on an interim basis, will return to his position as alternate independent member from 1 April when these new appointments begin.

Sainsbury's shops for a self supply licence

Supermarket and retail giant J Sainsbury has applied for a self supply water and sewerage licence (WSSL).

Sainsbury's – which has 1400 supermarkets, 900 Argos stores and other interests including Sainsbury's Bank, Tu, Habitat and Nectar – switched to two retailers when the water market opened.

Ofwat reported Sainsbury's has turned to self supply now to "further opportunities for innovation" as well as have a voice in the market and gain control of its data to inform its water targets (it has already reduced consumption by 1bn litres since 2005/6, and has a broad environmental and sustainability strategy aligned with the UN Sustainable Development Goals).

The supermarket's long standing partner, Waterscan, will act as managing agent. Ofwat was consulting on the WSSL application until 1 April.

WICS schedules retail market consultation for April

Water regulator WICS will publish a statutory consultation in April on key aspects of policy in the non household retail market in Scotland.

According to an updated timetable for WICS' review of the market, which began in September 2018, this month's consultation will cover customer protection, level playing field, self supply, mergers and acquisitions, ethical business practice and regulation, and the licence application process.

It plans to implement the decisions resulting from the April consultation from 1 October, and in April to implement decisions on the gap site incentive scheme considered in January.

Retailers asked for easy access to audio records of verbal switches

Ofwat sought views by 1 April on a change proposed to the Customer Protection Code of Practice in the business retail market, to ensure ease of access to audio records where a contract has been orally concluded by a micro-business.

Proposed by the Utilities Intermediaries Association, CP0004 follows the implementation of CP0002, which allowed water switches by micro businesses to the concluded orally. The code change relates to complaints, and requires retailers to cooperate with requests from micro businesses or their representatives to access all relevant audio records in an accessible format within five business days.

Ofwat said it was supportive in principle, but wanted more information on the impacts of the proposal and whether it was the most appropriate means of achieving the desired customer protection outcome.

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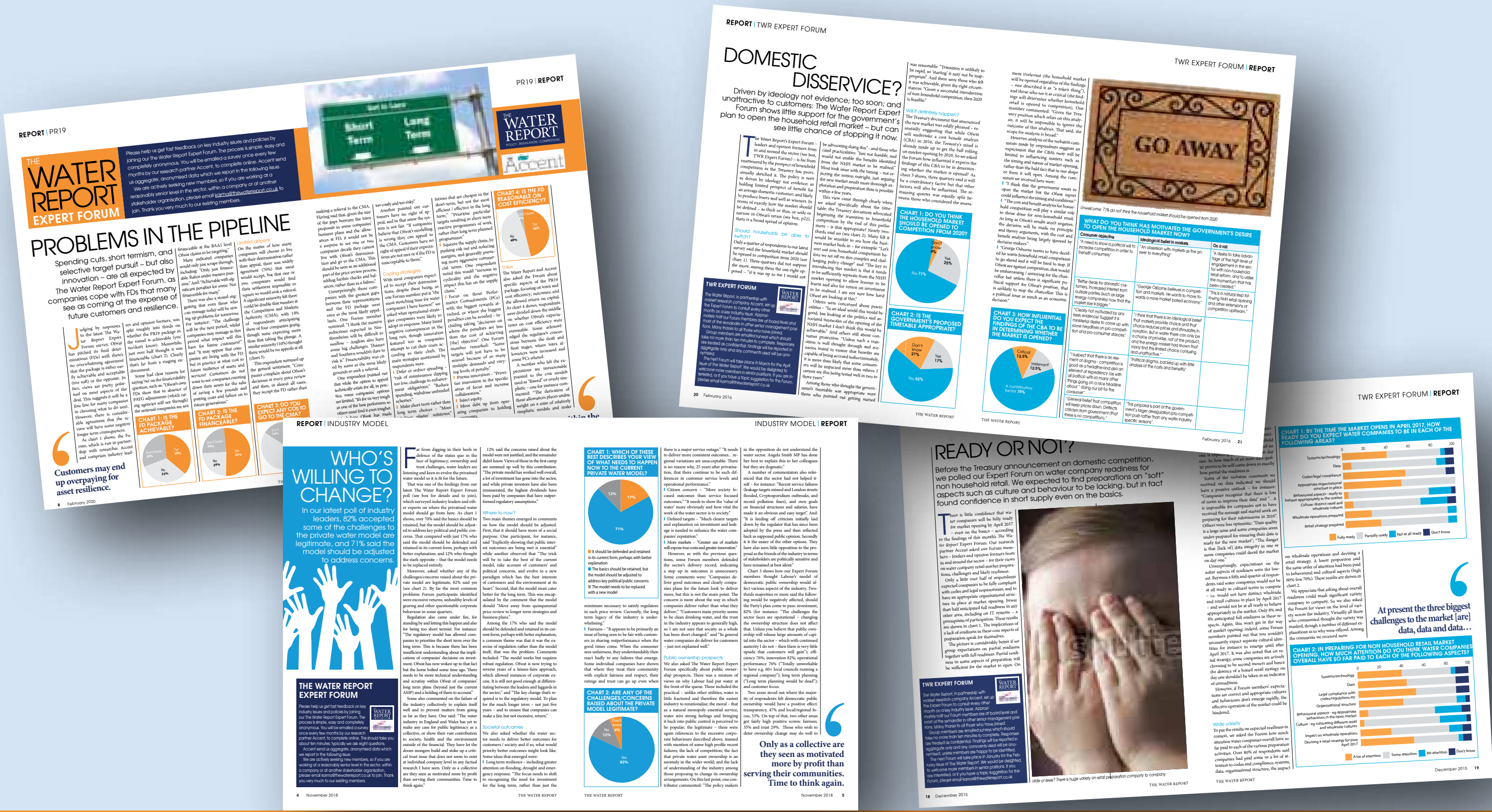

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