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Dear CMA Inquiry Team

### **Ofwat PR19 Final Determinations & CMA Appeals**

Please find below the Waterwise submission in respect of the CMA's redetermination of Ofwat's proposed 2020-25 price controls. Whilst our response addresses the appeals made by Anglian Water, Yorkshire Water and Northumbrian Water to Ofwat's final determination, the issues we raise are systemic and reflected more broadly across the sector.

#### **Who is Waterwise**

[Waterwise](#) was founded in 2005 and is the leading authority on water efficiency in the UK. We are an independent, not-for-profit organisation, receiving funding from supporters across and beyond the water sector and wider sponsorship and research projects. We like to be at the front, leading and supporting innovative efforts to realise our mission; that water will be used wisely, every day, everywhere.

#### **Why is Waterwise concerned?**

At the heart of our concern is that:

**The final determinations risk insufficient investment being made in water efficiency and demand management programmes to adequately maintain and improve the resilience of our water supplies.**

#### **The water scarcity resilience challenge**

The increasing challenges we face around water scarcity and the resilience of our water supplies are well documented, and have been set out by the NIC ([Preparing for a Drier Future](#)), Water UK ([see link](#)), Ofwat ([see link](#)) and the UK government ([December 2018 Water Conservation Report to Parliament](#)).

Concern over the lack of investment in water supply resilience led directly to the [Water Act 2014](#) (clause 22) including a new primary duty on the economic regulator Ofwat to 'further' the resilience objective (in England and Wales) - see box 1. Several of the companies appealing have cited the risk to resilience in their submissions.

## **Box 1 Ofwat's Primary Duty to Further Resilience (The Water Act 2014 clause 22)**

*“a) to secure the long-term resilience of water undertakers’ supply systems and sewerage undertakers’ sewerage systems as regards environmental pressures, population growth and changes in consumer behaviour, and*

*(b) to secure that undertakers take steps for the purpose of enabling them to meet, in the long term, the need for the supply of water and the provision of sewerage services to consumers,*

*including by promoting—*

*(i) appropriate long-term planning and investment by relevant undertakers, and*

*(ii) the taking by them of a range of measures to manage water resources in sustainable ways, and to increase efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources”.*

## **Water efficiency is crucial in maintaining and improving resilience**

Reducing the demand for water is essential to increase the resilience of our water supplies - as well as investment in the development of new and more connected supply-side resources such as reservoirs and water transfers. This twin track approach is central to government policy and is a crucial element in water resource planning from the [National Framework](#) level down to regional and water company water resource management plans. In fact, alongside other environmental organisations, Waterwise has long argued that sufficient ambitious demand management should be undertaken as a priority over investment in supply-side (whilst accepting that both will be needed).

To balance water demand with available supplies, the most recent round of water company water resource management plans (WRMP19) include assumed investment to reduce per capita water consumption from an average of 143 litres per day now to an average for England of around 118 litres per day by 2050. The National Framework, published by the Environment Agency in March 2020, goes further than this and includes a planning assumption for the next round of regional and water company plans that per capita consumption is reduced to 110 litres by 2050.

As well as increasing the resilience of our water supplies, more efficient use of water reduces bills for customers; reduces energy use and our carbon footprint; leaves more water in the environment; and frees up water for business and housing growth.

Water efficiency also makes our water supplies more resilient to extreme events such as the Covid-19 pandemic or the freeze-thaw event and summer heatwave of 2018. By increasing water efficiency and reducing baseline water use it is easier to accommodate additional demand when external events intervene and increase water demand. For example, the pandemic has seen household demand for water increase by 15-20% as water-using

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behaviours change during lockdown and as companies have had to step down some aspects of their water efficiency programmes such as home water audits and retrofits.

## **There is a mismatch between ambition and funding**

Given the above, Waterwise welcomed the sector's ambitious PR19 plans to deliver the largest single AMP reduction in household demand in AMP7 at around 6%; and we recognised the role that Ofwat had played in supporting and encouraging that level of ambition. This ambition to reduce consumption is set against a worrying trend of increasing household consumption levels over the last three years.

However, if the funds aren't ultimately made available to water companies and/or by water company management to water efficiency teams to deliver on that ambition then we seriously risk failing to 'further' water supply resilience and may actually see it reduced - whilst also losing the financial, economic and environmental benefits highlighted above. We wrote to Ofwat on 29th August 2019 ([see link](#)) in response to the draft determinations, expressing this concern, and asking them to pay particular attention to the risks posed to these customer-facing programmes in making their final determinations.

Since the final determinations were announced in December 2019, we have heard through numerous water company water efficiency contacts and networks how the final determinations are impacting on their planned water efficiency and demand management programmes. Typical examples include:

- Scaling back metering programmes which are shown to reduce water use by between 12-22% compared to customers that pay by rateable value ([see link](#) for research on the importance of metering to water efficiency);
- Cutting household customer engagement programmes and the provision of water-saving devices to homes;
- 'Accepting' penalty payments on per capita consumption under-performance to focus available investment funds on avoiding larger magnitude penalties linked to other commitments such as leakage;
- Significantly reducing water efficiency efforts targeted at non household business customers who use over 20% of supplied water but for whom there is no AMP7 performance commitment on wholesalers

With specific reference to **Anglian Water's** demand management and water efficiency AMP7 programme the company has provided the following information to Waterwise

- The company's water efficiency programme for AMP7 and beyond had been designed to exploit the rollout of smart meters which benefit both water efficiency and leakage reduction (see Figure 1 below)
- This strategy was in part based on Anglian's experience from the Newmarket Innovation Shop Window ([see link](#)), where frequent, targeted and tangible messaging to customers to promote water-saving behaviours has been enabled due to smart

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meters alongside the ability to quickly find and address leakage in customers properties, for example from leaking toilets

- The company has indicated that its AMP7 smart meter programme has been reduced from 1.2 million households (about 50% of its customers) to around 860,000 meters following the final determination. In addition, the company has indicated that its wider water efficiency programme is being scaled back
- As a result of changes to the company's smart metering and water efficiency programmes, Anglian anticipates having to take an additional 7 million litres per day (7 Mld) from the environment by 2025. This comprises 4 Mld extra abstraction due to higher consumption levels than planned and 3 Mld due to greater plumbing leakage from within customers' properties

**Yorkshire Water** has highlighted to Waterwise that it does not believe it has sufficient funding in the final determination to meet its water mains asset health target, and also that it will need to move from the existing approach of replacing water meters when they reach the end of their asset life to a new approach of replacing them only when they fail. We believe such a shift will negatively impact customer perceptions of water meters at a time when adoption of meters is a key element in driving down leakage and reducing domestic water use - as well as impacting PCC reductions themselves. We were very supportive of Yorkshire Water's PCC reduction target in PR19 - the most ambitious in England and Wales.

## **There is a lack of policy action to support water company water efficiency efforts**

All the above risks are exacerbated still further by delays in **government implementing policy measures** that provide a more supportive policy environment following the summer 2019 Defra consultation on [measures to reduce personal water use](#).

These policy delays were highlighted in the recent National Audit Office report ([see link](#)) and letter to the Defra Water Minister from the Chair of the Environmental Audit Committee ([see link](#)). Policies such as a mandatory water efficiency label for water using products linked to minimum standards and removal of restrictions on compulsory metering could make a significant difference to the shared ambition of reducing water use and furthering resilience.

## **Cuts in water efficiency budgets are a false economy**

A final determination that results in reductions in customer bills whilst risking investment in water efficiency and demand management programmes is a false economy. Greater water efficiency actually saves customers money.

Research undertaken through Waterwise into water efficiency labelling indicates that reducing water consumption by around 20% could cut UK household water and energy utility bills by £36bn over the next 25 years (£40 per household per year) ([see link](#)).

It is ironic therefore that a stated commitment by Ofwat in the final determinations to reduce customer bills beyond what was set out in draft determinations may put at risk water efficiency programmes that can deliver savings of a similar magnitude.

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It is worth noting that the few £100m spent by the sector in total on water efficiency programmes is a relatively small fraction of the cost of even a single large capital supply-side scheme. This is despite analysis suggesting that in terms of marginal cost, water companies spend on water efficiency measures, when supported by government policies, can be more than 100 times more cost effective per litre ([see link](#)). However, because spend on water efficiency is not ring-fenced or specifically required through statutory processes such as the Water Industry National Environment Programme (WINEP) [see link](#) it is vulnerable when reductions in investment spend are sought, and this is unfortunately what we are seeing in at least some parts of the sector.

## **Cuts in water efficiency budgets are not what customers wanted**

Having been directly involved with two PR19 water company customer challenge groups, and cross-sector CCG discussions, at Waterwise we know that, based on the extensive engagement undertaken, the majority of customers were willing to pay more to see the investment needed to improve resilience now and for future generations; including investment in improving water efficiency. The fact that three companies have decided to appeal citing insufficient funding to secure desired levels of resilience is therefore a concern, and seems at odds with customer feedback.

In Anglian Water's consultation for its current water resource management plan, amongst household customers the most popular options to manage the supply demand balance were leakage reduction and providing incentives and education to customers to save water. This latter option also featured relatively highly in non-household respondents' choices. When asked about Anglian Water's sector-leading Public Interest Commitment the company's online community panel highlighted in 2019 that it can be demonstrated by the company showing a continuing commitment to leakage reduction and to supporting customers to reduce their own consumption.

The high level of ambition in the business plans, if coupled with reduced funding to deliver water efficiency programmes, increases the risk of failed performance targets - and may as a result have a significant adverse impact on public perception and future public willingness to accept and act on future water saving messaging.

## **It is customers and the environment that bear the impact when water companies aren't sufficiently resilient**

Ultimately, when water companies have not made sufficient investment in maintaining and improving resilience, it is their customers and the environment that suffer. In the case of water efficiency this would be through more frequent drought orders and permits impacting the environment and water usage restrictions or supply failures impacting domestic and business water users. More widely a failure to invest sufficiently in resilience will manifest itself through increased numbers of pollution incidents, supply interruptions and sewer flooding.

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## Summary

**Waterwise believes that the final determinations risk insufficient investment being made in water efficiency and demand management programmes to adequately maintain and improve the resilience of our water supplies.**

Our concern pertains to Anglian Water, Northumbrian Water and Yorkshire Water but extends across the wider sector in England and Wales.

Regards

A handwritten signature in black ink that reads "Nicci".

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Figure 1 - Figure Taken from Anglian Water Briefing on the Impacts of the Final Determination on their Plan for 2020-2025

