



The voice for water consumers
Llais defnyddwyr dŵr

Green Recovery Draft Decisions: CCW's response to Ofwat

Date: June 2021

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Introduction

1. The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's draft decisions following its assessment of the Green Recovery investment proposals from five water companies – Severn Trent, United Utilities, Thames, South West and South Staffs/Cambridge.
2. CCW has supported the Green Recovery initiative since its inception in July 2020. We recognise the positive benefits to consumers, the environment and the wider economy of increasing investment in more sustainable water company practices.
3. CCW has worked closely with Ofwat, the other regulators, and the five companies in the process of assessing the investment proposals, including the potential customer bill impacts from the extra costs of these proposals and how this investment may affect company performance. We are pleased that Ofwat looked to CCW to provide an assessment of the quality and use of companies' customer engagement evidence, and the affordability of the cost recovery for different groups of customers.
4. It is important that as well as delivering benefits customers will value, the investment packages also carry credible evidence of customer support and that customers in more financially vulnerable circumstances are considered - especially if there are shorter term impacts in the context of the economic effects of the current pandemic.

Summary

5. The five companies' investment packages will see £862m of new investment to benefit the environment, addressing significant issues such as river water quality, spills from storm overflows and carbon emissions. The five companies show evidence that customers broadly support the benefits their proposed investments should deliver.
6. This is alongside accelerated delivery of existing commitments to improve the environment from seven other companies, which combined with the new investment, will see £2.8bn of spending above the PR19 final determinations for 2020-25.
7. We are broadly satisfied that Ofwat has taken into account evidence of customer support and affordability in its decision making. We are also supportive of the Outcome Delivery Incentive mechanisms Ofwat has put in place to protect customers from the risk of companies not delivering the commitments in full or in part, or if companies' outperform their cost allowances.
8. We also support the changes to companies' Performance Commitments to reflect the additional activity the companies have committed to deliver. It is important that the companies'

additional activities do not detract or reduce their existing customer-supported commitments over 2020-25.

9. South Staffs and Severn Trent customers will see bill increases over 2022-24 due to the cost allowance proposed in the draft decisions. While the majority of customers found the investment proposals and bill impact acceptable and affordable in both companies' Green Recovery research, 29% of Severn Trent customers found their package to be unacceptable and 34% of (uninformed) South Staffs customers did not find the company's package to be affordable¹. This could be compounded further by the potential additional bill impact of future Outcome Delivery Incentive outperformance payments in the remainder of 2020-25.
10. This means that, while customers support the benefits of the investment, customers who may struggle to pay in the light of these bill increases should receive assistance if they need it. CCW's recommendations in our Affordability Review would provide further help through a safety net such as the single social tariff, but before this happens, we want the two companies to look at how they can maximise their existing affordability assistance schemes to provide further assistance if more customers struggle to pay in the context of the economic impacts of the Covid pandemic.

Implications for the 2024 Price Review (PR24)

11. UU, Thames, and South West have draft decisions that allow cost recovery to be absorbed into the PR24 price setting process. Severn Trent and South Staffs' draft decisions, while having customer bill impact pre-PR24, will also have some Green Recovery costs taken into account at PR24. We agree with Ofwat's decision that the adjustments to company RCVs at PR24 should be proportionate to the delivery of Green Recovery commitments by 2024.
12. At a time when the economic impact of the pandemic means more customers are having difficulties paying than before, the move to recover costs at a later stage when the economy may be stronger is welcome. However, PR24 is likely to see other additional pressures on customers' bills so the pace of this cost recovery should be taken into account in the wider context of all the other improvements customers may have to pay for in AMP8 and beyond.
13. It is important that the pace of RCV run off due to Green Recovery investment after PR24 is informed by evidence from companies' customer engagement. As many of the Green Recovery investments in the draft decisions offer benefits for customers now and in the longer term, a longer period of cost recovery could help spread the cost impact on customers' bills and in doing so make them more acceptable and affordable.

In period funding

14. Severn Trent and South Staffs will receive in period funding from customers' bills to allow the companies to deliver their Green Recovery commitments in a way that is financeable. Ofwat

¹ Among those customers saying they found South Staffs package to be unaffordable, the majority (59%) gave a neutral response.

propose new in-period Outcome Delivery Incentives (ODIs) to make adjustments in revenue in the remaining years of 2020-25 to allow for Green Recovery costs.

15. We support this mechanism because by allowing revenue incrementally, annual adjustments can be altered in line with progress with delivery, which can be tracked through the additional reporting requirements the draft decisions propose. This protects customers as a failure to deliver will mean allowed revenue would be reduced in this scenario. Any overall under or overspend would be accounted for in the cost sharing mechanisms we comment on below.
16. We comment on the specific in period revenue allowances for South Staffs and Severn Trent in the sections below.

Efficiency and cost sharing

17. We support Ofwat's benchmarking to ensure the companies costs are efficient using the approach established at PR19. As there is some uncertainty about the true costs of the schemes, we agree that the cost sharing rates should be weighted in customers' favour. We therefore support the proposal that companies retain only 10% of underspend with 90% passed on to customers. We agree that the cost underperformance sharing rate used at PR19 is appropriate.

Annual Performance reporting

18. We agree that companies should separate the reporting of their Green Recovery investment delivery in their Annual Performance Reports where Ofwat has set a separate Performance Commitment to track this. It is important that there is transparency to customers and stakeholders to show progress on how these benefits are being delivered, and to allow challenge where necessary.
19. We comment on the specific draft decisions for each of the five companies below.

Severn Trent

20. Severn Trent's £565m allowance should see the company deliver benefits in several areas of activity. We welcome Ofwat's cost efficiency challenge to reduce the short term revenue adjustments in 2020-25 and the possible RCV adjustment at PR24 which has seen the cost of the package reduced by £17m, whilst retaining the customer supported benefits the company has proposed.
21. Severn Trent is on track with the delivery of its existing investment and Performance Commitments, and has provided assurance that it can deliver these additional Green Recovery commitments without reducing its ability to achieve its existing programme. The additional Green Recovery reporting in its APR will enable CCW and other stakeholders to track delivery of PR19 and Green Recovery commitments separately and challenge where necessary.

22. We broadly support the benefits the package of investments should deliver. The benefits are mainly the same as the company's submission. We agree that the trials for bathing water improvements and supply pipes should be reduced in scope so they are more focussed.

23. We have some comments on the following specific areas of investment:

- a) Acceleration of environment programme. We agree that the proposed acceleration has customer support as customers expressed support for the programme at PR24. The Environment Agency has confirmed that there is evidence to justify accelerating schemes in areas such as addressing storm overflow spills. We welcome Ofwat's separation of Green Recovery specific storm overflow spill reduction from this environment programme to avoid 'double counting' with existing commitments. We agree that Severn Trent should adopt any new good practice or innovations emerging from across the sector in its delivery of these schemes.
- b) Flood resilience commitments. This gained a high level of customer support (82%) in the company's research, but was based on the assumption that the company would attract third party funding in its partnership approach to sustainable surface water management and sewer flooding prevention. We agree with Ofwat's proposal to reduce the scale of the trial if the 11% third party contribution to the total cost is not achieved.
- c) Bathing rivers. While 74% of customers supported the trials to improve river water quality, we agree with Ofwat's decision to reduce the trials to the Rivers Teme and Leam at Ludlow and Leamington Spa. This will mean the trials are more focused and the resulting evidence could better inform future investment decisions if the trial is successful. We would also like to see Severn Trent promote the wider biodiversity and habitat benefits of this trial as well as the bathing river/swimming benefits. Ofwat did not consider some catchment management activity (such as working with third party landowners) as actions that should be included as they are outside of the usual scope of regulated water companies. While we support the 'polluter pays' principle where the parties responsible for pollution should provide the solution, by working with such third parties Severn Trent may be able address pollution at source more efficiently and sustainably. If the two rivers are also sources of abstraction for Severn Trent, we question whether address sources of pollution on third party land would benefit customers in the long term through reduced treatment costs.
- d) Decarbonising water resources. We support this investment, which achieved 75% customer support and agree that the company's renewable energy generation programme (proposed as part of this) should be exempt as it's a business activity that falls outside of regulated company activities.
- e) Smart metering. We support the inclusion of this programme which had 75% customer support for the water efficiency, leakage reduction and other benefits it should achieve.
- f) Supply pipes. As per the bathing water trials, we agree that a smaller more focused trial is preferable and agree that Coventry and Bomere Heath offers the right profile of customers to receive benefits from the supply pipe replacement programme. We would like Seven Trent

to engage with us on how it will address the concerns of any customers subject to the trial who may not want their supply pipe to be replaced or have concerns/complaints about how this is carried out.

- g) Hampton Loade treatment works. This is a shared resource with South Staffs, and in our initial comments to Ofwat on Severn Trent's submission, we raised concerns that this was not addressed in the company's programme. We agree that Severn Trent should make a proportionate contribution to the upgrade. We support the longer term cost efficiency and carbon reduction benefits this will provide for Severn Trent's and South Staff's customers.
24. Severn Trent's Green Recovery package represents a 15% increase in costs above the PR19 final determinations, and the draft decision allows for a proportion of this (£84m) to be recovered from revenue raised through customers' bills up to 2024. This leads to a bill impact of £6-7.99 compared to the bill impact proposed by Severn Trent in its submission (£9 and then £15 in the final two years of 2020-25).
25. In our comments to Ofwat on Severn Trent's initial Green Recovery proposal, we raised some concerns about the research used to measure customer support for the 2020-25 bill impact. Severn Trent did not include the potential impact of ODIs on bills in this exercise and customers were asked to consider the package on the basis of an average bill increase of between £6 and £7.99 (not the full 2020-25 bill impact of the package), which gained 71% support.
26. We are pleased that Ofwat took into account our concerns in its draft decision. This requires Severn Trent to spread its in-period bill increase over 2022-25, which, together with Ofwat's reduced cost allowance, will allow it to increase bills in 2020-25 in line with the £6 to £7.99 range which customers were presented with in its research.
27. We remain concerned about the possible short term affordability impact in the context of Severn Trent's own evidence that more customers are struggling to pay in the economic context of the pandemic, and that ODI outperformance payments in the rest of 2020 could see bills increase further.
28. We would like to see Severn Trent continue to use its range of affordability assistance measures to help customers who may struggle in the light of these proposed increases in the short term. As some South Staffs customers may face similar issues with the short term bill impact of their Green Recovery package, as many South Staffs customers receive a wastewater bill from Severn Trent, we want to see both companies consider this together. We would like to receive regular updates from both companies on how this is being addressed and how more financially vulnerable customers are being identified and offered assistance.
29. The additional costs above the 2022-24 revenue allowance will be recovered through an RCV adjustment applied at PR24. As per our comments at paragraphs 9 to 11, we agree that this should be proportionate to the level of progress with scheme delivery and the pace of recovery from customers' bills should be informed by evidence of customers' views at PR24.

30. We also support the additional reporting requirements to allow transparency. We support Ofwat's actions to adjust Performance Commitment targets to avoid triggering outperformance payments where customers could in effect paying more for improvements, as the additional investment has made existing targets easier to achieve.

South Staffs

31. We support the benefits that can be delivered by South Staffs' proposal to use ceramic membrane technology at its Hampton Loade treatment works to achieve long-term reduction in carbon emission and increase cost efficiency.
32. South Staffs is not on track with its existing investment due to limited progress with improvements to this treatment works, but has demonstrated that it has the resources in place to deliver this revised commitment. South Staffs is also on track with its existing 2020-25 Performance Commitments.
33. The Green Recovery allows for an additional £14.85m to install the ceramic membrane with £7.84m funded by South Staffs customers and £7m from Severn Trent, as it's a shared resource. This follows a 5% cost efficiency challenge applied by Ofwat and will see £1.6m of the costs raised from customer revenue up to 2024-25.
34. The company initially used its online customer panel to measure support for the proposal and gained 96% acceptability. However, this is based on a small sample of customers, so we supported South Staffs additional research to measure support, which also included the Green Recovery customer bill impact on wastewater bills from Severn Trent as useful context in this exercise.
35. We are pleased with the way South Staffs engaged with CCW on the design of the research materials from Accent. 56% of the 436 customers surveyed were more financially vulnerable customers, and could be considered as potentially more at risk of being negatively affected by the company's proposed bill increase of £4 between 2022 and 2025. This research also shows customers the long term cost saving of £6 from 2025 due to the efficiencies the treatment works upgrade should achieve.
36. 73% of uninformed customers found the South Staffs bill impact to 2024-25 to be acceptable, while 66% of uninformed customers found it affordable. This increased to 76% acceptability of informed customers (once customers had seen more detail about the proposal and the benefits it should deliver).
37. These figures reduce significantly when customers were asked to measure the acceptability and affordability when they also saw the Green Recovery bill impact on their wastewater bill from Severn Trent. 51% of uninformed customers found the proposal affordable, increased

to 64% when informed. There was 64% affordability when the possible bill impact of ODI outperformance payments was shown to customers.

38. This means that while many customers accept the proposals and find them affordable, a significant number do not, taking into account the high weighting of more financially vulnerable customers taking part in the survey.
39. This can be mitigated to an extent by the reduction in the cost allowance in Ofwat's draft decision – a 16% reduction means the bill impact would be closer to £3 than £4. However, during this time of greater financial pressure for many customers, even a small increase could tip some customers into struggling to pay.
40. As the demographic profile of customers that found the proposal unaffordable is consistent with the profile of customers that may qualify for South Staffs' and Severn Trent's affordability assistance, we would like to see the companies provide assurance that the support available for customers with this risk will receive assistance if they need it.
41. As Green Recovery investment will increase both companies' bills, Severn Trent and South Staffs should look at their affordability support measures in the round, to see how the two companies can work together to identify and support customers who may struggle in the context of these bill increases. We are looking to all companies, including Severn Trent, to consider adopting the recommendations in CCW's Affordability Review, to assist more financially vulnerable customers further. We would like to receive regular updates from both companies on how this is being addressed and how more financially vulnerable customers are being identified and offered assistance.
42. Finally, we support the reporting requirements for the Hampton Loade investment for South Staffs and Severn Trent to allow for transparency and welcome the adjustments to South Staffs carbon reduction and Hampton Loade specific Performance Commitments.

South West

43. We support Ofwat's draft decision in relation to South West Water's Green Recovery proposals.
44. In our initial response to the company's proposals we noted the importance that the Green Recovery Initiative delivers benefits that reflect customers' expectations of water companies, backed up by evidence that demonstrates customer support.
45. We welcomed SWW's proposals and its presentation of a comprehensive response to the Green Recovery initiative. We felt it clearly showed consideration of customers' views and reflected the company's role within the community and its stewardship of the environment as well as the importance customers attach to the quality of their water supply and to their environment.

46. We note that Ofwat has decided to give no allowance against the costs of SWW's proposed trial of the adoption of private water supplies. In our earlier response we pointed out that this proposal attracted the least customer support in SWW's submission, and that customers on private supplies already have a right of connection to the public supply if they choose to do so, albeit at a cost. The quality of water from private supplies is also subject to statutory regulation. We supported SWW's proposal on the basis of its relatively low cost and small scale. However, following further discussion, we understand and support Ofwat's position as private supply adoption falls outside of regulated company activities and offers no benefits to South West's wide customer base.
47. South West is on track with its existing investment and Performance Commitments and demonstrates that it can carry these additional investment commitments without detriment to its existing programme. We support the additional reporting to track Green Recovery investment delivery and the adjustment to Performance Commitments to avoid easy-to-achieve outperformance payments.

Thames

48. We support Ofwat's draft decisions on Thames' Green recovery proposals. This will see up to 810,280 additional smart meters installed for a cost of up to £145.518m (against the company's proposal of £241.639m). While we recognise this represents a significant challenge to the costs of the programme it would not be in customers' interests to pay over the odds for this investment or to effectively pay twice (i.e. there will be provision for like for like replacement of meters included in base at PR24).
49. As Thames is not on track with its existing investment and Performance Commitments, we support the conditions that Ofwat sets out which the company must satisfy prior to Ofwat making any Green Recovery allowances. These include:
- Delivery of PR19 leakage performance commitment;
 - Achieving the PR19 metering performance commitments
 - Evidencing 98 Ml/d of demand savings (through metering and water efficiency)
 - Delivering the number of installations proposed in its revised PR19 metering programme;
 - Demonstrating green recovery demand benefits in addition to that delivered through the 2020-25 investment plan; and
 - Producing detailed annual reports of the activity levels, outturn costs and benefits delivered by both its green recovery and PR19 metering investment programmes.
50. Ofwat suggests Thames provides a proposal to us and Ofwat for reporting on its support of vulnerable and low income customer groups as it delivers its Green Recovery and PR19 metering programmes. The increased roll out of smart meter gives Thames an opportunity to identify and assist more customers in financial hardship through the new data the company may gather from installation visits, water efficiency audits, customer communication and billing activities. We are keen to help Thames focus on using the opportunity to gather data and proactively help customers. This is best dealt with not in isolation, but as part of wider

endeavours to address affordability but the metering programme and related customer engagement provide a good platform to work from.

51. Prior to Ofwat's draft decisions, Thames explained that it felt it had the capacity to absorb its estimate of 13,000 customers joining the social tariff from the 258,000 customers moving to metered charging under its Green Recovery proposals. Thames identified the separate challenge around the economic fallout of Covid-19 increasing the overall number of customers eligible, which it is developing plans to accommodate. We emphasised to Ofwat it would be important that the social tariff offer had capacity to accommodate those customers in financial need regardless of whether the driver was Covid or metering.
52. In view of Ofwat's draft decisions, which reduced the programme from £242m to £146m, we have already indicated to Thames that it would be good to understand:
- Whether there is any planned change in scope i.e. the 258k
 - In view of any change in scope the implications for the 13k estimate; and
 - As the Green Recovery initiative rolls out, how its estimate of 13k is holding up and any consequences in view of the capacity within its social tariff offer both in its own right and as the implications of Covid on affordability becomes clearer.
 - We understand that Thames is in discussion with Ofwat around the implications of the draft decisions for its planned programme.
53. We would suggest that with regard to the company reporting on the support and benefits provided to customers, we use our existing schedule of Thames/CCW quarterly performance meetings for this purpose.

United Utilities

54. We are supportive of the decisions Ofwat has made in assessing United Utilities Green Recovery submission. We believe that the company has demonstrated customer support for the package Ofwat has allowed through both the primary research United Utilities carried out relating to its plans and the supporting evidence from its PR19 engagement. It is also on track with its investment and Performance Commitments for 2020-25
55. We are pleased that Ofwat has demonstrated how it has listened to the views of CCW in reaching its decision. We had some concerns about the level of customer support for the Emissions Regulations scheme and while we note that this was not given as the determining factor for refusing this part of the package, its removal means there are no outstanding questions about the level of customer support for United Utilities' proposals.

Accelerating partnerships to deliver natural solutions

56. CCW is in favour of a polluter pays principle for tackling diffuse pollution and believe that water customers can sometimes be required to pay for schemes simply because they are the easiest source of funding to access.

57. However, we also see the benefits in taking a pragmatic approach and recognise that catchment wide schemes that require additional investment can actually end up saving customers money in the medium to longer term.
58. We have some concerns that the decision not to allow United Utilities the funding it requested for tackling invasive non-native species is short sighted. The company has explained that its costs for managing the problem on its own land rose tenfold from 2019 to 2020. United Utilities has quoted expert analysis stating that the only way to prevent the spread of species such as Giant Hogweed is through a collaborative approach to eradicate them from the entire catchment due to the ability for them to propagate wildly.
59. We are not convinced that it is in customers' longer-term interests to pay ever-greater costs to manage the problem on United Utilities' land when a one-off investment to tackle the problem in collaboration with other landowners may deliver better results and greater amenity for customers.
60. We welcome the additional reporting requirement to allow transparency in the progress of Green Recovery investment delivery and support the adjustments to Performance Commitments to protect customers from 'easy' outperformance.

Enquiries

Enquiries about this consultation should be addressed to:

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