



WWF-UK
Registered office
Panda House, Weyside Park
Godalming, Surrey, GU7 1XR

Tel: +44 (0)1483 426444
Fax: +44 (0)1483 426409
info@wwf.org.uk
wwf.org.uk

PARLIAMENTARY BRIEFING

Water Abstraction Reform

March 2013

Summary

WWF-UK and others have called for unsustainable abstraction and reform of licences for abstraction to be tackled in the Draft Water Bill but have been rebuffed by Defra claiming that the tools are already available to tackle unsustainable abstraction licences. WWF-UK has concerns that with the proposed neutering of the methodology of the Abstraction Incentive Mechanism (AIM), and uncertainty surrounding the funding of Restoring Sustainable Abstraction (RSA), these tools will not deliver as Defra claim.

- Restoring Sustainable Abstraction (RSA). The Water White Paper 2011 proposed funding Water Company measures under the RSA programme directly through Price Review 14. While Defra, the Environment Agency and Ofwat are open to this and have been discussing the details for a year, the final decision will be made in the coming months.
- The AIM. The Abstraction Incentive Mechanism (AIM) was originally designed to incentivise companies to take the scarcity of water into account in operational abstraction decisions. Ofwat has recently released its consultation on the approach to setting price limits under PR14. Under a perceived need to simplify the AIM, the latest proposal narrows the scope of the mechanism so far that the purpose is essentially lost. WWF-UK feels that this could be easily rectified without a great increase in the mechanism's complexity.

Including the RSA programme within PR14

The RSA programme is the current mechanism for ending over abstraction. Through this programme, the Environment Agency has identified those sites where abstraction from a particular source carries a high risk of environmental damage, especially focusing on specific sites of higher conservation value – including areas protected by the EU Habitats Directive and Sites of Special Scientific Interest.

Compensation is paid to licence holders in return for amending or revoking an abstraction licence. This compensation is raised by a supplementary levy through the abstraction charging licence regime which is placed into a joint compensation pot. However this tool has proved cumbersome, because each change or revocation requires individual referral to the Secretary of



President: His Royal Highness,
The Prince of Wales KG, KT, GCB, OM
Chair: Ed Smith
Chief Executive: David Nussbaum

WWF-UK a charity registered in England and Wales number 1081247 and in
Scotland number SC039593, a company limited by guarantee registered in
England number 4016725. VAT number 733 761821
100% recycled paper

State, slowing the process down to the extent that there have been only 8 compulsory licence modifications since the programme was introduced in 1999.

Instead, WWF-UK supports the proposal in the Water White Paper that measures to address changes to abstraction licences should be funded directly through the Price Review Process. Solutions to address the change in available water resource should then be developed as part of the company's Water Resources Management Plan. This process will bring customers into the heart of the decision making process.

Water Companies that WWF-UK has spoken to are overwhelmingly supportive of addressing unsustainable abstractions through price setting, subject to cost benefit analysis. Ofwat has undertaken a cost benefit assessment which has confirmed that funding licence changes directly through PR14 will be more cost effective than using the Environment Agency's compensation pot.

WWF-UK understands that although in principle Ofwat, Environment Agency and Defra are all open to the suggestion that the RSA programme could be funded directly through the price review there has been no final agreement. This is particularly pressing as companies are already developing and engaging customers on their Water Resource Management and Business Plans.

The Abstraction Incentive Mechanism

The Abstraction Incentive Mechanism (AIM) is designed to incentivise companies to take the scarcity of water into account in operational abstraction decisions. The origins of the AIM lie in the work undertaken for WWF-UK's *Itchen Initiative* Report. The original purpose of the AIM was four-fold:

- To incentivise low-cost action. At the moment, there is no incentive for companies to take account of environmental risk in their water resource planning other than through the high cost step of changing a water abstraction licence. This means that there will be cases where low cost options are available, but these are not taken.
- To recognise the value of water. There is significant concern that the 'value of water' is not well recognised in regulatory policy. This relates to increasing concerns over climate change as well as environmental impacts. The AIM is designed to incentivise companies to reflect the value of water – where and when it is scarce – across their operations.
- To drive innovation. Ofwat is concerned about a lack of incentive for companies to benefit from innovation around bulk water resources, for example identifying the most cost-effective and innovative balance of leakage control, water efficiency or water transfers. The AIM provides a mechanism for companies to benefit from innovation.
- To address uncertainty in the science. It was recognised that outside the most affected sites, there remains uncertainty in the science around low flows. The AIM proposes to address this by incorporating tiered incentives, rather than requiring companies to give up licences completely. This would enable low cost solutions to be adopted where there are concerns over over-abstraction, but cause has not been proven definitively.

The proposals in Ofwat's consultation

The original concept of the AIM was to provide incentives for companies to reduce abstraction of water where and when it is scarce. The incentive structure was to be 'tiered', with greater incentives as water scarcity increased.

The approach set out in Ofwat's consultation is to limit the incentive to only the most over-abstracted sites (many of which would fall under the RSA programme), and only at times of very low flows. Ofwat has done this to simplify the process. In doing so, this risks failing to take advantage of the opportunities and purposes originally identified for the AIM. WWF-UK is concerned that the current proposals will not lead to any significant innovation or change in water company practice.

A way forward

WWF-UK believes that in order for the AIM to be effective in meeting its objectives it needs to:

- Be broadened beyond the current limit to only the most 'at risk' sites.
- Include a tiered approach to incentives, in particular for groundwater sources.
- Ensure that incentives are sufficient to stimulate action.

WWF-UK believes that this can be done without introducing unnecessary burden and complexity, and will be looking to work with Ofwat to identify ways in which this can be achieved.

| | |
|------------------|---|
| Contact | Lucy Lee, Programme Manager, UK Rivers Dominic Gogol, Public Affairs Advisor |
| Email/Tel | LLee@wwf.org.uk ; 07979 063123 DGogol@wwf.org.uk ; 07771818704 |

1961-2011: 50 years of conservation. WWF works in over a hundred countries to protect the natural world, tackle climate change and promote sustainable consumption.

Download Briefings at www.wwf.org.uk/parliamentary