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Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
21 Bloomsbury Street, London WC1B 3HF

Lord Deben  
Committee on Climate Change  
7 Holbein Place,  
London  
SW1W

23 December 2015

Dear Lord Deben

**Ofwat's response to 'Reducing emissions and preparing for climate change: 2015 Progress Report to Parliament'**

I am writing to set out our response to the recommendations for Ofwat made in the Committee on Climate Change's 2015 progress report to parliament.

I believe the water sector has made great strides in understanding the threat that climate change poses and taking action to improve resilience to extreme weather events, but I also recognise that there is no room for complacency. As such I welcome your input to our resilience consultation, the evidence and analysis the committee provides and the constructive challenge it offers to us and the water sector more widely. I hope that our response to the recommendations from the 2015 progress report set out in the annex to this letter is equally useful.

Looking to the future, our [Water 2020 consultation](#) characterises climate change as one of the key environmental pressures on the resilience of services and systems that our approach to regulation must evolve to address. In particular we suggest that without greater innovation in and efficiency of resource use, including optimisation of resource use across company boundaries, it is hard to see how the pressures of climate change and population growth can be properly addressed over the long term.

I look forward to hearing your view on our Water2020 proposals and working with members of your team as we develop our thinking further.

Yours sincerely



**Cathryn Ross**  
**Chief Executive**

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## **Ofwat's response to: 'Reducing emissions and preparing for climate change: 2015 Progress Report to Parliament'**

**Recommendation 5: By 2020 - Ofwat should require each water company to report on the area of land where above-ground SuDS, including permeable paving, has been installed over the current Asset Management Plan (AMP) period to 2020, as part of delivering the industry-wide commitment to reduce sewer flooding incidents by 33%.**

Water customers clearly demonstrated their support for investment to tackle sewer flooding and this is reflected in the most recent business plans submitted by companies to Ofwat. As your report notes, these plans include commitments to reduce sewer flooding by 33%.

Ofwat and the Environment Agency have sought to encourage companies to deliver drainage investment in the context of drainage strategies. Our [joint guidance](#) on strategy design emphasises the need to fully evaluate a range of options including SuDS techniques. This, along with the introduction of Outcome Delivery Incentives, a shift to total expenditure cost assessment and recovery methods and ongoing customer engagement should drive continuous innovation in approaches to surface water management. As a result we would expect to see SuDS being rolled out where they can deliver better, more resilient outcomes and/or lower cost to customers in the short, medium and long-term.

However, in keeping with our overall shift to incentivising outcomes we have not required information on scheme details as part of the business plan submission unless the costs claimed go beyond what an efficient company might be expected to invest. But we will work with partners including water companies and the Committee on Climate Change to establish how information on the roll-out of SuDS and permeable paving by water companies up to 2020 may best be provided.

Looking ahead, we recognise that surface water flooding is one of a number of challenges that we need to consider in the context of climate change, our [resilience duty](#) and our approach to future regulation. It was also identified as a priority by the independent [Resilience Task and Finish Group](#) who recommended there should be a national wastewater and sewerage strategy with each company developing long-term plans for their areas.

We agree that service providers should have long-term wastewater, sewerage and drainage plans in place for PR19. Our Water 2020 December consultation states we will expect to see strong evidence of a long-term strategic approach to wastewater planning and service provision in support of any special cost-factor claims.

We are working closely with the sector's 21st Century Drainage project to understand what impact existing drainage planning guidance has had and what, if anything, we can do in the design of PR19 to encourage greater innovation and long-term planning. For example, how we should take wastewater and drainage plans into account alongside WRMPs in our risk-based review of company business plans.

**Recommendation 8: By 2019 - Ofwat should continue to work with the Environment Agency and water companies to ensure that action is being taken to manage household demand for water. This will require ambitious demand reduction commitments in the next round of long-term water resources management plans, due in 2019, including ensuring sustained increases in metering and a continued reduction in average per person consumption.**

We recognise the critical role that demand management will play in the mix of measures required to secure the long-term security of water supply and protect the natural environment in the face of climate change and population growth. Companies are already making progress and have committed to save 370 million litres of water per day by 2020 through a combination of demand management and leakage control in their latest business plans.

We wish to see the next price review build on the success of the last price review to encourage companies to identify flexible and resilient approaches to maintaining supply which consider the optimal mix of supply and demand side options required. This is reflected in the [draft Water Resources Planning Guideline](#) we developed and issued jointly with the Environment Agency, Natural Resources Wales, Welsh Government and Defra for consultation in November 2015. It is also explicitly referred to in a [letter](#) accompanying the consultation on the Guidelines which was sent to water company chief executives. This states:

'We expect you to set out clearly in your plan the outcomes you intend to deliver for your customers, including the resilience of your supply, the risks to delivery of those outcomes and evidence that you have considered the full range of options for mitigating those risks. We are particularly keen to see that you have considered whether optimal solutions can be found through taking a strategic, regional, view across company boundaries, across sectors and considering third party options, alongside demand side measures, **tackling leakage and water efficiency**.' [emphasis added]

We also recognise meter-based charging is one of a number of tools that can help to promote the efficient use of water by influencing consumer behaviour. It is not our role to mandate levels of meter penetration companies should be seeking to reach. Rather we expect service providers to consider metering in their water resource options appraisal and work with customers to develop long-term plans that customers support. Testing the quality of that engagement was a key part of the last price review process and is something our Water2020 proposals build upon.

The WRMP and price review processes are independent and we are working with our partners to ensure greater transparency and coordination between them. However, the independence of the price review process does offer an additional safeguard that ensures proposals for significant investment in new water resource development are fully justified against alternatives, including demand management and water metering.