

## Abstraction Reform Advisory Group

# Meeting note: Abstraction Reform Advisory Group 27 March 2013

## Minutes

### 1. Welcome and introductions

GE gave an overall introduction. She noted that, while there is nothing which is particularly sensitive in this meeting, it's key to remember that these are options, not set in stone.

She noted the 12 week consultation on using EIUC to fund hydromorphological measures.

### 2. Update on overall project progress, emerging issues and next steps

HLG introduced the update paper. He highlighted the Cranfield research, and work with the food and drink sector on water demand research. He also discussed the environmental protection approach.

HLG noted that we have ruled out the PAYG option, as it became clear that it was unfeasible, and could be considered a (highly variable) tax which would not be in line with UK Gov tax policy.

He noted the upcoming evidence workshops, including the cancellation of the Tees workshop. He also highlighted the administrative costs research and the links with wider work including moving water abstraction and impoundment into the Environmental Permitting Regime, and links with water company behaviour. The key message is that for non-regulated business, water companies will be treated as any other player in the market, without regulation of costs or ability to pass on costs. There are also complex links with water quality, EU policy and IDBs.

The following points were made in response to questions raised by group members:

- Sector demand research reports will be published
- We will be looking at large scale infrastructure, including reservoirs as there is wider work going on in this area. It's important not to try and expand Abstraction Reform to cover everything, but we are aware and involved with work going on elsewhere. HLG noted that the modelling work also captures investment in infrastructure driven by reform options. GE noted that there were tweaks to the Water Bill currently being

proposed which could make it easier for owners of private water storage to sell to water companies, and that longer term planning is ongoing.

- We are looking at compatibility between abstraction reform and new authorisations.
- A research project on the roles for IDBs under climate change is underway.
- Abstraction reform is not another route for undertaking work on CAMS.

**Catchment workshops are being promoted by Risk Solutions to targeted groups of abstractions.** There are also more general workshops planned for July.

**Action Point 1:** Defra to circulate Ofwat's position on the economic regulation relevant to water companies participating in any abstraction market.

### **3. Options update**

JD gave a presentation on the current options for abstraction reform. Some shortcomings of the current system include seasonality, a mix of licences with and without time limits, a lack of flexibility, complex trading, not discouraging waste and not allocating peak flows efficiently.

The 'Current System Plus' option was introduced, including a more adaptive approach to abstraction, and some pre-approved trades. The water shares option was also discussed, including how trading would work and outlining how this option could better link abstraction and water availability.

- The following points were made in response to questions raised by group members:
- On hands off periods, this is the period in which the environment agency can't make changes to licenses/permits unless abstraction is causing serious damage.
- Volumetric charging will be based on consumptive usage in a similar manner to current loss factors affecting charging.
- We will share a PDF of the options, with information on formulation, which can be shared with members, soon.
- Review conditions are environmental conditions set out in catchment abstraction rule documents that could trigger the review of abstraction licenses/permits.
- We are developing the water resource management units at present- these will be hydrologically based and will be an evolution of the water resource management units in CAMS.

- Pre-approved trades are trades, in a two week allocation period, which the EA feel can be done without further investigation, based on rules in the catchment abstraction rules document. However making the trade would still require an individual negotiation on price and quantity.
- On catchment rules and site specific permits, the catchment rules would set the general rules, for example, hands off flows, review conditions and trading rules. The site specific permit would detail site-specific aspects such as the requirement for a fish screen as well as any site-specific daily maximum abstraction
- On the question of what you can do under the new options that you can't do under the old, abstractors could trade much faster and for shorter periods, people with seasonal licenses could abstract outside their previous seasonal restriction when water was available, abstractors could reduce their fees by using less water (as an element would be based on usage), abstractors could tailor their abstraction licence better to the risk they can manage, and licences wouldn't be time limited.
- On surface water, we are modeling two week periods for the water shares option but in principle periods could be different. Communication of abstraction changes under the current system plus option would be essential.
- We are working towards consistency on terminology and options.

### **Group discussion- key points:**

There was a group discussion following the presentation. The points made, listed below, will be taken into consideration in the development of the policy.

### **General points**

- We all need water when there are low flows

### **The reform**

- Many elements of the “new proposals” are already in place and active.
- Perhaps we need a strategy at a higher level of resolution? For example, Water Management Unit strategy - drought - storage - trading - share allocation
- It was felt that there was a fixation with annual max, why not focus only on daily max (for SW)?
- How can we make sure the new system allows for environmental variability – Hands off periods could be too restrictive?
- Ability to do “due diligence” to be aware of risk key

## **Reviews and periods**

- How fixed period for allocations might work in practice? Rolling / Fixed- need to be clear to help people to plan ahead.
- Transparency of review mechanism is important

## **Transition and allocation**

- Allocation of shares – Process from existing licenses
- How will shares be allocated? How will this be fair? Will allocations sit with land? How does this affect land valuation?
- There was substantial discussion on initial allocation and transition, which was felt to be fundamental to reform.
- CLA is very keen that water rights should sit with land owners and the link to land valuation be considered as reform should not reduce land values.

## **Trading and markets**

- Process for regulating the market to avoid cornering of the market driving up prices will be important
- The question of whether there really is the appetite for water trading was raised.
- Beware of an “over focus” on trading, which is not the only solution.
- We need to define the process for regulating the market
- There was little appetite for trading, particularly from the chemicals sector: their members want to see benefits. They are also worried about the administrative costs involved, and that “there’s no extra water sloshing about”.

## **Catchments and Catchment Abstraction Rules**

- Catchments should be managed to ensure there is enough water for people’s minimum needs.
- Consider producing a ‘required catchment storage volume’. (Water Abstractor Groups opportunity to meet the demand)
- Within and between catchment consistency (careful not to accidentally exclude trading between catchments because of the approach to trialing abstraction reform in individual catchments).
- It was felt that we need detailed/robust catchment rules with robust modeling (to ensure environmental protection) and rules for developing catchment rules.

- These include Water Management Unit approach to drought trading and storage.
- Need to manage stakeholder involvement in particular around these rules. It was felt that defining market rules could prevent driving up price (concerns over price manipulation). Rules of review conditions and hands off periods were seen as important.

## **Communications**

- On Comms- ARAG needs the tools and the presentation.
- On stakeholder management, too much stakeholder input disrupts consistency and can unfairly raise expectations.

## **Reservoirs**

- Identifying how much infrastructure we need, and then incentivising investment is key. Planning permission is one of the major barriers.
- Storage and planning are critical to these proposals. Building reservoirs is not easy.
- Planning permission is perceived as a barrier to developing reservoirs. Cross department working is required to ease this.

KS then asked for feedback on the presentation. It was agreed that more time in advance to review the slides, plus a slower presentation and time for questions during the presentation, plus a handout/reference note for during the presentation. Being clearer on what the baseline is (came across as an option), and clarity on hands off flows / “Hands off periods” would be welcomed.

## **4. Implementing and management within reform options**

KS introduced the post-lunch session on implementation and management. The three groups for this were: a) review conditions, b) unbundling and engagement, and c) the right level of reform.

### **A. Review conditions**

Key comments from the group session on this were:

- Notice periods may need to vary depending on the environmental sensitivity of catchments.
- Notice periods will need to coincide with RBMP 6 year cycles by being multiples of 6, although it will be important to consider any unintended consequences of common cycles (e.g. the PR cycle affects supplying companies to water companies).

- Sectors/business projects will have different payback periods so will require different periods of certainty.
- Key issue will be the scope of reviews, noting that in the water shares options, shares will not be open to review.
- Some sort of appeal mechanism may be needed where there are proposals to adjust catchment rules/permits
- Clear criteria/indicators will be needed that are monitored in terms of determining the need for rule changes with transparent reporting allowing catchment abstractors to assess risks of changes.
- Difference of reviews from current system (Time Limits and licences of right) will depend on your starting position.
- An alternative approach might be to have continuous monitoring and consideration of the need for rule changes while having longer notice periods.

## **B. Unbundling and engagement**

### **a. What sort of engagement is working now? And what has worked well in the past?**

Notes from this session included:

- Farming – ‘momenta’ – a programme that used individuals in industry to increase acceptability of scheme
- Cross compliance was good
- Done by the industry
- People stayed on as advisors at the end of the project
- When planning engagement: get balance between technical / participatory element
- Use case studies to bring the issues to life
- Issues with **Power Plant Aggregation**: electricity generation industry feel bruised, will this be any different?
- **Marine conservation zones** a good example of proxy engagement. This programme successfully brought together existing groups and managed the regional element well.
- **Regional Aggregate Working parties**: Allocation of minerals, high level, effective. Well thought of in the minerals industry.
- Groups have to have teeth!
- **ARAG** was suggested as a good example of working with stakeholders

## **b. What sort of involvement would your sector be looking for?**

- Local enterprise partnerships (LEPs) could be useful
- Be clear on what input is required
- River basin planning – join with SWMI
- Must be embedded
- Scale is key: catchment may be too big? GW/SW split key
- Engagement scaled to type of stakeholder – National / regional
- Key players differ by catchment
- Timing - prior to legislation
- Need more detail
- Horticulturalists and Mineral/power sectors want to be involved
- Must do better than **RB Liaison panel**: infrequent – stagnant – too limited to members. Some ARAG members have struggled to get representation and see the panels as ineffective.

## **c. Unbundling**

- Could look like added burden, and possibly increase paperwork- however, the end goal is simplification
- We need to be clear on cost/benefits when communicating
- Potential environmental risk? – Robust modelling - link to permits
- Might not need unbundling for current +?
- Question of whether we need MI/d on site-specific permit
- Need to link with WQ legislation
- Unbundling is a terrible word but:
- Coming round to the concept
- Sounds more flexible
- Want to maintain location flexibility

- Rotational crops - have boreholes that aren't used for 7 years (obvious implications for transition arrangements). (Same issues with quarries). Need to maintain aggregation
- Cross catchment trading important

### **C. Abstraction Reform: The right level of reform locally**

Do you support the principle that different levels of abstraction reform will be appropriate in different types of catchments? Are we proposing a sensible level of variation? Notes from this session included:

#### **General points**

- Yes but subject to clarification that “Abstraction Reform will occur everywhere but some elements of reform will not be applicable.”
- We are using the old system to define the new – using current metrics and definitions, for example, definition of over abstracted to define what we need in a new system. No indication of what new metrics we should be using was offered, it was just an observation.
- Sharing schemes could become more attractive in the future where local businesses group together to manage their water – this was just an observation.

#### **Catchments and local approaches**

- Charging varies regionally at the moment, would this need to change to a more locally defined level of charging in the future e.g. at a CAMS level or a management unit level?
- Some catchments are enormous and variable in their nature (this is referring to the variability within one catchment and not the variability between different catchments). If the options approach is to be supported, governance would need to be at a water management unit scale and not catchment scale to reflect this variability.
- Governance arrangements may also have to vary locally. Should governance arrangements remain at the catchment level or changed to management unit level? An example was given where in the current CAMS documents a catchment can go from water available to water scarce to water available but it is in the same catchment. Due to this, more local control/governance arrangements / rules may be required.
- Regional mineral supplies are managed on a County basis. Varying costs between catchments (operating different options) may affect the competitiveness of one operator against another.

- This relates to the cost of implementing the different options e.g. if the cost of option 2 is greater than option 1, then that extra cost will be borne by one of the operators, irrespective of whether they wish to participate in, for example, trading or not. Minerals are interesting as they can only be extracted where they occur and so to a degree are potentially a captive audience.

### **Trading**

- If someone makes a trade but then doesn't need the water, how will that be addressed i.e. some sort of refund, buyer beware or other mechanism – this needs to be thought about and communicated.
- Trading will be dependent upon how entitlements and allocations are divided up in the first place (linked to transitioning). If abstractors only get an average of recent actual use plus an amount, will there be any spare water to trade or a demand for trading?

### **Charging**

- Charging transparency – charges will go up. The benefits (or value for money) need to be demonstrable i.e. increased security, improved recognition of the value for water. People need to know what they are paying for and understand it is worth paying the extra.
- There will be increased variation (regionally and across catchments) in charges for water. Need to be clear why these differences exist – especially where someone is paying for a more costly option which they do not wish to make use of e.g. trading.

### **Groundwater**

- Groundwater is not catchment based in the same way surface water is, indeed it can cross surface water catchment boundaries. Need to be clear about how groundwater will be managed, how it can support surface waters/features in some locations or not and how it fits in with the options.
- There is a need for a clear separation between the rules developed for groundwater and those for surface water. Rules will also need to be in place to deal with those who abstract groundwater but then discharge to surface waters – the interrelationship between the two needs to be considered (from a consumptiveness perspective, which links to charging).

### **Pilots and implementation**

- Will roll out be phased and will there be a pilot region chosen to test the new system? The pilot region will need to be one where there are already problems with water availability. Is it possible to implement legislation which allows for a pilot?

## Storage and infrastructure

- There was a discussion about storage capacity and the need to address storage in a catchment before looking at trading or other options. Others viewed that storage isn't what should be looked at first – demand management, water efficiency are tools that can be used. To bring the point to a close, there was an agreement that different solutions may be required in different regions (SE England noted) and catchments, depending on the catchment specifics. Creation of storage would likely form part of that debate (i.e. what is appropriate, where).
- When talking about infrastructure provision and building storage, need to be mindful that the money may not be there to invest in the infrastructure.
- Need to look at barriers to infrastructure provision such as the planning system and banking industry to allow investment in infrastructure to take place.

## 5. Next meeting

The next meeting is on June 12<sup>th</sup> on options and links to other policy areas.

GE asked how useful the session was for people. It was felt that people would like slightly more substance, with an opportunity to absorb the material earlier.

## 6. AOB

There was a question on when the presentation from EA will be distributed. We are currently drawing on feedback from ARAG and from the catchment workshops to improve our options presentation. We are also adding commentary to support ARAG members when they share this with their colleagues. We expect this to be available in the next few weeks.

## Attendees

### 1. External

Sarah Mukherjee – Water UK	Simon Wood – EDF
Andy Limbrick- Energy UK	Jackie Coates - Chemicals Industry Association
David Bellamy - Food and Drink Federation	Nicola Owen - Mineral Products Association
Paul Hammett – National Farmers Union	Derek Holliday - Country Land and Business

	Association
John Adlam - Horticultural Trade Association	Debbie Stringer - Confederation of Paper Industries
Adam Comerford - Canal & River Trust	Lucy Lee – Blueprint for Water (WWF)
Phil Burston – Blueprint for Water (RSPB)	Ian Brown – Welsh Water
Susanne Baker - EEF	

## 2. Internal

Gabrielle Edwards (Chair) – Defra	Lisa Oakes – Defra
Henry Leveson-Gower – Defra	Lorna Solak – Defra
Zoe Hodgson – Defra	Phil Chatfield – Welsh Government
Anthony Wilkes – Natural Resources Wales	Karen Saunders – Environment Agency
Nicola Poole – Environment Agency	Jonathan Dennis – Environment Agency
Paul Hope – Ofwat	Anna Wetherell – Natural England
Christine Tacon – Defra (External Regulatory Scrutiny)	

## 3. Apologies

Luke DeVial - Wessex Water	Andrew Gurney – Farmers’ Union of Wales
David Bassett - British Trout Association	Chris Brett – British Hydropower Association

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