

Abstraction Reform Advisory Group

Meeting note: Abstraction Reform Advisory Group 5 November 2014

Agenda

1. Update on overall project progress and longer term plan
2. Abstraction Reform Options Development and evidence on impacts
3. Water Company Discharges Options Development and evidence on impacts

1. Update on overall project progress and longer term plan

The Group was updated on the position of current work to develop and assess abstraction reform options and related areas. This included work on low flow controls, setting of environmental flows, abstraction charges and transition.

2. Abstraction Reform Options Development

Henry Leveson-Gower (HLG) introduced the paper on the key developments on the proposed reform options. He stated that a new system was needed that would be able to cope with future challenges and would therefore need to be ambitious. He explained that the hybrid option that had been developed was the preferred option.

There was a further presentation by Risk Solutions on the modelling and evidence of impacts from the proposed reform options.

During feedback from group discussions the following points/issues/questions were raised around the hybrid option:

- Some members of the Group said that they were having trouble understanding the concept of shares/allocations and how they would work in practice.
- There was a suggestion that it would be useful to see an example of how a volume from a current licence would transition into a new system. Examples of how different water availability would affect volumes would help to understand how shares/allocations may work.
- There were concerns about the complexity of variable allocations particularly if they were changing frequently. Members of the Group explained that they needed certainty for business planning.
- There was a question regarding the length/frequency of reviews, which would alter allocations. HLG replied that the length and frequency had not yet been confirmed

but that we had consulted on this and would be taking stakeholders views into account.

- There was some support for the hybrid system, with the flexibility to use controls as needed seen as a positive.
- Following a question on how trading would work in the hybrid system, HLG stated that trading of annual allocations would be similar to the process proposed under Current System Plus (CSP) and abstractors would be able to sell part of their share (i.e. their long term interest in the water). The sale of shares would allow for upstream trades.
- There was a question regarding the trading window for an annual allocation. HLG answered that abstractors would be able to trade allocations at any time during the year.
- A member of the group asked for clarification that only abstractors would be able to trade. Any new entrants would have to prove they needed water and obtain a licence to abstract before they could trade in the market.
- There was a question about how new entrants would be able to enter a catchment and how they would be allocated shares and allocations. HLG explained that they would be able to apply for water from the Environment Agency (EA) in catchments with water available. In fully licensed catchments they could apply for an abstraction permission and then trade for water through the market.
- Following a question regarding hybrid option set-up costs, HLG explained that costs for setting up all the reform options were relatively similar.
- Some of the Group still thought the hybrid option was as complex as the Water Shares option and there was still a level of risk attached. They were particularly concerned about short term allocations. HLG explained that shorter term allocations would only be appropriate in stressed catchments and even then only in some of them depending on the catchments characteristics.
- HLG confirmed that there would not be a hierarchy in the distribution of shares in a catchment.
- A member of the Group asked, what level of confidence would be needed from the pilots, for the enhanced hybrid system to be rolled out in further catchments? HLG explained that catchments would become enhanced when it was environmentally and/or economically justifiable.

3. Water Company Discharge Options Development

There was an update from Jackie Sullens (JS) on the work undertaken since the abstraction reform consultation on policy options for possible water company discharge regulation. This included an initial presentation from Vivid Economics on work they had undertaken to model the possible economic impacts of changes to discharges. The modelling drew on case studies and data from a survey of water companies.

The following is the main feedback given by participants in response to the discharges update and presentation:

- There was a lot of interest in the case studies; the assessment of the economic impact of discharges; and the corresponding value of water that had been calculated. Many had not realised the potential importance of discharges.
- One water company agreed that there was limited awareness amongst most people in catchments about the role discharges could play. He recalled a situation where increasing efficiency at a sewerage treatment works had reduced a discharge to a river. A farmer downstream had been allowing their cattle to drink from the river, although this had not been a formal licensed abstraction, and suddenly the water was no longer there.
- There was interest in the Trent and Derwent case study because of the power generation that occurred downstream. Energy representatives were not supportive of policy options that might effectively accept current practice and allow the changes without consideration of abstractors, just because that was the premise that had developed over time. They also had concern that there was a real possibility that future drivers and commercial pressures could see more changes to discharges.
- The CLA was supportive of options in which compensation was paid to them if changes impacted on their businesses, while CCWater suggested that payment should be made to water companies for effectively increasing flows through discharges.
- There was some agreement that the policy option should incorporate a way of assessing the impact of the discharge change and either agreeing with abstractors how it could be changed fairly or paying compensation to them. Water companies were concerned however about exactly how to engage with abstractors to discuss impacts.

4. Attendees

Invited stakeholders

Duncan Wardrop – Mineral Products Association	Ian Brown – Welsh Water
Nicola Owen – Mineral Products Association	Andy Limbrick- Energy UK
Simon Wood – EDF	Luke DeVial – Wessex Water
Paul Hammett – National Farmers Union	Susanne Baker – EEF
David Pollard – Chemicals Industry Association	Debbie Stringer – Confederation of Paper Industries
David Bellamy – Food and Drink	John Adlam – Horticultural Trade

Federation	Association
Damian Testa – Country Land and Business Association	Derek Holliday – Country Land and Business Association
David Pollard – Chemical Industry Association	David Bassett – British Trout Association
Adam Comerford – Canal & River Trust	Phil Burston – Blueprint for Water (RSPB)
Colin Fenn – Blueprint for Water (WWF)	Sarah Mukherjee – Water UK
Neil Edwards – RWE Npower	Robert Brookes – British Sugar
Richard Perkins – McCain	Chris Brett – British Hydropower Association

Government

Gabrielle Edwards (Chair) – Defra	Henry Leveson-Gower – Defra
Trevor Bishop – Environment Agency	Lisa Oakes – Defra
Giulia Branzi – Ofwat	Jonathan Dennis – Environment Agency
Anthony Wilkes – Natural Resources Wales	John Poole – Environment Agency
Phil Chatfield – Welsh Government	Rory Callan – Environment Agency
Keith Davies – Environment Agency	Helen Hurley – Defra
Theo Hawkins – Defra	Laura Murrell – Defra
Jackie Sullens - Defra	

Apologies

Nick Haigh – Defra	Christine Tacon – Defra (External Regulatory Scrutiny)
Anna Wetherall – Natural England	