

By email: water_engt_correspondence@environment-agency.gov.uk
helen.wakeham@environment-agency.gov.uk

19 July 2023

Dear Helen,

Re: Information Letter EA/16/2023 PR24 WINEP

Thank you for your letter dated 05 July 2023 regarding assessing phased delivery of our PR24 Water Industry National Environment Programme (WINEP). As requested, we have considered opportunities for phasing activities from PR24 into future price reviews.

Based on the guidance contained in EA/16/2023, we have identified £126m of investment against a number of WINEP drivers which in our view may be suitable for phasing into future AMP periods.

In Appendix 1 we provide more details of the assessment we have undertaken to identify those activities/investments suitable for phasing. In summary these are:

- £36.7m (out of a total of £45.4m) of investment in relation to improvements at Septic Tanks under WINEP driver U-IMP6 where careful prioritisation indicates that it ought to be cost beneficial to defer investment at 56 lower risk sites (out of a total of 71 sites).
- £72m (out of a total of £114m) of investment in relation to Monitoring Emergency Overflows at Pumping Stations under WINEP driver U-MON6. Applying the same approach used to identify priority Storm Overflows, to Emergency Overflows, indicates that investment at 386 lower risk sites (out of a total of 597 sites) could be deferred to AMP9. We consider this an appropriate means of prioritisation, however it does leave c35% of sites scheduled for AMP8 compared to the very recently received guidance of 25% – as such we would be happy to explore any further opportunities for rephasing with the EA.
- £16m of investment in relation to estuarine river water quality monitoring which as per the draft guidance could be deferred to AMP9.
- £1.6m of investment in relation to weir removal on the river Coquet under WINEP driver NERC-IMP which in consideration of complications associated with proving legal ownership of the current weir structure it would be appropriate to defer this activity to AMP9.

We have also considered scope to defer any non-statutory WINEP investment currently scheduled for AMP8, including our Bluespaces initiative to deliver broader environmental improvements. However, we consider that in order to meet our customers' expectations it is important to progress this activity in AMP8 as currently planned (our customers supported these investments in our research). Finally, in relation to Water Framework Directive / Environment Act investment we have already taken the opportunity to defer any investment where legal requirements fall outside of AMP8.

In total this process has identified scope to reduce AMP8 WINEP investment by £126m which if agreed would reduce average customer bills by 2030 by c£4.60.

We have updated the WINEP phasing spreadsheet as instructed and would welcome further discussions to progress the details of these proposals.

We are confident that we can finance the proposed investments and are taking all steps that we can to deliver the proposed investments and manage affordability pressures.

In preparation for such a large investment programme, we commissioned an external review of the deliverability of that programme from Jacobs in December 2022. In response, we began a transformation programme to make sure that we could deliver an increased investment programme from 2025, which we will describe in more detail in our business plan alongside our Board assurance about deliverability. Reducing the programme of monitoring across the whole water sector is likely to support improvements in deliverability by reducing any constraints on the ability of the supply chain to provide and install this greatly increased level of activity.

Whilst we have further work to do on our quantitative affordability and acceptability testing with customers the deliberative qualitative research phase suggests 78% acceptance of our preferred plan in Essex and Suffolk (where bill increases are mostly driven by WRMP requirements) and 87% in the Northumbrian region (where bill increases driven by the WRMP are small in comparisons to WINEP requirements). Our customers have told us that they would like us to challenge statutory requirements to make sure these really are required.

We discussed these options for re-phasing briefly with our Water Forum, who recognise the challenge the Company, industry, regulators and, customers face in respect of the structure, funding and delivery the significant investment required, going forward. They have indicated, in the short time available, that in the context of the EA's ask, our proposals look reasonable, including the retention of non-statutory WINEP. However, they are asking for further information on risk to customers and the environment on emergency overflows and water quality monitoring proposals, and would have liked us to have had the opportunity to do some specific testing of customer opinion, which the tight timetable has not allowed.

Naturally we do have concerns around bills and affordability given the current cost of living pressures and around a third of customers from our qualitative research had concerns about the affordability of the investment plan. To address these concerns we are seeking to materially expand our affordability support for customers and making a commitment that we will eradicate water poverty with no customer paying more than 5% of their income on water bills.

In previous responses we have highlighted other opportunities to address affordability and deliverability challenges, and we consider there is further potential to exploit these.

In our response to David Dangerfield on 1 May 2023¹ we highlighted a number of opportunities to address the challenges of affordability and deliverability. We believe these remain opportunities, for consideration, specifically:

- Within the EA Sludge Strategy, maintain the practice of spreading sludge to land whilst investigating further understanding if any environmental harm occurs.
- Delivering River Water Quality monitors differently (see above)
- Support for our ambitious plans for Nutrient Neutrality which will deliver a greater environmental benefit at a reduced cost for our customers.

¹ See Appendix 2

We consider some of these areas contain further opportunities which were not included in the scope outlined in your letter, and which could offer the potential to further reduce spending in AMP8 by hundreds of millions of pounds. We remain open to exploring these further.

Please can you confirm that our response provides all the information you need.

Yours sincerely,

A handwritten signature in grey ink, appearing to read 'A Beaver', with a large, sweeping flourish extending to the right.

Andrew Beaver
Regulation and Assurance Director

Appendix 1: Supporting Information

1 Opportunities identified for re-phasing

Septic Tanks (UIMP7)

The driver is intended to provide secondary treatment capable of achieving 40:60 BOD: suspended solids where a septic tank discharges to surface water. Initial guidance on profiling was confirmed in an email from the Environment Agency's Price Review Team on 10 February 2023 which confirmed the soon as possible (expected) date as 31/03/28, with a backstop date of 2030. Further guidance on phasing delivery was confirmed in an email from the Environment Agency's Price Review Team on 5 July 23 which gave a WINEP driver specific steer for septic tanks stating, "*Water companies should schedule a number of their improvements into PR29*".

The total number of septic tanks for investment under the driver was identified as 71 (across both north and south operating areas). The total costs are £45.4m.

A prioritisation methodology was developed to phase the delivery of the septic tank improvements considering the following:

- Are there any pollution incidents associated with the site?
- Are there any other overlapping drivers (including base maintenance)?
- Are there any other business risks?
- Are there any other added benefits eg centralisation?

We believe that this methodology considers the best value, benefit to customers and the environment. When applied this results in 15 sites being implemented in AMP8 and the remainder could be delivered in AMP9.

The total cost split would be:

- | | | |
|--------|----------|---------------|
| • AMP8 | 15 sites | £8.6m |
| • AMP9 | 56 sites | £36.7m |

We have very little information on the quality of the receiving watercourses and our assessments have not identified a significant environmental benefit of this investment. Therefore we believe that our proposed methodology offers a logical approach to phasing investment.

There is scope to defer more into AMP9 and we are open to making a further assessment if this is an option the EA would like to consider.

Monitoring emergency overflows at pumping stations (UMON6)

Our current WINEP programme for this driver would address circa 597 locations with an emergency overflows.

We have adopted the EA definition for priority storm overflow sites which considers the status of the receiving watercourse and applied it to the locations of emergency overflows:

- RNAG – Confirmed or Probable
- SOAF – Environmental Impact
- Discharges into or within 50m of SSSI water feature
- Discharges into or within 50m of SAC, SPA, RAMSAR water feature
- Discharges into or within 50m of Eutrophic Special Area (UWWTR sensitive area)
- Discharges into or within 1km of designated coastal bathing water or shellfish water

Applying this methodology would offer an opportunity to rephase investment to the following:

- 211 emergency overflows at priority locations in AMP8 at a capital cost of £42m
- 386 emergency overflows requiring investment in AMP9 at a capital cost of £72m

Please note that the overall cost of the UMON6 programme has reduced from £130m to £114m (capex) as we have identified some sites that were categorised as EO & SO to be an emergency overflow only which reduces the required investment.

We note most recent guidance indicating 25% of sites should be delivered in AMP8 vs c35% as per the above proposal - and would be happy to discuss further opportunities for re-phasing.

River Water Quality Monitoring

Our current plan is based on the provisional technical guidance whilst we await the final technical guidance to be issued. We estimate that investment across the next two AMP cycles will be in the region of £230m under the draft guidance (£130m in AMP8)

We note the draft guidance states that estuarine monitoring could be phased in from PR29 and this would allow us to rephase circa £16m from AMP8 into AMP9.

The majority of investment is in installation of monitors in line with the guidance of categorising priority sites in AMP8. If there is an opportunity to reassess this definition, restrict monitoring to downstream only or consider a broader approach of innovation and trials in AMP8 with full deployment in AMP9 then we could reassess the investment profiles. We anticipate that innovation could significantly reduce capex and opex costs if investment was focused in AMP9. Another option would be to consider targeted deployment based on risk in AMP8.

We do have concerns about securing land, land access, availability of SONDE monitors and the supply chain to support and deliver the proposed investment programme.

Weir Removal

The Lower Coquet Weir, sometimes called the Tidal Weir, was built in the 1960s. It sits within the River Coquet Estuary Trac waterbody under the WFD, and is assessed as a Heavily Modified Waterbody which is currently not meeting its mitigation measures assessment (because of the presence of the weir), as well as failing some other biological and chemical elements. The estuary is also a SSSI but its status is not judged to be affected by the weir.

An investigation carried out in AMP7 identified removal as the preferred option for the weir, as it currently serves no purpose and removing it would make the estuary passable for fish and restore inter-tidal habitat up to the 'abstraction weir' which is located at NWL's abstraction upstream of Warkworth village. Ownership of the weir is currently under discussion between the Environment Agency and Northumbrian Water, but we took a precautionary approach in PR24 planning and included the weir removal scheme in the PR24 submission under the NERC_IMP driver. Phasing the scheme into AMP9 would allow us time to establish ownership of the weir, which may need to go through a legal challenge process before it is resolved and could make delivery of the scheme in AMP8 difficult.

In addition, we have included in our PR24 submission an investigation into the potential impact of the Warkworth abstraction on the River Coquet and Northumberland South coastal waterbodies (action ID 08NW104124 under the WFD_NDINV_WRFflow), as requested by the Environment Agency. By delaying the removal of the Lower Coquet Weir to AMP9 we would (if the weir is judged to be within NWL's ownership) be able to take into account any finding of the abstraction investigation, which may in turn change the assessment as to the best option to address the weir. For example, it may be that if a licence change is effected following the AMP8 investigation that a fish pass option (which would potentially be cheaper) becomes a viable alternative to weir removal.

2 Areas considered but where re-phasing not appropriate

Non statutory WINEP investment – NIDP

Our programme of investment for AMP8 forms a significant part of allocated funding contributions required to support collaborative projects identified and confirmed on the Environment Agency's Medium Term Plan up-to 2026. Without this investment, many of these projects are unlikely to meet the cost benefit threshold and will therefore be no longer deliverable by the other risk management authorities within the timescales. Further future funding allocations beyond 2026 as a result of this delay in investment, for example Flood Defence Grant-in-Aid will no longer be available for these projects meaning that communities throughout the North East will continue to be at risk of flooding. Therefore we believe this investment should remain within our WINEP programme.

Non statutory WINEP investment - 25 Year Environment Plan – Bluespaces

The Bluespaces schemes proposed for NW and ESW under the 25 Year Environment Plan driver builds on a successful current AMP7 programme linked to a bespoke ODI supported by customers and Ofwat in PR19 for water environment improvements and which is overseen by an external governance group [[Water Environment Governance Group \(WEGG\) \(nwg.co.uk\)](http://www.nwg.co.uk)].

The Bluespaces programme directly links customers to the environment, through focusing environmental improvements on areas of water environment that customers can publicly access and delivering partnership schemes which are targeted to customer priorities and go above regulatory obligations.

We have engaged with the EA and Ofwat in this programme, who agree is ambitious and delivers the type of customer-driven outcomes that water companies should be able to develop. This programme is to be 50% co-funded by partners from 2025, leveraging in environmental investment from other partners and sectors, and supporting multiple environmental outcomes including biodiversity net gain, zero carbon, nutrient neutrality and green recovery. We sought advice for how to include Bluespaces in our PR24 plan. Ofwat asked that we include this in WINEP as bespoke PCs are to be limited for PR24. We have worked with the EA to include Bluespaces on standard WINEP, clearly demonstrating the potential value of the wider environmental outcomes that could be achieved through this programme and the investment this would bring across sectors to our regions. This programme is customer supported with significant evidence provided.

This programme needs to be continued in AMP8, and it is not appropriate to pause this to 'phase' it to AMP9, if we are to continue to meet our customers' expectations and get the greatest benefit from the investment to date in this unique approach.

3 Re-phasing already carried out

WFD/Environment Act

WFD schemes are statutory requirements to meet water sector fairshare towards good ecological status. The catchment approach we have taken to develop our plan, working collaboratively with partners to review all needs, evidence and opportunities, ensures that we have created the most cost-effective plan we can for PR24, including catchment and nature based solutions wherever there is an opportunity and evidence that alternative solutions could be deliverable, and building phasing into our plan with a large programme of investigations in AMP8 to inform AMP9 needs and solutions.

Our PR24 plan includes 20 end-of-pipe schemes which allow us to reduce our P load by 62% by 2030 to support the national water industry target for the Environment Act. Three of these end-of-pipe schemes also include nature based solutions, using integrated constructed wetlands as all or part of the phosphorus scheme solution. Alongside this, we have included 23 catchment nutrient balancing (CNB) schemes which will work with catchment permitting, allowing us to use catchment and partner measures and offsetting as alternatives to end-of-pipe phosphorus removal. By implementing these CNB schemes now, it is likely that end-of-pipe schemes in future AMPs may not be required, and these solutions will save customers around £50m of investment. These CNB schemes are all high benefit to cost, and will deliver multiple wider environmental outcomes, with the monetised additional benefit of this catchment investment through the EA Wider Environmental Outcomes assessment estimated to be over £100m. We have already taken the opportunity to delay investments under the Environment Act where legal requirements fall outside of AMP8, agreeing a phased plan with the EA into AMP9 and AMP10 which could see us reduce our P load by as much as 78% by 2038 if this is still required to achieve WFD Good status.

We believe this plan delivers for both the environment and customers for PR24 and no further phasing is required.