



Severn Trent Water

Committee Clerk
Environment & Sustainability Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

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Dear Sir/Madam,

Thank you for the opportunity to provide evidence to the Environment and Sustainability Committee's inquiry into water policy in Wales.

In this submission, we suggest ways in which water affordability issues could be approached in a way that maintains environmental improvements and long term investment. We also address the question of different market regimes in England and Wales. We begin, however, by explaining the role of Severn Trent Water.

About Severn Trent Water

Severn Trent Water (STW) provides water and waste water services to the people of mid-Wales. We are part of Severn Trent Plc, a FTSE 100 company that provides water-related services throughout the UK and internationally.

STW is committed to providing excellent value for money for our customers. Our average combined water and sewerage bills for our customers are around £100 less than they are elsewhere in Wales.

Affordability, environmental improvements and maintaining investment

The performance of water companies in Wales and England has improved significantly over the last 20 years. New challenges are, however, emerging and evolutionary change is necessary if these challenges are to be addressed successfully.

The four policy outcomes we believe should be made a priority are:

1. Keeping bills affordable.
2. Maintaining investor confidence.
3. Appropriate level of environmental investment.
4. Market reform.

These policy outcomes are complementary. All four are important to achieve social, environmental and economic sustainability. To help achieve them, we propose that the Committee should consider the following measures:

1. *Finding new ways to support customers in need.*

The typical household's water and sewerage bill is about one-third of their combined energy bill. Water poverty is therefore less prominent than energy poverty.

Despite this, and despite Severn Trent offering the lowest average bills in Wales and England, we estimate that nearly 10 per cent of our customers spend 5 per cent or more of their disposable income on water. To help these customers, we provide the traditional range of support mechanisms, ranging from Water Direct (a scheme for people receiving state benefits) to the Severn Trent Trust Fund (that helps people facing financial hardship).

We believe a broader approach is necessary, however. This is why we have started to work with the Citizens Advice Bureau, paying for them to provide general money management advice to customers who struggle with their water bills. The idea is that our customers in need will benefit from broader, more joined-up advice - and will eventually be better able to pay their bills, reducing the overall cost to all customers.

2. *Environmental legislation such as the Water Framework Directive (WFD) should be implemented in a sustainable way.*

Much progress has been made at cleaning up rivers in Wales and England over the last 20 years. The downside is that customers' water bills are higher than would have otherwise been the case.

It is estimated that further environmental improvements to meet the requirements of the WFD could cost £27 billion over the next 20 years (House of Commons, Science & Technology Committee). This would have a major impact on customers' bills, and hence the affordability of water.

Environmental benefits need not always be in conflict with customer affordability. With the right regulatory approach, environmental improvements can help reduce costs (better catchment management can, for example, reduce the cost of cleaning raw water).

It is also important to note that the WFD is explicitly designed to be implemented pragmatically, with environmental gains expected to be proportionate to their cost.

We propose the following three priority measures to help achieve the successful implementation of the WFD:

- Ministers should prioritise the environmental goals they want to see achieved and provide clear guidance to the water industry and others. It might, for example, be environmentally more beneficial for the water industry and others to be asked to improve bad and poor rivers first, rather than investing in making all rivers 'good'.
- Ministers should provide guidance about the pace at which they would like to see further improvements made. A balance has to be struck between speed and the impact on customers' water bills.
- Ministers should confirm they expect action to be taken in the most cost-effective area (or areas).
 - In cases where there is uncertainty about which solutions will work, the lowest cost reasonable option should be tried first.
 - The legal concept of 'best endeavours' should be used to encourage much needed environmental innovation in achieving WFD objectives.
 - Natural Resources Wales should publicise evidence on the most cost effective solutions to address environmental improvements.

3. *Appropriate competition should be introduced to encourage innovation and sustainability.*

Much of the water value change is a natural monopoly in which competition is unlikely to occur. It is in the absence of competition that the sector is regulated economically. However, the introduction of competition *where appropriate* has the potential to improve service standards, enhance sustainability and reduce costs for customers. For example:

- The promotion of **retail competition** for non-household customers in Scotland and England has led to Severn Trent establishing a joint venture with Costain to meet the specific needs of business and public sector customers. Severn Trent Costain provides customers with single billing (reducing bureaucracy and costs), dedicated account managers (improving service standards) and - crucially - help with reducing water consumption and the on-site treatment of effluent (reducing long term financial and environmental costs).
- An enhanced market for **water resources** could simultaneously reduce costs and enhance sustainability. Water companies traditionally build their own reservoirs and boreholes to meet the water needs of their own regions, which does not always deliver the best outcomes for customers or the environment. An enhanced market for water resources would provide incentives for those with excess water (including some farmers at certain times of the year or, for example, National Rail who spends resources on pumping water out of tunnels) to sell this water to water companies.
- A by-product of sewage treatment is **sewage sludge**, which can be used as a fertiliser and to generate energy. If this market was de-regulated economically (but not environmentally) it would stimulate its growth and raise the prospect of generating significantly more sustainable energy.

Different market regimes in Wales and England

Whilst Severn Trent serves the people of mid-Wales, our operations in the UK are mainly in the Midlands region of England. We are therefore regulated economically under the rules governing England. Operating to a single set of rules enables us keep costs down, which results in lower prices for our customers in Wales.

The stakeholders who are perhaps most directly affected by different market arrangements in Wales and England are UK-wide consumers of water – multi-site businesses, for example. The Committee might wish to speak to these customers about their views about competition in the non-household market.

Should you require any further information, please do not hesitate to contact me at tony.ballance@severntrent.co.uk. We would be happy to provide oral evidence to the committee to expand on these points further.

Yours sincerely


Dr Tony Ballance
Director, Strategy & Regulation

