

Making the Sustainable Sustainable

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It's great to have an opportunity to put forward some thoughts about how things are going to an industry audience. But it's a particular pleasure to do this among friends at the Institute's conference here in Belfast.

First, though, can I congratulate you on your re-launch as the Institute of Water last year. This was an excellent step and I know it's given your members (and the industry) a new focus. It's never been more important that we have a professional focus on the industry and the skills and values we need to take us forward.

It doesn't need saying (but I'll say it anyway) that looking after the environment is absolutely central to our industry. In recent years, our single aim has been sustainability in all aspects of business – that's water supply, sewerage, customer service, charging, consumer protection. And sustainability has meant working on every project in a joined-up way to get the best outcome.

Everyone now agrees that we've been successful. Yes, there's a long way still to go, but we have made real progress – and, crucially, the environment has been one of the big winners.

In the UK as a whole, the quality of rivers and bathing waters is the highest it's been since the Industrial Revolution. The number of Blue Flag beaches has quadrupled in the past decade. The populations and variety of fish in urban rivers has grown steadily and still has the capacity to amaze people.

In Northern Ireland there have also been considerable improvements to the water environment due to water industry investment. Officially, the quality of wastewater discharges fell in the middle of the last decade because many more sites began to be monitored. Now all the lost ground has been made up which I think is a real achievement in a fairly short time.

The success has been down to two things: good management and high investment. In the future we're going to need a lot more of both management and investment to keep the improvements going with everything that's happening. I mean the quality standards are tightening, the political context is changing, and of course the low-carbon agenda has changed everything in a few short years.

So it's not surprising that we have a range of options about which way to go. And it's not surprising that there are differences of opinion about which are best. This is my starting point, this afternoon.

I want to look at the dilemmas facing us as policy-makers, operators and supply chain. I'll look at four areas where we're facing far-reaching decisions in the next year or so. At the moment, it's not clear (to me anyway) that we know which is the right way to go.

The four areas are:

- meeting new water quality standards;
- ensuring a secure supply-demand balance;
- improving resource efficiency and carbon reduction; and
- adapting to climate change.

So, first, meeting new water quality standards.

We all know that the Water Framework Directive has moved the goalposts for environment policy. As I've mentioned, we can be proud of what's been achieved, but the arrival of "good ecological status" has put the cat among the pigeons. It has caused a lot of different responses. It's knocked for six the complacency of environmental policy-makers. It's been seen as unrealistic or disproportionate by economic policy-makers and many business people. It's caused conservation groups to go into campaign mode and protest that governments aren't implementing the directive properly and that regulators have not been sufficiently ambitious.

There are obviously some big choices for us here.

Water UK has worked tirelessly on the WFD with its members and governments and regulators for more than ten years. We've always taken a positive line on the potential value to the economy and quality of life. But we're disappointed – more than disappointed – that the first River Basin Management Plans ignore the hard questions.

For example, we know that the real cause of failure in water bodies now is diffuse pollution from farming and roads and industry. But knowing is one thing; acting, another. The truth is that the agencies and departments who are responsible to ministers haven't been able, or willing, to get rural and urban polluters to change their ways.

The WFD requires that polluters pay to create a sustainable water environment. We'll go on working with all sides to find ways of making the changes needed. Let's look at the options.

One option is that everyone accepts that it's all just too hard. The water companies and their customers will go on carrying the burden just as they always have, and just as they will go on doing in these first River Basin Plans – remember that the industry is responsible for something like 95% of the work in the plans.

This outcome is daft. For one thing, the impact on water bills would be massive. The total cost is unknown but could be as much as £100 billion over the next 20 years. And the truth is that the solutions the industry could put in place on its own wouldn't solve all the problems anyway. So, for Water UK, this option is a non-starter. If only it were a non-starter for everyone.

Another possibility is to accept that the WFD standards are too demanding at the present, difficult time. The government would explain why this was so and risk infraction by delaying the implementation timetable. This would be politically unacceptable of course. But let's be honest, realpolitik means it would hardly be a threat to the EU when you consider that some EU Member States haven't even got round to publishing their first River Basin Plans, let alone started implementing them.

A third option might be a revival of political will to face up to the hard questions. It would mean getting a grip and allocating responsibilities between the polluters according to the level of their involvement. This would be very attractive to us, but I'm afraid is extremely unlikely to happen. In truth, the evidence you would need for a strong-arm policy of this kind simply doesn't exist. In fact, the lack of monitoring and evidence is one of the most important failures in what has happened up to now.

So, a fourth possibility is the discovery of a new, shared sense of ownership of the problems in each catchment.

This would have advantages. It would lead to a new collaborative approach among all the players in the catchment. It would identify the best and most economic ways of meeting the new standards. We know, for example, that control of pollution at source reduces the need for expensive, often energy-intensive, end-of-pipe treatment which the water industry has to provide. And one final point which is quite important, I guess. It is the outcome envisaged by the WFD itself. In fact, more than that, it is the outcome required by the WFD – which you will know is quite specific about getting the division of measures right and consulting the public properly.

I live in hope, if not expectation, of a shared solution of this kind.

My second set of dilemmas and options affects the business of making sure we have a secure supply-demand balance.

It's true that there is now more or less complete agreement about the twin-track approach. And the consensus has led to some remarkable changes. You only have to look at the use of meters and the transformation in public attitudes and public policy over the past ten years. And yet...Even within this consensus there are still some big questions for which we haven't got answers and some big areas of disagreement. We have to make progress if we're serious about sustainable water resources.

In England and Wales, one question is how we regulate and use abstraction licences.

The options are well-rehearsed.

One is the compulsory conversion of permanent abstraction licences to licences with time-limited status. This is promoted by the Environment Agency as a way of improving rivers where the ecology is affected by low-flows. They believe the number of rivers affected will grow as the climate changes, and they want to be able to reduce abstraction quickly when trigger points are reached.

The industry doesn't support this option. There is no need for it because the vast majority of licences cause no harm at all. On the other hand, imposing a universal, draconian solution is likely to be counter-productive by damaging the industry as it tries to find the most sustainable solutions. It would be very costly in compensation terms. It would weaken the public supply by removing flexibility from the network. It would reduce the confidence of companies and investors and potentially reduce the ability to attract capital. It would increase the risk of stranded assets and wasted capital expenditure.

And it would be inconsistent with the plans for more trading of licences. Many people, including the Environment Agency, feel this is one way of encouraging more sharing of resources, but it seems obvious that shorter time-limits would reduce the value and attraction of licences.

A second and better option for dealing with 'problem' abstractions is to improve the connectivity and flexibility of the network.

This has been part of industry strategy for many years. It has delivered excellent results – just think about how the economic impact of the most serious drought in a century – the one in southern England in 2005-06 – was kept to a minimum. This option has great potential too. For one thing, there is scope for better incentives for companies to trade supplies with each other as I was saying.

At the moment the incentives are more or less nil. If a company sells water to a neighbour it loses any benefit after 5 years and its own customers have less security of supply. But if a company buys water from a neighbour, it gives up the return on the new assets it would have built and would be judged to have lower operating efficiency. Not exactly a great bargain.

There is a third option for dealing with abstraction and helping the environment which we think can run alongside the work on the network and the twin-track and water efficiency I've mentioned.

It's the same option as for making the WFD work properly – for all sides to move towards greater collaboration – and to do it positively, rather than just trying to find the lowest common denominator.

The big argument for more collaboration is the need for a sustainable way forward. Everyone agrees sustainability can't be based on the demands of one set of interests – whether consumers, or the environment or the economy. It has to be a joint project and Water UK is committed to helping find a fresh way of looking at the industry's role with government, regulators, and non-government groups.

It's easy to say this of course, but what would be the foundation of a new settlement? Well, later this month Water UK will put forward a fresh way of seeing the industry's role in the challenges it's facing including security of supply. Two aspects of this are relevant here – changing the ways incentives are applied – and using regulatory mechanisms, such as licences and consents, more intelligently to deliver higher standards.

In passing we've been impressed by the approach and thinking put forward by WWF in its paper on Riverside Tales. We don't agree with everything they say, but they really do understand the problems, and they take a positive view of what can be done in the future – which is refreshing in itself.

I've concentrated on water resources and abstraction, but before leaving this area can I briefly raise one other point – to do with water resources planning.

Most of the companies in England and Wales have now published Water Resources Management Plans – several are still being looked at. This is a valid way of making sure all voices are heard but with hindsight the process seems to have had two basic drawbacks.

One was that it didn't fit very well – I'm being polite – with the Price Review timetable. The other was that it didn't give enough weight to the primary responsibility of water companies to supply their customers.

The companies have many other responsibilities of course, but it shouldn't have surprised anyone that they would seek to do whatever was necessary to fulfil this primary role. Both of these problems can be ironed out with the kind of collaborative approach I've been proposing.

The other two policy areas I want to mention, where we have environmental choices as a sector, are connected with climate change.

We have to go on improving resource efficiency and reducing our carbon footprint.

As ever there are options. We can wait for guidance from government and regulators. We can work as individual water companies in our own sector and claim to be supporting the national effort. Or we can get on the front foot, do what is necessary to reform our internal ways, but crucially also show why we think an outward-looking strategy and working with other sectors is the right one.

One reason why this third option is the right one for making a difference on carbon emissions is that we often say that water services are in the front line when it comes to facing climate change. We say it because it's true, but if we really believe it, it just wouldn't wash not to engage properly with stakeholders and the public.

The good news is that the industry has accepted this strong position. The evidence is in its strong promotion of water efficiency and determination to reduce leakage. The supply, use and treatment of water all require energy.

The water companies have always been active on water efficiency but are now involved in more large scale trials and water efficiency retrofits and promotions than ever before. The debate about metering, especially in areas of comparative water scarcity, is now over, and companies are committed to helping customers use water more wisely and support greater resource efficiency by their actions.

On leakage, the industry has a strong record to live up to. The companies are meeting targets agreed with the regulator and taking part in the debate about future economic levels of leakage which take into account the full environmental and social costs. (Of course it's still vital to recognise sustainability and this means accepting that the cost to customers – and low-income customers particularly – must always be taken into account.)

Another dilemma in mitigation policy is connected with renewable energy.

Most people accept that there is still massive scope for large-scale, cost-effective investment in generating renewable energy. A lot of work has been done to move on the case for using the industry's expertise in anaerobic digestion for example. But our existing capacity could be used to increase biogas production through the mixing of waste streams. If we were able to work more in partnership with other sectors, there is every prospect that we could share knowledge and increase efficiency in our own business and other sectors.

The dilemma comes in how this kind of activity is regulated. At present, to be honest, there is a lot of uncertainty. But our stakeholders will find the industry a more than willing partner in finding the way to a better outcome.

For instance on anaerobic digestion, we want to work with government to develop better incentives for investing through the renewable obligation system. On co-digestion of waste, there are still barriers to the industry's involvement at a level that would help the whole national effort. How silly. Again we want to work with regulators and ministers to pull down the barriers. When Phil Woolas was Defra's Minister we began to make progress – we need to pick this up with the new regime.

Finally, I'd like to say something about climate change adaptation.

We know that climate change is going to affect – it's already affecting – all areas of the industry – the quality and availability of water sources, the supply and drainage infrastructure, and the extra treatment needed to meet quality standards; and of course we expect to have to manage more frequent drought and flooding.

Until recently the dilemma used to be how much to prioritise adaptation when all the debate and action seemed to be on mitigation. This is no longer the case and there is widespread agreement about the role of specific planning for greater resilience. There are still hard questions about priorities.

It's true that PR09 allocated over £400 million to network and asset resilience. AND it's true that Ofwat has agreed a Notified Item to cope with cost increases that become apparent in the supply-demand area.

But for many this outcome was still frustrating. We should be doing more, and more quickly. The 2007 floods provided the biggest spur to action.

The recommendations of the independent government review chaired by Mike Pitt made it on to the statute book. Water UK's work and our member companies' reviews reached many of the same conclusions. And a lot of work is underway, for example to protect supply in single-source areas.

But the importance of adaptation has been growing. The Environment Agency published its flood protection strategy last year. And only last month the Environmental Audit Committee added its contribution. The Committee asked some tough questions about the industry and its regulator which underline my points about dilemmas and choices. It said, and I quote, that “Regulated companies should be required and enabled to take urgent, efficient and effective adaptation measures...” And it asked if a system of economic regulation that was set up to extract maximum efficiencies post-privatisation was appropriate in the more complex world of today andparticularly in the face of climate change.

A few words in conclusion....

I called my talk today “Making the sustainable, sustainable” although it’s in the environment part of your conference. I did this because I wanted to draw attention to the risks of not making sustainable policy our key objective – the risk of isolation from other sectors; the risk of not building effective partnerships within the sector; and the risk of not setting the right priorities.

It’s clear that change is needed to put us in the best shape to deal with the challenges ahead. I hope I’ve shown that the industry has the experience and the right expertise to meet these challenges.

What it needs now is to collaborate with policy-makers, regulators, customers and environment groups and encourage them to take the same approach. What we have to do – together – is make the changes that will build on our advantages and our successful record, rather than the changes that will put it all at risk.

As ever, the environment we all depend on will be at stake in the process.

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