

## **WATER ACT 2003**

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### **EXPLANATORY NOTES**

#### **SUMMARY OF REGULATORY IMPACT ASSESSMENT**

495. *Abstraction and impounding:* Costs to the Environment Agency for implementing the new abstraction licensing system will be about £5 million over the first four years. This will be financed through abstraction charges, which will be shared between around 30,000 licence holders. The total estimated one-off (non-recurring) compliance costs to abstractors of implementing the proposed regulatory regime would range between £2.05 and 41.5 million. The total estimated annual (recurring) costs to new licence-holders as a result of the revised regulatory regime will be approximately £83,200. The revised arrangements are expected to bring benefits to abstractors and increase protection of the environment and our water resources. It is estimated that the new system will remove the need for up to 20,000 of the existing 48,000 licences, the majority of which are held by small businesses, particularly farmers, for abstractions that have no environmental impact. The intended widening of the scope of the abstraction licensing system to different purposes, such as dewatering and navigation abstractions, will bring a significant number of currently exempt abstractors into the regime, thereby increasing the Environment Agency's ability to control our water resources and protect the water environment from damage by abstraction, and also to protect abstractors' rights to water. The proposals also remove the right to compensation where an abstraction licence is revoked or modified to protect the environment from serious damage, in keeping with the 'polluter pays' principle. New measures to require water companies to produce drought and long term water resources plans will provide reassurance to the public that water supplies can be maintained.
496. *New regulatory arrangements:* These provisions are aimed at securing a number of different but complementary objectives with an overall aim of putting the consumer at the heart of the regulatory process and to make regulation more open and accountable. There are not expected to be high compliance costs associated with these provisions, because in many cases they will be funded within current resources and build on or reinforce existing best practice by the Office of Water Services (Ofwat). The net annual increases in costs to Ofwat are estimated to be no more than £0.3 million. The cost of setting up the new Consumer Council for Water (the Consumer Council) is not expected to be great. The existing Customer Service Committees cost around £3.5 million a year to run. The above costs of the Regulatory Authority and those of the Consumer Council will be shared between the regulated water companies through an increase in their licence fees. This is a continuation of the existing system. The benefits expected to arise are different in nature, but all - ultimately are expected to serve to safeguard or improve service standards and quality in the water industry and achieve a fairer balance between the interests of consumers and shareholders.
497. *Extending opportunities for competition:* The sections will remove barriers to entry to the water industry and allow access to the public distribution network by licensed water suppliers. This will enable water customers using 50 megalitres or more a year to switch to more competitive suppliers. The size of the market opened up to competition will be to a total value of £243 million. The intended benefits of increased opportunity for competition will provide eligible customers with the opportunity for choice of

*These notes refer to the Water Act 2003 (c.37)  
which received Royal Assent on 20th November 2003*

supplier, a wider choice of tariffs including keener prices and improved services including customer specific supply contracts. The Government expects increased market pressures on undertakers to lead to innovation and efficiency measures that will result in better value for all customers. The provisions create regulatory certainty for both undertakers and new entrants with respect to the Competition Act 1998. By limiting the number of eligible customers by setting a relatively high threshold, the Government has limited the potential costs of the proposed framework. Risks to water quality, the environment, undertakers' revenues and the regulators' ability to oversee the development of the industry are intended to be reduced by the effect of the threshold, limiting potential numbers of customers changing supplier, and the likely volume of new water sources entering the system. The Environment Agency, Drinking Water Inspectorate and Ofwat do expect some increased costs associated with regulating the competition framework. Ofwat will charge a licence application fee to recover its costs. The provisions will allow undertakers to recover costs associated with competition in order to protect, as far as possible, customers ineligible for supply by new entrants from bearing increased water charges as a result. Risks to the network and customers are intended to be limited by requiring potential licensed suppliers to assure the regulators that they are competent to enter the market and comply with their legal obligations and licence conditions.

498. [Part 3](#) includes a number of measures intended to improve the regulatory system that will not significantly add to business costs.
499. A copy of the full Regulatory Impact assessment can be obtained from Defra's website at: [www.defra.gov.uk/environment/water/legislation](http://www.defra.gov.uk/environment/water/legislation) Measures that may be introduced by use of the powers in section 98 are covered in a partial Regulatory Impact Assessment contained in the July 2003 consultation document *Review of Existing Private Sewers and Drains in England and Wales*, which can be obtained from [www.defra.gov.uk/corporate/consult/sewers](http://www.defra.gov.uk/corporate/consult/sewers). A full Regulatory Impact Assessment will be produced if these powers are exercised.
500. Copies of the above can also be obtained from David S. Jones, Water Bill Team, Department of Environment, Food and Rural Affairs, Zone 3/G19, 123 Victoria Street, London SW1E 6DE (Tel: 020 7082 8352, e-mail: [David.S.Jones@defra.gsi.gov.uk](mailto:David.S.Jones@defra.gsi.gov.uk)).