

# Sludge Impact Assessment

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**July – Dec 2015:** We developed the sludge options, which were evaluated against our Water2020 objectives.

**Dec 2015 IA:** We published a high-level **qualitative** impact assessment on our **preferred option**. This detailed financial, environmental and resilience impacts.

**Dec 2015 to May 2016:** We are looking to refine our proposals and develop a more detailed **quantitative** impact assessment.

**May 2016:** Publish decision document and updated **quantitative** impact assessment.

# What options did we consider

We considered **four different alternative packages** of options. We chose our preferred option based on:

- how well the option will help us achieve our objectives;
- how well the option addresses known problems; and
- how practical it is to implement.

	No change		Preferred option	4
	1	2	3	
Separate price controls	Non-binding network plus sub caps		Binding price control for sludge (treatment, transport and disposal)	Remove sludge from price control and move to backstop customer protection
Information remedies	No additional information requirements	Companies publish data based on Ofwat stipulations	Independent information platform publishes relevant market data	
Market and system operation	System operator functions undertaken by WaSCs and other market participants			Independent system operator (ISO)
Trading regime/ incentives	Do nothing	Regulatory transparency regarding funding of contracts with third parties		Introduce sludge trading incentive

## Financial Benefits

Our proposals should drive greater efficiencies in company sludge operations:

- **Separate price controls** should **reveal information** on where **further efficiencies** can be achieved.
- **Further competition** between WaSCs; and WaSCs and Other Organic Waste (OOW) market should **reduce costs** through pressure to keep costs low and **enhance innovation**.
- Further **cost reductions** maybe achieved through **economies of scales** from WaSCs entering the OWW market.
- **Spill over benefits** for **OOW customers** may be achieved through greater competition in OOW market from greater **WaSCs participation**.

## Financial Costs

### Implementation costs:

- **Companies** may need to make **changes to their internal systems and process** to enable them to collect and provide information for **separate price controls** and **information platform**.
- Development of the information platform.

### On-going costs:

- **Cost of collecting** and **providing information** for the database and price controls.
- **Cost of running a separate price control**.

### Financing Costs:

- We currently consider that financing costs to WaSCs would **not be material**.

## Resilience Benefits

- Greater resilience in sludge treatment and disposal could be achieved through:
- **Increasing the number of companies** operating within the market, **providing companies** with more **alternative** locations to treat sludge.
  - **Providing information** on the availability of **alternative works** that may be used at short notice if an **operational incident occurs**.

## Resilience Costs

Increasing the **role of smaller companies** increases the probability, but reduces the impact by occurrence, of **company failure/going into administration**. This impact can be mitigated through applying special administration arrangements.

## Environmental Benefits

- Potential gains include:
- **reduced greenhouse gas emissions** from potential increase in renewable energy generation;
  - Greater **volume of bio-solids products displacing inorganic fertiliser** use in agriculture; and
  - **carbon footprint improvements** from **reduce sludge miles** (although the net impact of our proposals on this is unclear).

## Environmental Costs

No environmental costs were identified.

### **Some questions you may like to consider:**

What are the impacts that we have not identified?

How will our proposals affect you?

What changes would you need to make?

How should we estimate the costs or benefits? (Are you able to provide estimates of your own costs or benefits?)

What do you see to be the main risks?

What do you think are the main uncertainties?

Your feedback and input will really help us to deliver a more robust impact assessment in May.