



Secretary of State for Environment, Food & Rural Affairs
Water Resources Management Plan Consultation
3rd Floor Nobel House
17 Smith Square
London, SW1P 3JR

26 July 2013

Dear Secretary of State

Thames Water – Draft Water Resources Management Plan 2014

Thames Water published its draft Water Resources Management Plan (dWRMP) on 1 May 2013 and this letter summarises our views of the draft plan. These views are based on a high-level review of the processes described in the plan against the requirements of the Water Resources Planning Guideline. These views are without prejudice to any subsequent decisions that we may make in connection with the business plan that the company is scheduled to provide to us later this year as part of the price control review process.

In summary, our high-level review suggests that Thames Water has generally followed appropriate processes in formulating its draft plan.

Nonetheless, it is not clear from the draft plan how the company has employed 'utilisation' in its appraisal of options. Utilisation is an important concept in determining a best value solution for customers and the environment. The dWRMP also notes that Thames Water will undertake further work on water trading options, in particular relating to the work of the Water Resources in the South East Group.

It is important that the company addresses issues relating to utilisation and properly considers water trading options, including with third parties, when producing its final plan.

1. Incorporation of stakeholders' views

We have not identified any particular concerns in relation to the approach that Thames Water has adopted to stakeholder engagement in preparing the draft plan.

.../...

2. Baseline supply-demand balance

We have not identified any particular concerns in relation to the processes that Thames Water has followed to develop its supply forecast.

We have not identified any particular concerns in the relation to the processes that Thames Water has followed to assess demand. The company's baseline leakage forecast for 2015 is below the target that we assumed in setting price limits in 2009 and remains broadly stable over the planning period.

We have not identified any particular concerns in the relation to the processes that Thames Water has used to assess target headroom. Its assumed allowance for overall uncertainty appears to be reasonable.

3. Options appraisal

Unconstrained options list

We have not identified any particular concerns in relation to the processes that Thames Water has followed to develop its list of unconstrained options. The company has considered options to manage demand, increase supply and share resources.

Thames Water has explained that it has consulted neighbouring water companies, and other water companies further afield, about potential options to import and export water and has sought options from third parties. Its published contact plan set out the mechanisms that the company would follow to facilitate the development of such options.

The unconstrained options list also includes options to export water from water resource zones that are in surplus to those zones that are in deficit and options for discretionary investment, such as leakage reduction and other demand management measures.

.../...

3.2 Feasible options list

We have not identified any particular concerns in relation to the processes that Thames Water has followed in screening its unconstrained options list to develop a feasible options list. The company has also documented its decisions for rejecting options.

However, Thames Water appears not to have considered certain water trading options in the development of its preferred programme. Thames Water is part of the Water Resources in the South East (WRSE) Group, whose aim is to develop a regional strategy to balance supply and demand. The company has considered most of the recommendations of the WRSE regional strategy¹, with the exception of inter-company and inter-regional transfers. Thames Water explains that there was insufficient information available when it was preparing its dWRMP to enable it to consider these options and has committed to explore these further for its final WRMP. We expect the company to fulfil this commitment and explain how it has taken account of these regional water trading options in its final plan.

Similarly, no third party options have been included in Thames Water's feasible options list due to insufficient information being available when the company was preparing its dWRMP. We expect the company to fulfil its commitment to explore these options further for its final WRMP.

3.3 Economic appraisal of feasible options

Thames Water appears to have followed broadly appropriate processes for the economic appraisal of feasible options to develop its preferred solutions. Nonetheless, there is a lack of clarity on how the company has employed the concept of 'utilisation' in the appraisal of options, either in the text of the dWRMP or the supply demand balance tables.

Neither is it clear in its options appraisal how Thames Water has taken account of the potential operating cost savings of new sources of water, when compared to existing sources. The company should clarify this in its final plan.

.../...

¹ As set out in the ['Water Resources in the South East Phase 2B Report'](#)

3.4 Programme appraisal

We have not identified any particular concerns in relation to the processes that Thames Water has followed to consider wider non-monetised impacts through the use of Strategic Environmental Assessments and Habitats Regulation Assessments. The dWRMP explains that it has considered wider objectives including environmental performance, customers' preferences and Government aspirations.

4. Final planning solution and scenario testing

Thames Water has described how it has developed its preferred solution from the least cost solution. Overall demand and household per capita consumption for the preferred solution are forecast to decrease over the planning period, in line with Government aspirations. We have not identified any particular concerns in relation to the processes that Thames Water has followed in testing its preferred solution's response to different scenarios.

Nonetheless, there are some inconsistencies between Thames Water's preferred solution and the preferred solutions of other water companies in the WRSE Group. For example, Sutton and East Surrey Water and South East Water's dWRMPs both assume bulk imports of water from Thames Water, but Thames Water does not assume the corresponding exports. Thames Water should work with these other companies to ensure their final plans are consistent.

Yours sincerely,

Andrew Walker
Director – Wholesale Price Control Review