

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

13 August 2013

Dear Secretary of State

### **United Utilities – Draft Water Resources Management Plan**

United Utilities published its draft Water Resources Management Plan (dWRMP) on 28 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. They 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, United Utilities needs to consider further the following areas in finalising its dWRMP:

- presenting the cost implications of the options it considers in bill impact terms as well as net present value (NPV) terms
- providing details of how it has defined the dry year factor, normalised demand and calculated its weighted average demand forecast
- clarifying whether the company has used 'utilisation' to appraise the costs of its options during the optimisation process, and
- clearly justifying the company's solution for the forecast deficit in the West Cumbria water resource zone (WRZ).

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## **1. Incorporation of customers' views**

United Utilities provides details of considerable stakeholder consultation both before and during the production of the company's dWRMP. However, we have not been able to determine from the draft plan the role the Customer Challenge Group (CCG) played in this consultation. United Utilities should clarify the CCG's role in its final plan.

The company presents the relative financial implications of its preferred plan, the alternative plan and least-cost plan in terms of the NPV of the total financial, social and environmental costs. However, United Utilities does not appear to have indicated the potential impact on bills of its dWRMP proposals which would be easier for customers to understand. The company should present this information in its final plan.

## **2. Baseline supply-demand balance**

United Utilities has forecasted baseline distribution input for normal years, dry years and weighted average conditions. The company says it has produced its dry year forecasts by the application of 'dry year factors'. However, we have not been able to find details in the draft plan of how United Utilities defined the dry year factor, normalised demand or calculated its weighted average demand forecast. In its final plan the company should present the analysis it conducted to define a dry/normal year and the frequency of these occurrences for the weighted average demand.

The company makes an allowance for uncertainty in treatment works losses. However, we cannot find details on how the treatment works losses were calculated in the dWRMP.

The draft plan includes a number of confirmed and likely sustainability reductions with a significant impact particularly on the West Cumbria water resource zone (WRZ). We note that the company has agreed with the EA to include a number of the 'unknown' category where on-going investigations suggest an increased certainty of detrimental effects. The EA expects to confirm its sustainability changes this summer and the final plan should reflect the confirmed position.

United Utilities forecasts a constant volume of leakage throughout the planning period. The company should consider in its final plan whether increasing meter penetration or customer willingness to pay mean that a decline might be more economic and reflect customers' preferences.

### **3. Options appraisal**

We welcome that United Utilities considered options for the export and import of water to and from neighbouring companies and third parties.

It is not clear in its options appraisal whether United Utilities 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.

Utilisation is an important concept in determining a best value solution for customers and the environment. It is not clear whether the company has used 'utilisation' to appraise the costs of its options during the optimisation process. The company should clarify this in its final plan.

### **4. Final planning solution and scenario testing**

We have not identified any particular concerns in relation to this section of the draft plan.

Yours sincerely

**Andrew Walker**  
**Director – Wholesale Price Control Review**