

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

### **South East Water – Draft Water Resources Management Plan**

South East Water published its draft Water Resources Management Plan (dWRMP) in 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, South East Water needs to consider further the following areas in finalising its dWRMP:

- ensuring in its final plan that its water transfer schemes are consistent with those in the associated companies' final plans
- explaining what customer support there is for the large increase it is proposing in target headroom
- setting out its least-cost plan clearly and explaining how and why its preferred plan differs from the least-cost plan, and
- presenting the evidence from its sensitivity tests clearly to show that its preferred plan is robust against different scheme and programme risk scenarios.

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

South East Water has engaged with customers in the pre-consultation period. It is not clear whether the company provided customers with an indication of the potential impact on bills of its dWRMP proposals and other scenarios in the pre-consultation period.

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

Appendix 4 (page 3) states that the final planning demand forecast is presented within Sections 9 and 10 of the dWRMP as part of the development of the preferred plan. But we cannot locate this information in the main report.

South East Water should look again at its population forecast now that the 2011 Census data is available.

We are glad to see that South East Water has included a number of transfers and resource sharing schemes identified through the Water Resources South East (WRSE) project. The company should try and ensure that its final plan is consistent with the final plans of relevant neighbouring companies in respect of these matters.

The draft plan shows a significant proportion of the increase in the deficit over the planning period is due to an increase in target headroom. South East Water should clearly articulate to customers the need for such headroom and whether service levels around temporary use restrictions will improve as a result. It should explain what customer support there is for the large increase it is proposing in target headroom in its final plan.

### **3. Options appraisal**

We cannot find evidence that South East Water has considered the potential for new resource options to be more cost-effective than existing sources of water.

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

South East Water needs to set out its least-cost plan clearly and explain how and why its preferred plan differs from the least-cost plan. It is not clear to us how South East Water's willingness to pay findings are consistent with moving away from the least cost plan.

South East Water needs to present the evidence from its sensitivity tests clearly to show that its preferred plan is robust against different scheme and programme risk scenarios.

Yours sincerely

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