



Water today, water tomorrow

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

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Dear Secretary of State

Southern Water – draft Water Resources Management Plan 2014

Southern Water published its draft Water Resources Management Plan (dWRMP) on 20 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, Southern Water needs to consider further the following areas in finalising its dWRMP:

- justifying the changes the company has made to the assumptions that underpin its supply forecast with the aim of improving the confidence it has in its deployable outputs, such as using a 1 in 200 year drought event;
- explaining what the bill impacts of its proposals to improve levels of service are and how they align with customers' preferences;
- justifying its baseline supply-demand balance forecast in relation to the deployable output, population forecast, leakage allowance and target headroom issues described below;
- clarifying how the company has assessed the environmental and social costs of its feasible options; and
- clarifying how the final planning solution has been developed from the initial least cost solution.

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1. Incorporation of customers' views

The company concludes that its customers are willing to pay an additional £3.40 on average bills (over the next 25 years) to improve resilience through a reduced frequency of temporary use bans and a reduced likelihood of emergency measures. However, it is not clear from the dWRMP what the impact on average bills would be of the changes to planning assumptions that the company has made in order to achieve improved resilience and therefore whether these are aligned to customers' preferences. Southern Water should explain these matters in its final plan.

2. Baseline supply-demand balance

2.1 Supply forecast

Southern Water has used an innovative approach to model river flows using 2,000 years of simulated rainfall data to illustrate the type of droughts that could potentially occur in the future. The company has assumed a 1 in 200 year drought event to underpin its assessment, yet there is limited explanation of why it has used this relatively extreme event. The impact on deployable output of this assumption may lead to investment in options that are only required in extreme circumstances. The company should justify this assumption.

Southern Water has included some significant reductions to its baseline deployable output to take account of nitrate pollution. However, the company has not explained how it has assessed the impact of nitrates on its sources nor justified the reductions that it has made. The company should clarify this in its final plan.

2.2 Demand forecast

Southern Water has used trend-based forecasts of population and properties to underpin its demand forecast but has not provided sufficient justification for doing so. The water resources planning guideline requires the company to use plan-based forecasts derived from contact with local authorities, using trend-based forecasts only where no plan-based data is available. The company should justify its use of trend-based population and property data in its final plan, otherwise it should use plan-based data.

The company's baseline leakage forecast of 93 MI/d for 2015 is above the target level of 88 MI/d assumed in price limits, and remains at this level over the planning period. This appears to be an error in Table WRP1 BL Supply, as the dWRMP refers to the leakage forecast as meeting the 2015 target of 88 MI/d. The company should explain and correct this in its final plan.

2.3 Target headroom

Southern Water has developed a new approach to assess target headroom for its dWRMP. This has led to some significant uplifts when compared to the target headroom values assumed in the company's 2009 WRMP. In addition, in some water resource zones, the baseline target headroom allowance increases significantly over time, driving investment. The company should explain these changes in its final plan.

3. Options appraisal

3.1 Feasible options list

The company has not adequately explained why it has not progressed two bulk supply options from Portsmouth Water from its unconstrained options list to the feasible options list. Southern Water should consider these options in its final plan, or provide a clear explanation of why they are not feasible.

3.2 Economic appraisal of feasible options

It is not clear how the company has assessed the environmental and social costs of feasible options. The dWRMP refers to the Benefits Assessment Guidance technique of 'value transfer', but there are very limited details of how the company used this methodology to make its assessment. The company should explain this in its final plan.

The dWRMP is not clear on how Southern Water has taken account of the potential operating cost savings of new sources of water, when compared to existing sources, in its options appraisal. The company should clarify this in its final plan.

The baseline supply-demand balance in the final plan may be revised as a result of corrections, for example for the baseline leakage forecast and demand forecast. Southern Water should reassess its least cost solution in light of any such changes in the final plan. .../...

4. Final planning solution and scenario testing

It is not clear how Southern Water has determined its final planning solution from the least cost solution. The company provides sensitivity analysis of various scenarios to make comparisons with its 'preferred regional' solution, but it is not clear whether this is the least-cost solution or, if not, how this solution has been derived. The company provides a clear audit trail of how it has derived its 'preferred regional' solution in its final plan.

Southern 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 the recommendations of the WRSE regional strategy¹ and included inter-company transfers with South East Water and Portsmouth Water. However, there are some inconsistencies in the timing and volumes of the transfers that each company has assumed in its plan. Southern Water should discuss these transfers further with the relevant companies concerned, to try to ensure consistency in its final plan.

Yours sincerely,

Andrew Walker
Director - Wholesale Price Control Review

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