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Welsh Government Water Resources Management Plan Consultation
Water, Waste Resource Efficiency and Flood Division
Water Policy Branch
Cathays Park
Cardiff
CF10 3NQ

8 June 2018

Dear Sir or Madam,

Dee Valley Water – draft water resources management plan 2019

Dee Valley Water published its draft water resources management plan 2019 on 23 March 2018 for consultation. This letter provides a summary of our assessment of the draft plan. It is our statutory consultation response, produced in accordance with our statutory duties and the Welsh Government's strategic policies and objectives for Ofwat. These views are without prejudice to any subsequent decisions that we may make at the next price review (PR19) in connection with the business plan that the company is scheduled to provide to us in September. Our assessment has considered:

- how adequately the draft plan follows the requirements of the water resources planning guideline and the Welsh Government's guiding principles for water resources planning; and
- how the draft plan helps achieve our vision of ensuring trust and confidence in the sector through the delivery of our key themes for PR19 of great customer service, affordable bills, resilience in the round and innovation.

Long term water resources planning is a key part of company business activities. We expect companies to integrate the development of their water resources management plans into their business plans which they submit to Ofwat. We also expect them to adopt an integrated and sustainable approach to improve water supply resilience through both increased supply and reduced demand. We will continue to work closely with the Welsh Government and other regulators in both Wales and England to ensure that a long term secure and sustainable supply of water is achieved.

Dee Valley Water supplies water to a population of over 250,000 customers around Wrexham in north east Wales, and Chester in England. Its water resources are planned on the basis of two water resource zones which are forecast to maintain a surplus throughout the planning period. This means there would be sufficient water to maintain supply to customers during planned-for severe drought conditions. While the draft plan is produced based on the current company operating area we recognise this will change for the final plan as a consequence of the acquisition of Dee Valley Water by Severn Trent Water.

In general Dee Valley Water has presented a draft plan consistent with its challenges and the majority of it is in line with our expectations and good practice. However, there are areas of the plan where we are not convinced, on the basis of the evidence provided, that the plan delivers in the best interests of customers. In particular:

- The plan lacks transparency regarding levels of service, which are only provided for temporary use bans. Dee Valley Water should specify and justify its levels of service for non-essential use bans and level 4 restrictions, such as standpipes, in its final plan. This should also include an explanation of any changes from the previous plan.
- Dee Valley Water proposes a lower level of leakage reduction compared with other companies; with a 7% reduction by 2025 with further reductions to 15% by 2030 and remaining at this level until 2045. It is unclear in the draft plan how this has been appropriately justified, either through scenario testing or through testing proposals with customers and other stakeholders. The level of leakage reduction needs to be considered further and justified in the final plan.

Further details on these points are outlined in the annex to this letter alongside more detailed comments on different areas of the draft plan.

I look forward to seeing these points addressed in the company's statement of response and final plan.

Yours faithfully



David Black
Senior Director, PR19

Annex

In this annex we outline further details on the points raised in our main letter alongside more detailed comments on different areas of the draft plan. Our points reflect our assessment approach and cover:

- 1. Plan building blocks:** The overall approach to the development of the draft plan in line with the technical guidance and broader resilience issues.
- 2. Customer participation:** The type and quality of interaction with customers and the impact this has had on the draft plan formulation and proposals.
- 3. Demand forecast:** How the company has considered the impacts of population growth, leakage and water efficiency in its demand forecast.
- 4. Supply forecast:** How the company has considered climate change, abstraction licences changes and transfers in its supply forecast.
- 5. Forecast uncertainty:** The robustness of the draft plan in accommodating uncertainties in the demand and supply forecasts.
- 6. Supply-demand balance:** The robustness of the overall need for water, if any, and the scenario testing applied to this assessment.
- 7. Options:** The approach taken to identifying and screening options for both supply and demand, including identification of trades and third party options.
- 8. Decision making:** The decision making tools, preferred programme development process and accompanying assurance processes.
- 9. National and regional considerations:** The interaction and consistency with national studies and regional groups (where relevant).

1. Plan building blocks

Dee Valley Water has adopted methods and used data appropriate to the complexity and scale of the problem it needs to address. However, we have concerns around the transparency of the levels of service and approach to non-drought resilience. We also recognise the final plan will reflect a different operating area and expect the impact of this change to be clearly articulated. Further specific comments:

- Dee Valley Water has appropriately referenced Welsh legislation in its draft plan but the company could further clarify how this has influenced the decision making process and plan development.
- There is a lack of transparency on levels of service in the plan which reduces our confidence that the plan is robust. In the final plan we expect the company

to report clearly its level of service across different levels of restrictions.

Further considerations:

- The draft plan only reports a level of service for temporary use bans with no level specified for non-essential use bans or level 4 restrictions such as standpipes. The company should clarify its level of service in these areas for the final plan.
- Dee Valley Water should explain any changes in levels of service from the previous plan and identify if it intends to enhance levels during the planning period. The company should also provide justification for the selected levels of service.
- We welcome that the company has agreed a new emergency transfer agreement with Dŵr Cymru and this is a good example of resilience planning. However, in the draft plan there is limited evidence of non-drought resilience to the full range of potential hazards and threats such as freeze-thaw events. Greater clarity on this area should be provided in the final plan.
- The final plan will include changes to the water resources zones between Dee Valley Water and Severn Trent Water to align with national boundaries. The final plan for Dee Valley Water will therefore cover the majority of its Wrexham area and Severn Trent Water's Powys area. We expect the final plan to fully reflect this change and clearly explain the impact on individual water resource zones.

2. Customer participation

There is some evidence of customer participation in the development of the draft plan but greater clarity is needed to provide us with confidence that customers were able to participate effectively in the planning process. Further specific comments:

- The draft plan is generally clear and accessible and contains a detailed contents page to aid navigation. The main report is available in English and Welsh, with the technical appendices provided in English only. The plan would however benefit from concise summaries of key sections, including issues faced and decisions made. The company has also not published a non-technical summary which would improve its accessibility.
- The draft plan makes reference to outputs of customer research but the supporting evidence presented is limited. We recognise future customer engagement is referenced, but expect the final plan to provide clearer evidence of customer's participation in its development. Further considerations:

- Dee Valley Water has provided some evidence of customer engagement regarding issues such as water resources and catchment management. However, customers' main preferences and concerns are not clearly presented and the final plan would benefit from a summary of engagement activity outcomes.
- It is unclear whether customers were engaged on different options for levels of service which, as noted in section 1, are not clearly defined in the plan. The company should clarify this for the final plan and identify whether drought resilience levels have been compared with other companies, to enable informed engagement.
- It is also unclear whether feedback from customer research has influenced the selection of preferred options, such as leakage. Greater clarity is required to explain how customer preferences have influenced option selection. This explanation should cover details of how customer willingness to pay has been assessed.
- The draft plan only provides a brief description of the role of the Customer Challenge Group (CCG) in assuring the customer engagement undertaken in the development of the plan. More detail should be provided in the final plan.

3. Demand forecast

The draft plan appears to have followed the relevant guidance and assessed demand through consideration of appropriate components. However, we have concerns around per capita consumption (PCC) trends and engagement on non-household demand. Further specific comments:

- Dee Valley Water has followed the guidelines through development of a population forecast based on Welsh Government and local authority plan projections.
- In the final plan further justification is needed for the future trends in baseline PCC micro-components beyond 2030.
- Non-household demand forecast trends have been calculated on the basis of the company's recorded data and this is supported by engagement with local authorities on future industrial developments. However, the company does not appear to have engaged with large users to enhance and validate this forecast. It should consider steps it could take to achieve this, and reflect the outcome in its final plan.

4. Supply forecast

The overall approach to the supply forecast appears satisfactory and appears to be calculated in line with guidance. However, greater clarity is required in the final plan on levels of service, changes since the previous plan, and the levels of outage. In particular:

- In the final plan the company should populate Table 10 in the planning tables and demonstrate the link between drought scenarios considered and associated levels of service.
- Reference is made to an audit and review of the Aquator model in 2015 however the conclusions have not been summarised in the draft plan. Dee Valley Water should provide clarity of the findings of this review and explain the impact on deployable output.
- In the planning tables the scale of outage is 0.015% throughout the planning period. This is a significant outlier relative to the industry average of 6%. In the final plan Dee Valley Water should provide greater clarity on its approach to outage and provide additional justification for the reported level.

5. Forecast uncertainty

Dee Valley Water appears to have adopted an appropriate approach to determining target headroom which is close to the industry average and not a significant driver of the plan. However, while we are satisfied with the approach used, greater clarity is required on the calculation of climate change in headroom, as the current allowance is significantly lower than the typical industry figures of 3 to 4%.

6. Supply-demand balance

The supply-demand balance profile presented is in line with the assumptions of the individual supply and demand components and appears to be consistent with the guidance.

7. Options

We welcome that Dee Valley Water has considered a range of options but are concerned there is a lack of transparency of the option selection process and insufficient evidence to support the proposed leakage target. Further specific comments:

- The company appear to have selected appropriate screening criteria however the outcome of each screening criterion applied to each option is not clearly

explained, with only general comments provided in the draft plan. For clarity the final plan should include more detail on the screening criteria applied and the subsequent set of selected options.

- No information is provided on the approach to third party engagement. The company should provide clarity on its approach and consider what it could do in order to promote these options where appropriate.
- No water trading options are included in the draft plan, though it is stated that the company has considered potential trading opportunities to make best use of underutilised abstraction licenses. The final plan should provide clarity on how these trading options were considered.
- Dee Valley Water proposes a lower level of leakage reduction compared with other companies; the draft plan includes a 7% reduction by 2025 with further reductions to 15% by 2030 and remaining at this level until 2045. Further considerations:
 - Dee Valley Water has justified its leakage target on the grounds of balancing ambition and making an economic case for reducing leakage. However, the company needs to provide further evidence on the impact that leakage reductions will have on bills, through the consideration of different scenarios to justify this relatively unambitious long-term target.
 - The draft plan states customers and stakeholders have expressed their desire to see more leakage reductions. However, we could find no evidence of the company responding with proposed reductions to customers and other stakeholders to understand their view of the company's position.
- The level of metering penetration rises from a forecast 65% in 2020 to 70% in 2025 as a result of maintaining current optant strategies.
- Dee Valley Water should provide greater clarity on the water efficiency measures included in the final plan and demonstrate they are effective. Further considerations:
 - The planning tables indicate final plan figures are unchanged from the baseline, with an average PCC of 124 l/h/d by 2045 which is higher than the industry average.
 - The draft plan does not fully justify the water saving forecasts for the baseline water efficiency options and further evidence is required in the final plan to support the scale of savings identified in Figure D3.1.
 - We welcome that Dee Valley water proposes to form partnerships with third parties to promote water efficiency and retrofit water efficient

devices. We expect further detail of the option to be included in the final plan.

- No supply options have been considered as unconstrained options in the draft plan, though the company do reference future potential resilience options such as improving the resilience of impounding reservoirs.
- The planning tables are not fully completed and need to be updated for the final plan. For example:
 - The planning tables are not completed for feasible and preferred options and both of these should be fully reported in the final plan.
 - Cost information has been omitted from the planning tables and this significantly reduces the transparency of the plan, full information should be provided in the final plan.

8. Decision making

The company needs to clarify the decision making process adopted in the draft plan. Further specific comments:

- There are references to cost-benefit analysis and the economics of balancing supply and demand (EBSD) approach but these are not evidenced in the draft plan. For clarity the final plan should include a clear summary that concisely explains how and by whom the preferred portfolio was decided on and this should include the decision making method used.
- There is evidence of independent assurance of the draft plan and of engagement with the Dee Valley Water executive team and the Board during the plan development and its approval.

9. National and regional considerations

Dee Valley Water is not a member of any regional groups. However it would add clarity by explaining how the Water UK national project has informed its plan.