
Centre City Tower, 7 Hill Street, Birmingham B5 4UA
21 Bloomsbury Street, London WC1B 3HF

Secretary of State for Environment, Food & Rural Affairs
Water resources management plan consultation
Area 3D
Nobel House
17 Smith Square
London
SW1P 3JR

27 May 2018

Dear Secretary of State,

Essex & Suffolk Water – draft water resources management plan 2019

Essex & Suffolk Water published its draft water resources management plan 2019 on 5 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 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 Defra'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 the 'twin track' approach to improve water supply resilience through both increased supply and reduced demand. We will continue to work closely with Government and the other regulators in both England and Wales to ensure that a long term secure and sustainable supply of water is achieved.

Essex & Suffolk Water supplies water to a population of nearly 2 million customers in the east of England. Its water resources are planned on the basis of four water resource zones which are all 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.

We welcome Essex & Suffolk Water's ambition to reduce leakage by over 15% by 2025 and also its decision to produce a longer 40 year plan. However, while the majority of Essex & Suffolk Water's plan is in line with our expectations, there are areas of the plan where insufficient evidence is provided to convince us that the plan delivers in the best interests of customers. In particular:

- There is limited evidence of customer participation in the development of the draft plan. For example the extent and range of customers engaged is unclear and research from 2011 is relied upon for levels of service. It is also unclear if customers have been engaged on option preferences and how customer preferences shaped the plan. Greater clarity is needed on these points to provide us with confidence that customers were able to participate effectively in the planning process.
- Even with the proposed reductions in per capita consumption (PCC), its level will remain high relative to other companies, for example, measured PCC will be in the top three across all companies throughout the planning period. This suggests there is scope for greater ambition on demand which could free up water and enable trading.
- Currently the draft plan does not give Ofwat sufficient assurance that it will deliver good outcomes for customers and the environment. Board assurance was part of Defra's guiding principles for water resources planning. However, the draft plan provides limited evidence of Board assurance and the quality assurance of the plan and this raises concerns about the robustness of plan development. The plans are key publications provided to stakeholders and we would expect them to meet the same high assurance standards of other information and evidence of this should be provided 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 Essex & Suffolk Water's statement of response and final plan.

Yours sincerely



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

Essex & Suffolk Water has generally used methods and data appropriate to the scale and complexity of the problem that it needs to address. However, we have concerns on the lack of clarity on the approach to levels of service and non-drought resilience. In particular:

- While the draft plan proposes a 1-in-250 year return period for level 4 restrictions, for example standpipes, it appears that performance has only been tested against a 1-in-200 year drought event. The evidence used to support the higher level of service should be provided in the final plan.
- Pressure reduction rather than rota cuts has been identified for the level 4 level of service restriction. Further detail is required in the final plan on how it

would work in practice and that the expected levels of water savings are comparable to other measures.

- There is limited evidence of non-drought resilience to the full range of potential hazards and threats being assessed in the draft plan. For example the plan makes no reference to flood risk or freeze-thaw events. Greater clarity on this should be provided in the final plan.

2. Customer participation

There is limited evidence of customer participation in the development of the draft plan and 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 well structured and easy to navigate, with clear headings, sub-headings and appendices. The inclusion of a non-technical summary at the front of the plan makes it more accessible, though greater use of summary tables for each section would further aid the reader.
- In the plan reference is made to the outcomes of customer participation, but the supporting evidence presented is relatively limited and this is an area of concern. Specifically:
 - There are only limited details on the number and range of customers consulted in the development of the draft plan.
 - There appears to be a reliance on older small studies for key parts of the draft plan. For example, the level of service for a temporary use ban appears to have been informed by a small survey of 40 customers completed in 2011. Use of such information could drive misleading outcomes for customers and should be reviewed.
 - It is also unclear whether feedback from customer research has influenced the selection of the preferred options, such as leakage, and whether any research was undertaken on the package of options or on each attribute independently. Greater clarity is required on this area and this should include whether willingness to pay values have been determined and how they have influenced option selection.
- The draft plan suggests that Essex & Suffolk Water has engaged with its Customer Challenge Group (CCG) although it is not clear how this engagement has shaped the draft plan and this should be clarified 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, including the use of local authority plan-based projections. We have concerns about the clarity around PCC estimates and engagement on non-household demand. In particular:

- The company needs to provide further explanation on the baseline and preferred plan demand trends in terms of the constituent components, in particular on PCC. We are unsure of the reasons for the relatively high baseline PCC and need clarity regarding the reasons for the small reduction in PCC achieved by metering domestic properties and the value of the PCC selected for new build homes.
- Essex & Suffolk Water has developed a methodology that uses trend data based on historical usage to forecast non-household demand. However, it does not appear the company has engaged with large users or retailers to enhance and validate this forecast and should consider the steps it could take to achieve this.

4. Supply forecast

The overall approach to the supply forecast appears satisfactory. However, we have concerns that the supply forecasts appear to have been developed for a slightly lower level of service than that proposed by the plan and would like greater clarity to be provided on outage and bulk imports. In particular:

- As noted in section 1, supply has only been assessed for a 1-in-200 year drought event and not for the adopted 1-in-250 year return period level of service. The impact on supply of the more severe drought event should be clarified in the final plan,
- The outage allowance in the draft plan (7% of supply) is higher than the industry average (6%) and has nearly doubled since the previous plan (4%). The draft plan does not provide sufficient explanation for this increase and we expect more detail in the final plan.
- There are inconsistencies in the reporting of the import from Thames Water. The draft plan suggests that while the current licence arrangements only allow for a net import of 71MI/d, 84MI/d was imported in 2016–17. This should be clarified in the final plan.

5. Forecast uncertainty

Uncertainty is not a significant driver of the plan and the overall approach is in accordance with guidelines. However clarity is needed in the final plan on the approach to headroom as Essex & Suffolk Water appears to adopt a non-standard approach to the allocation between the climate change component of headroom and other components.

6. Supply-demand balance

The supply-demand balance components have mostly been forecast in line with the guidance. However, the impact of possible sustainability licence reductions to the Suffolk groundwater licences has not been included as a scenario. In the final plan the likelihood and quantity of reductions here should be explored to identify if this could cause a deficit.

7. Options

Essex and Suffolk Water has presented a sub-set of options that include an ambition to reduce leakage by over 15% by 2025 which we welcome. We have concerns around the approach taken to options, as there is a lack of clarity on the development of unconstrained options, screening criteria, third party options and the scope for further trading. There are also issues with the planning tables which reduce the transparency of the draft plan. Further specific comments:

- Only preferred options are included in the draft plan and it is unclear if there was an unconstrained list of options to which screening criteria were applied. This should be clarified in the final plan. Information should also be provided on the screening criteria used to demonstrate that the options appraisal process is robust and has identified the best options for customers.
- The draft plan does not include any third party provision of options. No information is provided on the approach to third party engagement and the company should provide clarity on its approach and consider what it could do in order to promote these options.
- Essex & Suffolk Water currently has a large import agreement with Thames Water and part of this has been reversed due to the surplus in the Essex zone. The draft plan suggests that there is not enough water available for further trades, however, it is not clear if a full appraisal of the scope for trading has been completed. For example lower levels of demand could enable further trading and we would expect to see greater consideration of trading opportunities in the final plan.

- The company proposes to reduce leakage by over 15% by 2025 which shows a good level of ambition. After 2025, it proposes significant further reductions to leakage of 34% by 2045. However, only a single leakage option is presented and cost information on this has been omitted from the draft plan. Greater clarity on the approach to leakage should be provided in the final plan and clear costings should be provided to assure us that the proposed leakage reductions have been assessed appropriately.
- Metering is forecast to increase by 6% by 2025 as a result of maintaining current optant strategies. By 2045 Essex & Suffolk Water is forecast to have a meter penetration of 80%, which is below the national average forecast of 85%. However, it is unclear in the long term if the metering approach is optimal in the regional context, as lower levels of demand would free up water for trading. Further considerations:
 - The short term increase in metering is supported by the additional installation of 'not for revenue meters' whereby unmeasured customers who have an existing meter box will be fitted with a meter and provided information to encourage billed switching. This is an example of good practice.
 - While Essex & Suffolk Water operate in an area classed as seriously water stressed by the Environment Agency there is no plan for compulsory metering as it is not supported by customers.
- Essex & Suffolk Water has demonstrated effective water efficiency engagement with customers through the Every Drop Counts programme. This includes an area by area approach to maximise its impact, customer incentives, promoting behavioural change and retrofit programmes. However, in the final plan greater clarity on the costs and benefits of the various strands will help show that an optimal level of each activity is proposed.
- Linked to this, even with the proposed reductions in PCC, its level will remain relatively high. For example, measured PCC is forecast to be in the top three for the industry throughout the planning period. Further evidence is required in the final plan to explain why this is the case and we would expect greater ambition to reduce consumption over the planning period.
- There are no supply options identified in the draft plan. However, it does reference the Abberton to Hanningfield pipeline which will be promoted at PR19 to support resilience. As no significant detail has been provided on this option we are not providing comments on it at this stage.
- The draft plan planning tables are not fully completed and need to be updated for the final plan. For example:
 - Only preferred options have been added to the table of feasible options. All feasible options should be included in this table.

- Cost information has been omitted from leakage options which reduces the transparency of the draft plan.

8. Decision making

As the only options presented are preferred there is no transparency on how the final programme was selected, for example, whether scenarios influenced the decision and if the deliverability of the programme has been assessed. We also have concerns around the robustness of the assurance of the plan. In particular:

- As no evidence of non-preferred options has been found there is a lack of transparency regarding option appraisal and the decision making process. In the final plan for clarity we would expect to see a clear summary that concisely explains how and by whom the preferred portfolio was decided on.
- Board assurance was part of Defra’s guiding principles for water resources planning. Evidence of Board assurance is limited to approval of the plan noted on the document control sheet and this raises a concern about the robustness of plan development. This concern is compounded as there is limited description of the quality assurance of the plan. For the final plan we expect to see assurance that the company Board are satisfied that the plan represents the most cost effective and sustainable long term solution.

9. National and regional considerations

Essex & Suffolk Water are part of Water Resources East (WRE) though the draft plan only provides limited information on interactions with this group. Further specific comments:

- The company should clarify how the Water UK national project has informed their draft plan.
- Additional clarity should be provided to explain the relationship between the draft plan and WRE outputs. This could include the identification of options or longer term planning outcomes.