
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

13 May 2018

Dear Secretary of State,

Independent Water Networks – draft water resources management plan 2019

Independent Water Networks published its draft water resources management plan 2019 in February 2018 for consultation. This letter provides a summary of our assessment of the draft plan and is our statutory consultation response, produced in accordance with our statutory duties and the Government's strategic policies and objectives for Ofwat. In this assessment we have considered how adequately the plan follows the requirements of the water resources planning guidelines and Defra's guiding principles for water resources planning.

Independent Water Networks is a NAV (new appointment and variation). The NAV framework allows new entrants to become the supplier of water and wastewater services for new developments, instead of the local incumbent water company. The entrants typically not only build the necessary infrastructure for the developments but also provide on-going retail services. NAVs have an important role in the water sector and have potential to provide wider benefits.

Independent Water Networks serves twelve water resource zones at different sites across England, within areas served by Affinity Water, Anglian Water, Severn Trent Water, Southern Water and Thames Water. All of these sites are supplied through a bulk supply of water from the local incumbent water company. Many of the sites are currently under development and a mix of domestic and non-household customers are to be connected in the future. The company is forecast to maintain a supply surplus throughout the planning period. This means there would be sufficient water to maintain supply to customers during planned-for severe drought conditions.

In summary, Independent Water Networks has presented a plan broadly responsive to the scale and complexity of the challenges identified. However, we cannot be certain that the plan will deliver in the best interest of customers because of the lack of evidence or clarity in some areas. The following aspects should be addressed when finalising the plan:

- There are inconsistencies between the presented plan narrative and the supporting planning tables. These include differences in key metrics related to non-household demand, per capita consumption (PCC), occupancy rates and unaccounted for water. This significantly reduces the clarity and confidence in the draft plan.
- There is no evidence of customer participation in the development of the plan. Independent Water Networks should clarify how it has engaged and intends to engage with its customers in the future.
- Leakage is predicted to increase over the planning period. While there may be legitimate reasons for this (for example, more properties connecting to the network), this trend is not explained in the draft plan. In the final plan Independent Water Networks should explain why the trend is predicted to occur and demonstrate that it will be acceptable to customers and other stakeholders.

Further detail 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 Independent Water Networks' statement of response and final plan.

Yours sincerely



Colin Green
PR19 Delivery Director

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 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 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 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.

1. Plan building blocks

Independent Water Networks appear to have adopted a planning approach appropriate to its problem scale and complexity. However, in order to add clarity and rigour to the plan the following points should be considered:

- There needs to be clearer reference made to the guidance and supporting documentation used in developing the plan. For example, there is no reference to published industry research from organisations like UKWIR.
- Independent Water Networks should review the levels of service in the supplier companies' draft water resource management plans, discuss any impact of the chosen levels with their suppliers and clearly refer to the outcomes of this exercise within its final plan.

2. Customer participation

Independent Water Networks has provided no evidence of customer participation in the development of its draft plan. The company should explain how it has so far engaged, and intends to engage going forward, with its customers.

3. Demand forecast

At a high level, the approach Independent Water Networks has adopted in forecasting demand appears to be appropriate. However, further clarity and justification are needed to better understand the specific components of forecast demand as the approach does not appear to be sufficiently robust at a detailed level. In particular:

- There are inconsistencies between the narrative and the planning tables. Further clarity is required to show that there is a clear connection between the components of demand described and the figures used in the planning tables. This issue applies to:
 - Non-household demand – the narrative states that non-household connections are set to increase, but demand in the data tables is shown as constant across the planning period.
 - PCC – the narrative reports a constant PCC of 125 l/h/d for domestic demand, whereas the planning tables report 141 l/h/d.
 - Occupancy rates – the narrative describes falling occupancy rates affecting total demand but the planning tables show a flat rate.
 - Unaccounted for Water – the narrative indicates an intention to maintain this at a rate of 4.5%, but the data tables show a rate of 6% across the planning period.
- Leakage is predicted to increase by the end of the planning period by 0.16 MI/d (59% relative to 2020). While there may be legitimate reasons for this (for example, more properties connecting to the network), this trend is not explained in the draft plan. It is also accompanied by an increase in leakage per property by the end of the planning period. In the final plan Independent Water Networks should explain why this is predicted to occur and demonstrate it will be acceptable to customers and other stakeholders.

4. Supply forecast

We have identified no concerns regarding Independent Water Networks' bulk supply arrangements, though as noted above in section 1 the levels of service for each zone need to be confirmed from its existing bulk suppliers.

5. Forecast uncertainty

The data tables and the plan narrative state different values for headroom. Independent Water Networks should clarify the calculation method used and ensure headroom is consistently referenced throughout the plan.

6. Supply-demand balance

The supply-demand balance profile does not raise any concerns and seems reasonable, subject to the concerns raised on the demand described above. We would expect Independent Water Networks' final plan to provide further detail regarding demand and ensure the narrative is consistent with the data tables to give us confidence that the plan is robust.

7. Options

We welcome Independent Water Networks consideration of demand management activities in its plan, given the low level of development in many of its sites. However, in the final plan we expect greater clarity on the scope for demand management activities, particularly as the development of the sites is completed. In particular:

- No evidence has been presented to confirm the scale of benefits of water efficiency options. It is recognised that the company has the opportunity to utilise the smart metering network to target demand management activities and demonstrate the benefits of its water efficiency measures. A programme of monitoring and data collection activities in line with development projections is needed to improve the robustness of the plan.
- To address the increasing levels of leakage and enhance water efficiency the company should consider evaluating demand management options. The company should ensure that the impacts of its leakage reduction and water efficiency strategy are reflected within the final plan. If necessary the company should provide details of its option selection process and consideration of costs and benefits.

8. Decision making

Independent Water Networks should clarify the assurance process undertaken for the plan and provide evidence that the company Board has been involved as part of the decision making process.