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Secretary of State for Environment, Food & Rural Affairs
Water resources management plan consultation
Area 3D
Nobel House
17 Smith Square
London
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25 May 2018

Dear Secretary of State,

SES Water – draft water resources management plan 2019

SES 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.

SES Water supplies water to a population of approximately 700,000 customers in the south east of England. Its water resources are planned on the basis of a single water

resource zone which is forecast to maintain a surplus of water until 2047. This means there would be sufficient water to maintain supply to customers during planned-for severe drought conditions until 2047 and after this point further investment is required to ensure security of supply.

We welcome SES Water's ambitious short term leakage reduction target and also its decision to produce a longer 60 year plan. However, 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. The intention to undertake further engagement is stated in the draft plan, however, we expected this to have taken place to support its development. Reflecting this we expect the final plan to demonstrate that customers have been able to participate effectively in the planning process and to see evidence of how this has shaped the final plan.
- SES Water has the highest average per capita consumption (PCC) across all companies, and its proposed reductions in the medium to long term are unambitious in comparison to others resulting in this position being maintained throughout 2020-45. The PCC level also remains significantly higher than that of other companies within the south east region.
- The resilience to drought events and the level of service for severe restrictions, such as standpipes, is not clearly represented within the draft plan. The planned level of service for such events appears worse than industry average. For the final plan we expect levels of service to be clearly defined, linked to the supply-demand assessments undertaken and to have been discussed with customers.

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 SES 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

SES Water used methods appropriate to the scale and complexity of the problem it needs to address. However, we have concerns regarding the lack of clarity in the approach to determining levels of service for level 4 restrictions, such as standpipes, and resilience to non-drought events. In particular:

- There is a lack of clarity around the determination of the levels of service within the draft plan and their relationship to the severe drought scenarios. There is also insufficient information provided to enable a clear understanding of the approach. Further considerations:
 - While levels of service for temporary use bans and non-essential use bans are clearly stated, the draft plan refers to the use of level 4 restrictions only in severe droughts or emergency situations, as

opposed to a given drought event return period. In its final plan SES Water should clearly define the level of service for level 4 restrictions with supporting justification.

- Linked to the above point the draft plan narrative indicates a worst historic drought has been selected, which the planning tables suggest represents a return period of 1-in-35 years. This would represent the worst level of service with respect to level 4 restrictions across the industry and would be a significant concern if this is the case. The company has additionally considered a 1-in-200 year drought event but this does not appear to be driving the preferred plan and the relationship between the two requires further clarification in the final plan.
- The company refers to assessing how options selected may provide resilience to non-drought events such as reducing outage and flooding risk. It also appears that SES Water has identified a number of interconnection options which could be used to provide future non-drought resilience. The company should clarify when it intends to promote this investment and provide further detail to support any identified resilience investments.

2. Customer participation

There is at present limited evidence of customer participation in the development of the draft plan. This is recognised by SES Water who intends to undertake further customer engagement prior to the final plan. Reflecting this we expect the final plan to demonstrate that customers have been able to participate effectively in the planning process and to see evidence of how this has shaped the final plan. Further specific comments:

- The company has published a non-technical summary for customers and non-technical stakeholders which is helpful. The main plan also contains a detailed contents page to aid navigation but the plan would benefit from concise summaries of key sections, including issues faced and decisions made such as the preferred plan options.
- SES Water has included a brief overview of high level customer views from the initial phase of planned engagement. This suggests that customers have a preference for reduced leakage levels, improved advice on water efficiency and further information regarding their consumption.
- Linked to the above point the company states that the results of the phased engagement with customers will be available for the final plan. We would expect this to include:

- Details of the range of customers consulted and the methods of engagement with evidence of participation of a representative set of customers.
- Evidence of customer preferences relating to levels of service, that demonstrates that customers have been provided the opportunity to understand the potential costs of different levels and that the comparative levels of service offered by other companies are explored.
- The incorporation of customer views on option selection should be clearly presented. For example this could include customer views on the proposed leakage and water efficiency options.
- There is evidence that the company has engaged with its Customer Scrutiny Panel (Customer Challenge Group) during development of the draft plan. However, as significant customer engagement was planned after draft plan publication we would expect to see in the final plan more evidence provided of the groups' involvement in assuring these activities.

3. Demand forecast

The draft plan appears to have followed the relevant guidance and assessed demand through consideration of appropriate components. We have concerns about the clarity around the approach to population growth, PCC estimates and engagement on non-household demand. In particular:

- SES Water should provide clarity on how it has incorporated local planning authorities' updates on housing growth projections into its plan. The draft plan suggests these projections were based on econometric based forecasting and it is not explained how local authority projections, which could be higher, were incorporated into this.
- The baseline PCC of 155 l/h/d is the highest of all companies and the draft plan indicates that this is driven in a large part by customer behaviour. Greater clarity is required on the rationale for the underlying high baseline trend in the final plan.
- SES Water forecasts non-household demand to be stable across the planning period following review of consumption in four components including specific consideration of a large user. The company has used information gathered from audits of non-household customers to conclude that the scope for further efficiency reductions is likely to be minimal. However, the degree of engagement undertaken with non-household retailers to validate the non-household demand forecast is unclear and greater clarity on this needs to be provided in the final plan.

4. Supply forecast

We are concerned with the approach adopted to supply forecasting in terms of how return periods have been assigned to historic droughts and how worse than historic droughts have been determined through statistical approaches. We also have concerns around the clarity of the approach to climate change and treatment process losses. In particular:

- SES Water states that the level of service return periods in their draft plan are not equivalent to the assessed drought severity return period. As indicated in section 1, the company needs to provide a clear indication of the level of service with respect to level 4 restrictions and how this relates to the supply figures considered in the analysis.
- Greater clarity is required in the final plan on the impact of climate change on supply. Currently this does not appear to be consistently presented and explained across different droughts, as the impact changes from negative to positive between the worst historic drought and the 1-in-200 year drought event presented in the planning tables.
- SES Water has identified an increase of 4 Ml/d in treatment process losses from the previous plan. This is attributed to improved data, however, there appears to be some uncertainty remaining with some works reporting negative losses. The company should consider how it could further validate this data and identify if any options to reduce losses could help to meet future supply-demand balance requirements.

5. Forecast uncertainty

SES Water appears to have adopted an appropriate approach to determining target headroom which is slightly below the industry average and not a significant driver of the plan.

6. Supply-demand balance

The supply-demand balance profile presented is broadly in line with the assumptions of the individual supply and demand components, subject to the comments above. However, we have concerns around the inconsistencies between the narrative and planning tables regarding when deficits occur under both the worst historic and 1-in-200 year scenarios, which need to be clarified.

7. Options

We welcome that SES Water has identified a number of feasible supply and demand-side options despite identifying a surplus in their baseline planning forecast until the 2040's. The company has demonstrated ambition in the setting of its short term leakage target, however, further work is required regarding the long term leakage aims and the potential for reducing PCC from industry highs. Further specific comments:

- The screening criteria appear to be appropriate and are well presented in the main document and the reasons for rejection of options are presented in the appendices.
- SES Water has used an Official Journal or OJEU to promote the need and generate third party interest and supported this through additional material on their website. Further considerations:
 - The identified third party options on the unconstrained list are supply-side only and based upon the trading of abstraction licences within a catchment. These options were not taken forward to the feasible list but the company intends to further evaluate these in future water resources management plans.
 - Given the challenges that SES Water faces on demand, it should consider what it could do in order to promote further third party demand options.
- Water trading with other water companies features in SES Water's draft plan. A new export of 2.5 MI/d to South East Water starting in 2035 has been included in the preferred plan. The inclusion of the South East Water trade is stated as aligning with the Water Resources South East (WRSE) modelling outputs.
- SES Water plans to reduce leakage by 20% by 2025 showing a good level of ambition. However, the early ambition does not continue beyond 2025 as total leakage is forecast to remain flat until 2070. Further considerations:
 - In the final plan SES Water should explore and evaluate further options to reduce leakage in the period 2025-70.
 - It appears that the initial reductions are heavily dependent upon mains renewal projects and pressure management. However, no costs have been provided for these schemes in the planning tables and the draft plan narrative suggests that pressure management is already at a near optimum level. The company should provide transparency in the presentation of costs in the final plan and further justification for

selection of the proposed leakage management options over other feasible options.

- The preferred plan includes a compulsory metering option with metering penetration forecast to increase from 62% in 2020 to 87% by 2045. SES Water also intends for 10% of newly metered customers to have smart meters installed up until 2025, following which smart meters will be fitted as standard. To provide confidence on the metering programme in the final plan SES Water should provide further detail on deliverability and how this will be monitored.
- While we welcome the company's focus upon reducing consumption the company's industry high PCC position throughout the planning period indicates there is the potential for further demand reductions over the longer term. Further considerations:
 - The company has forecast an industry high baseline average PCC of 155 l/h/d at 2020 in comparison to the industry average (136 l/h/d). This position is maintained throughout the planning period and PCC is forecast to reduce only to 143 l/h/d by 2045. In this context the company should consider further opportunities for PCC reduction in its final plan.
 - SES Water aims to target water efficiency activities to high usage domestic customers and those most significantly impacted by compulsory metering as well as aligning activities with its compulsory and smart metering programme. We welcome that the preferred plan proposes partnerships with housing associations/local authorities and the consideration of a variable infrastructure charge for developers to incentivise more efficient properties.
 - The company has based the potential savings from options on industry standards and its own figures from its water saving calculator. The company should consider if further work to validate these figures is needed to ensure they are relevant to its operating area and the specific challenges faced.
- While demand management options are a significant focus for the draft plan in the medium to long term the company identifies that supply options will be required. A wide range have been considered including the development of groundwater sources, new bulk imports and the raising of Bough Beech reservoir. Four supply options, including an interconnection and groundwater source developments, are selected in the preferred plan but are only required post 2053.

8. Decision making

SES Water has adopted an aggregated economics of balancing supply and demand (EBSD) approach to produce the preferred plan which is appropriate for the problem characterisation. However, there is limited evidence presented that the decision making process has been carried out robustly and appropriately assured. We would expect to see further clarity on these issues in the final plan. Further specific comments:

- The draft plan does not clearly present the preferred plan including the schemes selected, overall cost and schedule for delivery. This reduces the transparency of the decision making process and should be addressed in the final plan.
- While the draft plan does include a description of the decision making process we consider that for improved transparency further explanation is needed. For example it is not explained how the 1-in-200 year drought scenario has influenced the selection of the preferred options. 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.
- The company has stated that the Board were regularly updated on decisions taken during the development of the plan and they provided confirmation of approval for the final plan. However, further evidence should be provided regarding any internal and external assurance undertaken in the production of the plan to provide confidence in its robustness.

9. National and regional considerations

We welcome that SES Water is participating in the WRSE group and have included a trading option identified by the group in their final plan. Further specific comments:

- In the draft plan there is no mention of the Water UK national project and how it has informed the plan. This should be clarified.
- The company has selected a 60 year planning period to align with the scenarios considered in WRSE and we consider that this increases transparency.
- SES Water should continue to work with neighbouring companies to consider export and import options that could have the potential to reduce costs and improve resilience. We expect to see SES Water work with other companies to pursue these opportunities in the development of the final plan.