
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

28 May 2018

Dear Secretary of State,

South Staffs Water – draft water resources management plan 2019

South Staffs Water published its draft water resources management plan 2019 on 2 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.

South Staffs Water supplies water to a population of approximately 1.3 million customers in the West Midlands. Its water resources are planned on the basis of a

single integrated zone which is predicted to be in deficit in the future, without additional action to reduce demand or provide additional supplies. This means there would be insufficient water to maintain supply to customers in some severe drought conditions. The deficit is generally driven by increasing demand.

In summary, we welcome South Staffs Water's approach to customer participation and its ambition to reduce leakage by over 15% by 2025. However, while the majority of South Staffs Water's plan is in line with our expectations and good practice, there are areas of the plan where insufficient evidence is provided to convince us the plan delivers in the best interests of customers. In particular:

- The company's long term demand management proposals are unambitious in comparison with other companies. South Staffs Water propose to maintain a stable level of leakage between 2025 and 2040 following the initial reductions. For the final plan we expect to see consideration of continual leakage reduction across the period and the potential acceleration of the proposed 'live network' development.
- The company should also consider what further water efficiency activities it could undertake to continue its leading position in terms of per capita consumption (PCC) level compared with other companies. Currently the draft plan suggests South Staffs Water's relative PCC position is also forecast to fall from amongst the lowest to near average PCC by 2045.

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 South Staffs 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

South Staffs Water has generally used methods and data appropriate to the scale and complexity of the problem that it needs to address. However, there is limited evidence of non-drought resilience to the full range of potential hazards and threats, like flood risk or freeze-thaw events, being considered. Figure 18 titled 'Resilience lens segments' which is intended to provide further insight into this is not readable and should be amended in the final plan.

2. Customer participation

South Staffs Water has carried out a wide ranging approach to customer participation. The use of innovative approaches such as immersive, role-playing research techniques demonstrates good practice in this area. However, there appears to be limited engagement on willingness to pay and the bill impacts of the

programme. We would expect to see further clarity on this and potentially further work reflected in the final plan. Further specific comments:

- The draft plan includes an accessible executive summary detailing the company's proposals across key elements of the plan. The plan is generally easy to navigate and accessible, with an overview provided at the introduction of each section and this is complemented by a non-technical summary document.
- The research suggests customers are satisfied with the current levels of service for drought restrictions, however, the engagement appears to focus upon temporary use and non-essential use bans. South Staffs Water should clarify whether there have been discussions with customers regarding more severe restrictions, such as standpipes, as this frequency was not defined in the previous plan. The company should also confirm whether relative drought resilience levels to other companies was discussed.
- Customers' high level priorities are reported in the plan but apart from requesting further assistance to help them manage water use there is limited evidence relating to their preferences for specific option types. The company intends to complete its willingness to pay research prior to the final plan. We expect the outcomes of this to be included in the final plan with a clear explanation of how this has influenced the selection of preferred options.
- The company should indicate in the final plan if the customer engagement activities included presentation of the bill impact of the options presented in the preferred plan.
- South Staffs 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. The main driver for increasing demand is population growth. We have concerns around the clarity of PCC estimates and engagement on non-household demand. Further specific comments:

- South Staffs Water have followed the guidelines through development of a population forecast based on local authority plan projections.
- The company needs to provide further explanation of the baseline and preferred plan PCC trends. We are unsure of the reasons for the observed small increase in measured PCC, and corresponding decrease in unmeasured PCC, across the planning period in both the baseline and

preferred plan. It also appears that by 2040 measured PCC is higher than unmeasured PCC.

- Non-household demand is forecast based on statistical analysis of past trends and will remain broadly flat across the planning period. The draft plan does present evidence that South Staffs Water has attempted to engage with retailers but the information available from them was limited. The company should consider how to engage more effectively with large users and retailers to enhance and validate this forecast.

4. Supply forecast

The draft plan follows the relevant supply forecasting guidance and the outputs appear reasonable. The differences with the previous plan have also been presented which is an example of good practice. We have concerns around discrepancies between the narrative and planning tables and would want greater clarity to be provided on operational losses and outage. In particular:

- There are discrepancies between the plan narrative and planning tables with regards to the supply forecast (deployable output) for the company's assessed levels of service. For example, greater clarity is required on the links between the figures presented in Table 19 of the plan narrative and Table 2 of the planning tables. Consideration of the benefits of drought permits and drought demand measures on supply, are not clearly presented in the draft plan. Further explanation on these points is required in the final plan.
- Operational losses (sum of raw water transport and process losses) are 5% of supply and this is above the industry average of 1.6%. This has also increased since the previous plan where it was 3%. In the final plan we expect South Staffs Water to provide greater clarity on its approach to operational losses and consider steps it could take to reduce them.
- South Staffs Water's outage is 3%, which is below the industry average of 5%, however, it is not clear whether the level of outage is consistent with the challenges set out in the plan. Further considerations:
 - The company identifies the need for potentially significant expenditure at its two strategic surface water works as well as noting that maximum supply from these works is necessary to maintain the supply-demand balance.
 - In the final plan we expect South Staffs Water to provide greater clarity on how it intends to maintain an appropriate level of resilience while it addresses this challenge and how this will influence outage levels throughout the planning period.

5. Forecast uncertainty

South Staffs Water appear 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 in line with the assumptions of the individual supply and demand components and appears to be consistent with the guidance.

7. Options

South Staffs Water has considered a range of supply and demand options. The company also proposes to identify any further options for trading, or provision of alternative demand management options, during the public consultation. Option screening appears to have been carried out in line with the guidance, but it is not entirely clear from the feasible options list how options perform against each other. Further specific comments:

- The screening criteria used to develop the feasible list of options appears to be appropriate, however, an unconstrained options list and rejections log was not provided and should be included for the final plan. The draft plan includes the consideration of third party provision of supply options, from the Canal & River Trust and the Coal Authority, though there is a lack of clarity as to what steps were taken to promote these options:
 - Three third party options were deemed feasible, however, none are included in the preferred plan. In the final plan the company should provide further details regarding the consideration of these options and the rejection of third party options prior to the feasible list.
 - The narrative notes the company intends to identify any further options for trading, or provision of alternative demand management options, during the public consultation for the draft plan. We expect the results of this exercise with third parties to be reported in the final plan.
- Water trading with other water companies features in South Staffs Water's draft plan. We welcome the fact that the company has held discussions, and provided information on potential trades, with United Utilities Water and Severn Trent Water and that it expects to include water trading options in its final plan. Further considerations:

- The company intend to identify further trading opportunities during the consultation period of the draft plan. We would expect detail of this process and the impact on the preferred options to be included in the final plan.
- A potable water transfer of 20MI/d from Severn Trent Water at Perry Barr is included in the plan. Compared with the option to import from United Utilities Water via the River Severn, this has a relatively high cost and, while it appears it can provide specific resilience to enable the refurbishment of the company’s water treatment works, it is unclear if other options could also provide similar resilience. This should be clarified in the final plan.
- South Staffs Water propose to reduce leakage by 17% by 2025 which shows a good level of ambition and appears aligned with customer preferences. After 2025 it proposes further reductions to leakage of 26% by 2045. Further considerations:
 - The company should clarify why it has decided to maintain leakage at a constant level in during 2025-40 before achieving further reductions.
 - Linked to the above point leakage reductions after 2040 appear to rely on South Staffs Water's development of an innovative 'live network' option. Although the option is likely to require considerable development, we would expect consideration of earlier delivery and include trials to ensure the option is deliverable.
- Metering is forecast to increase by 8% by 2025 as a result of using optant strategies and will reach 75% by 2045. It is stated in the narrative the company is considering introducing smart meters and greater detail on potential trials of this should be provided in the final plan.
- We welcome the wide range of water efficiency options in the draft plan, such as enhanced engagement, home visits and engaging with developers. However, further detail as to how savings are derived from these should be provided in the final plan. We note that South Staffs Water’s relative PCC position is also forecast to fall from amongst the lowest to near average PCC by 2045. We therefore expect the company to consider the potential for more ambitious PCC reductions.
- The company considered a range of supply options within the draft plan, which include additional supply options at two existing treatment works and a groundwater source. There also appears to be a further groundwater option selected for local resilience (MAPW1) but it is not included within the planning tables, this needs to be addressed for the final plan.

8. Decision making

An economics of balancing supply and demand (EBSD) approach to decision making adapted to include multi-criteria analysis has been adopted. This is appropriate to the scale and complexity of the problem and has been complemented by appropriate assurance. However, greater clarity is required in the final plan on aspects of the decision making process. Further specific comments:

- It is unclear how the multi-criteria analysis has influenced the plan and South Staffs Water should provide further quantification of the results and summarise its impact. The Perry Barr option has been included in the preferred plan but the planning tables indicate a number of supply options with lower costs and the company should further explain the decision making process in this context.
- It appears that options selected for resilience in the preferred plan, like the two treatment work options are in fact necessary for retaining the supply-demand balance. This needs to be clarified in the final plan.
- The draft plan does not explain how a least cost plan compares with the preferred plan. Greater clarity on this would increase the transparency of factors driving the preferred plan and how different options contribute to resolving the deficit in the scenarios considered.
- There is no summary in the plan that provides a concise and transparent overview of 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.
- There is evidence of independent assurance of the draft plan and of engagement with the South Staffs Water executive team and the Board during the plan development and its approval.

9. National and regional considerations

South Staffs Water are members of both the River Trent and River Severn working groups, which consider the needs of different sectors and regions from these catchments, but are not part of any regional water planning groups. We expect the company to continue to work with these groups and neighbouring companies to consider options that could have the potential to reduce costs and improve resilience. The company should also clarify how the Water UK national project has informed the development of its plan.