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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
SW1P 3JR

25 May 2018

Dear Secretary of State,

United Utilities Water – draft water resources management plan 2019

United Utilities 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.

United Utilities Water supplies water to a population of approximately 6.4 million people across the north west of England, including the cities of Manchester and Liverpool. It has the potential to play a key role, through water trading, in

supporting the demand for water in the south east of England. Its water resources are planned on the basis of four water resources zones.

United Utilities Water forecast its water resource zones will remain in surplus throughout the planning period. From this baseline position of surplus the company presents a preferred plan including both a water trading and non-water trading pathway. The company favours the pathway including a national water trade, a strategic export to Thames Water via the River Severn, the Severn-Thames transfer, commencing in 2034.

The United Utilities Water plan demonstrates good practice in a number of areas, including the approach to wider resilience, third party engagement and customer participation. While the majority of United Utilities Water's plan is in line with our expectations, there are some areas where insufficient evidence is provided to convince us that the plan delivers in the best interests of customers. In particular:

- The short term leakage reduction set out in the draft plan is one of the lowest in the industry: the narrative suggests this is 7% by 2025 and rising to 18% by 2045. We cannot see evidence that there is customer support for this proposal or it reflects the high importance customers place upon leakage reduction. The leakage per property figures presented in the plan also indicate there is scope for further reduction, which is reinforced through comparison with other companies. The level of leakage reduction needs to be considered further and justified in the final plan.
- The major trade included in the plan, the Severn-Thames transfer, is not consistently represented across the plans of the three companies involved, United Utilities Water, Severn Trent Water and Thames Water. While we appreciate that this is not entirely an issue for United Utilities Water alone, we encourage it to continue to actively participate and work with the other companies to ensure consistency of national solutions. If the uncertainty around the trade is not resolved by the final plan there may still be merit in continuing to explore this option, given the importance of ensuring the preferred programmes represent best value for 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 United Utilities Water's statement of response and final plan.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Black', written in a cursive style.

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

United Utilities Water has used methods and data appropriate to the scale and complexity of the problem, for example through the use of complex methods to address the potential large export to Thames Water. The company has also demonstrated a clear approach to non-drought resilience, including freeze-thaw, and consideration of Ofwat principles of 'resilience in the round' within its draft plan.

2. Customer participation

United Utilities Water has carried out a wide ranging approach to customer participation and the use of innovative approaches such as immersive role-playing research techniques demonstrates good practice in this area. In the draft plan the company has also provided details of engagement events due to take place during the consultation period. While this is positive, there are areas of the draft plan where

greater clarity is needed, such as engagement on leakage reductions and bill impacts. Further specific comments:

- The draft plan is comprehensive and the plan summary contains a clear overview of the plan and key consultation questions are posed to the reader. This is complemented by a customer booklet summary of eight pages which provides a high level overview of the consultation process and the company's strategic choices.
- Customer views regarding levels of service have been explored and indicate that improvement is valued but not considered a priority for investment. The findings of this research appear to be reflected in the company choice to enhance service with respect to drought orders and permits through the proposed leakage reductions. It is, however, unclear whether relative drought resilience levels with other companies was discussed and this could be explored further.
- Customers have been consulted regarding the selection and identification of options and this has fed into the programme appraisal methodology. Further considerations:
 - Leakage reduction was identified as customer's most favoured option, alongside encouraging the use of meters. We do not know how the research has influenced the final preferred programme. United Utilities Water should consider further work in this area in the context of the company's current leakage performance and draft plan proposals from other water companies.
 - United Utilities Water indicated that customers appeared to be generally supportive of water trading though they expressed concerns regarding the security and quality of their supply, and the potential cost and environmental impacts of facilitating the trade.
- United Utilities Water have presented bill impacts for its preferred plan pathway indicating a very small decrease in bills. This combines the benefits of the Severn-Thames transfer and the costs of the Manchester and Pennine resilience scheme. Given the uncertainty around both these options the company should continue to engage with customers regarding the potential bill impact for the final plan.
- United Utilities Water has engaged with its Customer Challenge Group (CCG) although it is not clear from the draft plan how this engagement has shaped the plan and contributed to the decision making process with these requiring clarification in the final plan.

3. Demand forecast

The demand forecast is well documented and reference to the industry guidance has been made and it appears to have been followed. However, insufficient evidence is presented on the baseline leakage trends and how engagement with non-household retailers has shaped the demand forecast. Further specific comments:

- United Utilities Water have followed the guidelines through development of a population forecast based on local authority plan projections.
- We have concerns around the approach to baseline leakage and further justification for the trends presented need to be provided in the final plan:
 - The 'base year' leakage figure, 448 MI/d is based on a three year rolling average and is higher than the reported 2016-17 actual performance figure, 439 MI/d.
 - The narrative appears to be inconsistent with the data included in the planning tables, for example it is unclear why, in the strategic zone's planning tables, total baseline leakage rises from 426 MI/d in 2021-22 to 440 MI/d in 2022-23. It then subsequently remains constant for the remainder of the planning period.
- We welcome that the company has referenced previous engagement with non-household retailers and its intention to continue this in the development of the final plan. However, greater clarity is required on how this engagement has influenced the demand forecast.

4. Supply forecast

United Utilities Water has calculated available supply in line with guidance and statistical approaches have been used to help determine low frequency drought yields with higher levels of confidence which is an example of good practice. The proposed strategic raw water export to Thames Water beginning in 2034, would double its current level of exports.

5. Forecast uncertainty

United Utilities 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 individual supply and demand components and appears to be consistent with guidance across the scenarios modelled.

7. Options

United Utilities Water has attempted to resolve wider national issues by considering water trading opportunities. It has also actively engaged with third parties and considered a full range of options to manage demand. However, further work is required to progress the Severn-Thames transfer and greater consideration needs to be made on the short and long term ambition for leakage reduction. Further specific comments:

- United Utilities Water has used what appears to be appropriate screening criteria and processes for developing lists of options. To help ensure in-house and third party options were considered equally an independent external consultant was used to undertake the screening process which is an example of good practice. However, in the final plan greater clarity is required on the results of this process and greater rationale should be provided on the reasons for rejection of options.
- United Utilities Water has actively engaged in discussions with third parties, including through the use of an Official Journal or OJEU to promote the need and generate third party interest. As an example of industry good practice the company also hosted a market engagement event to discuss the option submission process with interested third parties. This resulted in 66 third party options in the unconstrained list with both third party demand (leakage reduction) and supply (canal transfer) options being selected in the final preferred plan.
- Water trading is a key part of the preferred plan which includes a national trade to Thames Water, the Severn-Thames transfer, commencing in 2034. Further considerations:
 - The company state there are a number of uncertainties around the trade. This includes Thames Water's option selection, further design work and the granting of the necessary development consents.
 - Linked to this point there is a mismatch in timing between United Utilities Water and Thames Water's assumptions for the Severn-Thames transfer in the draft plan. Thames Water consider that the trade may be needed later than 2035 and did not include the transfer in its draft plan.

- We recognise this transfer requires coordination between United Utilities Water, Severn Trent Water and Thames Water and we expect all the companies involved in this transfer option to continue to actively engage on progressing its assessment prior to the final plans being published. If the uncertainty around the trade is not resolved by the final plan there may still be merit in continuing to explore this option, given the importance of ensuring the preferred programmes represents best value for customers.
- We also note that, to support the trade, the company has included the development of a number of supply options within the preferred plan for its strategic zone. Greater clarity is required on the rationale for these options as it appears the aim is to maintain the surplus at the level it was prior to the transfer rather than to simply ensure the supply-demand balance is maintained.
- The company has selected a significantly lower level of leakage reduction than other companies; the narrative suggests this will be 7% by 2025 rising to 18% by 2045. Further considerations:
 - There are inconsistencies between the leakage reductions presented in the narrative and planning tables. The planning tables suggest that the leakage reductions are lower, being only 4% by 2025 and 15% by 2045. This inconsistency should be addressed for the final plan.
 - Considering either set of leakage figures presented, the company's leakage reduction target appears to be relatively unambitious, both in the short and long term when compared with other companies. The company's leakage per property figure at the start of the planning period of 131 l/prop/d is significantly higher than the industry average and is an indicator that the scope for further leakage reduction should be considered.
- The preferred plan forecasts levels of metering to increase by 6% by 2025 and 27% by 2045. As an example of good practice the company proposes a free meter option and are trialling a new method for effective delivery, 'the price promise'. With this promise the customer's bill will be capped at a maximum of the unmeasured bill level for two years to encourage uptake.
- We welcome the company's target to reduce average per capita consumption (PCC) to 113 l/h/d in the long term by 2045. The company has considered a wide range of water efficiency options including those proposed by third parties.
- The United Utilities Water draft plan also includes the detail on the Manchester and Pennine resilience scheme which is a non-drought resilience option. This scheme aims to address the risk of asset failure and water quality

issues or widespread loss of supply for an extended period. We are not providing comments on this scheme as part of our response but expect to see a full justification for it in United Utilities Water business plan. This should include full evidence of customer participation, the schemes risk assessment and costing.

- The planning tables are generally completed accurately, however, there are inconsistencies between the plan narrative and the planning tables that need to be addressed. For example:
 - As noted above there are differences in leakage targets between the narrative and planning tables
 - The ‘enabling works’ option is a significant proportion of the total supply option cost in the planning tables but only limited information is provided on the scheme in the plan narrative.
 - The planning table indicate that the third party supply option, WR821, will provide 4 MI/d from 2034 but the plan narrative includes a figure of 30 MI/d.

8. Decision making

Decision making was based on a conventional economics of balancing supply and demand (EBSA) approach, with extended methods used to address specific issues like the Severn-Thames transfer which are subject to uncertainty. Evidence of assurance has been provided in the draft plan. Further comments:

- As noted above in section 7 the proposed Severn-Thames transfer in the draft plan does not align with the Thames Water plan. The final plan will require revision to reflect the outcomes of ongoing developments in this area.
- There is evidence of independent assurance of the draft plan and of engagement with the United Utilities Water executive team and the Board during the plan development and its approval.

9. National and regional considerations

United Utilities Water has worked closely with other companies to ensure it has developed its draft plan within a national supply context and has demonstrated clear ambition through the integration of a national supply solution into its plan. In particular:

- The draft plan takes into account the outcomes from the Water UK national project. This includes the Severn-Thames transfer and the extension of

statistical weather modelling to further assess the coincidence of drought in different areas of the country.

- The company is part of the recently formed 'Water Resources North' regional group which aims to further promote collaborative working on water resources in the north of England. We welcome this and expect the group to work to identify opportunities to support both regional and national water resources planning.