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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,

Wessex Water – draft water resources management plan 2019

Wessex Water published its draft water resources management plan 2019 on 9 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.

Wessex Water supplies water to a population of approximately 2.8 million customers across the south west of England. Its water resources are planned on the basis of a

single integrated zone which is 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.

The Wessex Water plan demonstrates good practice in terms of the scale and breadth of its customer participation activities, its approach to assessing non-drought resilience and the promotion of catchment management. While the majority of Wessex 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 that the plan delivers in the best interests of customers. In particular:

- The short term leakage reduction set out in the draft plan is the lowest in the industry: 2% by 2025 and only rising to 15% by 2045. It does not appear that customer support has been demonstrated for this proposal or that it reflects the high importance that customers place upon leakage reduction. The leakage per property figures presented in the plan also indicate that 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.
- With a surplus Wessex Water also has the potential to export water to its neighbouring companies. No new water trades feature in the draft plan, though opportunities have been discussed with neighbouring companies. For the final plan we expect Wessex Water to continue to actively engage with others to support regional and national solutions, for example the potential for an export to Southern Water in the Poole/Hampshire region.

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 Wessex 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

Wessex Water has adequately explained its approach to draft plan development and adopted methods and used data appropriate to its problem scale and complexity. A summary of the company's approach to resilience, encompassing non-drought issues, has been included which is an example of good practice. However, greater clarity should be provided in the final plan on the updated levels of service reported and on plans for future resilience investment. In particular:

- The levels of service for the various restrictions on use are clearly stated in the draft plan and there is an improvement for the level of service for temporary use bans, both of which we welcome. However, we would expect Wessex Water to provide greater clarity on the calculation of levels of service given the changes from the previous plan.

- We welcome that Wessex Water has provided a summary regarding the approach to non-drought resilience. The company has stated that there will need to be additional investment to manage the risks to customer service at an appropriate level, but do not consider any of these risks sufficient to be included in the draft plan. The company should clarify when it intends to promote this investment and provide further detail to support any identified resilience investments.

2. Customer participation

Wessex Water presents a 'summary for consultation' as an introduction to the main plan document and an additional 8 page non-technical overview document which increase the accessibility of the plan. There is also good evidence of customer participation in the development of the plan through a wide range of approaches. However, there is insufficient evidence of customer support for the leakage levels that are significantly lower than those proposed by other companies. Further specific comments:

- The plan is generally well structured and easy to navigate with clear headings and sub-headings. The non-technical summary document provides an overview of the proposals for interested stakeholders and comments on the consultation are encouraged.
- We welcome that participation from a variety of customer groups was encouraged, including young people, vulnerable and 'seldom heard' customers. The Young people's panel is an example of good practice, engaging with future customers to understand their views and ideas.
- The consultation indicates that customers appear satisfied with the current levels of service for drought restrictions. The company's assessment concluded that it is resilient to a 1-in-200 year drought event and customers perceive potential restrictions as a low risk. However, it is unclear whether relative drought resilience levels with other companies was discussed.
- A small scale detailed investigation of customer attitude to leakage is referenced involving 24 customers in the initial stages. However, further evidence of customer support for the proposed leakage levels and details of the wider testing of the outputs of the investigation is required. This is important in the context of the proposed leakage reduction levels being significantly lower than those of other companies.
- We welcome that the company has included the outputs from its willingness to pay research within the draft plan. However, there is no indication that the bill impact of the options presented in the preferred plan has been discussed as part of customer engagement. This should be included in the final plan.

- The company has referenced consultation with the Customer Challenge Group (CCG) during the development of the plan and their involvement in reviewing the material for customer engagement workshops.

3. Demand forecast

The plan appears to have followed the relevant guidance and assessed demand through consideration of appropriate components. We have concerns about the adjustments to household and non-household population figures that significantly impact the forecast per capita consumption (PCC) trends. There also appears to have been limited engagement with non-household retailers. Further specific comments:

- The company has consulted local authority plans in developing its demand forecast. However, it has used a forecast trend that is lower than the local authority plan forecast in the short term. This does not appear to be a material issue as the company has demonstrated through scenario analysis that it is able to meet demand should the actual growth track the local authority plan figures.
- Wessex Water has significantly adjusted its PCC calculations and state a revised average PCC as 131 l/h/d and the dry year annual average PCC value forecast in the baseline plan for 2020 as 137 l/h/d. For reference the actual reported value for 2016-17 was 141 l/h/d. Additional justification is required in the final plan to support this change. Further considerations:
 - The full outputs of the bespoke occupancy surveys and the range of values reported, including the quantification of any uncertainty, should be provided for clarity.
 - The reallocation of a significant proportion of non-household population, approximately 16,000, to household population has already been undertaken. However, the draft plan notes that further investigation into the non-household population is required and justification is not provided on why the adjustment was made prior to the investigation being completed.
 - The company should confirm whether the adjustment is consistent with guidance and ensure that the process followed has been adequately assured.
- Non-household demand is presented as a decreasing trend across the planning period and has been forecast by industry sector using regression models. However, the draft plan does not mention engagement with specific larger users or retailers to enhance and validate this forecast. Further engagement would support the forecasting of non-household demand.

4. Supply forecast

The draft plan follows the relevant supply forecasting guidance and the outputs appear reasonable and aligned with historical trends. This includes the approach to supply reductions, water treatment process losses and outage

5. Forecast uncertainty

Uncertainty is not a significant driver of the plan and the overall approach is in accordance with guidelines. Wessex Water intends to mitigate the risk of potential deterioration in water quality at a number of sources, through catchment management schemes. This is a positive approach and an example of good practice.

6. Supply-demand balance

We welcome that Wessex Water has adopted a more detailed method to assess resilience than required given its level of problem scale and complexity, with this approach exploring multiple scenarios. In particular:

- Wessex Water has adopted a ‘resilience tested’ approach to supply-demand balance determination and tested the plan with scenarios beyond the historical record in order to demonstrate resilience to a 1-in-200 year drought event.
- The company has also undertaken stress testing of its plan and scenario analysis to enhance its understanding of future supply risks. This is an example of good practice and included consideration of potential future sustainability reductions, alternative demand forecasts and potential new exports (including an additional 10-15 MI/d to Southern Water from 2025).

7. Options

Wessex Water has identified a number of feasible supply and demand-side options despite the company identifying a surplus in the baseline planning forecast. Demand management options are the focus of the preferred plan, with catchment management schemes identified to maintain resilience. We have concerns on the justification of water efficiency savings, the meter installation programme and the clarification of the differences between the feasible leakage options identified.

Further specific comments:

- It is unclear in the draft plan whether screening criteria were applied to the unconstrained option lists to develop the feasible options, as all unconstrained options appear as feasible.

- 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.
- New water trades do not currently feature in the plan, though Wessex Water has discussed export opportunities with neighbouring companies. We expect Wessex Water to continue to actively engage with others to support regional solutions. The company should further engage with Southern Water to understand the potential for an export in the Poole/Hampshire region.
- The company has selected a significantly lower level of leakage reduction than other companies; 2% by 2025 rising to 15% by 2045. Further considerations:
 - Further justification for this target is required. The company's leakage per property figure at the start of the planning period of 119 l/prop/d is higher than the industry average and potentially an indicator of scope for further leakage reduction.
 - Wessex Water should clarify the difference between its feasible leakage options, how the approach to innovation varies in each and whether the 'spend to save' criteria limits the opportunity to adopt innovative approaches.
 - The company needs to provide further explanation of the status of the leakage option ALZ (15% reduction by 2045) in the preferred plan. Further information regarding the scope, benefits and costs associated with this option should be provided.
- The preferred plan includes an enhanced metering option to install an additional 10,000 meters above baseline activity. The company should provide further explanation of how the 10,000 meters figure was determined and whether options for variable scales of meter installation were considered.
- The company has forecast a reduction in its average dry year PCC across the planning period. However, in comparison with other companies its relative performance appears to be deteriorating, suggesting that there is scope for greater ambition.
- We welcome that an extension of the 'Home Check' programme to enhance water efficiency is planned, however, limited evidence has been provided to support the levels of water saving stated and the variance in benefits from the previous plan and how savings are incorporated in the baseline consumption trends. It should be clarified how the benefits from water efficiency activities are reflected in the PCC figures for the dry year scenario.
- Wessex Water has demonstrated a positive focus on catchment management, including partnership working options that protect water quality

and maintain resilience. Examples include collaboration with farmers through agricultural advisors to reduce fertiliser application and use of a market based tool to incentivise changes in farming practice.

- Across all options it is unclear how values for social and environmental benefits are derived to support option assessment. The company should provide further explanation of its option assessment process, referencing where the key benefits such as social, environmental and willingness to pay originate.

8. Decision making

The decision making approach adopted to produce the preferred plan was a conventional economics of balancing supply and demand (EBSA) approach which is aligned with the problem characterisation. The Wessex Water Board has approved the submission of the plan and provided assurance that it is in line with their approach to delivering resilient water services in the long term.

9. National and regional considerations

We welcome that Wessex Water are participating in the recently formed West Country Water Resources Group which will help shape future water resources management plans. Wessex Water has also referenced the outputs of the Water UK national project as part of the draft plan problem characterisation. Given its available surplus the company should seek further opportunities to contribute to the development of regional solutions.