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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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1 June 2018

Dear Secretary of State,

Yorkshire Water – draft water resources management plan 2019

Yorkshire 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.

Yorkshire Water supplies water to a population of over five million customers in the north of England, including the cities of Leeds, Sheffield, Bradford and York. Its

water resources are planned on the basis of two water resource zones, an integrated grid zone supplying the majority of the population and a smaller east zone. The east zone is forecast to remain in surplus throughout the planning period but the grid zone is forecast to enter a deficit in 2035. This means there would be insufficient water to maintain supply to customers in the grid zone in some severe drought conditions.

We welcome Yorkshire Water's ambition in demand management, to significantly reduce leakage in the short term and to continue to reduce per capita consumption (PCC). 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 development of the draft plan. We understand further engagement is planned, however, we expected a higher level of engagement to support development of the draft 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.
- Greater clarity is required with respect to decision making and we expect to see more transparency on how the final programme was selected, to demonstrate it represents an appropriate package of options. This includes the adoption of a 40% leakage reduction target after the first version of the draft plan was submitted. The company should explain how and by whom the preferred programme was decided.

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 Yorkshire 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

Yorkshire Water used methods appropriate to the scale and complexity of the problem it needs to address and we welcome the consideration of non-drought resilience in the draft plan. However, we consider greater clarity is needed on the levels of service. Further specific comments:

- The company should provide further clarity regarding the levels of service stated in the final plan. Further considerations:
 - More justification and supporting evidence is required to support the level of service with respect to level 4 restrictions, such as standpipes, which is stated as 1-in-500 year in the draft plan. We note the plan indicates some uncertainty in defining the return periods of historic

drought events and we would like to understand how this impacts the stated levels of service.

- Levels of service should also be reviewed with respect to the uncertainty regarding climate change detailed in section 4 below.
- The draft plan includes references to threats that may impact asset resilience, including flooding and power outages. Specific assets where a risk of failure could result in outage of supply are also identified, alongside mitigation measures. We understand these risks will be further assessed during 2020-25 and we expect to see this reflected in future plans.

2. Customer participation

Yorkshire Water has provided some evidence of customer participation in the draft plan principally through the use of data from the previous plan complemented by the views of the online community called ‘Your Water’. The company intend to undertake further customer engagement and reflecting this we expect the final plan to demonstrate that customers have been able to participate effectively in the planning process and how this has shaped the plan. Further specific comments:

- While the main plan is substantial and includes a number of appendices, the executive summary provides a clear summary of the issues and proposed plan. The company has also produced a separate short non-technical summary providing a high level overview of the consultation process and the company’s strategic choices, which is helpful.
- We welcome Yorkshire Water’s use of an online community, ‘Your Water’, which appears to include a wide range of customers. However, in the final plan we expect to see evidence that customers beyond this online community have participated in the development of the plan. Further considerations:
 - Customer preferences presented in the draft plan suggest customers have not been provided with potential cost impacts of the preferred options. For example, the company should provide evidence that customers have been consulted regarding potential bill impacts of the leakage reduction strategy adopted and as well as being presented with alternative options.
 - It is unclear if customers have been consulted on levels of service for different restrictions or whether relative drought resilience levels have been compared with other companies to enable informed engagement. We expect customer preferences regarding levels of service, and the influence on decision making, to be clearly articulated within the final plan.

- Linked to the point above, Yorkshire Water have stated it is currently undertaking a valuation process to understand customers' priorities. We expect to see the influence of this process, especially for options selected for the preferred plan, clearly articulated in the final plan.
- There is no mention of Yorkshire Water's Customer Challenge Group within the draft plan. We expect to see detail of how the group has shaped the plan, including its role in assuring customer engagement activities, within the final plan.

3. Demand forecast

The draft plan appears to have followed the relevant guidance and assessed demand through consideration of appropriate components. However, greater clarity is required with respect to the reported PCC trends and engagement with non-household retailers. Further specific comments:

- Yorkshire Water have followed the guidelines through development of a population forecast based on local authority plan projections.
- Yorkshire Water's baseline average PCC of 123 l/h/d is the lowest of all companies and this position is maintained throughout the planning period. However, clarity is required on the forecast trends as both measured and unmeasured PCC are identical in both baseline and preferred plan in the planning tables.
- The draft plan notes engagement with non-household will be undertaken as part of PR19 business planning. We expect the final plan to explain how this engagement has influenced the non-household demand forecast.

4. Supply forecast

Yorkshire Water has calculated the available supply, with reference to the relevant supply forecasting guidance, and has modified historical drought records to create a simulated drought. This simulated drought is then used to determine low frequency drought yields. However, greater clarity is required on the approach to incorporating climate change in the supply forecast and to demonstrate return periods have been determined appropriately for the drought scenario. In particular:

- Yorkshire Water have identified a high vulnerability to climate change due to a high degree of uncertainty in the scenarios. Greater clarity on the approach to climate change is required in the final plan to provide assurance this is robust. Further considerations:

- The variations in available supply across the climate scenarios could have a very significant impact upon the supply-demand balance and the company's ability to maintain its levels of service. Yorkshire Water should clarify how this has influenced its uncertainty assessment.
- A number of assumptions have been made in selecting the baseline scenario for the draft plan, including adopting an alternative scaling period to that set out in guidance. The company should provide further justification to support its approach in the final plan, for example through third party assurance.
- The draft plan notes Yorkshire Water intends to continue investigation into this area in 2020-25. For clarity and increased confidence in the management of this risk, a summary of the proposed investigations and what benefit would be expected from them should be provided in the final plan.

5. Forecast uncertainty

Yorkshire Water has described a number of risks and uncertainties associated with the resilience in the preferred plan, together with mitigations, which is an example of good practice. The headroom included in the final plan is slightly lower than industry average and is not a driver of the plan. As mentioned in section 4 further clarification regarding uncertainty relating to climate change is required.

6. Supply-demand balance

The supply-demand balance profile is broadly in line with assumptions of the individual supply and demand components, subject to the comments above, and appears to be consistent with the guidance. We welcome that a range of climate change and leakage scenarios are used to inform the plan.

7. Options

Yorkshire Water have considered a wide range of supply and demand options and selected a very ambitious short term leakage target. However, greater clarity is required on the approach to third party engagement, metering and the profiling of the leakage reduction. Further specific comments:

- The screening criteria appear to be appropriate, are well defined in the main document, and appear to be applied consistently across all options. The reasons for rejection of options are included in the appendices which supports the transparency of the process.

- Yorkshire Water has provided some evidence of engagement with third parties but no third party options have been identified as feasible:
 - The company should consider what it can do to promote third party supply and demand-side options, and explain the outcome of such consideration in the final plan.
 - We note some third party options were rejected due to concerns such as water quality while discussions with other large third parties did not result in the identification of any options for inclusion in the plan. Yorkshire Water should continue to actively engage with third parties and provide support to ensure viable options are not unnecessarily screened out.
- Yorkshire Water has held discussions with, and provided information on, trades with neighbouring water companies. However, no potential trades to or from Yorkshire Water feature in the preferred plan or any other company's plan. For the final plan the company should further consider if trading could have the potential to reduce costs, reduce environmental impact and improve resilience.
- We welcome the proposal to reduce leakage by 39% between 2020 and 2025. This demonstrates a very high level of ambition. After 2025, it proposes a reduced rate to achieve an overall reduction in leakage of 48% by 2045. In its final plan Yorkshire Water should provide greater clarity it has adopted an appropriate profiling of the leakage reduction in terms of deliverability, customer preference and affordability.
- The level of metering penetration rises from a forecast 57% in 2020 to 64% in 2025 as a result of maintaining current optant strategies. There are feasible metering options that are not selected but have a lower cost than some of the relatively high cost leakage options. The company should provide further justification for the preferred plan option selection in this context.
- We welcome Yorkshire Water's forecast reduction in PCC from 123 l/h/d to 112 l/h/d across the planning period. This level of reduction will maintain the company's comparative position as the company with the lowest level of PCC. Further comments:
 - Yorkshire Water indicate that the savings are achieved through metering activities and a continuation of its free self-fit water saving packs and home audit and retrofit activities.
 - The company mentions potential pilot schemes for 2020-25 to identify the viability of demand management options in areas such as partnership working and greywater/rainwater reuse. In the final plan it would be helpful to clarify whether it intends to undertake these pilots and provide further detail on their scope.

- Yorkshire Water has considered a wide range of supply side options within its plan. Two groundwater options have been included in the preferred plan though these have been selected to improve resilience to outage in a localised area, rather than for supply-demand balance benefit.

8. Decision making

Decision making was based on an economics of balancing supply and demand (EBSA) approach which is appropriate for the problem characterisation. However, as the preferred plan is notably different from the least-cost scenario, further justification is required for its selection. Further specific comments:

- In the final plan the company should clearly present costs of each planning scenario considered with specific focus upon the comparison between the least cost and preferred plan.
- The preferred plan appears to be selected through constraining or pre-selection of certain options based on expert judgement using a number of factors including resilience, customer preferences and environmental impact. However, the influence and assessment of these factors does not appear to be clearly defined, reducing the transparency of the process. This stage of the decision making process, and the influence of the factors on the selection of the preferred planning solution, should be further explained.
- Further explanation should be provided to explain how resilience benefits were incorporated in the decision making process. We note this led to the selection of the two groundwater supply options in the preferred plan which are not required for the supply-demand balance.
- The company should provide clarity regarding the decision making process for the selected profile for leakage reduction in the preferred plan. We note this was subject to a late change between the plan first submitted on 1 December to regulators and the published plan. It also appears that the level chosen leads to the selection of leakage reduction options that are relatively expensive when compared with other demand management and supply-side options.
- The draft plan was subject to assurance including challenge from independent auditors and evidence is provided of engagement with the Board for approval of the draft plan. Further clarity should be provided on the Board's role in the decision making process, including the late adjustment to the ambition around leakage reduction in the published draft plan.

9. National and regional considerations

The draft plan takes into account outcomes from the Water UK national project and uses them to support its approach to resilience and highlight the uncertainty associated with climate change. The company is also 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 expect the group to work to identify opportunities to support both regional and national water resources planning.