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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

4 September 2018

Dear Secretary of State,

Leep Water Networks – draft water resources management plan 2019

Leep Water Networks published its draft water resources management plan 2019 on 12 June 2018 for consultation. This letter provides a summary of our assessment of the draft plan and is our statutory consultation response, produced in accordance with our statutory duties and the Government's strategic policies and objectives for Ofwat. In this assessment we have considered how adequately the plan follows the requirements of the water resources planning guideline and Defra's guiding principles for water resources planning.

Leep Water Networks is a NAV (new appointment and variation). The NAV framework allows new entrants to become the supplier of water and wastewater services for new developments, instead of the local incumbent water company. Typically, the new entrants not only build the necessary infrastructure for the developments but also provide on-going retail services. NAVs have an important role in the water sector and have potential to provide wider benefits.

Leep Water Networks serves a single water resource zone in the Salford area. The company currently supplies approximately 370 domestic and 24 commercial properties in the MediaCityUK development. The total number of properties served is expected to grow to around 1,750 by 2025. The zone is supplied through a bulk treated water supply from United Utilities Water, the local incumbent water company.

The company is forecast to maintain a supply surplus throughout the planning period. This means there would be sufficient water to maintain supply to customers during, planned for, severe drought conditions. However, this is based on the

assumption that Leep Water Networks can increase its maximum annual supply volume from United Utilities Water beyond the level in the existing agreement.

In summary, Leep Water Networks has presented a draft plan broadly responsive to the scale and complexity of its area. We welcome the company's focus on designing for efficient water use. We also note its ambition in seeking to promote water and energy savings, together with the independent hot water supplier for the MediaCityUK development. However, we cannot be certain the plan will deliver in the best interest of customers because of the lack of evidence or clarity in some areas. Therefore, the following should be addressed when finalising the plan:

- The company anticipates a required increase of its imported bulk supply volume from 2023 onwards. However, the data presented indicates the supply agreement will need to be increased before 2020-21 to meet the demand forecast. Leep Water Networks should explain this discrepancy and any adjustments required to meet the pre-2023 demand requirements it presents in its plan.
- There is limited evidence of customer participation in the development of the plan. Leep Water Networks should clarify how it intends to effectively engage with customers more in the future.

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 Leep Water Networks' statement of response and final plan.

Yours sincerely,



Alison Fergusson
PR19 Associate Director

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 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 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 licence changes and transfers in its supply forecast.
- 5. Forecast uncertainty:** The robustness of the 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.

1. Plan building blocks

Leep Water Networks has followed a satisfactory approach to its draft plan, consistent with the company identified water resources problem scale and complexity. The company also clearly references the guidance and supporting information it used in developing its plan. We note there is the potential to supply an additional area (Liverpool International Business Park) during the early stages of the plan period; however, these supply arrangements have not yet been finalised. As referred to in the draft plan, the final plan should provide further detail regarding this new area, including a supply and demand forecast for this additional zone.

2. Customer participation

The draft plan provides limited evidence of customer engagement. The company should explain how it intends to effectively encourage customer participation and engagement going forward and incorporate customer preferences into its future plan development.

3. Demand forecast

At a high level, Leep Water Networks' approach in forecasting demand appears appropriate. However, further clarity and justification is needed to better understand the assumptions used to calculate specific components of the forecast demand. In particular:

- The company appears to assume that normal and dry year demand will be the same because the properties do not have gardens. However, other demand components would be expected to increase under dry weather conditions. The company needs to further justify this assumption or adapt its final plan accordingly.
- There are inconsistencies between the number of properties forecast in the presented plan narrative and the numbers included in the supporting planning tables. These inconsistencies should be addressed in the final plan.
- While we welcome the low levels of leakage reported in the plan, the company should clarify how the leakage and water taken unbilled components of demand are derived and how it intends to use the data it collects to validate these figures in the future.
- Non-household demand is forecast to approximately double over the planning period due to an increase in non-household property numbers. This is a significant proportion of total demand and the company should engage with non-household customers to further investigate and validate its assumptions.

4. Supply forecast

Leep Water Networks demonstrates an understanding of its bulk supply arrangement with United Utilities Water. However, as noted in section 6 below, the company needs to clarify the timing of the proposed revision to the bulk supply agreement to ensure a surplus throughout the planning period.

5. Forecast uncertainty

The narrative suggests Leep Water Networks has adopted a satisfactory approach to determine target headroom. We have no concerns with the approach taken.

6. Supply-demand balance

The supply-demand balance profile seems reasonable, subject to the concerns raised on the demand components described above. However, the data presented indicates the need to bring forward the proposed revisions to the bulk supply

agreement with United Utilities Water to ensure a surplus throughout the planning period. In particular:

- The company indicates a surplus is maintained throughout the planning period, but needs to increase its annual maximum import volume through its bulk supply from 2023-24 onwards. The current daily maximum supply rate is restricted to 1.64 MI/d, and the annual maximum import volume is 151 MI/year (on average, 0.41 MI/d). However, we have some concerns with this analysis, as summarised below:
 - The daily maximum supply rate presented in the planning table for the dry year annual average scenario (1.64MI/d) is not the most appropriate figure for the analysis, as this would exceed the agreed maximum annual import volume (151 MI/year) if supplied over the full year.
 - The plan forecasts a dry year daily average demand of 0.47 MI/d by 2020-21. This equates to 172 MI/year which exceeds the current maximum annual import volume of 151MI/year (0.41MI/d).
- We welcome the discussions with United Utilities Water regarding the modifications to the bulk supply agreement and that the existing infrastructure will support the required increase. However, the company should clarify if the agreement will be revised prior to 2020 and update its final plan accordingly.

7. Options

Leep Water Networks' supply-demand position is discussed in Section 6 and the company should further consider how it represents supply options and its ambition in demand management within the final plan. In particular:

- The company should ensure it clearly identifies and justifies the selection of any supply options necessary to address any deficits in the final plan.
- The plan demonstrates ambition in seeking to promote water and energy savings together with the hot water supplier for large consumers. The company should consider the potential to further reduce per capita consumption (PCC) which is forecast to remain stable throughout the planning period.

8. Decision making

We welcome Leep Water Networks' description of the role of its Board in the decision making process. However, the company should clarify the assurance process undertaken for the plan development.