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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

20 September 2018

Dear Secretary of State,

SSE Water– draft water resources management plan 2019

SSE Water published its draft water resources management plan 2019 in June 2018 for consultation. This letter provides a summary of our assessment of the draft plan. It is also 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 both Defra's and the Welsh Government's guiding principles for water resources planning where appropriate.

SSE Water 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.

SSE Water serves 24 water resource zones, across 23 different sites in England and a single site in Wales. These consist primarily of 13,000 household properties across the zones, and the number of household properties served is expected to grow to approximately 38,000 by 2045. All sites are supplied through a bulk supply of water from the local incumbent water company.

The company forecasts 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, we have concerns regarding the

presentation of the supply-demand balance in a number of zones. This needs to be resolved to provide confidence that a surplus will be maintained.

In summary, SSE Water has presented a plan broadly responsive to the scale and complexity of its supply area. A number of areas are in line with good practice, for example, the presentation of zonal summaries in the plan narrative and the use of company data to validate planning assumptions. However, we cannot be certain that the entirety of the plan will deliver in the best interest of customers because of the lack of evidence and clarity in some areas. The following issues should be addressed when finalising the plan:

- There is no evidence of customer participation in the development of the plan. SSE Water should clarify how it has engaged with customers to date and how it intends to engage further in the future.
- The presentation of the supply-demand balance could be improved. There are inconsistencies between the plan narrative and the planning tables, with a number of the planning tables indicating a potential deficit over the planning period. These must be addressed either by way of a full explanation or by reconciling these inconsistencies.
- While the number of non-household properties across the zones are small, SSE Water should review the assumptions made regarding non-household demand because in a number of zones it represents a significant proportion of the supply-demand balance.

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 SSE Water's statement of response and final plan.

Yours sincerely



Alison Fergusson

Associate 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 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 licences 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

SSE Water has followed a satisfactory approach to its plan, consistent with the identified problem scale and complexity. However, in order to achieve greater clarity and rigour in the plan, SSE Water should:

- Include the levels of service with respect to emergency drought orders and ensure that the figures are presented clearly as return periods to customers.
- Review the Well-being of Future Generations (Wales) Act 2015 to understand any impact this may have on its plans in its Welsh zone.

2. Customer participation

SSE Water has provided no evidence of customer participation in the development of its plan. The company should explain how it has engaged with customers in developing its plan and how it will engage with customers going forward.

3. Demand forecast

The approach SSE Water has adopted in forecasting demand appears to be appropriate and the drivers for change within its areas have been explained. However, further clarity is needed to better understand the individual components of forecast demand as the approach does not appear to be sufficiently robust. In particular:

- Non-household demand is a concern in the company's plan as there appear to be errors in the calculation used in the company's planning tables. For example:
 - Total consumption is stated in units of Ml/d but appears that in some cases is not treated as such in the demand calculation.
 - There are inconsistencies between the figures included in the company planning tables and the plan narrative.
 - The assumed non-household consumption levels do not appear to have been consistently applied across all zones.
- These issues result in a number of zones potentially being in deficit. SSE Water should review the assumptions made regarding non-household consumption figures and the incorporation of these figures into the supply-demand balance calculations.

4. Supply forecast

SSE Water has generally provided sufficient detail of its bulk supply arrangements from the incumbent water companies. However, there are areas where further information is required to ensure the forecast is robust. In particular:

- The plan narrative presents two maximum supply values for the Hale Village zone and the lower value has the potential to result in a planning deficit. SSE Water should confirm the valid figure and use it consistently throughout the plan.
- The company presents zones where it states that there is no annual maximum import volume specified in the bulk supply contract. SSE Water

should review this with the supplier and provide evidence of an agreed maximum available value for use in planning.

5. Forecast uncertainty

The draft plan suggests that SSE Water has adopted a satisfactory approach to forecast uncertainty. We have no concerns with the approach taken.

6. Supply-demand balance

There are concerns regarding some of the supply-demand balance profiles presented. A number of the planning tables indicate a deficit over the planning period which is inconsistent with both the zonal summaries in the plan narrative and the summary supply-demand balances provided. These should be addressed in the final plan, in particular:

- The individual components of supply and demand highlighted above should be reviewed across all the zonal planning tables.
- The company should amend calculations and figures where necessary and provide options to restore the balance for any zones that are identified as remaining in deficit.

7. Options

We welcome SSE Water's intention to monitor the effectiveness of the water efficiency measures incorporated into the design and construction of properties in its zones and that it has provided details of how it addresses customer-side leakage. The company intends to maintain leakage at the sustainable economic level in the long term but it may need to consider whether this is appropriate when it has collected additional data and understood customer preferences.

8. Decision making

SSE Water should clarify the assurance process undertaken for the plan and provide evidence that the company's Board has been involved as part of the decision making process.