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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

28 November 2018

Dear Secretary of State,

### **Thames Water – revised draft water resources management plan 2019**

Thames Water published a revised draft water resources management plan 2019 (the revised draft plan) on 3 October 2018 for re-consultation. This letter provides a summary of our assessment of the revised draft plan. We submitted our response to the original draft plan, published by Thames Water on 9 February 2018, to Defra in April and is available on the [Ofwat webpage](#). 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 we may make at the current price review (PR19) in connection with the business plan that the company provided to us in September 2018. Our assessment has considered:

- how adequately the revised draft plan follows the requirements of the water resources planning guideline and Defra's guiding principles for water resources planning;
- how the revised 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; and
- how the company has addressed our key concerns raised during the original draft water resources management consultation process earlier in the year.

Long term water resources planning is a key part of company business activities. We expect companies 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.

Thames Water predicts that many of its water resource zones would be in deficit in the future, without additional action to reduce demand or provide additional supplies. This means there would be insufficient water to maintain supply to customers in some severe drought conditions. The London zone is forecast to enter a deficit in the early 2020s and is at risk to severe drought events. The scale of the challenge and complexity of the issues means effective action is required to deliver for customers and the environment.

Thames Water's revised draft plan sets out a range of demand-side and supply-side options it considers are required to meet its future demands for water, and ensure its customers receive a sustainable and resilient service. In this revised draft plan, Thames Water has responded to many of the concerns we raised with its original draft plan, improving its level of ambition in relation to leakage reduction, per capita consumption levels and water trading. However, the revised draft plan does not provide evidence that it delivers in the best interest of customers in some key areas:

- The revised draft plan still does not provide sufficient evidence the proposed supply-side options are appropriate in the context of the overall programme and regional context. In particular:
  - Based on the multiple changes since the original draft plan, and the updated needs of the south east region, there needs to be confidence the proposed supply-options are low regret and the timing of their delivery is appropriate. This is emphasised by the sensitivity of options to changes in planning assumptions, as demonstrated by the company's testing of different planning scenarios. The company should also justify the early surplus generated by option delivery and how the proposed changes to the demand management programme have impacted upon the supply option selection.
  - In the revised draft plan it appears there is a supply-demand surplus early in the planning period. This could be considered for short and medium-term trading opportunities with neighbouring companies before any strategic regional solutions are developed. We also note there are low risk drought orders identified in the latest company drought plan with the potential to provide approximately 40MI/d in drought conditions which could support local and regional supply-demand balances, if included within the plan options.
- While the revised company plans in the south east have demonstrated evidence of further regional co-ordination, in response to the draft plan consultation feedback, we consider there is scope to further optimise regional resilience. We understand this is not an issue for Thames Water alone and we expect it to continue to work with other companies to develop truly regional solutions to address challenges in the south east. In particular:

- We expect Thames Water to work collaboratively with others to select the optimum portfolio that will ensure short, medium and long-term resilience for the south east, offering best value to customers, and realising appropriate wider environmental and social benefits.
- In the context of the sensitivity of options to different planning scenarios, Thames Water should consider how it can both consistently appraise and develop several strategic regional solutions. This will provide confidence in their selection and efficient delivery beyond 2025.
- We acknowledge there is planning uncertainty as a result of the interdependencies with other companies' plans. We expect Thames Water to manage this uncertainty to provide confidence in a programme which reflects both the least regret and optimum solution for the south east.

I look forward to seeing these points addressed in Thames Water's statement of response and final water resources management plan.

Yours sincerely



**David Black**  
**Senior Director, PR19**