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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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26 April 2019

Dear Secretary of State,

Affinity Water – revised draft water resources management plan 2019

Affinity Water published a revised draft water resources management plan 2019 (the revised draft plan) on 1 March 2019 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 Affinity Water on 19 March 2018, to Defra in May 2018 and it is available on the [Ofwat webpage](#).

This letter 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 decisions we may make during the current price review (PR19) in connection with the business plan that the company initially provided to us in September 2018 and revised in April 2019. 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 adequately the company has addressed our key concerns raised during the original draft water resources management consultation process last 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.

Affinity 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. Four zones are forecast to enter a deficit in the early 2020s, driven primarily by abstraction licence changes. The scale of the challenge and complexity of the issues means effective action is required to deliver for customers and the environment.

Affinity 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. We welcome the changes in this revised plan, which address some of the concerns we raised with the original draft plan. However, we are concerned with the significant length of time that it has taken to produce the revised draft plan and commence public consultation.

While we welcome the improvements set out in the revised draft plan, we are still concerned that the plan does not provide sufficient evidence that it delivers in the best interest of customers in several areas, including:

- regional co-ordination and strategic solution planning;
- consideration of all available options; and
- the validity of some of its planning assumptions.

We expand on our concerns in the following sections of this letter.

Regional co-ordination and strategic solutions

While the revised draft plan sets out the strategic regional solutions that Affinity Water is considering, we continue to expect company ownership in ensuring consistency between different company plans. We understand this is not an issue for Affinity Water alone, and as we stated in our initial assessment of PR19 business plans, we expect it to continue to work with other companies and regional groups to consistently develop truly regional solutions to address challenges in the south-east. In particular, the company should address the following issues:

- Inconsistencies, in terms of timing and magnitude, remain between Affinity Water's transfer options and those of its neighbours. This has the potential to significantly impact selection of the optimal regional solution and other companies' plans.
- The company identifies its preferred regional strategic solution. However, the company does not clearly evidence its assessment of each alternative option and rationale for its rejection. Rejecting options (for example, the River

Severn to River Thames transfer) without compelling justification at an early stage can have significant impact on neighbouring company plans. Affinity Water should ensure that costs and benefits of regional solutions are presented consistently and transparently in future documentation.

- We continue to expect Affinity Water to work collaboratively with others to fully evaluate feasible options and 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.

Considering all available options

We welcome the inclusion of third-party options as part of the overall programme, such as the Grand Union Canal transfer. However, the revised draft plan does not provide sufficient evidence that all unconstrained supply and demand options have been adequately considered and developed. In particular:

- Affinity Water has opted to reduce the frequency that it intends to use supply-side drought permits and orders to a 1-in-200 year level of service. This decision is not clearly evidenced as there is potential for these measures to provide benefit in drought conditions, on a more frequent basis. We identify that a number of these interventions, with an approximate benefit of 18 Ml/d (for the central region), could represent good value solutions for meeting the supply-demand balance with low environmental risk.
- The plan did not appear to consider appropriately any feasible options to reduce outage, which may represent a good value option for ensuring long-term supply-demand balance. The company rejects unconstrained options to reduce outage without providing sufficient justification.
- It is not sufficiently clear which aspects of the 'Supply 2040' programme are required to meet the supply-demand balance deficits, and which are needed to improve non-drought resilience. The company should provide clear articulation of the purpose of the expenditure and the evidence to support it. Any resilience options should be considered in the context of the significant headroom allowance and the observed issues driving the outage levels.
- We observe that the company has significantly decreased its metering ambition from over 90% by 2025 in both its 2014 plan and in the original draft 2019 plan, to 79% in the revised draft plan. We also note that the 'Water Savings Programme' is included within the baseline plan. The company could improve its plan's transparency through considering its Water Savings Programme as a potential option for its final plan. This would help to demonstrate whether the company should continue the programme in its current form or change it by appraising it against alternative options.

Assumptions

We identified material uncertainty in areas of the revised draft plan and have concerns regarding the validity of the assumptions made. In particular:

- We note the company's target headroom of 12% is the highest in the industry and significantly so in comparison to an average of 8%. The company should further justify this figure in the final plan and evidence that it has considered options that would reduce or mitigate the components identified, such as gradual pollution.
- We found that Affinity Water's climate change assessment concludes further work is required to provide evidence and justification for the sensitivity of the Clay Lane group of sources to both drought and climate change. The assumptions made has a significant impact on the availability of water for the zone and the need for investment in solutions. The company should provide further evidence to justify using this assessment and identify additional work it intends to undertake to increase confidence in its output.

I welcome the changes made in Affinity Water's revised plan and look forward to seeing the points raised above, addressed in Affinity Water's statement of response and final water resources management plan.

Yours sincerely



David Black
Senior Director, PR19