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By email only:

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Dear

Building resilient water supplies – one year on

We wrote to you just over a year ago to outline what we need to do together to make our water resources more resilient. In the intervening period the issues and opportunities represented by adapting to climate change have been prominent in the news, government policy and public consciousness. There have also been significant developments in the industry. Some water companies have been given permission to publish their water resources management plans and Ofwat has published draft determinations. We are writing again now to reiterate the objectives we shared a year ago and take stock on our collective leadership and progress.

The 2018 August letter outlined five areas where additional effort was needed;

1. Increased ambition in the forthcoming company business plans for the 2020 to 2025 period.

We are pleased to see you took account of our letter in developing your plans.

Our work with you to date has reinforced that our collective ambition can only be achieved through good joint working and collaboration. We expect you to continue to evolve your plans in real time, adapting and changing to meet the challenges faced year on year, instead of waiting for each 5 year cycle of WRMP and Business Plans. It is imperative that you look beyond company boundaries and work with other sectors to deliver resilience for the nation as a whole. The new regional plans will be crucial in delivering this new future.

2. Regional water resource planning that transcends company boundaries and identifies optimum solutions for the region and the nation as a whole.

Led by the Environment Agency, a National Framework is being developed that will articulate the national need for water to at least 2045 and set the challenge for each region to select and deliver the best solutions for the region and nation. Common methods and assumptions will ensure compatible plans. This is a key enabling step in the journey to understanding possible solutions to deficits identified. Your continued engagement with the National Framework and commitment to the regional groups is vital so that the regional plans align to achieve a coherent national picture.

Five regional groups of water users have now been established, covering the entire geography of England and an important interface with Wales through the west group. There are opportunities for multiple benefits by working in a collaborative way across the water sector, between different water users and with those planning industrial growth. We currently only observe this happening in pockets and we want to see more. This is important because it unlocks a wider range of opportunities and a different menu of viable options. This is particularly important as we face the possibility of another dry winter causing difficulties for agriculture and the environment next year. We want to see more examples of companies working with other sectors to find joint short and long-term solutions which also improve the environment.

Government, regulators and communities expect you to effectively manage all hazards associated with your industry. The recent incident in Whaley Bridge is a pertinent reminder of the diversity of resilience risks you need to manage.

We also expect more delivery on the demand side - helping customers become water efficient through supporting initiatives like the 'Love Water' campaign, for example.

3. Greater use of markets and competition to ensure that solutions are delivered efficiently.

Competition can reduce the cost of developing new resources and help deliver strategic and innovative solutions. We were therefore pleased to see take-up of the Direct Procurement for Customers mechanism for some water resources schemes in PR19. We want to see more ideas such as Water Resources North's proposal to offer a number of options as a region in surplus to regions in deficit. Ofwat are investigating new market options and issued a call for information in June to explore the potential for the development and implementation of a bilateral market in water resources in England. The Regulators' Alliance for Progressing Infrastructure Development (RAPID) and the National Framework will be looking to explore more opportunities to achieve the benefits of competition.

4. Clear, joined up direction from government and regulators

We have listened to your feedback about the importance of having a regulatory approach that provides clear direction to support the development of your plans and investment scenarios. Regulators and government have joined up, providing direction about acting now to achieve more nationally resilient water resources. Significant progress has been made:

- Ofwat has secured £2.93m of funding from Treasury to set up RAPID. RAPID will work alongside you to provide a one stop shop to help overcome the barriers which currently hamper the development of strategic schemes. We recognise that developing and delivering strategic schemes introduces dependencies and risks. We are committed to working with you through the RAPID team to provide a seamless regulatory interface and overcome barriers enabling the schemes to become ready for construction.
- You told us one of the barriers to strengthening the ambition in your plans was the funding required to explore the feasibility of new schemes. Ofwat has responded by making £450m available through PR19 to develop new supply options.
- You told us that you wanted some statutory underpinning to regional planning. In response, Defra has consulted on and agreed to take forward new primary legislation to provide a Secretary of State power to direct companies to plan together and with other sectors.
- Defra's consultation on measures to reduce personal water consumption closed on 11 October 2019. There was strong engagement. Defra hopes to publish a summary of responses early in the new year.
- Independently chaired, the National Framework is developing a cross-sectoral approach to defining the future water resource needs. It has gathered evidence on supply and demand forecasts and will be reporting in December. The report will provide you with the direction and bounded scenarios required to plan with confidence. The quality and compatibility of WRMPs submitted will be expected to improve significantly as a result of this improved evidence base and direction.
- The Environment Agency will be working with government and regulators to produce a 'destination statement' for resilient water resources. It will signal the further enhancements wanted for water users and the environment. It will build on the collaborative approach taken by the National Framework.
- Defra has consulted on the draft National Policy Statement for water resources infrastructure which will streamline the planning process for large schemes.

5. A responsive regulatory approach to deal with issues as they arise

We have produced a vision of a resilient future, provided funding for the investigation of new strategic schemes, developed legislative proposals and established RAPID and a Water Resources National Framework to overcome other barriers. For the future, we will continue to respond to barriers as they arise by changing water resources planning and approaches to funding that support and encourage continuous improvement.

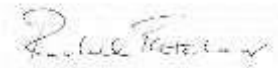
Together we have achieved a step change in the last twelve months. There is more to do. We look forward to continuing, maintaining and extending this approach to deliver the

secure, safe, environmentally beneficial and cost effective water resources that consumers expect

Yours sincerely



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Rachel Fletcher
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