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By email

Granville Davies  
Water Resources North

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Dear Granville,

## Water Resources North regional plan method statement response

Water Resources North (WRN) has developed a set of method statements outlining the approaches you will take when developing your regional water resources plan. We welcome the opportunity to comment on these. This letter provides a summary of our views on these method statements and our expected outcomes from regional planning in general.

This first round of regional planning gives an opportunity to explore how regional water resource options can efficiently support the needs of the region. We expect regional plans to shape the company water resources management plans (WRMPs) and investment plans for beyond 2025. Public water supply investment within WRMP24 will then form part of companies' business plans submitted to Ofwat as part of the next price review (PR24). The comments provided in this letter are without prejudice to any subsequent statutory consultation responses we may make on the relevant company WRMP24 or decisions that we may make at PR24 in connection with the business plans.

There is a long history of the UK Government and Ofwat promoting regional level thinking in water resources planning. While there were some shared resource options explored by companies, we had significant concerns with the level of progress shown in WRMP19 and PR19. These concerns resulted in several regulatory interventions to encourage active collaboration across companies. We summarised the key themes emerging from our review of the draft WRMPs in a published information note in June 2018<sup>1</sup>. We expressed our disappointment that the plans were highly dependent on supply options designed to meet individual company needs rather than the wider opportunities. We expected companies across all regions to seize the opportunity of regional and national solutions to address future challenges. As a result of company plans not sufficiently rectifying these concerns Ofwat intervened to set up the Regulators' Alliance for Progressing Infrastructure Development

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<sup>1</sup> <https://www.ofwat.gov.uk/regulated-companies/resilience-2/water-resource-planning/ofwats-engagement-wrmp19/>

(RAPID) to oversee regional solution development and address potential barriers. We also allowed additional funding within the PR19 final determination for the investigation and development of strategic regional water resource solutions<sup>2</sup>.

We will continue to work closely with Government and the other regulators in both England and Wales, as well as companies, regional groups and stakeholders to ensure that a long term resilient and sustainable supply of water is achieved. We have contributed to the joint regulatory water resources planning guideline (and supplementary guidance notes) which companies follow when developing their plans. These are also relevant to the regional groups and we encourage you to follow this guidance.

We recognise the importance of regional planning in identifying sustainable long-term investment in solutions to maintain and enhance resilience levels for customers and the environment. The approaches taken by regional groups should be guided with the outcomes and expectations of the process in mind. Ofwat's expected outcomes for regional water resources plans are that they will:

- Identify and evidence the promotion of efficient, deliverable, multi-sector and ambitious programmes that deliver for both customers and the wider environment from a regional perspective.
- Transparently present the decision-making process followed and the assumptions made, and fully identify any issues concerning programme affordability, intergenerational equity and distributional impacts.
- Frame the investment proposed in the context of the key regional (and company) priorities and system vulnerabilities demonstrating how the planning approaches and interventions are proportionate to these risks.

When considering regional water resource plans and the delivery of the expected outcomes, regional groups should address the following areas:

- **Tiers of spatial planning** - Regional plans need to incorporate the national perspective and interactions with other regional group areas, but also the requirement for regional plans to inform company level WRMPs and business plans. The options identified for regional planning should consider the scale of needs at this level and not be driven by local company scaled options. The decision making in regional plans should be based on evidence and assumptions that are consistent with those presented at both the national and company level.

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<sup>2</sup> <https://www.ofwat.gov.uk/publication/pr19-final-determinations-strategic-regional-water-resource-solutions-appendix/>

- **Timely delivery of regional plans** – regional plans need to be delivered in time to allow them to properly inform WRMP24 and PR24. These plans need to consider options of the right scale to meet regional and national needs, as well as fully explore multi-company and multi-sector opportunities.
- **Plan complexity** – the complexity of the approach to planning must be appropriate and well explained with clear justification for the adoption of more complex approaches. There should be consideration as to the potential impact of plan complexity on overall delivery and on the efficacy of engagement on the plan.

We are encouraged by the progress you have made and the work that you are undertaking but also note some areas for further clarity or improvement. It is encouraging to see carbon reduction being considered and that the construction and operational carbon impact will form part of the option appraisal process. We include additional comments on your method statements and the development your regional plan in the Annex to this letter.

I look forward to seeing these points addressed in your method statements supporting your work programme and the approach taken to developing your WRN regional plan. We would like to have at least one pre-consultation meeting with your regional group prior to the draft regional plan in August 2021. This is aligned with the engagement expectations raised in the RAPID Managing Director's letter dated October 2020<sup>3</sup>. We anticipate these focused pre-consultation meetings to be held with the regional groups during March-May 2021.

Yours sincerely

Colin Green

**Director – Future Assets and Resources – Ofwat**

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<sup>3</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2020/10/RAPID-MD-letter-to-water-companies-and-regional-groups-7-October.pdf>

## Annex

In this Annex we outline detailed comments on key areas of the method statements linking to our expectations highlighted in the main letter:

### General approach

We note that your method statements indicate a desire to take a proportional approach to developing your regions plan, and we welcome that a risk based approach to the methodology is being undertaken. However, we would anticipate a clearer description of which elements of regional planning will be generated by company specific models and analysis and which will be through joint and regional assessments.

The methods taken should be sufficiently robust to be compatible with member company plans and those of neighbouring regions in order to understand interactions between trading and joint options. It will be disappointing if the approach taken limits ambition to improve resilience in your region and does not enable you to identify mutually beneficial options to contribute to the needs of other regions or sectors. Further clarity about the drivers for methodological decisions and any limitations of your chosen approach would be useful.

### Strategic themes

Defining the strategic themes and questions at the outset of the planning process is a positive step and aligned to our expectations that the outcomes of the regional plans should be made clear. However, it will be useful to describe how the strategic themes and questions that are listed have been agreed within the WRN group, how stakeholders were involved in this process and if any changes are anticipated as a result of stakeholder feedback.

Engagement with a broad range of customers and stakeholders such as other sectors, environmental groups and local authorities should help generate your strategic themes and priorities. It will be important to ensure that stakeholders understand what the aims of your plan are, requiring you to define specific and measurable objectives.

We acknowledge the importance of developing alternative plans or adaptive pathways to manage key uncertainties in the assumptions. The intention of WRN to use scenarios to develop alternative plans will require a suitable range of scenarios to be considered. The range of scenarios (presumably linked to strategic themes) for testing to define adaptive pathways, the thresholds of uncertainty to justify an adaptive plan, as well as the interactions with company plans is currently unclear.

### Metrics and residual risks

It is understood that WRN will explore other benefits using a multi-criteria approach. You are encouraged to consider a wide a range of metrics, risks and values, which should be

supported by robust data and analysis. Any use of expert judgement to score metrics should be clearly justified and its influence on the plan reviewed through sensitivity analysis. The choice of metrics should be set in the context of the key priorities at both company and regional level and linked to wider business planning and operational management processes. The metrics being considered and the methods to appraise them should be proportionate to the risks under consideration. It should be clear what risks and benefits the regional plan (and company plans) will consider and mitigate or improve and those that it does not.

We expect transparency in metric development and use in decision making, including where metrics may differ between regional and company plan decision making. The quantification of metric scores need to be well evidenced and presented clearly, including the sensitivity of the plan to metric scoring.

### **Best value planning**

We welcome the move towards multi-criteria decision making to develop a best value plan, and that as part of this WRN will be considering options that can improve non-drought resilience and have benefits aligned with the six capitals. We encourage you to develop your regional plan considering a broad range of risks and benefits at both a company and regional scale. The distribution of added value within the region needs to be considered on a temporal and geographical basis to identify any differences in the cost and likely bill impacts. The joint water resources planning guideline provides further details on our expectations for best value planning.

### **Resilience and environmental destination**

The decision to maintain a 1-in-500 year drought resilience level (as you assume your analysis will show) and the identification of an environmental destination is referenced in your method statements but it will be useful to describe how the timing of delivering these has been considered. We expect a consideration of the costs (including bill impacts and affordability) and benefits to be included when determining the glide path towards an increased resilience level. The drought resilience improvement should also take account of geographical differences in costs and benefits from a company and water resource zone perspective.

We expect it to be made clear how decisions regarding the scale and pace of change have been made, whether this is part of the strategic themes, or a variable in optimisation modelling. We would not expect the dates for achieving these improvements to be a hard constraint in the decision making process as artificial deadlines can lead to sub-optimal choices and investment programmes. Any negative impacts on the wider environment, potentially caused by solutions to meet these challenges, should also be a key consideration.

## **Regional options**

The identification of a suitable range of options that can help meet the strategic themes and objectives being set within the context of the regional need is important. It is also important to consider the strategic needs and objectives of neighbouring companies and regions. We note that you intend to continue to support and contribute to national resilience by exploring strategic regional options that may contribute to an export from the area. However, we note with concern a potential lack of ambition in identifying and exploring transfer options out of the region due to what is described as a lack of a single most likely export option being identified with other regions. The process for identifying and appraising export or joint options, working with other regions, should be made clear.

A more detailed description of the regional options identification process is needed including how the zonal benefit assumptions of the options are used for screening and optimisation purposes where there may be wider regional benefits if viewed through that lens. The process for proactively exploring third party options is important to be made clear as is how the needs of third parties are driving regional options. It is important that you follow the principles of transparency, equal treatment/non-discrimination and proportionality when assessing third party bids in the plan (aligned with those identified in the PR19 methodology Appendix 8: Company bid assessment frameworks – the principles).

## **Costs and bill impacts**

It is noticeable that the regional plan method statements do not refer to bill impact and only briefly mentions affordability considerations in willingness to pay engagement. We also note that Ofwat is not included in the list of regulatory stakeholders to engage or consult with. As described above in relation to resilience and environmental destination the impact of choices need to consider the scale of costs to implement and indicative bill impacts. This is true for other areas of the regional plans, such as best value benefits, where value being added may have an impact on costs and customer bills requiring a balance to be struck. It is also important for robust decision making to use high quality and consistent costs for options that reflect their efficient delivery. The nature by which regional plans are to inform company WRMPs which then form an evidence base for business plans makes this particularly important.

## **Informing company plans**

There is an expectation that the targets and investment programme identified in the regional plans inform those in the company level WRMPs. It is noted that WRN is adopting a bottom up approach to developing the regional plan by using company WRMPs which will then ensure consistency between them.

You should describe the process for integrating your regional plan into company plans, any refinements required and describe the iterations needed. This should also include how you will manage any disagreements between partner companies within the group. We acknowledge that in some circumstances there may be legitimate reasons for differences between a company WRMP and regional plan. Any differences should be clearly identified and justified.