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By email

Trevor Bishop  
Water Resources South East

18 January 2021

Dear Trevor,

## **Water Resources South East regional plan method statement response**

Water Resources South East (WRSE) 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 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). This letter builds on the comments and expectations that we described in our letter responding to your resilience framework consultation in July 2020<sup>1</sup>. 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.

We welcome your ambitious plans including the consideration of multi-sector, catchment and resilience options to improve water supply and environmental resilience. 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. 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 WRSE regional plan. We would

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<sup>1</sup> <https://www.ofwat.gov.uk/publication/wrse-regional-plan-resilience-framework-consultation-response-letter/>



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>2</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>2</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 your method statements:

### General approach

We welcome the progress you have made and the ambitions for multi-sector water supply resilience and environmental improvements that you aim to deliver through your regional plan. However, we note with caution that your proposed approach is complex making use of several interacting simulation and decision making tools. There are trade-offs between complexity and the accessibility of the plan to a wide range of interested stakeholders. The scale of the planning challenge may ultimately drive the use of complex methods and tools to ensure that the regional plans and company WRMPs deliver robust outputs. We expect you to justify the complexity of the approach and how you have sought to strike a balance to get appropriate stakeholder engagement. We note the limitations with the previous WRSE regional plan were as a result of having a final plan that did not appear to clearly promote a robust and coherent regional strategy.

Your engagement and decision making processes should gather the views of a representative range of customers and stakeholders, who should be aware of the implications of their preferences on the investment programme. Any engagement should make clear the consequences and cumulative impacts of customer or stakeholder choices or preferences. The role of the regional group and companies in the final programme selection based on the decision support tool outputs needs describing.

### Strategic objectives

Defining the strategic objectives at the outset of the planning process is aligned to our expectations that the outcomes of the regional plans should be made clear. However, no clear set of objectives can be identified from the current method statements for the plan to deliver. We note that several documents identify aims or optimisation objectives but these are specific to an element of the methodology rather than overarching, while your regional policies are planning assumptions rather than objectives.

We are concerned about some of the regional policies being proposed by WRSE. This includes the demand management ambition, notably not targeting the per capita consumption of 110l/h/d by 2050 as identified in the Environment Agency's National Framework for water resources, and the requirement to apply stricter standards for water imports than within region options. Demand management is a key activity to ensure the water that is available is used efficiently and care is needed not to impose additional barriers to the use of alternative sources, including those of third party providers when water availability is becoming scarcer. The cumulative impact of these policies may risk focusing the regional decision making on within region supply-type options.

It will be useful to describe how any strategic objectives are agreed within the WRSE group, how stakeholders are involved in this process and when the plan objectives will be finalised. Engagement with a broad range of customers and stakeholders such as other sectors, environmental groups and local authorities should help generate your strategic objectives and priorities.

We acknowledge the importance of developing alternative plans or adaptive pathways to manage key uncertainties in the planning assumptions. It is unclear how WRSE will define these pathways or scenarios for testing. The range of 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 WRSE will use a multi-objective analysis to test alternative programmes whilst balancing multiple performance metrics. We anticipate that the metrics used to optimise the plan will be aligned to the agreed objectives the plan is to deliver.

You are encouraged to consider a wide range of metrics, risks and values, which should be supported by robust data and analysis. It appears that the metric coverage of social and economic benefits is limited. Your coarse metrics appears to only include social aspects through customer preferences which omits other aspects of social value provided by potential options. This was flagged in our July 2020 consultation response letter as was the limited scope of the resilience metrics which concentrate on supply-demand balance and drought-type risks. There is a concern that you may screen out options early on by a narrow focus of metrics leading to a sub-optimal plan.

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 the use of metrics 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 WRSE will be considering options that provide additional resilience and environmental benefits. We note that as part of the process multiple-objectives are

optimised within a set boundary range but it is not clear how these objectives are selected, in particular in the context of overall plan strategic objectives, and how the boundary ranges are determined and tested for trade-offs. 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 move to a 1-in-500 year drought resilience and the identification of an environmental destination is referenced in your method statements. We welcome that you expect the date to move from one level of resilience to another to be identified by the optimisation process but note that you are still aiming for delivery by 2040 as a hard deadline. 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 including the impact on programme costs of alternative delivery dates. 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 deliver the strategic objectives being set within the context of the regional need is important. Although you are seeking to identify a range of multi-sector, resilience and blue-green options no clear method is outlined for how large multi-company options will be identified. There appears to be a reliance on company-specific WRMP19 options or the RAPID gap analysis project outputs. It should be noted that the gap analysis project used WRMP19 options as its starting point and provided an example of how best value metrics could be used to screen and rank options. This means that the initial list of options may not have been broad enough and those large options that were screened out by the project may still have value in regional plans. In general there may be benefits in revisiting options rejected at WRMP19 and the previous regional plan as the problem scale and definition has changed.

A description of how you have proactively engaged with and identified third party options is important, as is following the bid assessment framework as you reference, once these options

have been proposed. 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 method statements only refer to bill impact in relation to customer acceptability testing. 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. We acknowledge that WRSE accepts this process is necessary but is unclear how this will happen once the plans are finalised.

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.