Creating the common reference scenarios

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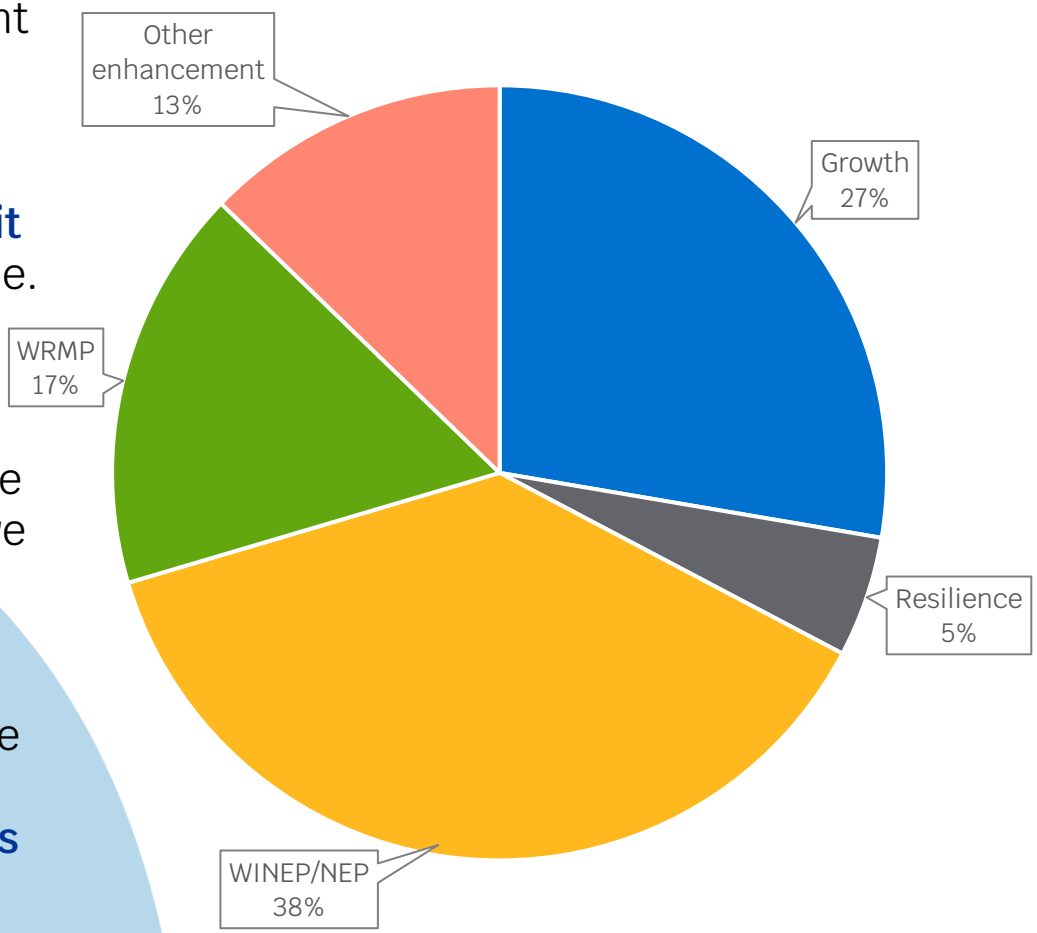
Drivers of investment at PR19

At PR19, we allowed **£50.6 billion** for 17 water companies, of which **£12.8 billion** was allocated for enhancement spending.

Around 17% of enhancement allowances were allowed **with explicit reference to a long-term strategy**, i.e. the areas covered by WRMPs.

At PR24 and beyond we expect **all enhancement allowances** to be made in the context of a long-term adaptive strategy.

We may also expect the **relative size of these elements to change** over the next 30 years, in particular the breadth of **environmental obligations** and the rate of **growth**.



Scenario planning in strategic planning frameworks

The latest WRMP guidance expects companies to use **scenario testing** to inform the preferred programme and to assess alternatives.

These scenarios mostly focus on **drivers of changes in the supply-demand balance**, to ensure that the target standard of drought resilience is met under a range of futures.

Some of recommended planning scenarios for DWMPs **overlap with WRMP guidance**. There is an expectation that growth, climate change and per capita consumption forecasts are consistent across both plans.

Companies are expected to test the sensitivity of plans to:

WRMPs

- Growth.
- Climate change.
- Sustainability changes.
- Resilience.
- Risk profile.
- Delivery of the preferred programme.

DWMPs

- Growth.
- Climate change.
- Urban creep.
- Infiltration.
- Per capita consumption.
- Treatment works discharges and receiving water quality.

Future drivers of change

Beyond those established in WRMP/ DWMP guidance, there may be drivers of long-term change that materially affect the need and timing of water company investments in future. These could include, but are not limited to:

Environmental drivers. For example, the size of future environmental programmes and action needed to improve biodiversity or meet net zero emissions.

Socioeconomic drivers. For example, changes in household incomes and willingness to pay for investments, and changes in customer behaviour.

Technological drivers. For example, development of innovations within and outside the sector that can drive improved outcomes and efficiencies, or changes in cybersecurity risks.

Political and legal drivers. For example, changes in legislation and government priorities, or geopolitical changes.

Potential drivers in common reference scenarios

What are the most important drivers of long-term change in the water sector? How should these be reflected in common reference scenarios?

1. Environmental

- **Climate change**
- **Statutory environment programmes**

- Biodiversity / good ecological status
- Net zero
- Energy resilience

2. Socioeconomic

- **Demand**

- Willingness to pay
- Household income
- Changing ways of working
- Availability of water, e.g. from offline coal-fired power stations

- **Growth**

- Energy costs
- Differential regional growth
- Urban creep
- Costs to address vulnerability
- Consumer behaviour

3. Technological

- **Technological development**
  - e.g. smart metering/networks, grey water reuse, satellite technology to address leakage, carbon neutral concrete, nature-based/green technology.

- Cybersecurity risks
- Practical delays to projects, cost / feasibility revisions

4. Political/legal

- Government priorities
- Sustainability reductions
- Compulsory metering
- Sector skills and workforce availability
- Regulatory changes e.g. charging rules
- Legal changes e.g. environmental laws, building regulations
- Geopolitical impacts on supply chains