

United Utilities Water

Response to Ofwat consultation on long term delivery strategies

January 2022

Introduction

We welcome Ofwat's recent long term strategy publication and the opportunity for further engagement on proposals to consolidate and strengthen the sector's approach to building and delivering against long term delivery strategies.

The development of long term delivery strategies is a clear priority in light of the growing complexities, strategic challenges, and the increasingly interconnected systems approach being taken to developing and delivering high quality, resilient and affordable services to customers.

We are supportive of;

- **The ambition to more explicitly embed long term planning into business planning cycles. This can provide opportunities to deliver enhanced levels of service more efficiently, in a more timely way, and help ensure an equitable approach across generations.**
- **The recognition that there is a need for the sector to take a new approach in preparing for, and adapting to, the growing challenges effecting the water sector, such as climate change and intergenerational fairness.**
- **The ambition to establish common reference scenarios which aim to provide clear assumptions across the sector for critical exogenous factors and which currently lack consistency across different strands of regulatory guidance.**

In light of this growing complexity, it will require even more ambition, collaboration, reform and flexibility from all stakeholders in the sector to continue to secure effective and efficient delivery of services to customers for the short and long term.

We value and understand the need to engage with customers on these matters; identifying their ambitions and priorities of future service levels in the context of affordability and intergenerational fairness.

Whilst we are supportive of the majority of the guidance provided there are some areas, which we outline below, that we feel are worthy of additional consideration in finalising the guidance and expectations for companies at PR24 and beyond.

We feel that further consideration should be given to;

- **The inclusion of the Bioresources price control within the adaptive planning requirements, which we see as being critical to the development of an adaptive plan for the wastewater businesses. The volume and quality of liquors and sludges produced by the wastewater business and the capability to handle and treat these products are intrinsically linked to our wastewater adaptive plans.**
- **Further alignment of the proposed common scenarios so that they are consistent across the range of regulatory guidance and frameworks that we need to comply with, including the Water Resources Planning Guideline, Water resources national framework (regional planning), and the Drainage and Wastewater Management Plan framework. We also highlight others later in this document.**
- **Providing additional guidance with respect to the reporting of the adaptive pathways that we will develop to meet the common scenario tests. This will allow more comparable, comprehensive business plans across the sector.**

Effective long term planning requires the management of substantial complexity and uncertainty. It will be challenging to manage and optimise multiple scenarios, and it is not yet clear how this will be done or how it will be used at PR24 and beyond. It is therefore important to have ongoing engagement with and from Ofwat, and others across the sector, as we all apply and mature our approaches to long term planning. We would welcome the opportunity to discuss any of the points raised in this document with the Ofwat team.

1. Background

There is a need to align with, and build upon, the sector's existing strengths in long term planning. This includes, for example, the Drainage and Wastewater Management Plan (DWMP), Water Resources Management Plan (WRMP) and regional water resource planning, where we are advanced in the use of best practice sensitivity testing and scenario planning. The cyclical planning model used in the water sector, with regularly updated 5 year plans and 25 year strategies, is a key enabler to the adaptive approach.

- **We see that establishing the common scenario tests is critical to ensuring consistency of plans and services to customers across all water companies now and in the future.**

We have already developed common scenarios to understand uncertainty in our regional water resources plan as part of Water Resources West (WRW), and understand the value of establishing common planning assumptions. These scenarios are also embedded within our approach to developing and stress testing our own Water Resources Management Plan (WRMP).

- **We support the proposal to review and update long term delivery strategies on a cyclical basis in light of new information and the latest understanding.**

As highlighted in the consultation, the need to plan for change, and respond to it, is inherent in effective long term adaptive planning. It will be important for regulatory mechanisms to recognise and support this inevitable change over time and not to disincentivise change where it will secure the best outcomes for customers.

In addition to recognising change at each periodic review, consideration should be given to allowing for more agile ways of varying the enhancement programme. An example of where such variations may be warranted is when the results of an investigation confirm the requirement for a scheme or the inclusion of a partnership scheme which would deliver better value for customers but was not possible to submit at the time of the business plan submission due to the need to align with partners' funding cycles.

We believe this type of agile working is necessary to support the transition the industry needs to deliver to secure affordable long term resilient services, deliver net zero, adapt to climate change and play its part in nature recovery.

- **Recognising that the aim of developing long-term delivery strategies is to secure affordable, resilient, and adaptive services to customers, we support the need to demonstrate that our adaptive plans are aligned to customer's preference and priorities.**

We also recognise, however, the difficulty and complexity of generating meaningful engagement with customers on longer term issues. We have considerable experience in this area following the development and execution of customer research to support our WRMP and DWMP long-term plans.

While we are supportive of many aspects of Ofwat's proposals in the consultation, we also outline in this document several observations and recommendations which we commend to Ofwat for further consideration as it continues to develop its approach. These are summarised below with more detail in the rest of this document:

- **The scope of the guidance should be expanded to include the Bioresources price control.**
- **There should be greater alignment with existing statutory guidance with regard to the common reference scenarios and consideration needs to be taken with regard to the progress and timelines already committed to under these statutory planning frameworks and the Water Industry National Environment Programme (WINEP) guidance.**

- **There should be additional consideration of how nationally co-ordinated customer research may influence or indicate customer preferences in support of the need for long term investment plans, considering the difficulties of generating meaningful engagement on longer term issues.**
- **We would advocate recognition that industry and other stakeholders should seek to ensure that investment plans reflect 'minimum regrets' investment given that "no regrets" investment is rarely possible and can stifle critical decisions and/or future innovation.**
- **We believe that establishing additional guidance and clarity on the reporting expectations of the adaptive pathways will maximise their accessibility and meaningfully improve stakeholders' ability to make comparisons between company plans to assess resilience, comprehensiveness and the scope they provide for being truly adaptive.**
- **We would like ongoing engagement with and from Ofwat, and others across the sector, as we all apply and mature our approaches to long term planning.**

2. Items for additional consideration

Scope and inclusion of Bioresources activities

We believe the proposed approach should be extended to apply to the Bioresources price control. We see important areas of risk and value in Bioresources that would merit further maturity in long term planning in order to secure best value for customers and other stakeholders. This is particularly the case because the Bioresources strategy is intrinsically linked to our wastewater strategy. The management of sludge arising from wastewater treatment is an intrinsic part of the wastewater system and thus it is only possible to optimise plans in the long term if we have long term delivery strategies for both wastewater treatment and the management of sludge. We there believe it is important to include Bioresources within the long term planning framework if the sector is to deliver long term resilience and value for customers.

We recently published a discussion paper¹ about the potential to unlock greater value from developing a national Bioresources strategy. This is now hosted on the Ofwat Ideas lab. This paper set out that there is currently a risk of inertia from uncertainty around regulatory reforms which compromise the sector's ability to plan, deliver value and stifles the Bioresources market. For the industry to properly embed circular economy in wastewater treatment it needs clarity on the long term strategy for Bioresources as it is all part of a contiguous system.

As part of our DWMP resilience assessment, we have undertaken investigations to establish the critical service that Bioresources provides to the wastewater business to enable it to deliver a long term resilient service that is affordable, meets quality standards, and delivers against our net zero emissions targets. We would support further consultation on long term adaptive planning for Bioresources.

Achieving regulatory alignment and avoiding regulatory divergence

It is important to ensure a joined-up approach across the water industry regulators' guidance and expectations in order to avoid conflicting or diverging requirements in existing and evolving strategic planning processes. It would therefore be our recommendation that the common scenarios are aligned to the:

- Water Resources Planning Guideline;
- Water Resources Management Plan 2024 (Wales) guidance;
- Water resources national framework (Regional planning)
- WINEP guidance (pending publication); and
- The Drainage and Waste Water Management Plan framework.

We provide additional detail on these points below.

We understand the eight common reference scenarios in the Ofwat publication to be a minimum expectation for use in long term planning and that the 'core' pathway should be developed to account for delivery against the four low scenarios. Focusing decision-making on only the 'low' scenario will fail to secure resilience and best long term value for customers. We recognise that it may be appropriate to go beyond these, for example to stress test for service resilience and where investment to deliver against an alternative, higher, scenario supports 'minimum regrets'.

It will also be appropriate to consider additional internal and external drivers for change, as Ofwat notes in its publication. In addition to low and high 'bookends' for planning, companies will need to explore a mid-point that can be considered the most suitable scenario on which to develop more detailed plans and proposals. For example, in developing long term asset investment programmes to address asset health it is important to ensure that investment decisions are made which consider a plausible future and address the challenges which it may present.

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2021/11/United-Utilities-Unlocking-greater-value-through-a-national-bioresources-strategy.pdf>

Broadly we welcome the proposed development of the common reference scenarios, but we note that there is divergence from existing regulatory planning guidelines provided by the Environment Agency, Ofwat, and Natural Resources Wales. This could result in plans that are in conflict with statutory obligations, regulatory requirements or government policy. Further exploration and alignment in the sector would help avoid divergence and subsequent challenge from competing regulatory views.

In principle, we do not have concerns with the four common themes and we plan to integrate these common scenarios into our WRMP, regional water resources plans, and associated elements of our PR24 business plan submission. However, some elements of the proposed common scenarios make it difficult to fully align these to existing regulatory guidelines and frameworks.

It would be our proposal to align the Ofwat common scenarios with those already committed in statutory planning guidelines and being complied with as part of the regulatory planning cycle for PR24 business plans. Where no set standards currently exist we believe it would be sensible for all regulators to agree the most appropriate standard for companies to build into their planning.

Our views on the specific scenarios are set out below.

Climate change

We welcome Ofwat's ambition in wanting to set common climate change scenario tests. However, we have some concerns on the selected Representative Concentration Pathways (RCP) that form the upper and lower bounds of this test, and the choice of a 50th percentile probabilistic scenario within the selected RCP scenarios.

In selecting RCP 2.6 as the low threshold there needs to be recognition that this is outside of what is currently deemed to be a credible future climate change scenario based on current global policies and actions, and therefore serves as an extreme 'low' stress test rather than a plausible future scenario. Current projections of climate change more closely align to RCP 4.5 and RCP 6.0, indicating that RCP 2.6 is unlikely to materialise without significant global action beyond those commitments already made.

A similar argument can be made in selecting RCP 8.5 as the upper threshold. Current policy and action should result in RCP 8.5 being less plausible, yet we recognise the importance of stress testing our plans to a credible worst case scenario. This should be undertaken in the knowledge that it represents a conservative outlook.

- RCP 2.6 can be seen as an overoptimistic scenario that, if used in planning for resilient future services, is likely to under evaluate the impacts of climate change on service provision. Further, in Water Resources Management Plan 2024 (Wales) guidance, the use of RCP 2.6 is not permitted for the Welsh companies, diverging from common planning scenarios. As members of the Water Resources West regional water resource planning area, along with Welsh Water, this means that divergent scenarios need to be considered within our long term planning.
- RCP 8.5 is a very conservative scenario that could result in risk adverse planning decisions promoting unnecessary investment to secure future resilience.

Further to this, the choice of a 50th percentile probabilistic scenario (i.e. 50% of the time the plan will fail to deliver the required level of service) within the prescribed RCP **does not align with other regulatory guidance that a greater level of assurance should be tested for in order to ensure that services are resilient. Typically this means use of the 95th percentile** to start with and then tapering down into the future. The Water Resources Planning Guideline states that companies should accept a higher level of risk further into the future. This is because, as time progresses, the uncertainties will reduce and we will have more time to adapt to changes.

It is our view that a consistent position should be agreed between regulators to avoid water companies from potentially having to develop only partially compliant strategies. Our proposal would be to set RCP 6.0 as the low or 'core' scenario to be tested against given the current climate change projections. This aligns with the work completed to date within the Water Resources West regional planning area and is understood to be in use with the majority of water companies in developing their WRMPs.

Demand

The Water Resources Planning Guideline states that companies should ensure that future water supplies shall not constrain planned growth. The WRMP pathway determines future growth (in terms of both population and properties) using the Local or Unitary Authority plans. Ofwat considers this to be the 'high' scenario but the Water Resources Planning Guideline considers it to be a core / minimum requirement. We think this is a conflicting position which may ultimately undermine the validity of the plan, given the difference in assumptions. It is our view that a consistent position needs to be agreed between regulators to avoid water companies from potentially having to develop only partially compliant strategies.

It also needs to be recognised that there is a great deal of uncertainty in future demand of household and non-household customers. While some of this demand can be influenced by the water companies, a large amount remains subject to consumer preference and demand for products and services. This uncertainty associated with the issues outside of management control could be accommodated within a modified common demand scenario.

Environment

The scope of the proposed environment scenario is relatively narrow, only considering the requirements of river flow, which is set out in the environmental destination and abstraction changes in the WRMP process. This represents a small part of the overall environmental ambition set out in the Environment Act. We believe that the scope of this scenario needs to be significantly extended to include the wider ambitions for combined sewer overflows, WINEP, Water Framework Directive (WFD) compliance, as well as wider ambitions for biodiversity.

The 'business as usual' scenario signifies considerable enhancement over current performance and goes beyond government policy, and therefore should not be considered a 'low' scenario. This scenario is based upon previous editions of UK Climate Projection data (UKCP'09) to those already proposed as scenarios in this document (UKCP'18), representing a worst case climate change projection for an average global warming of 3.9°C. This is towards the upper end of the Intergovernmental Panel on Climate Change (IPCC) projections and should therefore not be considered as a 'low' scenario.

The method used to determine the 'business as usual' scenario is based on an historic dataset that does not account for recent WINEP investment or investigations, nor does it take account of local intelligence or catchment scale modelling. Moreover, it is based on a core assumption that abstraction reduction is the only solution, which is inconsistent with the aim of this proposal in promoting adaptive pathways.

We propose that a suitable alternative 'low' scenario should be based on a continuation of delivering only currently known legal requirements. That is the delivery of traditional WINEP / NEP requirements, delivering cost effective improvements and preventing deterioration of WFD status. We recommend this alternative scenario as it enables us and our stakeholders to develop more adaptive solutions which take account of the broad range of needs of specific river catchments. This approach would avoid only focusing on the provision of a minimum flow under a climate change projection, but instead would align to the ecosystem and local biodiversity needs of a specific catchment delivering greater value and providing more scope for the development and application of long term adaptive pathways.

Alignment with statutory planning timeframes

We note that several areas of strategic planning, such as the DWMP, WRMP and regional water resource planning are substantially progressed within this periodic cycle with regulatory submission milestones approaching:

- Uuw Draft WRMP submission - August 2022
- Water Resources West regional WRMP submission – August 2022
- Uuw DWMP Baseline Risk and Vulnerability Assessment (BRAVA) - completed December 2020
- Uuw Draft DWMP submission - June 2022
- WINEP programme - awaiting regulatory guidance (pending)

Much of our strategic planning has already been completed with options being developed to meet our 'core pathway'. Timescales therefore limit the scope to introduce new requirements in this planning cycle. For example, in the DWMP there is extensive 2D hydraulic modelling and tens of thousands of possible options being assessed for optimisation. A requirement to complete further scenario testing outside of the current DWMP guideline would challenge delivery of the DWMP against the required timescales.

At UUW (and in collaboration with our neighbouring companies for regional water resource planning) we have continued to advance our approach to scenario planning in the development of our latest long term management plans. This approach broadly aligns with the ambition and guidance proposed by Ofwat in developing long term delivery strategies and the development of common scenario testing of which we are supportive. We note that there are some differences in the selection and specification of the scenarios between our view and Ofwat's as outlined in the section above. We are reviewing if this divergence makes a material difference to the plans, and the extent to which assessments can be revised to entirely align with Ofwat expectations.

Clarity over the status of the Water Industry National Environment Plan (WINEP)

The WINEP has been subject to significant reform in the run up to PR24 and a complete suite of final documentation is yet to be published. We do note, however, that the WINEP is being described inconsistently, which can lead to confusion over its scope and, in particular, its relationship with the industry's long term planning and how this may or may not reduce the flexibility with regard to developing truly adaptive pathways.

The Regulation Director letter from Ofwat², which accompanied the long term delivery strategy consultation, refers to the WINEP as one of the long-term strategic planning frameworks whereas the accompanying document itself refers to the WINEP and NEP as “programmes of work that water companies in England and Wales are required to deliver to meet their obligations arising from environmental legislation and government policy. As these are requirements that need to be met, they should be assumed to be completed as required as part of the long-term delivery strategy”. The key difference between these two definitions is the flexibility which may or may not be afforded in terms of the development of our long term adaptive pathways.

Unlike the WRMP and DWMP, the WINEP is not a strategic planning framework. Once confirmed in a Price Review the final WINEP sets out specific deliverables and timescales which are inflexible and do not support an adaptive approach to delivery. This can be compounded by the short term delivery and review cycles (within 5-10yrs) of WINEP schemes, which in turn reduces our flexibility to build adaptive pathways in preparing for the need of, and in the delivery of, the required outcomes. This is an important differentiation to make between the strategic planning frameworks and the WINEP.

We believe that long term planning is relevant to WINEP requirements, particularly where there is uncertainty and/or long term targets. Consideration should be given to allowing for more agile ways of varying the enhancement programme. Examples of the types of circumstances where such variations may be warranted may be when the results of an investigation confirm the actual requirements for a scheme or the inclusion of a partnership scheme which would deliver better value for customers but which was not possible to submit at the time of the business plan submission due to either uncertainty of the outcome of the investigations or the need to align with partners' funding cycles.

Additionally, the WINEP drives significant investment, particularly for the Wastewater Network+ price control, and thus it is important that it is embedded within the long term strategic planning frameworks, including DWMP, to deliver best value. Wherever possible we are seeking to do this for PR24, however there is a misalignment between the delivery of WINEP guidance and the production of the strategic plans which means this will be incomplete, at least for the draft DWMP and draft WRMP. This needs resolving for PR29 if we are to truly embed long term planning for the WINEP in future DWMP and WRMP cycles. We welcome the recent publication from the Environment Agency referencing a longer view in the WINEP, stated as 10 years plus. However, it needs clarifying that only those measures in the first 5 years of the WINEP should be deemed as “required” to be delivered. This is

² Letter to Regulation Directors - Ofwat's expectations for strategic planning frameworks at PR24 – Aileen Armstrong - received on the 17th of November

because those in later AMPs may be revised in light of investigations, innovation, changing policy, changing customer expectations or updated understanding of external factors such as climate change.

Customer engagement and scenario testing

We recognise and support the need for customer preferences and priorities to be embedded within our approach to developing long-term delivery strategies. We also note recent work by the Consumer Council for Water (CCW) highlighting concerns with overly complex customer research, and the importance of ensuring that customer research is well founded and valid ('CCW's View on Consumer Engagement at PR19: What Worked Well and How to Build On This', November 2020). Whilst capturing meaningful views on challenging topics such as intergenerational equity and service resilience is not easy, we believe that innovative engagement techniques can help to better understand the views of current customers in these complex areas.

However, there remain many challenges to incorporating the changing views of customers within a long term strategic plan. We believe there will be a need to manage key interactions between company specific research and the centralised customer research programme being co-ordinated by CCW and Ofwat. We would be keen to work with Ofwat and CCW to develop further views on best practise approaches to balancing long term customer priority research with competing considerations of efficiency and intergenerational fairness.

'No regrets' or 'minimum regrets' investment

UW will always strive to deliver the best possible value for stakeholders in delivering its purpose. This includes striving for delivery of the best value for money solution for customers. In the context of the uncertainty the sector needs to manage going forward, however, it may not always be possible to secure "no regrets" solutions in all cases. Rather, progress overall is best achieved by recognising the need to balance certainty of requirement, certainty of outcome and the level of innovation – with the associated risks – that can be applied to the evaluation of any particular problem or solution. This is unlikely to provide "no regrets" solutions on every occasion, but overall it is more likely to deliver best value for customers.

An overly cautious approach which is focussed on eliminating all possible risk is unlikely to best serve customers interests as it could stifle essential decisions, limit the appetite to deliver innovation and hamper progress towards long term goals. What is required is that there is sufficient understanding of the level of risk embedded in an approach versus the potential reward it could deliver for customers and the environment in the long term.

We believe that decision making should adopt a "minimum regrets" approach. By this, we mean that the sector should strive for bold progress towards long term outcomes in AMP8 and support action where the needs and solutions are sufficiently clear when using high quality and evidence based risk assessment and adaptive planning techniques. Where more information is needed to inform future planning cycles and reduce uncertainty, this can be supported by an escalation in the use of research, investigations, monitoring and modelling, including multi-organisation collaborations. We recommend that a comprehensive risk based approach should be used to determine the most effective strategy in these circumstances. This should take into account the scale of the impact, the level of uncertainty, the timing of the needed intervention, the responsible and impacted parties, and the certainty of benefit delivery.

Reporting scenarios and adaptive pathways

Effective long term planning requires the management of substantial complexity and uncertainty. It will be challenging to manage and optimise multiple scenarios, and it is not yet clear how this will be done or how it will be used at PR24 and beyond.

We would welcome further discussion and clarity on the appropriate aggregation methods of the possible multiple permutations of the common scenarios. This should include guidance on the inclusion or otherwise of infeasible

combinations of scenarios, for example high demand and high environmental ambition, and also the need or otherwise to report against common combinations of scenario tests to aid in the comparison of company plans. ■

We believe it would be helpful to clarify the expectation of the scenarios to be tested and pathways presented. It is important to have ongoing engagement with and from Ofwat, and others across the sector, as we all apply and mature our approaches to long term planning. We would welcome the opportunity to discuss any of the points raised in this document with the Ofwat team.

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