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By email

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Dear Paul

## WCWR emerging regional plan consultation response

WCWR has published an emerging regional plan for consultation. We welcome the opportunity to comment on the plan and this letter sets out our response. This letter has been published on our website today. We have included a range of cross cutting themes and more detailed comments that are specific to WCWR. In places our comments build on or reference [comments we made last January](#) on the method statements.

The work of the regional groups has been shaped by the [water resources national framework](#) and the [water resources planning guideline \(WRPG\)](#). We understand that the emerging plan for consultation is intended to:

- Signal early sight of the big challenges and candidate solutions (including strategic water resource solutions in the RAPID programme) to get initial feedback from stakeholders.
- Report outputs from the inter-regional reconciliation and best value selection processes.
- Be widely available and a way of gathering broad views from interested parties.
- Represent an important step in an ongoing process of plan development.

The January 2022 emerging regional plans are not statutory water resource management plans (WRMP) with associated data tables or a formal preferred plan. However, we have reviewed the emerging plans and this letter sets out our feedback to WCWR based on the information available. At this time there is very limited information available on option costs, benefits or tradeoffs, which has constrained our ability to review the plans in detail. We will require access to this information at the next stage of the process in autumn. We also note that timescales are tight for the regional groups to get their plans to where they need to be for the next round of consultation. Our intention in providing this feedback is to help regional groups to do this.

The revised regional plans and company level WRMPs expected in the autumn will help inform whether individual strategic water resource solutions included in the RAPID programme will progress beyond gate two. This makes the approach, robustness and transparency of decision making even more important.

This is the first time we have seen five regional plans being developed that cover the whole of England and with important links into Wales for the West group. The plans are important because they represent an opportunity to meet water needs at a regional and national scale more efficiently than would be possible through individual aggregated water company plans. The aims of the plans align with [our strategy](#) by:

- seeking to improve water company efficiency and performance for customers;
- driving water companies to meet long term challenges through increased collaboration and partnerships; and
- working across sectors to serve a wider public purpose, delivering more for customers, society and the environment.

In the letter that we sent in January 2021, we set out our expectations of the regional plans in terms of tiers of spatial planning, timely delivery and planning complexity. 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) as set out in our recent [PR24 expectations letter](#).

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.

## **Main themes**

I'd like to start by recognising the achievement that the publication of the five regional plans represents. Each of the regional groups has invested significant time and energy into the development of the plans both individually and alongside other regions to make this work. The work on reconciliation of the plans, which has involved each of the groups, is an example of the time and energy that has been put into aligning the plans and working together to find more efficient solutions.

As a result of the work put in over the last few years, we now have a set of five emerging plans that were published together and marked by a joint launch event. In itself, this represents a big step forward in water resources planning and I understand that this sort of progress takes sustained effort and collaboration. The comments provided in this letter are intended to

support the continuation of that progress as each of the regional groups tackles the work that remains to be done.

There are several areas that stand out from the review of the emerging regional plans for consultation that are relevant across the regional groups and are worth raising together. These are set out below.

**The data available on options has not allowed us to look at costing at this stage.** The approach to options costing through regional plans and WRMPs needs to be robust enough to enable the right decisions to be made. Regional groups and water companies should note that Ofwat will require further information on costs at the WRMP stage to allow the necessary scrutiny. Cost of options presented should be the cost of delivering the full benefit or demand reduction and the costs presented at the WRMP24 stage are expected to be the same as those submitted in business plans at PR24. Plans should compare the cost of the best value plan to the least cost plan. The difference in expenditure, and benefits, should be clearly stated and cost drivers fully explained.

**Options where companies seek funding at the business plan stage should have all known environmental and drinking water quality risks identified and mitigations costed.** If there are significant risks which could prove to be showstoppers, mitigations agreed with environmental regulators or alternative options should be available. Drawing out key assumptions and uncertainties in your final costings in your plan will help Ofwat have confidence in your costing consistency through PR24.

**We are expecting significant effort on demand management and want to see glide paths backed up by commensurate water company actions.** This should include the potential for coordination of action at a regional and national level and considerations of the benefits that could bring. Where your future initiatives to reduce personal consumption to 110 litres/head/day are reliant on government policy, we ask that you clearly articulate which policies your assumptions rely on, and your assumed dates of implementation. Beyond supporting water efficiency in households, and as noted in our previous letters from [March 2020](#) and [February 2021](#) on the subject, there is significant potential for improved water efficiency in the business retail sector. Improving water efficiency in non-households can and should make a significant contribution to meeting national water needs on a long-term, sustainable basis. Regional groups should demonstrate they are working effectively with retailers to set ambitious plans for improving water efficiency in the non-household sector and making appropriate assumptions around how water efficiency can be improved.

**While the regions are generally proposing to meet requirements around drought resilience, personal consumption, and leakage, we've not yet seen enough focus on profiling those changes to optimise outcomes.** We want to see sensitivity analysis undertaken on this to understand if there are significant savings or changes in benefits that could be achieved from shifting dates earlier or later in the planning period.

**Further work is needed to fully understand and prioritise changes required to water abstraction.** The abstraction reductions currently proposed in the emerging plans are large and carry uncertainties, particularly in the Water Resources East and Water Resources South East plans. Regional groups should work with environmental regulators to reduce the uncertainty around these figures and profile required changes across the planning period before the next plans are published. Changes to the way water is managed should deliver a net gain to the diversity and quality of the environment to enable a better overall outcome.

**The plans are proposing a step change in investment.** Regional groups should therefore think carefully about the deliverability of the plans from a practical perspective. This includes current supply chain constraints and affordability concerns. Regions should be making sure that their proposed solutions are adaptable and that smaller scale options aren't discounted in favour of larger solutions. Demand management has an important role within this as part of the twin track approach.

**Some of the plans include insufficient options in comparison to the projected needs.** This situation risks making all available options seem low regret as they tend to be selected widely in the modelling. The plans must include a suitable number and range of options against the projected need. Regions should also be considering supply options to facilitate transfers to neighbouring regions where this could represent the best value approach.

**The regional plans show some evidence of cross-sector collaboration.** This is encouraging as cross-sector projects have the potential to bring additional social benefits. However, water customers should only be expected to fund solutions consistent with the proper carrying out of the functions of a water company. We expect third parties who will benefit from the solution to contribute a fair share of costs according to their own responsibilities and the benefits they realise.

**Timescales for the improvements to be made to the regional plans are tight.** While this has partly been accommodated by a formal delay to English WRMPs from August to October (Welsh WRMPs are expected to be submitted in September) the short timescales mean that regional groups will have to prioritise their work carefully to make the necessary improvements by the next consultation.

**We expect completed data tables to be published by all groups<sup>1</sup> with the next round of regional plans so that the plans are transparent and regulators / stakeholders are able to understand and comment on the decisions made.** Linked to this, plans published in the

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<sup>1</sup> Water Resources West was the only region that published data tables alongside its emerging regional plan

autumn should be as self-contained as possible to allow stakeholders to understand the main points without needing to review a long list of previous documents or appendices.

## Points specific to WCWR

WCWR has come a long way in the relatively short time it has been in place. Despite this rapid progress, the WCWR emerging plan is not yet as sophisticated as we would expect given the challenges the region now faces. Methodologies have not yet caught up with the rapidly changing understanding of water resources in the region. We have raised a wide range of areas for further work in this letter and have pulled out a range of themes below. WCWR should:

- Address concerns with its approach to estimating water availability in a 1 in 500 year drought.
- Work with environmental regulators to understand necessary changes to abstraction.
- Develop a broader range of options so it can meet the deficits it faces and consider transfers in and out of the region. This should include reviewing the use of the volumetric threshold that currently excludes smaller options.
- Revisit its decision-making approach in the light of the planning challenge it now faces and develop a more robust best value planning process.
- Set out how it is profiling changes in drought resilience, personal consumption, and leakage across the planning period to optimise outcomes.
- Move towards an adaptive plan with suggested branch point dates based on uncertainties.
- Detail its approach to achieving demand side savings to give confidence in their deliverability.
- Build on its work with stakeholders to move from discussing priorities in principle to more specific points related to the planned interventions and approach to developing a refreshed best value approach.

The rapid rate of acceleration in planning needs to continue in WCWR to help move the region on from a high-level strategy designed to shape individual water company plans to a best value single preferred adaptive regional plan that can inform the individual water company plans of its members and which is developed via technical approaches and scenarios compatible with other regions at the national scale. We would like to follow up with WCWR to hear how it is going to prioritise its work to make sure the regional plan will inform the individual water company plans and provide sufficiently robust evidence to inform progression decisions at the RAPID gate two where relevant.

The team has reviewed each emerging regional plan for consultation focusing on:

- Assessment of water needs.
- Options to meet water needs.

- Decision making and prioritisation.
- Ambition and outcomes.
- Stakeholder engagement

This section sets out our comments on each of these areas specific to your plan.

## Assessment of water needs

An appropriate assessment of need is the foundation of a successful plan. We have identified a range of areas that require further focus in relation to this, which are set out below. WCWR is facing a planning challenge of moderate risk with medium strategic needs and complexity factors driven primarily by the magnitude of environmental destination scenarios. Our comments take this assessment into account.

WCWR needs to present its method for calculating available water, known as deployable output (DO) up to 1 in 500 year level of drought resilience. We understand that drought libraries, as opposed to stochastic data sets, have been used to generate weather input data to hydrological and water resources models. WCWR needs to ensure that the methods used for weather data generation and for water resources modelling are proportionate in the context of the moderate risk planning challenge WCWR is facing and that these approaches are producing robust estimates of DO under 1 in 500 year drought resilience. WCWR needs to present the impact in terms of a DO change of moving from 1 in 200 to 1 in 500 year level of drought resilience including climate change. WCWR should also refine its climate change modelling using UKCP18 data.

We understand that there is still uncertainty around WCWR's environmental destination scenarios and ongoing discussions with the Environment Agency to finalise. We recognise that this is an iterative process as it needs to take account of the costs and benefits of solutions to deliver any abstraction reductions. WCWR should prioritise work to understand necessary changes to abstraction. This should include working with regulators and stakeholders to agree and prioritise changes at a local level to include in the next version of the plan. The potential environmental impacts of any solutions to meet the environmental destination scenario are also expected to feed into the process. We would expect the wider environmental costs and benefits across all areas of the business plan to be considered when setting this destination to ensure the maximum environmental benefit is delivered for the proposed investment at a company level.

Demand forecasts are based on WRMP19 updated with 2019-20 data with only minor changes stated from WRMP19. WCWR does not mention growth ambition or the impact of the pandemic on patterns of demand. WCWR need to use local plan and Office for National Statistics (ONS) information to derive their population forecast and use this to produce their demand forecast and associated scenarios. Any changes to current personal consumption

assumptions to capture uncertainty relevant to the pandemic should also be clearly explained.

WCWR should consider the Ofwat [common reference scenarios](#) on water resources shared 17 November last year and should factor these – and any amendments following consultation – into the regional plans as appropriate.

## Options to meet water needs

Identifying the right range of options to address needs within region and more broadly is a critical part of the regional planning process. We have identified a range of areas that require further focus in this area set out below.

We expect the regional plan to consider a wide range of options. WCWR has only considered five regional options plus some interconnections and these options represent a relatively narrow range of capacities limiting the scope for combining them in different ways. One of these options (Roadford pumped storage reservoir) has already been funded through the green recovery process so should not be considered in option appraisal again. Its benefits should be reflected in the baseline water needs assumptions.

WCWR needs to demonstrate that a wide range of options have been considered during planning to give confidence in the decisions being made. 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. The WCWR plan currently shows 201 MI/d capacity from new solutions with a regional challenge at 2050 of 28– 277 MI/d. WCWR therefore has insufficient options to meet the upper predicted need for water in 2050.

The five regional options span only a limited range of option types: pumped reservoir storage, effluent reuse, raw water storage, raw water transfer and interconnections. Additional options to consider include catchment-based, process loss reductions, licence trading, additional storage, reservoir raising, additional effluent recycling, river abstraction and desalination. The consideration of third-party options within the options appraisal process should also be clearly presented along with evidence that the principles of transparency, equal treatment/non-discrimination and proportionality are considered when assessing third party options.

We have identified, through the RAPID gated process, that the DO stated for some options within the WCWR regional plan is not resilient under 1 in 500 year drought. In these cases, mitigation plans for the 1 in 500 year drought resilience scenario should be explored to ensure sustainable yield.

WCWR has applied a threshold of 10 MI/d and only looked at options above this. The exclusion of smaller options is problematic because it means the plan cannot pick up on combinations

of smaller options that together could present a more efficient approach than the larger options being selected. WCWR should optimise using smaller options as well as larger ones. If a volumetric threshold remains, WCWR should use sensitivity testing to understand its impact.

WCWR should revisit the options appraisal process to ensure a sufficiently wide range of options are included in the regional planning process.

## **Decision making and prioritisation**

Plans must compare options appropriately to arrive at the right outcomes. We have identified a range of areas that require further focus in this area set out below.

WCWR is including leakage and demand management savings in the baseline planning scenarios. This means that its decision making is focused only on supply options and the best value programme appraisal process is constrained artificially. WCWR should consider the best value approach to the delivery of demand reductions for the region as well as supply options.

The current best value decision-making approach is basic and falls short of what we would expect given the planning challenge faced. We note that the planning challenge has increased over recent years and given this, WCWR should revisit its decision-making approach. We consider that WCWR should use an economics of balancing supply and demand (EBS) model to complete cost benefit analysis of options as a minimum, including optimisation on best value metrics where possible. WCWR should review whether a planning horizon to 2050 is long enough given the deficits faced in the long term and strategic options required to meet the need from the 2040s onwards. We refer WCWR to section 9 'Aspects to consider in compiling a best value plan' and specifically section 10 'How to compile your best value plan' of the WRPG.

The WCWR emerging plan does not present a single preferred best value adaptive plan with clear trigger / branch point dates. WCWR should work towards this as a priority. The choice of adaptive pathways and trigger points should be made based on the uncertainties and drivers of the uncertainties at that time. Headroom is expected to reduce in the longer term as uncertainty is absorbed into the adaptive planning approach. WCWR should ensure it is not double-counting uncertainty.

Sensitivity analysis around trigger / branch points should also be carried out. WCWR needs to provide further evidence to justify low regret options and this should include an analysis of option costs and water resources benefit, lead in times, decisions around optimising constraints such as timings around the environmental destination and demand management. A wider range of stress testing is also required.

It is unclear how WCWR regional plan will inform the WRMPs of the WCWR companies and clearer descriptions of which elements of regional planning are generated by company specific models and which are through joint and regional assessments should be provided.

WCWR should explain how the regional plan will inform the WRMPs given that the emerging plan does not select which options are preferred or schedule exactly when they would be needed. The WCWR regional plan should set out the preferred most likely, core and alternative programmes scheduled through the planning horizon to robustly inform WRMPs. Plans should compare the cost of the best value plan to the least cost plan. The difference in expenditure should be clearly stated and cost drivers fully explained.

WCWR should strengthen links with the companies developing WRMPs and make sure that any updated data, assumptions or forecasts developed as part of the WRMP process are appropriately incorporated into the regional planning process, as per WRPG section 2. WCWR should continue to explore the potential for transfers to or from other regions. Expanding its range of options will be important in this. WCWR should also clearly identify the bill impacts or affordability of its proposed programme and engage with customers on this issue.

## **Ambition and outcomes**

It is important that the plans are sufficiently ambitious and are in line to achieve agreed outcomes. We have identified a range of areas that require further focus in this area set out below.

Total estimated water needs in the West Country have increased since the national framework. WCWR started from a position of planning for minimal water resources needs and has rapidly increased its understanding of the potential pressures facing the region. The emerging plan puts forward an outline strategy to meet those pressures but, as noted above, significant further work is required to develop methodologies and options so that it is in a better place to do so. The fast rate of development achieved in WCWR needs to continue to achieve this.

While the WCWR plan is aligning with planning requirements around water efficiency (personal consumption) and leakage it leaves the detail of how these will be achieved to WRMPs. WCWR also notes the uncertainty around achieving these savings. WCWR should develop more detail in this area to give confidence in the deliverability of the demand side savings.

WCWR has made assumptions about the progress that it can make around leakage and water efficiency. It has explored the impact of under-achieving on this. However, it should look to optimise across different actions to identify efficient glide paths and understand what these glide paths mean for supply side options. We are expecting regions to set out efficient glide paths to 110l/h/d personal consumption and 50% leakage reduction by 2050 with associated

water company actions. Where future initiatives to reduce personal consumption to 110 l/h/d are reliant on government policy, we ask that WCWR clearly articulate which policies they are relying on and assumed dates of implementation.

WCWR says it will achieve 1 in 500 year drought resilience in line with the planning guidance which says that companies should aim to achieve this resilience by 2039. However, the planning guideline also prompts companies to determine optimum timings for this. We want to see the regional plan looking at the tradeoffs around different pathways to 1 in 500 year drought resilience at a regional scale rather than leaving this to individual water company analysis. Sensitivity testing should be undertaken around the year in which plans aim to meet 1 in 500 year drought resilience. This should include flexing to 2050 where more flexibility is considered appropriate to identify if there are significant cost savings or additional benefits that could be achieved from moving this date.

WCWR explains alignment with the UK net zero commitment and that both operational and embodied carbon has been used as a key metric for decision-making and consideration of trade-offs during solution selection. We welcome the presentation of total carbon emissions for options. We would like to see carbon emissions in the final best value plan clearly presented along a clear discussion on the trade-offs made between whole life carbon emissions and other considerations to agree the final best value plan.

## **Stakeholder engagement**

Stakeholder engagement must be meaningful, have sufficient reach and be appropriately targeted.

WCWR engaged with eight household customer focus groups in June and July 2021, including two sessions, with a total of 60 participants. They also worked with stakeholders on selecting priority catchments for the environment work. WCWR should build on this following the consultation on the emerging plan and move from discussing priorities in principle (such as resilience vs environment) to specifics related to the planned interventions and work to develop a refreshed best value approach. A broad range of stakeholders must be approached, so that they understand WCWR's objectives.

We note that WCWR has presented a range of questions for consultation in the emerging plan that include a mix of quantitative and qualitative elements. Together, responses to these questions should give a useful steer to the plan. However, the plan is currently at quite a high level and is short on specifics. Further detail is required on the changes that are proposed - such as changes to abstraction - and on the options (supply and demand side) that are required to support future engagement.

I look forward to seeing these points addressed in the next iteration of your plan. Once you have had a chance to consider these comments in detail, we would welcome the opportunity to speak with you about them and to hear how you plan to address them. My team will be in touch to arrange a date for this in mid-March.

Yours sincerely

**John Russell**

**Senior Director, Ofwat**