

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
21 Bloomsbury Street, London WC1B 3HF

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By email

Daniel Johns  
Water Resources East  
The Enterprise Centre  
University of East Anglia  
Norwich  
NR4 7TJ

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Dear Daniel,

## **Water Resources East emerging regional plan consultation response**

WRE 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 WRE. 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 WRE 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 WRE

We are encouraged by the ambitious, inclusive and cross sector approach being taken by Water Resources East. However, much remains to be done to get the plan to where it needs to be by autumn and beyond. Water Resources East should take stock and make sure that its work programme is prioritising the areas that most need development to produce a robust plan in time to allow full and transparent consultation and inform WRMPs and business plans. We have raised a wide range of areas for further work in this letter and have pulled out a range of themes below. WRE should:

- Address concerns with its approach to estimating water availability in a 1 in 500 year drought and explain how this will change given the new Anglian Water tool developed in collaboration with the Met Office.
- 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 region. This should include reviewing the use of the volumetric threshold that currently excludes smaller options.
- Present the outcome of its problem characterisation to justify its choice of decision-making approach and improve its best value approach by optimising across a broader range of metrics to achieve a robust best value plan. This needs to feed in to company WRMPs, noting that these currently have separate best value planning frameworks.
- 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.
- Set out more clearly precisely which options are selected, in what order, under what scenarios and when to facilitate deeper engagement.

WRE should prioritise the work needed to inform the big decisions – which will require consideration of a wider range of options – and explore the sensitivities around those decisions so the next version of the plan is clearer and facilitates more targeted engagement.

We would like to hear how WRE is prioritising 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 number of areas that require further focus in relation to this, which are set out below.

Further clarity is required on the impact that planning to a 1:500 year drought resilience has on water availability, known as deployable output (DO), how the assessment has changed since the previous version and how it will be adjusted given the new Anglian Water tool developed in collaboration with the Met Office. Linked to this we want to understand how consistency will be achieved across the region. Further clarity is also required on the climate scenarios WRE has used as there are various descriptions in the plan, which aren't consistent with each other.

We note that no additional transfers out of the region are proposed due to deficits identified in the plan. This decision is linked to broader points around the environmental destination area, which we flag as requiring further investigation. Overall, we want to see fair consideration of the case for transfers both in and out of the region involving the other regional groups and including best value analysis. We also want to continue to engage on how any potential changes to the Grafham arrangements would impact investments made through PR19 and on WRSE's regional plan and Affinity Water's WRMP. WRE should confirm which previously funded options have been included in the baseline and how it builds on the significant WRMP19 investment in the region.

The WRE plan says it will achieve 1 in 500 year drought resilience by 2039, in line with the planning guidance. 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.

The potential reductions to abstraction licences in the plan are very large, up to 1,325 Ml/d. While WRE has used the Environment Agency scenarios and applied these in a useful way – including how they apply outside public water supply – it's not clear how the scenarios have

been tested against local evidence. Given the scale of the scenarios and how they dominate the plan this work requires urgent prioritisation. The changes are not currently profiled across the planning period and we want to see analysis on the timing of delivery and the sensitivities around this.

We note that WRE has included detailed analysis around the Ox-Cam arc and reflected on likely implications of the social changes following the pandemic and associated water demand impacts. It has also looked at an appropriate planning period. WRE has put substantial effort into understanding the likely pressures on non-public water supply demand including from agriculture and power generation. We note that this will be updated in 2022.

WRE should take into account the Ofwat [common reference scenarios](#) on water resources shared 17 November last year and 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 number of areas that require further focus in relation to this, which are set out below.

WRE 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. The emerging plan says that WRE is putting strategic options in first, however it's not clear how the plan can optimise an approach in this way. WRE should optimise using smaller options as well as larger options. If a volumetric threshold remains WRE should use sensitivity testing to understand its impact.

The WRE plan shows 1,820 MI/d capacity is available from new solutions with the regional challenge to 2050 coming in between 703 and 2,267 MI/d. WRE therefore has not identified or presented sufficient options to meet the upper predicted need for water in 2050. This is exacerbated by a significant proportion of the options available being reliant on advances in desalination technology that is unproven in the UK. While it is encouraging that WRE is pushing for innovation in new technologies around desalination, evidence is required that innovation is underway or achievable and that the options are realistic.

Given the scale of the challenge that WRE identifies, the number and range of options it is considering is very limited. For example, there are no licence trading options or options to make better use of existing resources / increase connectivity within the region or to transfer water into the region. The sorts of holistic local options that WRE – with its well developed and inclusive approach to engagement – would be well suited to identifying are lost by the 10 MI/d option threshold.

WRE aims to identify low regrets solutions that are robust to a range of future scenarios for 2050 and that can be delivered to ensure flexibility to adapt to change. However, notwithstanding the points made above on the range of options considered, evidence needs to be provided to demonstrate how and why selected options are low regret. Evidence 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, 1 in 500 year drought resilience and demand management, and position within adaptive pathways.

We are expecting regions to set out efficient glide paths to 110l/h/d personal consumption and 50% leakage reduction and by 2050 with associated water company actions clearly identified. Where WRE's future initiatives to reduce personal consumption to 110 l/h/d are reliant on government policy, we ask that you clearly articulate which policies you are relying on and assumed dates of implementation.

The emerging plan does not seem to include third party options. The Norfolk Water Strategy Programme is discussed as a way of exploring nature-based solutions but it is not clear whether any solutions from this have been included in the plan at this stage. We ask that options emerging from this study are fully considered as part of the plan, and approaches learnt from the study are applied across the WRE region.

WRE's plan rules out additional inter-regional transfers from the region, although it concedes an existing transfer to WRSE will be required to continue. WRE should explain how this position is compatible with the reconciled best value plan, now and as it develops, particularly when the reconciled plan is subject to sensitivity and stress tests.

## **Decision making and prioritisation**

Plans must compare options appropriately to arrive at the right outcomes. We have identified areas that require further focus and set these out in the section below. A number of points have already been raised in the sections above that are relevant for decision making. These are not duplicated in this section and include:

- The need for WRE to explore alternative ways to profile their glide paths on demand savings and increased drought resilience as well as changes to abstraction.
- The issues around including a volumetric threshold for supply options.
- The decision not to transfer water in or out of the region

WRE is including leakage and demand management savings in the baseline planning scenarios. Decision making is therefore focused on supply options only which will constrain the best value programme appraisal process. WRE should consider the best value approach to the delivery of demand reductions for the region as well as supply options.

WRE should increase the range of stress testing to include non-delivery of options and varying use and nonuse of drought permits / orders.

WRE should present the outcome of its problem characterisation to justify its choice of decision-making approach. WRE has looked across the required 25 year planning period but would benefit from looking further ahead given the challenges the region faces. WRE is using a decision-making tool that is only optimising on metrics relevant to drought resilience and tracking others. WRE should consider optimising across a broader range of metrics to achieve a robust best value plan.

WRE should set out how its best value plan decision making feeds into company WRMPs given the separate best value planning frameworks at the regional and the company levels. Water companies would require 'clear justification for any departure from regional plan' in their WRMP. Because the company level plan is a work in progress it is essential that WRE ensure any updated data, assumptions or forecasts are appropriately incorporated into the regional planning process.

WRE does not present an adaptive plan with suggested branch point dates. Instead, phased demand and supply strategies are presented (now to 2025, 2025-2030 and 2030 onwards). WRE should present the baseline adaptive pathways and trigger / branch points and target headroom and explain how these have been established based on uncertainties. WRE should also evidence that they are not double counting uncertainty. It is also recommended that sensitivity analysis around trigger / branch points is carried out.

The draft WRE regional plan needs to present clearly the preferred most likely, core and alternative programmes scheduled through the planning horizon. It must be a single plan with a justified set of adaptive pathways linked to programmes of investment. It must also be reflected in company WRMPs and it is not yet clear how this will happen. WRE needs to clarify how this will be achieved and how the options from the regional plan will feed into WRMPs.

WRE needs to ensure that decision making is transparent and includes a clear narrative that sets out the approach within the best value framework. WRE should identify a least cost plan as a benchmark for the best value plan and compare the costs and benefits of two. The difference in expenditure should be clearly stated and cost drivers fully explained. It is important that WRE clearly identifies the bill impacts of the proposed programme at a company level and engages with customers on this issue.

The emerging plan seems to confuse the decision making around supply options in the RAPID process in places. WRE need to be clear on the frameworks and decision-making process and the route to selecting strategic regional solution which is through regional plans and company WRMPs that are informed by those regional plans.

## Ambition and outcomes

It's important that the plans are sufficiently ambitious and are in line to achieve agreed outcomes. We have identified a number of areas that require further focus in relation to this, which we set out below.

The WRE plan is broadly in line with the challenges articulated in the national framework and has focused particularly on sectors outside public water supply. However, significant work is required to move that assessment on for the next round of plans in the autumn. This is particularly the case with the environmental destination area which requires further testing against local evidence (see earlier points under assessment of water needs heading).

While the WRE plan is broadly looking to align with planning requirements around water efficiency (personal consumption) and leakage it leaves the detail of how these will be achieved to WRMPs. WRE needs to present how demand savings will be achieved to give confidence that they can be delivered.

The plan explains that carbon is considered using the Integrated Environmental Assessment (IEA) approach, which was developed specifically for the Regional Plan. WRE should set out how it will use carbon emissions impact as a metric for decision-making in the best value plan. We would like to see presentation of total carbon emissions in the reconciliation baseline along with comparison of this with the carbon emissions in the final best value plan and a clear discussion on the trade-offs made between whole life carbon emissions and other considerations to agree the final best value plan.

The WRE plan shows significant consideration has been given to joining up water resources and flooding. This is through the approach to IEA, proposed work at catchment scale, discussions with Internal Drainage Boards about repurposing water currently discharged for flood management as a resource and through reservoir design in both the Fens Water Partnership and South Lincs Water Partnership. WRE should build on this work and focus on how these potential benefits will be factored into decision making and what this means for the timescales of options development.

## Stakeholder engagement

Stakeholder engagement must be meaningful, have sufficient reach and be appropriately targeted. WRE has taken an exceptionally consultative approach in developing the plan and has successfully nurtured a very broad membership. WRE needs to focus its thinking now on decision making and making sure it is developing the evidence required for the big decisions needed, particularly around supply investment.

WRE has set out clear consultation questions. However, the plan is still at a relatively early stage. It is a concern that WRE seems to suggest that some key questions - such as

glidepaths to increased resilience and reduced demand - are being considered outside of this process. This makes it challenging to achieve meaningful engagement with stakeholders.

While WRE leads the way in cross-sector planning it is not currently clear whether there is willingness in sectors outside of public water supply to contribute funding to the resources identified as needed. Where other sectors are getting a proportion of the benefits they should cover a proportion of the costs.

WRE has taken an open approach to developing the plan. However, the emerging plan for consultation is light on detail around precisely which options are selected, in what order, under what scenarios and when. This makes engaging with the plan challenging. WRE should prioritise the work required to make the big decisions – which will require consideration of a wider range of options – and explore the sensitivities around those decisions so the next version of the plan is clearer and facilitates deeper 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**