

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

By email

Richard Blackwell
Director, Water Resources West
United Utilities Group Plc
Haweswater House
Lingley Mere
Warrington
WA5 3LP

24 February 2022

Dear Richard,

WRW emerging regional plan consultation response

WRW 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 WRW. 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 WRW 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 groups¹ 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 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 WRW

WRW is one of the newer regional groups. However, it has made significant progress since its formation. We are encouraged by the quality of outputs WRW has produced at this stage, which include draft data tables, and pleased that WRW seems to be looking at a wide range of options. WRW is also proposing to support the southeast through the River Severn to River Thames transfer which shows evidence of collaboration across WRW and WRSE (as well as the West Country group in some configurations of the option), while maintaining resilience at home.

We have raised a range of areas for further work in this letter and have pulled out the themes below. WRW should:

- Prioritise work with environmental regulators to resolve differences of view around the required changes to water abstraction. This is essential to demonstrate that the plan is sustainable and robust enough to meet the needs of WRW and other regions through the planned transfers.
- Set out specifically what drives each surplus and deficit and include a breakdown of the drivers of change in each supply / demand component.
- Consider whether additional options are available, particularly licence trades or catchment management options, and set out what constraints or assumptions have led to no transfers to WRE being presented.
- Set out how it is profiling changes in drought resilience, personal consumption, and leakage across the planning period to optimise outcomes.
- Detail its approach to achieving demand side savings to give confidence in their deliverability.
- Demonstrate how the 'ValueStream' tool has been used in developing a best value plan, alongside a clear comparison to the least-cost plan, justifying where and why options differ.
- Include supporting data to make consultation questions more meaningful.

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

WRW has accommodated cross-border policy and legislative differences between England and Wales into the context of its emerging plan. WRW needs to continue this through to option and best value plan development with specific local and regulatory engagement.

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.

The estimated environmental needs (from reductions in abstraction) included in the WRW plan have increased since the last report. Companies within WRW have taken quite different approaches to estimating the changes which creates inconsistency within the region. Our understanding is that United Utilities has included 50% of the Environment Agency's enhanced scenario in its baseline whereas South Staffordshire Water and Severn Trent Water have only included changes that have already been investigated and confirmed. Welsh Water has included one additional uncertain abstraction change. This inconsistency raises risks around comparability of the planning problem across the region.

United Utilities has committed to working with the Environment Agency this year to understand what investigations are required to understand which changes to abstraction are needed by when. The other companies in WRW should also commit to doing this. WRW needs to work with the environmental regulators to agree its approach in this area as a priority, including with NRW where catchment approaches may still result in licence reductions. This is needed to give confidence that water is available for transfer out of region and that proposed investment is appropriate.

WRW has set out the region's future needs by water resource zone across the planning horizon. The main report's description of the major trends provides a general understanding of the regional drivers to the forecast, and Appendix E provides a useful breakdown of the company approaches applied to each supply demand balance component to compile the forecasts. However, WRW should set out specifically what drives each surplus and deficit and include a breakdown of the drivers of change in each supply demand component. This would be particularly useful where deficits are forecast for some water resource zones at the

beginning of the planning horizon. WRW should set out the impact on water availability, defined as deployable output (DO), when the 1 in 500 year resilience requirement is applied.

WRW 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.

WRW should clarify whether any options have already been funded in previous determinations, and how these are being included in the baseline supply demand balance or represented in the emerging plan. This includes the representation of previously funded green recovery schemes.

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 relation to this, which are set out below.

The WRW plan proposes to support the South East through the Severn Thames Transfer and this is backed up with evidence of stakeholder and customer opinions. It does this while maintaining resilience in the region. The emerging plan includes a wide range of feasible options. We are pleased to see that these include a number which prioritise more efficient use of existing sources, such as water treatment works capacity increase, process loss recovery and effluent reuse. However, WRW should consider whether more than one licence trade, and two catchment management options, are possible given the regional group's remit to take a more holistic view of catchment use and users. We would also like to understand what constraints or assumptions have led to no transfers to WRE being presented.

WRW has taken a thorough approach to identifying key groups of non-public water supply users across their region. As part of this, WRW has prioritised catchments where opportunities are likely to exist to integrate across public water supply and other sectors. We would like to see WRW following this through to identify opportunities that develop into options to be considered for inclusion in the plan.

WRW's demand strategy is in line with personal consumption and leakage expectations. However, no demand management options are included in the regional plan itself. WRW requests that companies confirm their commitments to select options to meet these targets. WRW should take a more active role in selecting demand management options in its regional plan, to enable the development of a glide path for the region to meet expectations.

WRW has carried out stress tests on the impact of demand management strategies only being 50% effective. The conclusion is that sufficient supply options remain to maintain the supply

demand balance in this case. However, the onus should not only be on supply options to offset meeting demand targets. The plan should also consider enhanced demand strategies.

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 clearly identified. Where WRW'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. Please ensure any updated individual company data, assumptions or forecasts are appropriately incorporated into the regional planning process, as per WRPg section 2.

We recognise that cost estimates are not yet fully developed, and WRW has presented a high-level approach to cost investment drivers. We expect, as the plan develops, for the costs to be presented as a total for the plan and broken down by options selected within the plan. Information on costs should include how they have been estimated and what they represent, such as whether they are net present value (NPV). We also expect costs to be robustly calculated for the options presented in WRMP24 and PR24, and not based on high level estimates using Ofwat's view of efficient costs from PR19.

Decision making and prioritisation

Plans must compare options appropriately to arrive at the right outcomes. We have identified a number of areas that require further focus in relation to this, which are set out below.

WRW's plan sets out a process to move from unconstrained options to feasible options via high level screening, and then to options to be taken through to decision making via detailed screening. Appendix B also sets out the high level and detailed screening criteria. However, WRW should clarify its approach by:

- Identifying which options were considered and excluded at unconstrained and feasible options stage.
- Clarifying how the high-level screening criteria was used to produce the 'likelihood of selection' ranking in the main reports 'Table 9', and whether options were considered on individual merit or by type.
- Explaining how the detailed screening criteria were used to result in the options put forward for reconciliation, and how outcomes of this consultation feedback to influence this.
- Confirming whether the suite of options presented in the main report's 'Table 10' represents options selected through reconciliation on a least-cost only basis.

WRW's ValueStream decision making tool is presented in the emerging plan, along with a broad range of metrics and weightings assigned through stakeholder views and catchment data. WRW should demonstrate how this tool has been used in developing a best value plan,

alongside a clear comparison to the least-cost plan, justifying where and why options now differ. Robustly valuing additional benefits will allow confirmation that additional costs in the best value plan, in comparison to the least-cost plan, are appropriate.

We would like to see how stakeholder and customer views on willingness to pay to resolve interruptions and water quality, have played into the decision-making process. Customers' views will likely differ to other stakeholders' views, so knowing how each group has affected weighting will be important.

WRW has undertaken two stress tests to investigate environmental destination and demand management uncertainties, which reflect those undertaken in the reconciliation process. As the plan develops we would like to see further region-specific stress-tests undertaken that consider region-specific uncertainties.

WRW has set out four adaptive pathway scenarios to test different futures and the options that would be required in them. It will be important to undertake sensitivity tests on these to make sure they capture, and options can accommodate, uncertainty in these futures. WRW should be open to adapting or increasing the number of scenarios as the plan develops.

Ambition and outcomes

It is 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 WRW plan is broadly in line with the scale of challenges set out in the national framework though public water supply water needs have increased since the last iteration. These are driven significantly by abstraction reductions (see our comments above). WRW is forecasting relatively modest increases to non-public water supply demand with the exception of navigations which is an important area for WRW given the extensive canal network in the region.

While the WRW 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 water resource management plans. WRW should develop more detail in this area to give confidence in the deliverability of the demand side savings.

The WRW plan says it will achieve 1 in 500 year drought resilience by 2039, 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.

WRW's plan is being developed in the context of achieving the water industry's goal to achieve net zero operational carbon emissions by 2030, by adopting low carbon enabling solutions. WRW should clarify carbon assessments (and designs to reduce carbon) are for whole life carbon, and that solutions will take approaches such as being designed to first reduce carbon ahead of offsetting. Referencing to key methodologies and frameworks will help clarify approaches.

The WRW plan says it will develop options which provide environmental benefits by reducing flood risk and providing new habitats which are sustainable in the long term. The plan also talks about significant stakeholder support for options that also manage flood risk. Flood risk, carbon and wellbeing are considered in the 'ValueStream' decision making tool and we look forward to seeing how these options feature in the next version of the plan.

WRW should set out how the plan will be achieved while being affordable to customers by indicating potential impacts to bills. WRW has started this by including estimated costs of delivering increased drought resilience earlier to inform a consultation question. However, in this example, focusing on the increased costs of earlier delivery detracted from conversations about total costs. We note that, more generally, good stakeholder and customer engagement has taken place on acceptance of bill increases for different priorities within the region, and that this has helped shape the plan's targets and ambition.

Stakeholder engagement

Stakeholder engagement must be meaningful, have sufficient reach and be appropriately targeted. WRW has engaged with stakeholders and customers and presented the outputs of this in its plan. As WRW progresses its plan it should focus engagement on the options arising and the tradeoffs associated with those options.

WRW should set out more clearly how its engagement has shaped its plan. For example, your work suggests that the level of customer awareness on water efficiency is low "most customers use water freely with little thought". This should be indicative that further work is required on communications. WRW is the only region with links into Wales and its engagement should reflect views on both sides of the border.

As the WRW plan develops it should include more meaningful consultation questions that are informed by data, such as comparative costs and benefits. The current questions do not adequately cover non-public water supply sectors or meaningfully explore the tradeoffs between different option portfolios or options typologies. Overall, WRW has done a good job of

presenting its plan, its documentation is high quality and it is the only region to publish data tables alongside its emerging plan.

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