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By email

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24 February 2022

Dear Granville,

## **WReN emerging regional plan consultation response**

WReN 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 WReN. 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 WReN 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 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 WreN

WReN is not projected to face the level of water scarcity that groups covering the South East of England are. It also has fewer water companies to coordinate across. Because of this the plan does not need to be as sophisticated in its approach to decision making as some other groups. We have taken this into account in our assessment of the emerging plan. WReN is one of the newer groups and we are encouraged that the plan is developing in the right direction.

We note that transfers from WReN have not been selected by other groups. We would like more transfer options to be developed to test this fully and to evidence that robust decision-making has been undertaken around the option choices available to other regions.

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

- Build on its work with environmental regulators to make sure the plan includes a sufficiently long-term view of future changes to abstraction that may be required to secure environmental protection.
- Develop a wider range of options to give greater confidence that the options selected represent the best value portfolio. This should include reservoir optimisation schemes as well as the wider range of transfers to other regions mentioned earlier.
- 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.
- Clarify the structure of the WreN regional group in future documentation. This should include a list of the key companies and stakeholders involved in decision-making along with a clear diagram and narrative regarding governance structures that would make accountability easier to understand for those engaging with the plan.

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

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 we set out below.

The WreN plan states there is a risk of a small deficit in the Yorkshire Water Strategic Grid from 2025 driven by meeting the 1-in-500 year drought resilience level of service and assuming achievement of planned demand and leakage reductions. The plan states this could be offset by delaying the move to a 1-in-500 year drought resilience and retaining the 1-in-200 year drought resilience level of service to 2039.

We welcome the approach to test if resilience levels can be met through demand management to offer a better value alternative than building supply options. We would like to see further sensitivity undertaken around the year in which plans aim to meet the 1-in-500 year level of drought resilience. 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.

Climate change impacts have been calculated using medium scenario RCP6.0 scaled back to 1990. We suggest that sensitivities are undertaken using RCP2.6 and RCP8.5<sup>2</sup>. This would build in consistency with the Ofwat [common reference scenarios](#).

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<sup>2</sup> Representative Concentration Pathways (RCPs) are a method for capturing assumptions about the economic, social and physical changes to our environment that will influence climate change.

WReN 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. WreN has used Local Authority Local Plans to inform housing growth. We suggest ONS data sets are also used to ensure consistency with Ofwat's long term planning frameworks and common reference scenarios.

WReN has reviewed the Environment Agency's environmental destination scenarios in detail and proposed that no immediate changes are required. WReN suggests a way forward that builds on previous and current investigations and uses scenarios and other evidence to prioritise the need for further investigations. WReN has provided a good level of information on each of the catchments that suggests you have considered what the scenarios mean locally. WReN should continue to work with the environmental regulators at a local level to make sure you have an agreed way forward that is based on current evidence and also takes a sufficiently long-term view of future pressures. This long-term view is important to allow WReN to plan for changes to abstraction far in advance and therefore find the most efficient solutions. As part of this, WReN should consider including some potential abstraction changes following your environmental destination work as sensitivity testing.

## 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 we set out below.

Of the 27 options put forward, most are new sources. There are no options on treatment works improvements, effluent reuse, licence transfers or catchment schemes that may be more sustainable or better value. WreN should develop a wider range of options to give greater confidence that the options selected represent the best value portfolio. This should include reservoir optimisation schemes.

It is not yet clear which options are selected for the emerging plan. The chosen options should be presented in a clear way in the coming draft best value plan.

Four feasible transfers out of WReN to WRW are presented but no export options from WReN have been selected as favourable by other regions during the reconciliation process. Other regions cite the distance to areas in deficit as a cost barrier. We would like more transfer options to be developed to test this fully and to evidence that robust decision-making has been undertaken around the option choices available to other regions. This should include consideration of the potential to transfer water to WRE. Option costs should be presented for transparency of decision-making.



The feasibility of a transfer from Kielder is questioned in the plan as the 1-in-500 year drought plus climate change resilience scenario draws down the storage in Kielder to 40%. We would question whether the prospect of drawing down Kielder to 40% is truly a showstopper under such an extreme drought and would like to see further evidence on this.

We note that WReN has engaged with the power, agriculture and environmental sectors to understand current and future use. The plan does not yet provide evidence that definitive opportunities have been established but it is clear there is a commitment to continuing development. We welcome continued engagement in this area to identify new opportunities, particularly relating to links with the Hydrogen economy.

We note that individual water company plans for WRMP24 may include solutions to meet water needs at both regional and company scales and that there will be both regional and local consultation. We would like further information on your process to reconcile the WReN regional plan with individual company WRMP24 plans and would welcome further discussion of how the regional plan is informing individual company WRMP24 plans. Please ensure any updated individual company data, assumptions or forecasts are appropriately incorporated into the regional planning process, as per WRPG section 2.

The plan should present the best value approach to the delivery of demand reductions for your region and explain how you are managing the uncertainty regarding delivery (as per WRPG sections 9 and 10). The plan should also be clear which options are applied in your demand management strategy, including where you have stated you require government interventions to meet longer term targets. You should clarify glidepaths to your demand management targets, which incorporates timing of specific demand management options becoming effective.

## **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 we set out below.

We are pleased that the plan considers a planning period from 2025 to 2085 and, in doing so, goes above and beyond the requirement of a regional plan to forecast supply and demand over at least 25 years.

The WReN decision making methodology expands the Economics of Balancing Supply and Demand (EBS&D) approach to include best value criteria in addition to cost. Some of the plan objectives will be addressed via planning scenarios whereas other objectives are performance measures represented as metrics for consideration in a multi criteria analysis (MCA) approach to producing a best value plan. We welcome that a broad range of customer-



informed weighted metrics have been considered including biodiversity, natural capital, flood risk management, human and social wellbeing, multi-abstractor benefits and carbon.

The decision-making approach and decision support tools used by WReN appear appropriate to the scale of the problem faced in the region. WReN is using multi-criteria analysis based on monetised and non-monetised criteria, building on the EBSD approach and using a range of best value metrics.

The approach to adaptive planning used has one branch point at 2035 and two pathways. We support the approach to place the adaptive pathway trigger points in line with the dates of key strategic decisions regarding source availability (in this case the potential cessation of the Derwent Valley import). The final best value plan should robustly evidence why a date has been selected for a pathway to diverge and the sensitivity to the investment programme by changing this date. WReN should work with other regional groups affected by the future of this transfer to demonstrate that the preferred option is consistent between company and regional plans and demonstrates best value for customers across companies and regions.

We recognise that this is an emerging plan and not yet a best value plan. When the draft best value plan is presented, we expect it to include low regret best value investment over the long term to solve the planning problem presented. Robust evidence should be provided for any option that has been excluded and for any artificial constraints or interim targets set. We welcome your proposal to compare the costs and benefits between the least cost plan and the final regional best value plan.

## **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 WReN plan is broadly in line with the expectations from the national framework which characterised the North as facing modest water resources pressures.

While the WReN plan is 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. WReN should develop more detail in this area to give confidence in the deliverability of the demand side savings.

The plan poses questions for stakeholders around the pace of delivery against leakage and personal consumption. However, it does so without providing sufficient underlying evidence on the costs and benefits of varying the pace of delivery. WReN should explore the impact of different rates around demand management at a regional scale and provide appropriate evidence on this to inform more targeted consultation in the autumn plan.

The plan explains alignment with the UK net zero commitment and carbon has been used as a key metric for decision-making in the best value plan. We welcome the presentation of total carbon emissions in the reconciliation baseline and would like to see comparison of this with the carbon emissions in the final best value plan clearly presented along with 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. WReN has reviewed previous business plan customer engagement as well as adding additional stakeholder engagement. At this stage WReN stops short of explaining how these views have shaped the plan. WReN should set this out clearly in the autumn plan for consultation.

WReN has engaged with agriculture, energy and environmental sectors but found it difficult to get into the detail of their water needs due to the lack of planning in these sectors. WReN should continue its efforts in this area to identify potential synergies across sectors including those associated with the zero-carbon transition and Hydrogen economy.

WReN sets out a good range of consultation questions that span the main choices in the plan. WReN should make sure that data is provided to help stakeholders engage with questions in the autumn consultation. This should include full data tables to provide transparency.

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**