

Outstanding questions from Ofwat long-term delivery strategies workshop, 25 May 2022

Our responses should be be read in conjunction with [PR24 and beyond: Final guidance on long-term delivery strategies](#) (April 2022).

Michelle Davies, Bristol Water

Question: A detailed question which perhaps you could follow up on afterwards....the technology scenarios describe futures where full adoption and operationalisation of become cost beneficial at particular dates. So should the enhancement costs we assume for these activities be our best estimates now or those which would be cost beneficial (and we would need to figure out how to back calculate this..)?

Response: For the purposes of testing against the technology reference scenarios, it should be assumed that a technology has developed to the point that adoption has become cost-effective by the stated date.

Where companies consider it particularly implausible that the adoption of a technology could be cost-effective in their region by the dates in the scenarios, this should be highlighted.

Daniel Davies, Dŵr Cymru

Question: 'What base buys' will depend partly on the level of 'allowed Botex', and views link between base funding and performance. Companies may take very different approaches. Would help to get any guidance and views from Ofwat on this as soon as possible, as it will have a major impact on strategies.

Response: We'll provide further details of our proposed approach to determining 'what base buys' in the PR24 draft methodology. We expect companies to take account of our approach in developing their own long-term forecasts of what base buys.

Daniel Davies, Dŵr Cymru

Question: NEPs also land very late, and the 'size' of the NEP and environmental standards both in next AMP and beyond, is probably the biggest single area of uncertainty. Any advice on how to deal with that uncertainty in adaptive plans/alternative pathways?

Response: We expect companies to consider the potential enhancement activities that are likely needed under a range of plausible scenarios to meet the company's ambition, including those that may be included in statutory environment programmes.

The company's ambition should be informed by a range of factors, such as statutory requirements, relevant legislation, and customer and stakeholder preferences, including the outputs of the collaborative approach in Wales. The ambition and enhancement activities required to meet it may be informed by long-term strategic planning frameworks such as drainage and wastewater management plans (DWMPs) and river basin management plans (RBMPs).

We consider that companies should determine the most appropriate trigger for moving to an alternative pathway. Increasing the robustness of the strategy to future uncertainties can also be explored through the full consideration of options to meet long-term outcomes using flexible, modular or adaptive solutions, where possible and efficient to do so.

Max Stokes, Natural Resources Wales

Question: I agree that its good company practice to involve stakeholders early on the direction. But then we are also saying to put trigger points in around climate change for investing in infrastructure years down the line. The charts shown in the document are average temperature, but arguably ppt is more important variable and the linear trend hides the actual reality of potential high impact droughts, so do we have to wait for the next big drought before triggering action, even if stakeholders support investing in robust infrastructure for high climate change scenarios?

Response: Companies should determine the most appropriate trigger for moving to an alternative pathway. We require that metrics are clear and observable, and are supported by a monitoring plan.

The decision points associated with the pathways should be developed so that the necessary activities can be undertaken in advance of the scenario actually occurring. For example, an alternative pathway that is dependent on a certain metric being reached in the future should factor in the lead times of any investments required to meet long-term ambitions under that scenario.

Long-term delivery strategies are designed to deliver long-term ambitions under the full range of uncertainty described in the common reference scenarios. Therefore, the core pathway may include investment for solutions that would only be needed if more adverse future scenarios, such as high climate change, come to pass, but that need construction to start during PR24.

In this case, we encourage companies to explore options to meet long-term outcomes using flexible, modular or adaptive solutions where possible and efficient to do so. However, where companies do propose large construction schemes, we'd expect to see robust evidence that it would be unlikely to be efficient to instead adopt a more flexible solution, or to defer starting construction until a later period. Companies' proposals should include appropriate customer protection mechanisms.

Jamie Jones, Portsmouth Water

Question: Do we have a date in July for the draft methodology?

Response: We'll publish the PR24 draft methodology on 7 July 2022.

Richard Sands, South East Water

Question: If we consider any base expenditure areas are significantly impacted by future external factors - should we consider this sub-element as enhancement and apply the adaptive planning approach?

Response: Base expenditure is routine, year-on-year expenditure, which companies incur in the normal running of their businesses to provide a base level of service to customers and includes expenditure to maintain the long-term capability of assets, as well as expenditure to improve efficiency. While enhancement expenditure can involve large infrastructure solutions that, without adequate adaptive planning, risk 'lock-in', the benefits of including base spending in adaptive pathways are limited because it can be optimised flexibly.

Companies should ensure their base cost forecasts are robust and accompanied with compelling evidence when a step change in base expenditure is required relative to historical expenditure and isn't explained by the cost drivers in the econometric models. We'll provide further details of our proposed approach to assessing base costs in the PR24 draft methodology.

Mumin Islam, South Staffs Water

Question: My questioning is regarding "how far we go" with respect to the wider scenario testing (beyond WRMPs) is there an indication how many or what you are looking for here without being too prescriptive?

Response: We expect companies to take ownership of their strategies. Companies should judge for themselves how far wider scenario testing is required to ensure an appropriate level of long-term resilience, as well as the specific methods that need to be used to achieve this. We encourage companies to consider the most relevant areas of uncertainty for their enhancement investment strategies over the long term.

Ben Ward, South West Water

Question: Re- low technology scenarios. If a low scenario is for 100% smart metering by 2045 then is this assumed to be in companies base plans (ie, compulsory). I understand it can be considered for other investments, ie, by considering the pcc benefits. But, is smart metering an enhancement consideration in its own right?

Response: The reference scenarios for technology are not targets for companies to meet. It's for companies to consider the best ways to deliver long-term outcomes.

The point at which 100% smart metering coverage becomes cost-effective may impact on the selection and sequencing of options over the long term. For example, an investment that's appropriate under a slower technology scenario may not be optimal in a faster technology scenario. This is because, under a faster technology scenario, adopting that technology as a solution may be better value for customers than using the solution proposed under the slower scenario. In short, testing against these scenarios may expose that an option is 'higher-regret' or 'lower-regret' than initially assumed.

We expect companies to explore the potential impact of technological development on the relative costs and benefits of options and the likely optimal sequencing of activities. Where companies consider it particularly implausible that the adoption of a technology could be cost-effective in their region by the dates in the scenarios, this should be highlighted.

Nigel Ellard, Southern Water

Question: Will we be getting early sight of the elements that you consider will be in base to us allow to consider in terms of LTDS queries? (ie prior to draft methodology)

Response: We'll set out our view of the scope of modelled base costs in the PR24 draft methodology.