

Centre City Tower, 7 Hill Street, Birmingham B5 4UA
11 Westferry Circus, Canary Wharf, London E14 4HD

By email

Secretary of State for Environment,
Food & Rural Affairs
Water resources management plan consultation



1 February 2023

Dear Secretary of State,

ESP Water Ltd – draft water resources management plan 2024 consultation response

ESP Water published a draft water resources management plan 2024 (draft WRMP) for consultation in December 2022. We welcome the opportunity to comment on the draft WRMP and this letter sets out a summary of our assessment of the draft WRMP. It is our statutory consultation response, produced in accordance with our statutory duties and the Government's strategic priorities and objectives for Ofwat.

Our assessment has considered:

- whether the draft WRMP adequately follows the requirements of the water resources planning guideline and the Department for Environment, Food and Rural Affairs (Defra's) guiding principles for water resources planning;
- how the draft WRMP helps achieve our strategic priorities, which are, in summary, to protect and enhance the environment, deliver a resilient water sector, serve and protect customers, and use markets to deliver for customers.

ESP Water is a new appointee (or NAV, which refers to our new appointment or variation process). The NAV framework allows new entrants to become the supplier of water and wastewater services for new developments, instead of the local incumbent water company. The entrants typically not only build the necessary infrastructure for the developments but also provide ongoing retail services. New appointees have an important role in the water sector and have potential to provide wider benefits.

ESP Water was appointed as a water and sewerage undertaker in July 2022 and is now the undertaker for fourteen sites. Three of those sites, all granted on or before the 5th September 2022, are included in the planning tables for the draft WRMP. These three sites were

previously in the appointment areas of United Utilities, Yorkshire Water and Northumbrian Water. None of these sites are currently operational. When complete, the developments across the three sites will supply 732 households and 2 non household premises. The sites are supplied through a bulk supply of water from the local incumbent water company. ESP Water is forecast to maintain a supply surplus throughout the planning period. This means there would be sufficient water to maintain supply to customers during planned-for severe drought conditions.

Ofwat has reviewed ESP Water's draft WRMP for consultation. While many aspects of ESP Water's draft WRMP are in line with our expectations and ESP Water has presented a draft WRMP broadly responsive to the scale and complexity of its area, there are important areas where the draft WRMP could be improved. In particular:

- ESP Water has not provided a summary of its problem characterisation.
- We expect to see further evidence on how ESP Water will effectively engage with incumbent water companies.
- Not all properties will be constructed to achieve 110 l/h/d. This is disappointing. We consider NAVs should aim to drive per capita consumption (PCC) down to lower levels, where appropriate.
- Where possible, ESP Water should include in its final WRMP new sites that have been or will be granted between draft and final WRMPs.

Further details on these points are outlined in the annex to this letter alongside more detailed comments on different areas of the draft WRMP. I look forward to seeing these points addressed in ESP Water's statement of response and final WRMP.

Once ESP Water has had a chance to consider these comments in detail, we would welcome the opportunity to speak with ESP Water about them and to hear how they plan to address them. My team will be in touch with ESP Water to arrange a date for this.

Yours sincerely



Beth Corbould

Director, Ofwat

Annex

In this annex we outline further details on the points raised in our main letter alongside more detailed comments on different areas of the draft WRMP. Our points reflect our assessment approach focusing on:

- **Ambition and outcomes** – ambition and innovation notably on water demand, leakage and per capita consumption.
- **Assessment of water needs** – including key drivers for WRMP24 and the supply demand balance forecast.
- **Options to meet water needs** – the approach taken to identifying and screening options for both supply and demand, review of demand management and supply side proposals.
- **Customer and stakeholder engagement** – the type and quality of interaction with customers and stakeholders and the impact this has had on the draft WRMP formulation and proposals.
- **Board assurance** – company assurance and governance processes, including Board engagement and signoff.

Ambition and outcomes

We are expecting companies, including NAVs, to make significant effort on demand reduction including PCC reduction, significant water efficiency activities and delivering low levels of leakage.

Leakage

ESP Water does not own or operate any pipeline systems older than 1 year. The company has said they will regularly send out teams to visually inspect for leaks. ESP Water have boundary meters and all properties within a site will be metered, allowing the company to actively monitor any losses with real data. ESP Water will look to adopt a leakage maintenance strategy as the network ages where they will use acoustic techniques to help identify and rectify leaks.

We will expect detailed reporting on leakage rates to Ofwat and expect high performance in this area.

Metering

All new properties will be metered using Automated Meter Reading (AMR) technology for domestic and commercial properties.

PCC

Not all properties will be constructed to achieve PCC of 110 l/h/d. This is disappointing. We consider NAVs should not be constrained by this target and should aim to drive PCC down to lower levels. ESP Water should set out a plan in its final WRMP how it might achieve lower PCC levels than 110 l/h/d.

Assessment of water needs

ESP Water has not provided a summary of the company problem characterisation assessment. ESP Water should undertake a proportionate problem characterisation assessment to identify the scale and complexity of its potential problems and its vulnerability to various strategic issues, risks, and uncertainties. ESP Water should summarise its problem characterisation in its final WRMP.

The draft WRMP adequately forecasts supply and demand over at least 25 years. The demand forecast is documented and reference to the industry guidance has been made and it appears to have been followed.

ESP Water has stated in its draft WRMP alignment with the incumbent water companies' drought plans, referencing levels of service to drought orders and restrictions. However, not all levels of service from the incumbent drought plans are referenced in ESP Water's draft WRMP. ESP Water should review this ahead of its final WRMP.

More details of communication and information sharing between NAV and incumbent water companies would improve ESP Water's final WRMP.

Options to meet water needs

ESP Water do not forecast a supply demand deficit during their draft WRMP and therefore no options were presented.

Customer and stakeholder engagement

ESP Water has taken an appropriate approach to stakeholder engagement reflecting the challenges included in its draft WRMP.

However, when the developments are complete, we will want evidence provided to give confidence that customers fully understand and support decisions within the draft WRMP. ESP Water should explain how customers within its supply area are no worse off regarding engagement and communication relating to water resources and drought than customers in the relevant incumbent's supply region.

We would expect to see further clarity on how ESP Water will effectively communicate with incumbent water companies and expect this to be reflected in the final WRMP.

Assurance

ESP Water has provided adequate Board assurance of its draft WRMP.