

By email

Secretary of State for Environment,
Food & Rural Affairs

7 March 2023

Dear Secretary of State,

Leep Networks (Water), draft water resources management plan 2024 consultation response

Leep Networks (Water) (Leep Networks) 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 for Ofwat. This letter provides a summary of our assessment of Leep Networks' draft WRMP and should be read alongside our letter setting out the wider context of our review and the general approach to the assessment of draft WRMPs.

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) guiding principles for water resources planning, and Welsh Government's Guiding Principles for Developing Water Resources Management Plans;
- how the draft WRMP helps achieve our strategic priorities and objectives, 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.

Leep Networks is a new appointee (or NAV which refers to our new appointments and variations 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. NAVs have an important role in the water sector and have potential to provide wider benefits.

Leep Networks supplies 62 water resource zones (WRZs). The zones are supplied through bulk supplies of water from the local incumbent water companies: Affinity Water, Anglian Water, Bristol Water, Dŵr Cymru Welsh Water, Essex & Suffolk Water, Northumbrian Water, Portsmouth Water, SES Water, Severn Trent Water, South East Water, South Staffs Water,

Beth Corbould, Director for Water Resources

Southern Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water. Leep Networks supplies approximately 24,000 properties across the UK, which are predominantly residential, with some commercial use properties. The company is forecasting a deficit across 15 of its WRZs during the planning period. This means there would be insufficient water to maintain supply to customers during planned-for severe drought conditions.

Ofwat has reviewed Leep Networks' draft WRMP. The plan falls below our expectations for this stage of a draft water resource management plan. There are several material areas we have identified where the draft plan fails to provide convincing evidence that it delivers in the best interest of customers and the environment. In particular, in its final plan, it should:

- set out a clear understanding of its supply demand balance, including sufficient and convincing evidence behind the drivers that are influencing the components of the supply demand balance and the resultant deficits. This will demonstrate it has a firm understanding of the planning challenges it faces and must address to meet its obligations as an Appointee;
- set out options which specifically address the causes of the deficits it forecasts. Options should be fully scoped to ensure they are feasible, and preferred options should be justified by evidence of costs and benefits. This is to ensure Leep Networks' preferred plan is best value for its customers and the environment;
- set out a demand management plan that quantifies the benefit of options and activities to meet demand ambitions. This includes reducing per capita consumption (PCC) to below the target of 110 litres per head per day (l/h/d) by 2050, and reducing and maintaining low levels of leakage. This is to give confidence that ambitions will be delivered;
- ensure there is evidence of customer participation in the development of the draft plan. This includes evidence it has been advertised and customers encouraged to engage in the process, so customers can fully participate and inform the final plan development;
- where possible, include new sites that are granted between draft and final plans.

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 Leep Networks' statement of response and final WRMP.

Once Leep Networks has had a chance to consider these comments in detail, we would welcome the opportunity to speak with Leep Networks about them and to hear how Leep Networks plan to address them. My team will be in touch with Leep Networks 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 plan. 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 plan 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 even if there is no deficit predicted.

Leakage

Leep Networks states it has assumed a leakage allowance of 3%, rising to 5% over the planning horizon. We are concerned that uncertainties are raised over whether higher consumption is attributed to leakage or impacts from covid-19, and the company should demonstrate a clearer understanding of its leakage in its final plan.

We also expect NAVs to set out a demand management plan to maintain low leakage levels. Leep Networks discusses water efficiency options to manage leakage, including real time monitoring and bulk meter 'nightline' analysis to understand consumer consumption trends and customer-side leakage. However, we are concerned that the draft plan does not yet apply the options in a meaningful demand management plan, nor quantify the benefits of the options in the final leakage numbers, which are shown to rise throughout the planning horizon. This should be rectified in the final plan.

Metering

Leep Networks water states it has 100% metered units across its network. We welcome that the Company has been installing exclusively Automated Meter Readers (AMR) and Advanced Metering Infrastructure (AMI) meters since 2019, and is implementing a strategy to retrofit AMI metering following a trial begun in 2022/2023. We expect estimated new and upgraded meter numbers to be set out in its final WRMP tables.

PCC

Leep Networks states it supports the government's target to reduce per capita consumption to the of 110 l/h/d. However, we are concerned that no demand management strategy is set out to achieve this target. Leep Networks' WRMP tables instead state PCC figures much higher than this, in excess of 122 l/h/d by 2050.

We also consider that as NAVs supply largely new developments, they should not be constrained by this target and should aim to drive PCC down to much lower levels, where appropriate. Leep Networks should set out a plan in its final WRMP on how it might achieve much lower PCC levels than 110 l/h/d.

Assessment of water needs

Leep Networks forecasts a deficit in 15 WRZs, supplied via bulk supply agreements with the incumbent water companies: Severn Trent Water, Southern Water, Thames Water, United Utilities and Yorkshire Water. It is not clear when the WRZs are forecast to fall into deficit, whether the WRZs already sit in deficit, or under what dry event scenario the deficits have been forecast for (such as the 1 in 500 year event). We are concerned that the limited information in the plan demonstrates that Leep Networks is failing to provide a secure and resilient supply for its customers.

Leep Networks explains that some deficits are due to sites that have not yet come online for supply, and initial calculations of need for bulk supply volumes may be incorrect. For other legacy sites, Leep Networks suggests unforeseen demand changes may have occurred due to overoccupancy or over development, but Leep Networks state this is yet to be confirmed against a review of its WRMP19 Annual Review data. Leep Networks does not identify which WRZs fall into which reasoning, nor is a WRZ breakdown of supply demand balance components provided or explained to evidence the reasoning. We are concerned that Leep Networks has failed to demonstrate an understanding of its supply demand balance across its WRZs, the drivers for the deficits identified, and how these change across its planning horizon. Leep Networks must rectify this in its final WRMP as a priority.

Leep Networks has stated in its plan that it will align with the incumbent water companies' drought plans, referencing levels of service to drought orders and restrictions. However, Leep Networks should discuss with incumbent water companies how and when changes to its level of service, such as a move to 1 in 500 year supply resilience for WRMP24, will carry through to its own customers. More details of communication and information sharing between the incumbent water companies would improve and give confidence to the final plan.

Options to meet water needs

Leep Networks has not fully scoped options to address its forecast deficits. The company states it will be contacting the incumbent water company for each WRZ to request an increase in the volume supplied under the relevant bulk supply agreement. In draft WRMPs, we expect options feasibility to be understood, which includes having begun discussions on bulk supply agreements. We expect discussions on changes to bulk supply agreements to be advanced for the final WRMP.

For legacy WRZs with deficits, Leep Networks states it will undertake analysis to establish the root cause of the deficits. We expect the drivers behind a deficit to be fully understood in a draft WRMP. Deficit drivers must be understood ahead of embarking on options to resolve this (including increasing bulk supply agreements) so that a range of feasible demand- and supply-side options can be considered to determine the best value plan to resolve the deficit. We expect the final WRMP to set out this understanding of deficit drivers and present appropriate feasible options to address this.

Customer and stakeholder engagement

There is no evidence of customer participation in the development of Leep Networks' draft plan. There is no evidence it has been advertised and customers encouraged to engage in the process. Leep Networks should clarify in its final plan how it has engaged with customers to date and how it intends to engage in the future so customers can fully participate and inform plan development.

Customer and stakeholder engagement should be a key aspect of development of the WRMP24 plan and Ofwat expects this to be carried out in a meaningful way. Leep Networks should consider what methods will enable them to best engage with customers, which includes two way engagement. Currently, engagement is explained as one way messages to customers.

Leep Networks should explain how customers within its supply area are kept engaged and communicated with relating to water resources and drought, in a way that means they are at no disadvantage in the context of information about their supply and service than customers in the relevant incumbent's supply region.

Assurance

Leep Networks has provided adequate Board assurance of its draft WRMP. A Board statement is provided that the Board has engaged with and overseen the draft WRMP and are committed to its outcomes and delivery.