

By email

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



15 February 2023

Dear Secretary of State,

Veolia Water Projects Ltd (Veolia Water) – draft water resources management plan 2024 consultation response

Veolia Water Projects Ltd (Veolia 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 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 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.

Veolia Water is a new appointee (NAV – Ofwat's 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. Entrants typically build the developments necessary infrastructure and provide ongoing retail services. NAVs have an important role in the water sector and have potential to provide wider benefits.

Veolia Water supplies one water resource zone in Tidworth, in Wiltshire. The zone is supplied through three groundwater abstraction boreholes. Veolia Water serves approximately 2050 household properties and 120 non-household properties. Included within this is the provision

to serve the Ministry of Defence (MOD) under a PFI agreement which includes two MOD garrisons housing up to 6,000 personnel and 1300 Service Families Accommodation (SFAs).

Veolia Water predicts that its water resource zone (WRZ) will be in deficit in the future, without additional action to reduce demand or provide additional supplies. This means there would be insufficient water to maintain supply to customers in some severe drought conditions. Veolia Water's draft WRMP sets out a range of demand- and supply-side options to meet future needs and ensure that customers receive a sustainable and resilient service.

Ofwat has reviewed Veolia Water's draft WRMP for consultation. While several aspects of its plan are in line with our expectations, and is broadly responsive to its area's scale and complexity, there are some important areas where the plan fails to provide convincing evidence that it delivers in the best interest of customers and the environment. In particular:

- Veolia Water is not on track to meet the government's per capita consumption (PCC) target of 110 l/h/d. It should set in its final WRMP how it will reduce PCC levels to 110 l/h/d and clearly explain any reliance on government interventions and incentives required;
- Veolia Water should consider a wider range of options to reduce PCC and leakage. It should include the options appraisal methodology in the final WRMP;
- Veolia Water should make certain leakage figures are accurately presented and changes are well explained in the data tables, to give confidence leakage targets can be met;
- Veolia Water has not provided a summary of the company problem characterisation which identifies the scale and complexity of the potential problems and vulnerability to various strategic issues, risks, and uncertainties. This should be provided in the final WRMP;
- There is no evidence of customer participation in the development of the draft plan. Veolia Water should evidence this and how it intends to engage in the future so customers can fully participate in and inform the plans development.

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

Once Veolia Water has had a chance to consider these comments in detail, we would welcome the opportunity to speak with Veolia Water about them and to hear how it plans to address them. My team will be in touch with Veolia 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 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 WRMP formulation and proposals.
- **Board assurance** – company assurance and governance processes, including Board engagement and signoff.

Ambition and outcomes

We are expecting all companies, including NAVs, to make significant effort on demand reduction including per capita consumption (PCC) reduction, significant water efficiency activities, and delivering low levels of leakage. Veolia Water should include discussion in its plan to use latest technology and practices for effective leakage detection and repair.

Leakage

Veolia Water have updated their leakage reporting methodology in accordance with the Ofwat guidance. The revised leakage figures are higher than the Veolia Water's previously reported figures. Veolia Water should provide further detail explaining the reason behind the difference between the figures to distinguish where changes are as a result of reporting methodologies and changes in leakage performance.

We are pleased that Veolia Water have set out their leakage management plan for the Tidworth network in order to reduce their leakage by 50% by 2050, in line with industry targets. Veolia Water should provide sufficient and convincing evidence that the leakage targets can be met in its final plan.

Metering

Approximately 84% of Veolia Water's domestic households and all non-household properties (excluding the MoD) are metered using Automated Meter Reading (AMR) technology. Veolia Water propose introducing a metering campaign for the unmetered properties in the Service Family Accommodations (SFA). However, the draft WRMP does not explain how Veolia Water will implement its metering strategy and the cost and benefits associated with it. Veolia Water should provide detail on the smart metering strategy in the final WRMP.

Per Capita Consumption (PCC)

Veolia Water is not on track to meet the government's per capita consumption (PCC) target of 110 l/h/d. Without the support of government led schemes such as water labelling, Veolia Water will reduce PCC to 114 l/h/d by 2050. There is also variation across its area, with the Tidworth network PCC set to reduce to the higher figure of 127.4 l/h/d. Veolia Water should clearly state in its final WRMP the exact support required from the government and how it will achieve the 110 l/h/d target.

Veolia Water report very high consumption figures in the Ministry of Defence (MoD) garrisons. Veolia Water state that this is due to the nature of the MoD activities (which are confidential) and limited metering coverage in these network areas. Veolia Water plan to reduce the MoD consumption through activities such as water efficiency campaigns and metering. However, Veolia Water should provide further robust evidence in the final WRMP of how PCC will be reduced.

Assessment of water needs

Veolia Water has used methods and data appropriate to the scale and complexity of the problem that it needs to address. The draft WRMP plan forecasts supply and demand over 25 years. The demand forecast is documented and reference to the industry guidance has been made and appears to have been followed.

Veolia Water's final supply demand balance incorporates the impacts of climate change in one year (2030), following their climate change assessment determining the impact of climate change to deployable output by 2030. Climate change impacts after 2030 have not been considered. Veolia Water's final WRMP should look to incorporate climate change impacts in a more gradual approach over their planning horizon to better understand when water resource zones may fall into deficit.

Veolia Water has not provided a summary of the company problem characterisation which would identify the scale and complexity of the potential problems and vulnerability to various strategic issues, risks, and uncertainties and should do so in its final WRMP.

Options to meet water needs

Veolia Water has not considered a range of supply and demand options. Further work is required to justify and expand on the number of options, particularly for demand management options that reduce PCC and leakage. Veolia Water's preferred plan sets out five demand management options that include water efficiency and metering. There is only one leakage option in the preferred plan, and it states this option will reduce leakage by approximately 5 to 35% throughout the planning period. Veolia Water should consider a wider range of options to show it can meet the government targets.

Veolia Water should include its methodology for option appraisal in the final WRMP.

Customer and stakeholder engagement

There is no evidence of customer participation in the development of Veolia Water's draft plan, nor in how the draft plan consultation process has been advertised or how Veolia Water has encouraged customers to engage in the process. Veolia Water should clarify how it has engaged with customers to date and how it intends to engage further in the future so customers can fully participate and inform the plan development.

Veolia Water should explain how it is engaging customers to gain customer opinion on water efficiency options and decisions within its plan. It 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 incumbent's supply region.

Customer and stakeholder engagement should be a key aspect of the development of the draft plan and Ofwat expects this to be carried out in a meaningful way. Veolia Water should consider what methods will enable them to best engage with customers and include an explanation of engagement in their plan.

Assurance

Veolia Water 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 is satisfied that the draft WRMP enables Veolia Water to meet its obligations in supplying water and protecting the environment.