

By email

Secretary of State for Environment,
Food & Rural Affairs

24 March 2023

Dear Secretary of State,

Albion Water – draft water resources management plan 2024 consultation response

Albion 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. This letter provides a summary of our assessment of Albion Water's 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'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.

Albion Water 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.

Albion Water supplies drinking water to customers located in Gloucester Upper Rissington (Gloucester), and Oaklands Hamlet (Essex). The water resource zones (WRZs) are supplied through a bulk supply of water from the local incumbent water companies, being Thames Water and Northumbrian Water. There are 735 household and 12 non-household properties in Upper Rissington whereas Oaklands Hamlet consists of 424 properties.

Albion Water predicts that its Upper Rissington 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, and effective action is needed to meet the needs of customers and the environment.

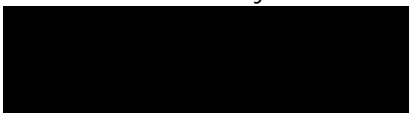
Ofwat has reviewed Albion Water's draft WRMP for consultation. While some aspects of Albion Water's draft WRMP are in line with our expectations, there are several important areas where the draft WRMP fails to provide convincing evidence that it delivers in the best interest of customers and the environment.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

- identify the drivers of the identified supply demand balance deficit by clarifying baseline positions of the supply demand balance components;
- consider a wider range of options to address the identified deficit that reflect the driver of the deficit. Options should be fully scoped to ensure they are feasible, and preferred options should be justified by evidence of costs and benefits;
- 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;
- consider any risks or uncertainty associated with its bulk supply agreements and include detail of the renegotiation of the bulk supply agreements;
- 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.

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 Albion Water's statement of response and final plan.

Once Albion Water has had a chance to consider these comments in detail, we would welcome the opportunity to speak with Albion Water about them and to hear how it plans to address them. My team will be in touch with Albion 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 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, water efficiency activities and delivering low levels of leakage even if there is no deficit predicted.

Leakage

Albion Water states that in the Oaklands Hamlet area leakage is approximately 6% whereas in the Upper Rissington area, leakage is approximately 25% of the anticipated bulk import volume. Albion Water have set out a leakage strategy in its plan to reduce leakage by 25% over the planning period. 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. This should be rectified in the final plan.

Albion Water have expressed uncertainty with the leakage figures in the Upper Rissington area. The company should demonstrate a clearer understanding of its leakage in its final plan to provide confidence that the leakage targets in the plan are deliverable.

Metering

Albion Water states it has 85.8% meter penetration across all property types in the Upper Rissington area and 100% meter penetration in Oaklands Hamlet. Albion Water sets out a plan to impose compulsory metering across the Upper Rissington WRZ, following its reclassification as water stressed. We welcome the ambition on its metering strategy, however, the final plan would benefit from setting out this option alongside other demand options within a clear demand management strategy to achieve its demand targets and maintain the supply demand balance.

Per capita consumption (PCC)

Albion Water states it supports the government's target to reduce per capita consumption to 110 l/h/d and is aiming for a lower target of 100 l/h/d by 2050 in the Oaklands Hamlet area. PCC is higher in the Upper Rissington WRZ and the plan does not clearly set out the demand management strategy to reduce PCC figures, including being clear on the proportion of reductions being relied on from government interventions.

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. Albion Water should set out a plan in its final WRMP on how it might achieve lower PCC levels than 110 l/h/d in both Upper Rissington and Oaklands Hamlet.

Assessment of water needs

Albion Water forecasts a deficit in its Upper Rissington WRZs, supplied via a bulk supply agreement with the incumbent water company, Thames Water. Albion Water states it already regularly exceeds the bulk supply maximum volumes, indicating the zone is already in deficit. It is not clear from the draft plan what drivers are causing the current and forecast deficits. We are concerned that the limited information in the plan on this does not demonstrate that Albion Water have a firm understanding of its baseline position. The final plan would benefit from setting out a full baseline supply demand balance and describing the reasons for the current starting position.

Albion Water 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, Albion Water should discuss with incumbent water companies how and when changes to their levels of service, such as a move to 1 in 500 year supply resilience for WRMP24, will carry through to Albion Water's customers. More details of communication and information sharing between the incumbent water companies would improve confidence in the final plan.

The plan sets out components of headroom, including accommodation for uncertainty around extreme events and climate change. However, the plan does not provide detail behind the assumptions for allowances, and the final plan should set this out clearly.

Options to meet water needs

Albion Water has not considered a range of supply and demand options. The company relies on a single supply option, namely, to increase the bulk supply agreement to the WRZ. However, this is adopted without the plan detailing the reasoning for the starting deficit, and therefore does not demonstrate this is the best value option to address the challenge. Further work is required to justify and expand on the number of options, particularly for demand management options that reduce PCC and leakage. Albion Water should include its methodology for option appraisal in the final WRMP.

The company states it will remove the deficit in Upper Rissington WRZ by contacting the incumbent water company 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 commenced negotiations on bulk supply agreements. We expect discussions on changes to bulk supply agreements to be advanced for the final WRMP.

Customer and stakeholder engagement

There is no evidence of customer participation in the development of Albion Water's draft plan, or that it has been advertised for customers to engage in the process. Albion Water 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. Albion Water 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 through the smart metering app.

The draft plan does not discuss water quality. We expect the final plan to set out engagement with the Drinking Water Inspectorate, and any water quality related work Albion Water is undertaking as part of WRMP24.

Albion Water should explain how it will engage and communicate with customers in its supply area on water resources and drought, so that customers are not disadvantaged with regard to the provision of information, relative to customers of the relevant incumbent.

Assurance

Albion 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 committed to its outcomes and delivery.