

By email

Secretary of State for Environment,  
Food & Rural Affairs

31 March 2023

Dear Secretary of State,

### **Anglian Water – draft water resources management plan 2024 consultation response**

Long term water resources planning is a key business planning activity and essential for the efficient delivery of resilient water services for customers and protecting and enhancing the water environment. Ofwat has a key role to play in enabling this by funding through the 2024 price review (PR24). Therefore, it is vitally important that we consider whether water companies are identifying the best value approaches and delivering these, to ensure the best outcomes in terms of targeted investment to address challenges. The water resource management planning process is essential to help Ofwat and water companies get this right. As a statutory consultee, we welcome the opportunity to comment on Anglian Water's draft water resources management plan (WRMP), which it published in December 2022. This letter should be read alongside our letter setting out the wider context of our review and the general approach to the assessment of companies' draft WRMPs.

Anglian Water supplies water to a population of approximately 7 million across the east of England and Hartlepool. Its water resources are planned on the basis of 27 water resources zones (WRZ). Anglian Water has identified key challenges in its water resource forecasts that require action to reduce demand or provide additional supplies.

Overall, there are some areas of Anglian Water's plan that are in line with our expectations for this stage of a draft WRMP. In particular, it delivers on expectations by:

- setting out the drivers behind the water resource challenges it faces; and
- undertaking a decision making process that aligns with best practice, and draws on regional group inputs and customer preferences.

However, there are several material areas we have identified from our assessment where the plan does not yet provide sufficient and convincing evidence that it delivers the best value, low regret plan in the interest of customers and the environment. The annex to this letter provides detail on the specific areas of the company plan that we consider need further work and evidence. In particular, in its final WRMP Anglian Water should:

Aileen Armstrong, Senior Director for Company Performance and Price Review

- address points from Ofwat's pre-consultation feedback in 2022, that have not been appropriately or fully addressed in the draft WRMP. This includes providing robust evidence to show how previously funded schemes have been factored into the supply demand balance and fully explaining and justifying option utilisation rates;
- ensure continuity between WRMP19 and WRMP24 and explain the reasons for any step changes. There is currently limited discussion of what has changed, particularly around step changes in supply demand balance components since WRMP19;
- demonstrate how testing of differing glidepaths to increased drought resilience has informed and justified investment decisions, to help support the forthcoming business plan;
- provide sufficient and convincing evidence that the number and range of options is appropriate given the scale of the challenge presented, and any hydrological and geographical constrictions on expanding the range of options. Options are relatively small in number and capacity compared to water needs and most are new reservoirs or desalination. This is important to justify that the options selected are best value;
- provide evidence to give confidence in the deliverability of the plan. Anglian Water's planning tables show a deficit of 71 megalitres per day (Ml/d) in 2025 rising to 143Ml/d in 2030, which it proposes to resolve with £1.2 billion of enhancement investment. This scale of investment presents significant delivery risks;
- ensure that its costs are sufficiently evidenced and provide convincing evidence that the preferred options being selected, across all areas of its plan, are best value and ensure costs are reliable, efficient and appropriately allocated;
- provide robust and clear supporting evidence for its data tables. We are concerned about the level of detail and accuracy applied to WRMP tables, which often had incomplete and resubmitted data. This has limited our ability to assess the plan.

We thank Anglian Water for its hard work and effort in producing a detailed draft WRMP, and responding to queries throughout the consultation process. Anglian Water should now focus on delivering the expected outcomes of the current plan (WRMP19 funded via PR19), and considering all the responses to this draft consultation in its final plan. We look forward to continuing to work together as final WRMPs are prepared, to protect water resources now and in the future.

Yours sincerely

**Aileen Armstrong**  
**Senior Director, Company Performance and Price Reviews, 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 and focus on:

- **Demand management ambition and outcomes** – alignment with government targets and statutory requirements for water demand.
- **Assessment of water needs** – including key drivers for WRMP24, the supply demand balance forecast and the need for enhancement investment.
- **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 including sensitivity testing for key areas, sufficiency of options and option utilisation under normal and peak scenarios, including scalability and modularity.
- **Decision making and prioritisation** – best value decision making for customers and the environment, how the company has approached strategic planning frameworks and alignment with Ofwat’s long-term delivery strategies and common reference scenarios<sup>1</sup>.
- **Long term best value programme** – cost efficiency, bill impact and affordability of the plan.
- **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.

### Demand management ambition and outcomes

The Government’s strategic priorities for Ofwat states reducing demand for water can relieve pressures on water supply and increase our resilience to extreme drought. Water companies must act to reduce demand for water in a way that represents value for money in the long-term. We expect all companies to use their WRMPs to show how they will meet long term water demand targets including:

- halving leakage across the industry by 2050, in comparison to 2017–18 levels<sup>2</sup>;

---

<sup>1</sup> Ofwat, [PR24 and beyond: Final guidance on long-term delivery strategies](#), April 2022

<sup>2</sup> For example, [February 2022: The government’s strategic priorities for Ofwat – GOV.UK \(www.gov.uk\)](#)

Aileen Armstrong, Senior Director for Company Performance and Price Review

- reduce per capita consumption (PCC) to 110 litres per head per day (l/h/d) by 2050<sup>3</sup>.

A further target is now set in the Environmental Targets (Water) (England) Regulations 2023<sup>4</sup> for the reduction of potable water supplied by water undertakers in England to people in England. This is that the volume supplied per day per head of population is at least 20% lower than the 2019-20 baseline by 31 March 2038. We expect companies to demonstrate how they will deliver against this target in their final WRMP.

Anglian Water is not proposing to meet the long-term leakage targets by proposing to reduce leakage by 24% by 2050 from 2017-18 levels. The leakage section below sets out our expectations to justify this level of ambition in the context of the leakage levels that Anglian Water already achieve.

We welcome that the company states its intention to meet the per capita consumption (PCC) target of 110 l/h/d by 2050<sup>5</sup> in its draft WRMP narrative. We note that the company is expecting government-led interventions to help achieve this.

The company's final WRMP should also reference the target to reduce distribution input by 20% by 2037-38 and demonstrate how it plans to deliver this through a combination of reductions in the key demand components, leakage, household consumption and non-household consumption.

### **Demand reduction strategy**

The company's draft WRMP appears to have looked at a wide range of options and narrowed these down to a smaller number of portfolios or scenarios. In its final plan the company should demonstrate that these demand management options are deliverable and that it has a sufficiently adaptive plan if it does not deliver the forecast demand reductions. It should set this out in the context of different timescales for the expected licence capping. The company's final plan should provide a clear explanation of its decision making and justification for the selected demand reductions in its final WRMP.<sup>6</sup>

### **Delivery of PR19 performance commitments and WRMP19 targets**

---

<sup>3</sup> For example, [February 2022: The government's strategic priorities for Ofwat - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/2022-02-22-the-governments-strategic-priorities-for-ofwat)

<sup>4</sup> Defra, [Environment Act](#) 2021: environmental targets December 2021

<sup>5</sup> 110 l/h/d is a dry year target

<sup>6</sup> Ofwat, [PR24 final methodology – Appendix 9: Setting expenditure allowances](#), December 2022  
Aileen Armstrong, Senior Director for Company Performance and Price Reviews

We are concerned that, based on the draft WRMP data tables, the company does not forecast to deliver its PR19 performance commitment levels for leakage and PCC by 2024-25. We expect the company to deliver its PR19 and WRMP19 targets. Companies should not expect additional customer funding to address deficits resulting from under delivery in the current or previous periods. We expect the company to review its proposals in these areas for its final WRMP.

### **Business demand**

The company's draft WRMP presents a 2029-30 business demand level that is 3% higher than the 2019-20 baseline level<sup>7</sup>. The company also states that it has not built any business demand reduction measures into its draft plan but intends to do so for its final plan. We have previously highlighted the opportunity for companies to deliver business demand reductions and our expectations for WRMP24 are that companies deliver significantly improved levels of water efficiency in the business sector<sup>8</sup>. We expect the company to set out robust options and clearly justify an ambitious strategy for non-household demand reduction in its final WRMP to inform its PR24 business plan. The company's draft WRMP does not quantify the costs and benefits for work to reduce non-household consumption, but it should include these in its final plan. We also expect the company to explain how the revisions it intends to make to its non-household consumption trend impact the optimisation and best value option selection in its final preferred plan.

### **Per capita consumption (PCC)**

The draft WRMP data provided by the company to date indicates that the company is proposing a three-year average PCC reduction over the 2025-30 period that will deliver a level of PCC 8.9% below the 2019-20 baseline by 2029-30. This represents a further reduction of only 3.3% beyond the company's 2024-25 performance commitment level of 5.6%. The company should consider and present more stretching PCC reductions in the short-term (2025-30) and support its selected reduction as being optimum with sufficient and convincing evidence. As the company further develops its forecast PCC performance trend from draft WRMP to final WRMP it should include the reasons for changes and explain the impact of any revisions on the optimisation and best value option selection in its preferred plan. We expect the company to provide sufficient and convincing evidence in its final WRMP

---

<sup>7</sup> Combining measured and unmeasured non-household consumption figures, business demand is expressed as a three year average. The average of the reporting year and the two previous years.

<sup>8</sup>Ofwat, Environment Agency, '[Delivering greater water efficiency in the business sector](#)', March 2020 and '[Delivering greater water efficiency in the business sector](#)', February 2021.

to justify why its selected targets for demand reduction represent the best value approach to meeting a supply-demand balance or delivering long-term strategic outcomes.

## Leakage

The company is proposing a three-year average leakage reduction over the 2025–30 period that will deliver a level of leakage 20.4% below the 2019–20 baseline by 2029–30. This represents a further reduction of 4.0% beyond the company's 2024–25 performance commitment level of 16.4%. We expect the company to provide sufficient and convincing evidence of target testing and an explanation of its decision-making process and a justification for the selected leakage reduction in its final WRMP.

Over the longer term the company's proposed 24% reduction by 2050 requires further justification. The company states that this reduction is appropriate as it has lower rates of leakage than others in the sector and that the amount of mains replacement required to achieve a 50% reduction in leakage would not be affordable. However, it should present further evidence and testing of alternative targets to prove the proposed 24%, or final WRMP target, is optimum over the long term, including interactions with other ways of resolving the supply-demand balance. If the reduction is less than 50% at a company level it should also present evidence that it has secured agreement on a bilateral basis with another company (or companies), within a regional group or at a national level that ensures the national level leakage targets will be delivered.

In its draft WRMP, the company has included schemes that "could potentially" involve finding and fixing customer side supply pipe leaks, up to a given value, for vulnerable customers. The company should provide more clarity in its final WRMP on whether it intends to implement these schemes. In addition, we are encouraging companies to evaluate the benefits of a common industry approach to addressing leakage on customers own pipes. We expect companies to provide a view on the benefits of a common industry approach in their statements of response and final WRMPs. We will support companies in the development of a common approach but expect the industry to lead on the development. The Water UK leakage route map to 2050 committed to an informed debate on customer supply pipe strategy by December 2022.<sup>9</sup>

## Metering

The company explains that it intends to rollout smart meters so that 91% of its customers are metered and billed on a measured basis by 2030. This timescale is, in part, driven by the company having a high initial meter penetration. The company has selected a policy of using

---

<sup>9</sup> Water UK, 'A Leakage Routemap To 2050', March 2022.

more sophisticated advanced metering infrastructure (AMI) meters rather than automated meter read (AMR) meters due to the extra benefits of having more granular data. The company's draft WRMP quotes metering benefits being achieved in the 7 to 9 £m/MI/d range but when unit costs are calculated from the data in the WRMP tables, some are in excess of 25 £m/MI/d. In its final WRMP the company must make the unit costs of demand management options in its selected plan clear and provide sufficient and convincing evidence that the activities are efficient.

We expect the company to provide sufficient and convincing evidence in its final WRMP to justify why its selected targets for demand reduction (leakage, PCC and business demand) represent the best value approach to meeting a supply-demand balance or delivering long-term strategic outcomes. This should include evidence of target testing and a clear explanation of the company's decision-making process.

As stated in our PR24 final methodology, we expect consistency between final WRMPs, companies' long-term delivery strategies and business plans at PR24. Any areas of variance between final (and published) planning frameworks and business plan submissions need to be fully explained, supported by compelling evidence. This should also include the reasons for changes and include confirmation that customers and the environment are not or will not be worse off.<sup>10</sup>

## Assessment of water needs

A robust assessment of current and future water needs is critical as it drives the gap between supply and demand and therefore impacts the scale of investment required for the 2025-30 period and beyond.

We provided detailed feedback on Anglian Water's assessment of water needs in our pre-consultation feedback in 2022. Some of our previous feedback has not been fully addressed in the draft WRMP, and has been raised again below. Anglian Water should provide sufficient and convincing evidence that the feedback has been addressed in the final WRMP.

Anglian Water has used methods and data appropriate to the scale and complexity of the problem that it needs to address and has recognised the different problems across its area. The company's problem characterisation is clearly presented. The key changes to the planning problem are described; growth, sustainability reductions and increased drought resilience are key drivers of investment for this plan.

---

<sup>10</sup> Ofwat, [Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances](#), December 2022, p85.

Anglian Water has used a 25 year planning horizon. Increasing the length of the planning horizon was subject to sensitivity analysis. Whilst the company has met the statutory requirement to forecast supply and demand over at least 25 years, the planning period should be appropriate to the risks the company faces. Given the challenges and risks the company has identified, it may be more appropriate for Anglian Water to plan for the next 50 years. This is to ensure the WRMP identifies the right solutions to meet future pressures.

The company's supply demand balance starting point for the draft WRMP24 is significantly lower than its forecast for the same point in the final WRMP19. The reduction in available water for 2025–26 is equivalent to 9% of company water demand (distribution input). Although some of the changes are due to supply-demand balance reporting updates, there is still insufficient evidence to understand changes in some areas. In some areas, the evidence suggests that non-delivery or underperformance is the cause. We are concerned about the company not meeting expected WRMP19 leakage and PCC levels, and we are concerned about changes to assumptions around the water balance including population, dry year uplift and process losses. As a result, we are not clear whether the overall outcome of the WRMP19 as funded at PR19 has been delivered in the round. The company should fully quantify and justify the reasoning for changes between WRMP19 and the starting point for WRMP24 at a supply-demand balance component level with sufficient and convincing evidence.<sup>11</sup>

Anglian Water has demonstrated improved understanding of demand following the Covid-19 pandemic. Uplift factors for household consumption have been included and the company states these will be reviewed before the final WRMP, based upon further post Covid-19 pandemic analysis and monitoring.

On the whole, Anglian Water has calculated available supply in line with guidance, and statistical approaches have been used. Target headroom is defined but not addressed in the main plan, with more detail being provided in the 'Planning Factors' appendix. Improved sign posting to relevant appendices would improve the final WRMP.

Anglian Water's raw water losses allowance is very high compared to most other companies', at over 7.5% of the company distribution input. This planning assumption contributes significantly to the company supply-demand balance and need for investment. The company needs to present sufficient and convincing evidence that the raw water loss allowance is appropriate in both the short and long term, that it is not driving unnecessary and high regret investment and must set out how it has considered options to reduce its raw water losses.

---

<sup>11</sup> Ofwat, [Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances](#), December 2022, pp86–97.



Anglian Water has included some details of benefits of the WRMP19 interconnector programme on the WRMP24 baseline in the WRMP technical document. For the final plan, this detail on interconnector benefits should be expanded further to set out that the benefits of other funded PR19 activities have been appropriately factored into the draft WRMP24 baseline supply-demand balance. The intended delivery and progress of PR19 schemes is inconsistently presented in the company 2021-22 Annual Performance Report (APR), draft WRMP and query responses. The company should provide granular details of the benefits of funded schemes and how and when these have benefitted the baseline supply-demand balance in its final WRMP. Where a step change in supply-demand balance between WRMP19 and WRMP24 is not sufficiently justified as being due to changes to scenarios or planning assumptions and may instead be as a result of non-delivery or underperformance, this will be taken into account at PR24 in the assessment of enhancement funding<sup>12</sup>.

It is important that WRMP19 supply- and demand-side options are on track ahead of WRMP24. We expect the company to make substantial efforts on delivering its schemes and demand reduction for the rest of the 2020-25 price control period, to ensure that WRMP19 forecast, and PR19 performance commitment targets are met annually, and to set firm foundations for delivering WRMP24.

Anglian Water has tested the timing of moving to 1 in 500-year drought resilience including several dates earlier than 2039 but only one date after, 2045. The company states that customers accept a 1 in 500-year level of resilience and agree with the 2039 date selected by the company. However, it is unclear how customers were engaged on this matter and what context was provided including what choices were presented and the bill impacts of those choices. This is important as the scale of bill impacts and the date for achieving 1 in 500-year drought resilience, are key drivers for scheduling schemes in the investment programme. The limited presentation of testing seems to highlight that the 2045 date for achieving 1 in 500-year resilience performs better across most metrics including programme costs (both opex and totex). The selected date to achieve 1 in 500-year resilience should be justified with sufficient and convincing evidence based on testing and optimisation using costs and benefits.

The company has a level of service for imposing temporary use bans (known as hosepipe bans) on a frequency of once every 10 years. Although the company states that most customers agree with this frequency of restrictions it is unclear how the discussion was presented and what context customers were provided to inform decisions. This is particularly important in the context of the experiences of the 2022 drought. The company should provide

---

<sup>12</sup> Ofwat, [PR24 final methodology: Appendix 9 – Setting expenditure allowances](#), December 2022, pp86-87.

sufficient and convincing evidence that the 1-in-10 year hosepipe ban frequency has been adequately discussed with customers.

The company policy choice of aiming for environmental destination abstraction reductions by 2035 in some zones is driving the need for significant investment in the 2025-30 period. This includes the selected delivery date for the Fens reservoir. The company should present sufficient and convincing evidence for why this timing is appropriate given the uncertain need for these abstraction reductions, and the changes in cost and benefits of delaying the delivery of the environmental destination abstraction reductions to 2040.

## Options to meet water needs

Identifying an appropriate number and range of options to meet water needs is essential to ensure that customers and stakeholders have confidence that the preferred programmes are optimal. We are concerned that Anglian Water has not considered a sufficient range of supply and demand options given its baseline supply demand balance risk and the pressures faced. We queried how many unique options (removing sub-options) were included on the feasible list, how much water they could provide and what proportion of expected needs at 2050 these could meet. The response shows that the feasible options can meet around 295% of expected need of 445MI/d. The company is particularly reliant on desalination options which makes up ~60% of the volume of water available to the company.

We have concerns that Anglian Water's range of options is not sufficiently broad given its long-term water needs and the scale of investment it is proposing. We also recognise that there are challenges with water resources in the east of England that constrains options availability. The region receives comparatively low rainfall and there are sustainability issues associated with groundwater abstraction. This makes options development challenging. Anglian Water should take a broad and innovative approach to options to inform optimal decision making. This includes fully considering transfers in from neighbouring companies and regions, scalability of new and existing options, exploring options with third parties including nearby Internal Drainage Boards, and opportunities for water recycling options. There are multiple feasible options within most option types identified, however the final WRMP should provide more narrative to explain how the scale of options is appropriate for the need in each WRZ and how the scale and range of options provide flexibility to the decision-making optimisation process. The company should provide sufficient and convincing evidence in its final WRMP that the number and range of options is appropriate given the presented scale of challenge, including at a zonal level.

The company only presents a high-level description of the screening process to identify feasible options from the unconstrained list. The company should outline the criteria used at each stage of the process, explain why the criteria are appropriate for that stage and provide

sufficient and convincing evidence that the criteria have been consistently applied and the reasons for options being rejected.

Ten third party options are identified in the company's draft WRMP data tables of a total 428 options, of which half are imports and rejected from the feasible list. No non-incumbent water company third party options feature in the companies feasible list. There is insufficient evidence that the company has met the expectations around the identification and fair treatment of third-party options as described in the water resources planning guidelines. This includes a lack of description of its approach to third party options. Companies should take an active engagement role and support third-parties in their provision of information and analysis as part of the development of third-party options. We expect sufficient and convincing evidence in the final WRMP that all parts of the guidance have been appropriately followed in relation to third party options and that the lack of third party options in the company preferred plan is low regret best value.

The costs for supply side options do not appear to consider uncertainty. Some limited consideration of uncertainty in options benefit has been considered, however the final plan should include additional narrative on this. Modular solutions have been investigated, though, as a way of allowing for uncertainty in options.

Anglian Water has not provided sufficient information regarding option utilisation in its draft WRMP. Extra information was provided to Ofwat on utilisation after querying. We expect to see more robust evidence on utilisation in the final WRMP, in line with feedback in our pre-consultation feedback letters to fully explain and justify the utilisation rates given and to provide evidence that modularity and scalability in optioneering has been fully considered and explored to manage low utilisation situations. We require clearer and detailed evidence in the final WRMP that operational interventions have been considered and will be implemented where appropriate if this is the best value solution.

The narrative is inconsistent in references to which cost data has been used for the Fens reservoir and South Lincolnshire reservoir. The main plan (section 7.9) states that RAPID gate one data has been used, whilst the Decision making appendix states that the company has used the latest emerging gate two costs. This inconsistency should be addressed in the final WRMP.

Fens reservoir has a comparatively high unit cost of £20.37m Ml/d. This is against an average unit cost for new reservoirs across company WRMPs of £9.34m Ml/d and is significantly higher than the South Lincolnshire Reservoir which is £11.01m Ml/d. This is a large project which will require significant investment. Anglian Water should provide clear and robust evidence around its selection of Fens reservoir, and the best value least regrets size and yield, in its final WRMP and present a clearly evidenced and thought-through approach. This should include consideration of other options to increase the yield of the Fens reservoir. The

company should provide assurance that costs for Fens reservoir and the South Lincolnshire reservoir used in modelling are the latest costs.

## Decision making and prioritisation

Anglian Water has described how its best value WRMP is informed by the relevant regional plan. The explanation around decision making is provided and standalone at the company level, including of its 'least worst regrets' analysis. The high-level decision-making approach and decision support tools used are aligned with the company's view of its problem characterisation.

Identification and consideration of best value metrics have line of sight to the plan objectives. The company has considered a wide range of economic, social and environmental benefits that the options can deliver. Anglian Water has not referred to Ofwat's public value principles, although the plan adheres to most of the principles. We would like Anglian Water to use Ofwat's public value principles within its best value planning process in its final WRMP and explain how the principles have been used to inform preferred plan decision making. Where investment is needed beyond least cost, the value of the additional benefit needs to be presented within the WRMP planning tables. The robustness of this valuation data in the WRMP planning tables is important for significant areas of investment, and will be used during PR24 analysis to validate and justify funding decisions between least cost and best value plans.

Anglian Water has considered in combination assessments at a programme level as part of the best value plan assessment. This was considered in the environmental assessment, habitat regulation assessment, Biodiversity Net Gain and Natural Capital Assessments. However, there is no mention of in combination assessments for deployable output.

Significant benefits of approximately 237 Ml/d have been identified by the company relating to interconnection schemes in the 2025-30 period alone. Anglian Water proposes to invest £482 million in interconnecting its network in the 2025-30 period. The company should ensure the benefits it has identified for these schemes are sufficiently evidenced in the final WRMP. Additionally, the company may have schemes where interconnectors are necessary to deliver new supplies to areas of demand. In such cases the schemes should be evaluated by combining the costs of developing the new supply with the interconnector costs as a single option to produce an optimised best value plan.

Table 4 (Options Appraisal Summary) includes a column to flag interdependent options. These are options which are dependent on one another to occur. This is particularly relevant to some of the internal potable transfer options that Anglian Water propose, moving water from new supply options such as the South Lincolnshire reservoir and Fens reservoir. We expect the company to ensure that interdependent options are flagged through this table to

ensure clarity when regulators review the company's options appraisal and selection. The company should review interdependencies between its options and ensure that this is clearly explained in its final plan and that its data tables are also completed in full.

We also reiterate our pre-consultation feedback, which aligns with the WRMP guidelines, that sub zonal schemes (not impacting on zonal water available for use (WAFU)) can be discussed within the narrative of the WRMP to provide context but they need to be presented and justified with sufficient and convincing evidence in PR24 business plans rather than the WRMP. When presenting such enhancement schemes companies should clearly identify how they have assessed the degree of overlap with activities it is funded to deliver through base expenditure<sup>13</sup>. Companies should not expect additional customer funding to address risks resulting from under delivery in the current or previous periods.

Anglian Water has used adaptive planning to manage uncertainty in its draft WRMP. The company accounts for uncertainties through adaptive pathways, scenario testing, sensitivity testing and, where parameters are more difficult to credibly establish, such as policy changes, has set out assumptions made in the draft WRMP.

The company identifies decision points that take into account the lead times of solutions. It presents one main alternative pathway stemming from a trigger point in 2040, and shows how the scale of desalination options would vary according to outturn scenarios. In the final WRMP, the company should explain more clearly how the investment activities, such as the size of the desalination schemes, will change in response to the different scenarios. The company should also clearly set out what level of abstraction reduction triggers each option.

We expect Anglian Water to test the Ofwat common reference scenario for low abstraction reductions, which is to 'assume only currently known legal requirements for abstraction reductions up to 2050'<sup>14</sup> Following the approach agreed between Ofwat, the Environment Agency and the regional water resources planning groups, companies should include agreed WINEP changes and licence capping, and use the agreed BAU+ scenario to form a long-term view, but use local reviews to remove licence reductions with significant uncertainty, to form a plausible 'extreme low' scenario.

Anglian Water states it has tested its plan against all the common reference scenarios. However, its stress testing 'fixes' the options it states it needs to commit to in 2025-30, then

---

<sup>13</sup> Ofwat, '[Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances](#)', Annex A1.

<sup>14</sup> Ofwat, '[PR24 and beyond final guidance on long term delivery strategies](#)', April 2022.  
Aileen Armstrong, Senior Director for Company Performance and Price Reviews

selects additional options according to each scenario. It is not clear how scenario testing has informed the judgement that these options are required in 2025-30.

In its final plan, Anglian Water needs to demonstrate that scenario testing, including the common reference scenarios, has been used to identify low-regret investment that is required in all or most plausible futures. This should expose what investment should be undertaken regardless of future circumstances. We expect the company to present a core pathway in line with the WRPG definition that includes low-regret investment to meet future uncertainties and additional option value to allow further flexibility in the future.

As part of this evidence, Anglian Water should clearly set out the impact of the Ofwat common reference scenarios compared to the 'most likely' scenarios on which the preferred plan is based. This should include quantifying the impact on demand of the low and high scenarios for climate change, demand, and abstraction reductions across the planning period. The company should also quantify the estimated impact on the expenditure requirement of:

- 1) planning based on the high scenarios for climate change, demand, and abstraction reductions, and the slower scenario for technology; and
- 2) planning based on the low scenarios for climate change, demand, and abstraction reductions, and the faster scenario for technology.

This will allow for improved understanding of the drivers of investment, the sensitivity of the plan to future scenarios and confidence in the investments being proposed. The company should use the results of this testing to identify and justify with sufficient and convincing evidence low regret investments, rather than just ones that meet both high and low planning needs in a non-adaptive way.

## **Long term best value programme**

The company has proposed £1.2 billion of enhancement expenditure relating to delivery of its draft WRMP24 in the 2025-30 period. This is a large increase on the £696 million supply demand balance enhancement expenditure programme the company requested for the 2020-25 period at PR19<sup>15</sup>. Over the 2025-50 period, the company has identified over £6.9 billion of enhancement expenditure.

---

<sup>15</sup> This total for PR19 includes requests for supply demand balance expenditure including metering and strategic regional schemes (2021-22 price base)

Anglian Water plans to deliver 39 Ml/d of supply demand benefit (excluding interconnectors) in 2025-30. During this period, the company proposes to deliver its total supply demand benefits at a higher cost in comparison to other companies<sup>16</sup>. We have some concern around the company's proposed investment to deliver its metering improvements at a unit rate cost of approximately 25.6 £m/Ml/day across the 2025-30 period. This is significantly higher than the industry median unit rate of 7.5 £m/Ml/d. Anglian Water should demonstrate how its costs are efficient in its final WRMP, and carry this through to its business plan.

In terms of whole life costs, including both operational and capital costs, Anglian Water has set out £7.1 billion investment over preferred options. This includes significant investment in two very high-cost options – desalination and the Fens reservoir.

The company chooses some options ahead of others with much lower unit costs. For example Fens reservoir is selected ahead of 15 other distribution and resource options with lower average incremental costs (AICs) that could supply the same zone. This includes two water reuse schemes. The company should provide sufficient and convincing evidence why higher unit cost options are selected over lower cost feasible alternatives. If the reason is wider value this needs to be quantified with robust valuations, and presentation that the value cannot be delivered more efficiently and effectively through other means aligned with Ofwat's public value principles.

The company should provide sufficient and convincing evidence that the preferred options being selected, across all areas of its plan, are best value in its final WRMP24 and ensure costs are reliable, efficient, and appropriately allocated, as well as continue to refine and develop detailed bottom up cost profiles to ensure a greater level of maturity of costings. We would encourage Anglian Water to engage with the market further to support this work.

## Customer and stakeholder engagement

Anglian Water has carried out a wide-ranging approach to customer participation and stakeholder engagement reflecting the significant challenges included in its draft WRMP.

We welcome that there is strong engagement with retailers, which is clearly set out in the draft plan. Of particular note is the three-stage approach used to engage with a variety of retailers, at different levels appropriate to the issues discussed. Demonstrating how this built upon previous engagement, and how future engagement will build upon this work shows a good ongoing engagement plan.

---

<sup>16</sup> Based on the data submitted by companies in their draft plans and comparison against the industry median  
Aileen Armstrong, Senior Director for Company Performance and Price Reviews

The draft WRMP presents limited detail on partnership opportunities to enable co-funding and co-delivery. This should be detailed further in the final plan.

There is limited evidence provided to give confidence that customers fully understand and support the approach on areas such as the need for investment and the proposed solutions. We expect to see further clarity on this in the final WRMP. Specifically, there appears to have been limited engagement with customers in Hartlepool.

## Assurance

A signed statement of assurance from the Board has been provided, as well as a supporting statement, confirming the engagement and support of the Board. The company has also provided evidence of assurance on Anglian Water's understanding of the approach to licence capping and the risk and impact this imposes to the company. A description is given of the governance structure and the assurance process followed to ensure robust decision making.

As identified above, the draft WRMP programme for 2025–30 represents a significant uplift in expenditure compared to the PR19 programme. For its final WRMP we expect the company to provide sufficient and convincing evidence that the Board has challenged and satisfied itself that the WRMP and the expenditure proposals within them are deliverable in the context of the wider PR24 business plan proposals. The company should also demonstrate that it has put in place measures to ensure that the plans, of which the WRMP forms a key part, can be delivered.<sup>17</sup>

---

<sup>17</sup> Ofwat, [Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances](#), December 2022, p122.