

By email

Secretary of State for Environment,  
Food & Rural Affairs

31 March 2023

Dear Secretary of State,

### **Essex & Suffolk 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 resources management planning process is essential to helping Ofwat and water companies get this right. As a statutory consultee, we welcome the opportunity to comment on Essex & Suffolk Water's draft water resources management plan (draft 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.

Essex & Suffolk Water supplies water to a population of approximately 1.8 million across the east of England. Its water resources are planned on the basis of four water resources zones (WRZ). Essex & Suffolk 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 Essex & Suffolk 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 faced across the planning horizon;
- identifying demand and supply options, demonstrating a twin track approach with a long term glidepath. The options screening methodology to determine feasible lists of these options, including a description of the screening criteria that is applied against them, is also described.

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,

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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 Essex & Suffolk Water should:

- address points from Ofwat's pre-consultation feedback in 2022, that have not been appropriately or fully addressed in the draft WRMP. This includes fully and robustly showing evidence and explaining any significant change to the supply demand balance and providing evidence of board assurance on the near term risk of licence capping;
- 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;
- provide sufficient and convincing evidence to show it has robustly tested the sensitivity for the date to meet 1-in-500-year drought resilience. This should include presenting the costs, benefits and impact on the selection of preferred schemes of choosing alternative dates including a test of 2050;
- provide sufficient and convincing evidence that the number and range of options is appropriate given the scale of the challenge presented. This is important to justify that the options are selected as best value;
- provide evidence to give confidence in the deliverability of the plan, given the enhancement expenditure proposed in the plan exceeds £1bn, and represents a significant increase in investment levels from WRMP19;
- ensure 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;

We thank Essex & Suffolk Water for its hard work and effort in producing a detailed draft WRMP, and responding to queries throughout the consultation process. Essex & Suffolk 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>;

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<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 \(www.gov.uk\)](#)

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- reducing 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.

Essex & Suffolk Water does not plan to reduce leakage by 50% from 2017-18 levels by 2050 and instead proposes to achieve a 40% reduction by 2049-50. The company, along with other companies in the WRE regional group, should test more ambitious reductions up to the 2050 50% leakage reduction target. The company indicates it plans to meet the per capita consumption (PCC) target of 110 l/h/d by 2050<sup>5</sup> but it should ensure its plan reflects this ambition. The company should test a scenario of meeting the per capita consumption target under the dry year scenario for its final WRMP.

The company's final WRMP should 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**

As we outlined in November 2021<sup>6</sup>, we expect near-term interventions being identified in WRMPs to deliver long-term targets such as a 50% leakage reduction and 110l/h/d per capita consumption to be set in the context of the optimum long-term strategy. Setting a glidepath to meet long-term targets and outcomes should enable an efficient and deliverable long-term programme to be identified. The company's plan only considers linear leakage reduction profiles, with the 40% leakage reduction by 2049-50 profile selected as the preferred option. The company does not appear to have considered alternative investment profiles such as one that considers non-linear reductions. The company should explain more robustly why a linear profile – rather than doing more or less in the near term – is optimal from a timing of investment perspective. This is particularly important given the near-term supply deficits

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<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/2022/02/2022-02-2022-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, [Ofwat's expectations for strategic planning frameworks at PR24](#), November 2021  
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that the company faces where doing more to reduce leakage may reduce risk and offset the need for more expensive or lower value longer term options.

Essex & Suffolk Water does not provide leakage management cost and benefit information at option level and instead presents the total combined costs for its preferred leakage, metering and water efficiency programmes. The company does not provide specific unit costs for the appraised activities or any quantitative information which explains the choice of a best value plan using efficient costs. We expect the company to provide disaggregated costs, including unit costs, and benefits of individual activities in its final WRMP.

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

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 (albeit the shortfall is only marginal for leakage). We expect the company to deliver its targets for both performance commitments and do not consider it is valid for companies to 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.

### **Leakage**

Essex & Suffolk Water does not plan to reduce leakage by 50% from 2017-18 levels by 2050 and instead proposes to achieve a 40% reduction by 2049-50. Three scenarios of 30%, 40% and 50% reductions have been tested. The company states that it has been a frontier company in leakage performance over several years, making a 50% reduction much more difficult to achieve, and more expensive per unit, compared to the industry average. However, the company does not present any evidence of its own leakage reduction unit costs or any justification why delivering the 50% reduction is more expensive, or lower value, than the chosen 40%.

The three – 30%, 40% and 50% – leakage reduction scenarios are not sufficiently explained nor disaggregated to understand the cost and benefits of activities to deliver them. The company sets out these high-level leakage reduction programmes considered in addition to baseline. Whilst the document explains that it has looked at all the available options following the PALM process (Prevent, Aware, Locate and Mend) it does not provide cost and benefit information for each of the leakage activities included in the preferred leakage option. The company has not presented enough options to be confident that those selected are optimum and best value. We expect the company to disaggregate the costs and benefits of these activities in its final WRMP.

The company should provide sufficient and convincing evidence that the final long term target is optimum and the best value approach to meeting a supply-demand balance or delivering long-term strategic outcomes. If the final WRMP target is less than the 50%

reduction the company should also present evidence that the company 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.

The company is proposing a three-year average leakage reduction of 6.1%<sup>7</sup> across the 2025-30 period which is significantly less ambitious when compared to the 14.1% it plans to deliver for the 2020-25 period. The company should provide an explanation of its decision-making process and a justification for the selected leakage reduction for 2025-30 in its final WRMP.

Essex & Suffolk Water has not discussed its policy with regards to customer supply pipe leakage. 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 routemap to 2050<sup>8</sup> committed to an informed debate on customer supply pipe strategy by December 2022.

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

The company indicates it plans to meet the per capita consumption (PCC) target of 110 l/h/d by 2050 but it should ensure its plan reflects this ambition. In its final plan we expect the company to set out its approach to achieving the 110 l/h/d consumption target in a dry year.

Essex & Suffolk Water proposes a three-year average PCC reduction of 2.3% across the 2025-30 period which shows a much lower ambition in comparison with the 2020-25 period. We expect the company to justify its chosen glidepath for 2025-30 in comparison to 2020-25 in its final WRMP.

### **Business demand**

The draft plan does not include a clear strategy for reducing non-household demand. There is also no reference in the company plan to the ambition to reduce distribution input by 20% by

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<sup>7</sup> From 2019-20 three-year average baseline.

<sup>8</sup> Water UK, 'A Leakage Routemap To 2050', March 2022.

2037 based on 2019–20 baseline announced by Defra<sup>9</sup>. We expect the company to set out and clearly justify an ambitious strategy for non-household demand reduction in its final WRMP.

## Metering

It is unclear how the company has developed its metering strategy and optimised the pace of smart metering delivery. The company explains that one of the objectives in its best value plan is for all of its meters to be smart meters by 2050. However, we note that the company considered six metering options, phased over one or two price control periods depending on the option. It is unclear how the objective and options interact. The company should explain more robustly why its preferred metering option is best value from a timing of investment perspective.

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, company 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 and 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 drives the scale of investment required for the 2025–30 period and beyond.

We provided detailed feedback on Essex & Suffolk 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. Essex & Suffolk Water should

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<sup>9</sup> Defra, [Environment Act 2021: environmental targets - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/environment-act-2021-environmental-targets), December 2022

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

provide sufficient and convincing evidence that the feedback has been addressed in the final WRMP.

Essex & Suffolk Water has used methods and data that reflects the outcomes of its problem characterisation. However, it provides limited information and justification for those outcomes of its problem characterisation, given the challenges and risks the company has identified. Further detail justifying the problem characterisation outcomes should be set out in the final plan.

The key drivers to the planning problem are clearly described; non-household demand, sustainability reductions and increased drought resilience are the biggest drivers of investment for this plan.

Essex & Suffolk Water has used a 25 year planning horizon. 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 and the issues being seen on the ground now such as the moratorium on accepting applications for new supplies for new manufacturing and processing purposes in Essex and Suffolk's Hartismere zone due to a lack of water availability, it may be more appropriate for Essex & Suffolk Water to plan for the next 50 years. This is to ensure the WRMP identifies the right solutions to meet future pressures.

Essex and Suffolk Water has clearly explained its deployable output methodology which appears to be in line with guidance. However, its approach to forecasting demand was not as clear and would benefit from a similar explanation to demonstrate alignment with the guidance.

It appears from the narrative that Essex and Suffolk Water has had appropriate discussions with Thames Water and Anglian Water around transfers, however, sensitivity runs should be carried out in support of the decisions made. This feedback was provided at pre-consultation and has not been addressed.

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 18% 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, non-delivery of PR19 funded performance, and changes to assumptions around population forecasts. This means that there are concerns 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>

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 the company manages the uncertainty around population growth effectively to make sure its programme delivers secure supplies to meet demands in the short and long term while also not overinvesting in potentially sub-optimal solutions that ultimately may not be necessary or needed to the same scale. The company's population forecast in 2025-26 starts higher than the WRMP19. The company's reasons for the differences, such as impact of Covid-19 and updated ONS forecasts, do not fully explain why population would be higher than forecast from five years ago. This requires further evidence in the final WRMP. In response to a query, Essex & Suffolk Water confirmed that the ONS growth scenario is 5.1%, 7.1% and 9.5% lower in 2029-30, 2034-35 and 2039-40 respectively than the population planned for by the company in its preferred pathway. This may be driving unnecessary investment in the short term that can be better managed through adaptive planning and more modular solutions. We expect the company to provide sufficient and convincing evidence that uncertain population growth, especially beyond 2030, is not driving significant amounts of uncertain investment in the 2025-30 period.

Essex & Suffolk Water should provide sufficient and convincing evidence to show that it has robustly tested the sensitivity for the date to meet 1 in 500 year drought resilience. This should include presenting the costs, benefits and impact on the selection of preferred schemes of choosing alternative dates including a test of delivery in 2050. The selected date to achieve 1 in 500 year resilience should be justified based on this testing and optimised based on the costs and benefits. This is important as the scale of impact and importantly the date for achieving it is a key driver for scheduling schemes in the investment programme.

## 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

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

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

optimal. We queried how many unique options (removing sub-options) were included in 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 700% of the 84 Ml/d need by 2050, from a range of option types. However, we hold concerns that the water for available use benefit is dominated by desalination, and many of the options are variations of similar options. 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 final WRMP should provide details of how the scale of options is appropriate for the need in each WRZ. The final preferred plan for the company's Hartismere WRZ shows a supply demand balance close to zero for most years through the planning period. The final WRMP should include the updated information on the process losses of options as provided to us through the query process. Changes in levels of service have been considered in the feasible options list.

The draft WRMP identifies demand and supply options, demonstrating a twin track approach and it presents a long term glidepath within the planning period. The company sets out its options screening methodology, including a description of the criteria that is applied against them for high level and option level screening. Essex and Suffolk Water's options appear to be evaluated against its best value planning objectives.

The company states that it would like time to further investigate whether it can bring forward the North Suffolk Reservoir and deliver this first, ahead of water re-use schemes. The company states that it will make a final decision in 2027. Essex & Suffolk Water should progress this work, without delay, to provide certainty on the best value option. The final plan should set out any remaining uncertainty, the risk this poses to the plan, and how this will be managed within the preferred and alternative pathways presented. Without this, we have concerns the plan may not present a clear approach at this stage.

Essex & Suffolk Water has not provided sufficient information regarding option utilisation in its draft WRMP. Extra information was provided to Ofwat on utilisation after querying, however we expect to see more robust evidence on utilisation in the final WRMP. The company should revisit the feedback we gave in our pre-consultation letters requesting that it fully explains and justifies the utilisation rates given and provides 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.

Third party options have been considered and are identified in Table 4. The final plan should draw out additional detail on third party options and how they are considered with equal

opportunities in the plan. In particular, Essex and Suffolk Water has previously discussed with us temporary desalination options to support construction and commissioning Sizewell C nuclear power station. The final plan should set out any updates to this, and whether bringing forward permanent options may instead present best value to the plan.

## Decision making and prioritisation

Essex & Suffolk Water has described how its draft WRMP is informed by the relevant regional plan. However, for the final WRMP further detail should be added to describe the regional methods and approaches used, and the narrative should contain a complete and standalone explanation of decision making at the company level.

The company has described the decision making approach it has used, however, there is little narrative around company level programme appraisal and decision making. We would like the final plan to provide more narrative of the approach taken to selecting the preferred programme.

Best value metrics have a line of sight to the draft WRMP objectives, however, the approach to identifying and selecting the best value metrics has not been clearly described. Essex & Suffolk Water should provide further detail in the final WRMP setting out how the best value metrics were identified and selected. Furthermore, it would be beneficial to clearly identify the line of sight from these metrics to sub-metrics and to outcomes. This would help explain and justify the preferred plan. Essex & Suffolk Water has considered a range of economic, social and environmental benefits that the options could deliver. However, the company has not referred to Ofwat's public value principles. We would like Essex & Suffolk Water to use Ofwat's public value principles, and reflect expectations referred to in the PR24 final methodology, within its best value planning process in its final plan and explain how these have been used to inform best value decision making.

In combination assessments have been included for the environment but not for deployable output at the programme level as part of the best value plan assessment, and these should be completed for the final WRMP.

The company should clearly present the benefits of the least cost plan against its preferred best value plan and other plans. It should provide the total cost and overall value of each of the programmes. Where investment is proposed beyond least cost, the value of the additional benefit needs to be presented within the WRMP planning tables. The robustness of this valuation data is particularly important for significant areas of investment. The company should also provide sufficient and convincing evidence that the costs to deliver the best value plan are outweighed by the additional value it provides.

Essex & Suffolk Water should further demonstrate in its final WRMP that decision making has not been influenced by artificial constraints and that any constraints that do influence decision making are appropriate. This includes presenting the implications of sensitivity testing of different profiles of 1 in 500 year drought resilience, flexing the use of drought permits and orders, testing different glide paths on water efficiency and leakage as well as use of temporary use bans (TUBs) and non-essential use bans (NEUBs).

Essex & Suffolk Water's plan provides appropriate discussion around assumptions, options, and uncertainties associated with the optimisation process to derive the preferred programme. However, further evidence of the tools and methods applied for the optimisation process should be included in the final WRMP.

Essex & Suffolk Water proposes to invest £52 million improving connectivity within its network over the 2025-30 period. The company has proposed no water available for use (WAFU) benefits to be delivered from interconnectors in this period and should ensure this proposal is sufficiently evidenced, including in the context of justifying need and funding through the 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.

We also reiterate our pre-consultation feedback, which aligns with the WRMP guidelines, that sub zonal schemes (not impacting on zonal 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>8</sup>. Companies should not expect additional customer funding to address risks resulting from under delivery in the current or previous periods.

Table 4 (Options Appraisal Summary) includes a column to flag interdependent options. These are options which are dependent on one another to occur. 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. Options ESW-TRA-001 and ESW-TRA-019 for example, are not flagged as interdependent in Table 4. However, we understand, through a query response, that ESW-TRA-019 is dependent on an element of ESW-TRA-001 (Barsham to Holton transfer). This is not clear in Table 4. 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.

Essex & Suffolk Water has used adaptive planning to manage uncertainty in its draft WRMP. It sets out a core pathway which it states includes no or low regret options. In its final plan, 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.

Essex & Suffolk Water presents three alternative pathways associated with long-term uncertainties, including North Suffolk Reservoir, High PCC and High Environmental Destination. The company has provided additional information on its adaptive plan through the query process. This has included a diagram showing the whole adaptive plan, with a description of the decision and trigger points. The company has also provided justification for the decision points, some of which occur in 2025–30. The company should include this information in its final WRMP.

The company states that it has conducted sensitivity analysis using the common reference scenarios and that the same portfolio of options is selected in 2025–30 under all scenarios. It states it has also used scenarios to develop alternative pathways. The impact of different scenarios on the options selected is explored in appendices for least cost planning and best value planning. In its final plan, Essex & Suffolk Water should demonstrate that it has identified low-regret investment beyond 2030.

As part of this evidence, the company 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 costs 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.

We expect Essex & Suffolk 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>13</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.

## Long term best value programme

The company has proposed £205 million of enhancement expenditure relating to delivery of its draft WRMP24 in the 2025–30 period. Over the 2025–50 period, the company has identified over £1 billion of enhancement expenditure. The final plan should give confidence in the delivery of a plan at this level of investment.

Essex and Suffolk Water plans to deliver 46 Ml/d of supply demand benefit (excluding interconnectors) in 2025–30. During this period, the company proposes to deliver total supply demand benefits at a higher cost compared to other companies<sup>14</sup>. We have some concern over the company's proposed investment for its supply side improvement at a unit cost of around 6.5 £m/Ml/d across the 2025–30 period. This is higher than the industry median rate of 1.4 £m/Ml/d. Essex and Suffolk Water should demonstrate how its costs are efficient in its final WRMP.

The company should ensure that its costs are sufficiently evidenced in its final WRMP and provide 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.

## Customer and Stakeholder engagement

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

However, 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. The final WRMP should also explain more specifically how it has been informed by stakeholder engagement

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<sup>13</sup> Ofwat, [PR24 and beyond final guidance on long term delivery strategies](#), April 2022.

<sup>14</sup> Based on the data submitted by companies in their draft plans and comparison against the industry median

and how the company has sought out opportunities for partnership, cofounding and co-delivery.

## 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. A description is given of the governance structure and the assurance process followed to ensure robust decision making.

In the final WRMP, we expect to see evidence of assurance on Essex & Suffolk Water's understanding and acceptance of the approach to licence capping. This is to ensure the risk and impact this imposes on Essex & Suffolk Water is fully understood, given it is one of the largest drivers of investment in the plan, and may also hold some uncertainty in its application.

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>15</sup>

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<sup>15</sup> Ofwat, [Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances](#), December 2022, p122.