

By email

Secretary of State for Environment,
Food & Rural Affairs

15 May 2023

Dear Secretary of State,

South West 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 helping Ofwat and water companies get this right. As a statutory consultee, we welcome the opportunity to comment on South West Water's draft water resource management plan (WRMP), which it published in February 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.

South West Water supplies water to a population of approximately 1.3 million across the south-west of England. Its water resources are planned on the basis of five water resource zones (WRZs), across Dorset, Somerset and Wiltshire, and also including the Isles of Scilly and Bournemouth (Bournemouth Water). South West Water's faced challenges with its water resource position during the summer 2022 drought. It has areas which remain in drought and 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 South West 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, and the drivers influence on the supply demand balance;
- undertaking an optioneering process with an appropriate number and range of feasible options.

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 South West Water should:

- 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;
- evidence links between the West Country Water Resources regional plan, and how this has influenced South West Water's best value plan, as the timing of these processes have been misaligned at the draft stage;
- detail the options screening process. The draft plan does not set out the methodology and criteria used to screen options between the unconstrained and feasible list, or detail reasons why any unconstrained options have been screened out. This will provide confidence that the feasible list contains best value options;
- develop its water resources modelling capacity for the final WRMP24 to allow them to undertake a full stochastic assessment, in line with stochastic approaches set out in the water resources planning guidelines (WRPG);
- present a full preferred plan for the Isles of Scilly. We expect the company to clearly set out in its statement of response what the selected preferred plan is, and demonstrate that is selected from the options and strategies discussed in the draft stage and therefore had the opportunity to be consulted on;
- present a core pathway in line with the WRPG definition that includes low-regret investment to meet future uncertainties and allow further flexibility in the future;
- 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.

We thank South West Water for its hard work and effort in producing a detailed draft WRMP and responding to queries throughout the consultation process. South West 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

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:

- **Demand management ambition and outcomes** - alignment with government targets and statutory requirements for water demand.
- **Assessment of water needs** - including key drivers for WRMP24 and 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 long-term delivery strategies and common reference scenarios¹.
- **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 sign-off.

Demand management ambition and outcomes

The UK SPS for Ofwat that 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. This means Ofwat expect companies to use their WRMPs to adhere to demand targets including:

- halving leakage across the industry by 2050, in comparison to 2017-18 levels²;

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

² [February 2022: The government's strategic priorities for Ofwat - GOV.UK \(www.gov.uk\)](#)

- reduce dry year annual average per capita consumption (PCC) to 110 litres per head per day (l/h/d) by 2050³.

A further target is now set in the Environmental Targets (Water) (England) Regulations 2023⁴ 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.

Demand reduction strategy

We welcome that South West Water plans to reduce leakage by 50% by 2050. The company also indicates it will deliver a PCC of 110 l/h/d by 2050.

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.

We welcome the fact that the company has tested different target profiles such as achieving water consumption and leakage reductions via linear and front- or back-loaded delivery profiles. Although the differences between the profile scenarios are presented the cost differences between delivery programmes is missing for achieving PCC. However, the final WRMP should provide sufficient and convincing evidence on why the company selected its preferred strategy by clearly showing the costs and water savings per price control period for each scenario. This explanation and comparison should be clearly set out in the final WRMP.⁴

We also welcome that various metering strategies have been presented including the costs and benefits of delivering different meter technologies. However, the choice of meter technology and the reasoning, based on the programme level costs and benefits, needs to be clearly explained with sufficient and convincing evidence in the final WRMP. Although different timescales for meter rollout are assessed it is unclear which delivery profile is selected and the reasons why. This also includes how the metering strategy aligns and supports the selection of PCC and leakage profiles for which there is expected to be significant interactions.

Delivery of PR19 performance commitments and WRMP19 targets

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

⁴ Ofwat, [PR24 final methodology – Appendix 9: Setting expenditure allowances](#), December 2022

The company states that it intends and forecasts to deliver its PR19 leakage performance commitment level. However, we are concerned that the company does not forecast to deliver its performance levels for 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

South West Water's draft WRMP presents a 2029–30 business demand level that is 1.3% higher than the 2019–20 baseline level.⁵ This is as a result of a higher business demand level in 2025–26 than expected in WRMP19 with the company then expecting moderate reductions within the 2025–30 period. 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.⁶ We expect the company to set out and clearly justify an ambitious strategy for non-household demand reduction in its final WRMP to inform its PR24 business plan. We also expect the company to explain how any revisions it makes to its non-household consumption trend have impacted the optimisation and best value option selection in its preferred plan.

Per capita consumption (PCC)

The 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 only 2.5% below the 2019–20 baseline by 2029–30. This represents an increase of 3.7% above the companies 2024–25 performance commitment level. As the company further develops its forecast PCC performance trend from draft WRMP to final WRMP it should consider more ambition in this area and 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 to justify why its selected targets for demand reduction represents the best value approach to meeting a supply-demand balance or delivering long-term strategic outcomes.

Leakage

⁵ 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.

⁶Ofwat, Environment Agency, '[Delivering greater water efficiency in the business sector](#)', March 2020 and '[Delivering greater water efficiency in the business sector](#)', February 2021.

Setting a glidepath to meet optimum long-term targets and outcomes should enable an efficient and deliverable long-term programme to be identified. We welcome that the company's plan considers a reasonable range of leakage profiles. It appears that the company chooses a linear profile of the scenarios tested and although some information is provided on costs/benefits of each the company should present sufficient and convincing evidence why this 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 company's preference to deliver high-cost mains renewals to meet the relatively early reductions proposed for 2025-30.

Although a reasonable range of leakage options are presented in the draft WRMP narrative and data tables it is unclear why the options selected for the chosen glidepath are optimal over alternatives. It is currently unclear why the leakage reduction activities and their scale (e.g. 3,400km of mains/communication pipe renewals in the 50% reduction by 2050 linear scenario) have been selected. The company presents a range of operational activities it has undertaken since 2021 as part of its leakage recovery plan but it is unclear how the insights from delivering these activities has informed the options list and selected leakage reduction programme. These activities, if proven to be effective, may offer cost-effective solutions going forward. In its final WRMP, the company should present sufficient and convincing evidence why the activities for the selected glidepath are long-term best value.

South West Water discusses its current approach to customer supply pipe leakage and repairs to customer supply pipes but does not clearly articulate its position and proposals for the WRMP. The company states that for its draft plan it has insufficient evidence to support the effectiveness of repair subsidies to reduce repair times and thus further reduce leakage. It says it will revisit this for the revised draft plan submitted with the statement of response, and as such excludes this option from the feasible option list. This appears inconsistent with the submissions and evidence submitted for the accelerated infrastructure delivery project⁷. South West Water should ensure that the submitted evidence and decisions is consistent in the final WRMP and accelerated delivery final decisions. The impacts of including this scheme on the WRMP and other options should be clear in the final WRMP and supported with sufficient and convincing evidence.

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

⁷ Ofwat, [Accelerated infrastructure delivery project – draft decisions](#), April 2023.

lead on the development. The Water UK leakage route map to 2050 committed to an informed debate on customer supply pipe strategy by December 2022.⁸

The company chooses several option types with high cost and low benefit for the near term (including for 2025-30). This includes mains renewals and DMA sub-division. This results in a leakage reduction enhancement expenditure unit cost of 30.9 £m/MI/d for the 2025-30 period. This unit cost is significantly higher than leakage reduction unit costs allowed at PR19 and those presented by other companies for PR24. There is likely to be scope for it to deliver more through active leakage control and pressure management. The draft WRMP already explains how these activities have been key to achieving recent reductions, but the strategy does not make full use of these going forward. We expect the company to review its leakage reduction proposals and provide sufficient and convincing evidence it is presenting a best value solution based on efficient activity costs.⁹

Metering

South West Water presents six high level scenarios for its metering strategy. These are based on proactive replacements of current meter stock with AMI (advanced metering infrastructure) meters by 2035 at the latest as well as a mix of optional/compulsory metering for unmetered properties. We note that the company states that additional costs for system upgrades are necessary to facilitate data management and were not included in the draft WRMP with a full metering strategy being under development to inform PR24. We are concerned that the strategy for the draft WRMP has been presented with incomplete cost data. The company needs to provide sufficient and convincing evidence that the unit costs of its AMI meter installations are efficient when compared to PR19 unit costs and current industry outturn, and clearly present any changes in the strategy as a result of updated data in its final plan.

Although the impact of metering on leakage and consumption is quantified the interaction between metering options and the PCC and leakage glidepaths as well as leakage and consumption interventions are not explored. This results in a potential disjoint in investments attempting to achieve different outcomes at different timescales. The company should present sufficient and convincing evidence to explain this in its final plan. The decision-making process identifying how outputs from models and optimisation tools are developed into recommendations for executive team and Board sign off is not clearly explained in the draft WRMP. For the final WRMP the company should provide further detail of this decision-

⁸ Water UK, 'A Leakage Routemap To 2050', March 2022.

⁹ Note the Ofwat analysis undertaken adjusted all costs to the 2020-21 price base.

making framework, as well as sufficient and convincing evidence to justify why the preferred metering option is best value from a technology and timing of investment perspective.

Development of demand reduction performance trends for final WRMP and business plans

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, 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.

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.

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 16% 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 PCC levels and the resultant higher household demand forecasts (representing a 19% increase). We also identify increases to non-household demand, target headroom and process losses (50% increase caused by late delivery of PR19 funded schemes). This means that there are significant 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.¹⁰

In addition to the changes across the supply demand balance raised above, the 2022 drought highlighted concern that Colliford WRZ did not demonstrate the level of resilience expected in such an event, and some use restrictions remain in place. South West Water has set out interventions in its draft WRMP to improve the robustness of Colliford resilience, and maintain Colliford storage throughout 2023 due to the risk of repeat low drawdown events. We encourage South West Water to continue to closely monitor the situation throughout 2023, including setting out further detail on how the company can react earlier to drought risks. South West Water has also set out options in the draft plan which it states may be incorporated into the final plan either in the current baseline, as best value options for WRMP24, or drought options in the final plan. We expect the final WRMP to clearly set out how the preferred plan for Colliford has incorporated these options, and demonstrate that the stated resilience and level of service for restrictions in Colliford is robust and correct. The final plan should clearly differentiate between these activities that maintain current and expected levels of resilience and levels of service in the baseline, versus enhancement activities to meet WRMP24 requirements, to give us confidence that customers are not funding activities that should be included in base funding.

South West Water has undertaken sensitivity tests to test the uncertainty around whether it will achieve its per capita consumption (PCC) targets for 2020-25. We expect the company to make substantial efforts on demand reduction for the rest of the 2020-25 period, to ensure that WRMP19 forecast, and PR19 performance commitment targets are met annually, and to set firm foundations for delivering WRMP24.

The Company's problem characterisation is clearly presented. South West Water has used a 25 year planning horizon which appears to be based on the moderate level of concern from the problem characterisation. Although this meets the minimum planning horizon requirements, the rationale for the chosen planning period should be further improved for the final plan.

The key changes to the planning problem are described; Increased drought resilience and climate change are key drivers of investment for this plan. South West Water should provide assurance in its final WRMP that that abstraction reductions are not double counted when licence capping is combined with environmental destination scenarios.

¹⁰ Ofwat, Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances, December 2022, pp86-97

South West Water explained that its current water resource model cannot readily assess the full stochastic datasets in a deployable output assessment. The company has plans to develop its water resources modelling capacity ahead of WRMP29 to allow them to undertake a full stochastic assessment, in line with stochastic approaches set out in the water resources planning guidelines (WRPG). We are disappointed the company has not developed this capability for WRMP24, given the forecast future water resource challenges in the West Country, and how the remainder of the industry has already developed its technical capabilities during recent WRMP rounds. We strongly encourage this development to fully test risk and uncertainty in the future water resource challenges South West Water is forecasting.

The company has included an assessment of its WRZ integrity. The company states that improvements were made to the distribution system of its Roadford WRZ during the 2022 drought, which restored the current integrity of the zone. The company states that this needs to be monitored to ensure that future growth doesn't threaten the WRZ integrity in the future. We expect the risks and monitoring approach to be set out in the final WRMP.

The company's headroom allowance is high compared to most other companies, being an average of 9.7% of the company distribution input (demand) during 2025–30. Therefore, this planning assumption contributes significantly to the company supply–demand balance and proposal for investment. In its final plan, the company should present sufficient and convincing evidence that the headroom allowance is appropriate in both the short and long term, is not driving unnecessary and high regret investment, and that it has properly accounted for interactions with adaptive planning.

South West 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. The company currently states that this is a regulatory target it must meet and that customers agree with the target level. However, the draft WRMP does not state that customers have been provided with any context for this or any data on the alternatives. This point was raised in the pre-consultation meeting and has yet to be appropriately addressed.

Options to meet water needs

Identifying an appropriate number and range of options to meet water needs is essential to ensure confidence that the preferred programmes are best value for customers and the environment. In order to address its 156 Ml/d forecast deficit in 2050, South West Water has

identified a total of 201 supply and demand options in its unconstrained list, with 92 options in the feasible list following screening, and 43 options selected in the preferred plan. Options in the preferred plan consists of 18 supply options and 25 demand options. In line with guidance, this represents a suitable range and number of options, and uses the twin track approach.

The preferred plan has sufficient supply and demand management options to meet the deficits in the planning period (from 2025–2050). There are a range of option types in the preferred plan: leakage management, household and non-household water efficiency, metering, water treatment improvements, groundwater, river, reservoir, transfers and water reuse. The total gained water available for use (WAFU) would be 428 Ml/d, which would address 275% of the deficit. South West Water should justify the benefit of the options against the volume of deficit to avoid over-investment.

The draft plan states that the 157 supply options in the unconstrained list have been distilled down to 45 supply options in the feasible list through review and evaluation. The draft plan does not set out the methodology and criteria used to screen options between the unconstrained and feasible list, or detail reasons why any unconstrained options have been screened out. We therefore have concern over whether screening criteria is appropriate and has been consistently and transparently applied, which undermines confidence in the feasible list containing best value options. The final plan should detail the options screening process, including the criteria used to screen options, and its application.

South West Water include a transfer from a new reservoir, Cheddar Two, in its feasible options list, but this is not selected in the preferred plan. The company indicates this decision will be reviewed ahead of the final plan. Currently, the option is misaligned in the presentation of its needs case and selection across other company WRMPs and the Regulators Alliance for Progressing Infrastructure Development (RAPID) programme. We encourage South West Water to engage closely with the solutions sponsors in the RAPID programme (Bristol Water, Southern Water and Wessex Water) ahead of decision making for its own best value plan.

The company's draft WRMP only has limited number of third-party options with the majority of those considered being from other incumbent water companies. 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 guideline. 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's preferred plan is low regret best value.

We note that the environmental regulator has concerns that the supply options presented in the preferred plan may not be viable on the grounds of their environmental impact, and as a

result has questioned the viability of the preferred plan. We expect South West Water to respond to these environmental issues raised, as with all representations, to give Ofwat confidence that the subsequent business plan presents a viable, best value preferred plan securing resilience for customers and the environment.

Decision making and prioritisation

The timing of the West Country Water Resources regional plan has not aligned with the timing of its associated companies WRMPs at the draft stage. As a result, South West Water's draft WRMP has not demonstrated how its company level plan has been informed by the West Country best value regional plan. This causes concern that the companies WRMPs have not been able to be informed by the regions strategic direction, nor reconcile best value options for the region and companies. For the final WRMP, we expect to see alignment between the region and company plans. South West Water's final plan should set out a standalone explanation detailing the regional methods and approaches to decision making, and how this has informed the company's plan and preferred best value plan.

South West Water should further demonstrate in its final plan that decision making has not been influenced by artificial constraints and that constraints 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).

We are concerned that South West Water has not appeared to put forward a full preferred plan for the Isles of Scilly in the draft WRMP. The company currently presents four possible pathways, one of which will be proposed as the planning solution for the final plan. We expect the company to clearly set out in its statement of response what the preferred plan is, and demonstrate that is selected from the options and strategies discussed in the draft stage and therefore had the opportunity to be consultation upon.

South West Water has not referred to Ofwat's public value principles. South West Water should use Ofwat's public value principles, and reflect expectations referred to in the PR24 final methodology, within the best value planning process in its final plan and explain how these have been used to inform best value decision making.

South West Water provide inconsistent explanations of its adaptive planning process throughout its plan, resulting in difficulty confirming if the adaptive planning approach adheres to water resource planning guidance and our long term delivery strategy.

From the information provided, it is not clear whether South West Water has developed a core pathway in line with our guidance. South West Water explain that the core pathway has been

developed by identifying the optimal options under each future scenario and then selecting the interventions which needed in more than 60% of future scenarios. However, when the core pathways for each water resource zone are described, it states this is based on meeting 'benign' scenarios only which does not align with our definition of low-regret investment.

South West Water present two different sets of scenarios. The Ofwat scenarios are clearly described alongside six 'primary futures' which it explains were developed before the Ofwat guidance was published. The 'primary futures' represent combinations of scenarios which are more adverse than the Ofwat scenarios. It is unclear how the 'primary futures' have been used in the plan.

The Ofwat scenarios appear to have been used as sensitivity tests at the end of the process once the best value plan has been selected to identify alternative pathways and trigger points. South West Water state that abstraction reductions are the greatest risk factor and that six supply-side options are identified in addition to the best value plan. South West Water present an adaptive plan for each of its resource zones which sets out additional investment required over and above the best value plan if 'extreme' and 'adverse' scenarios come to pass. The core pathway is not presented as part of the adaptive plan.

In its final plan, we expect South West Water to present a core pathway in line with the WRP definition that includes low-regret investment to meet future uncertainties and additional option value to allow further flexibility in the future. South West 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.

As part of this evidence, South West 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:

- planning based on the high scenarios for climate change, demand, and abstraction reductions, and the slower scenario for technology; and
- 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 those that meet both low "benign" planning needs in a non-adaptive way.

We expect the company 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'. 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 costs and benefits of the least cost plan against the preferred and alternative plans should be presented. 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 is important where companies are requesting significant areas of investment.

The company has presented a significant number of selected options with lower average incremental costs (AICs) which are selected later in the planning period than higher unit cost alternatives. This is exemplified in the Colliford zone where a reservoir option with an AIC of 35.8 p/m³ is selected for delivery in 2038–39 later than a water treatment works upgrade in 2027–28 at 43p/m³ and a new abstraction in 2030–31 at 140.4p/m³. The company should provide sufficient and convincing evidence that the preferred options being selected, are in order of best value in its final WRMP24 and ensure costs are reliable and efficient.

When considering the whole life cost of the projects (including both capital and operating costs) preferred options also present lower unit costs than feasible options. However, the company also include projects with a high total cost, which then also present high unit costs. This is most notable for a large mains replacement option, with a total NPC of £279 million. We would encourage South West Water to provide further explanations around the selection of options, and we would encourage the company to develop a wider range of options.

We expect South West Water to engage with the market and inform cost estimates to and to further develop the maturity of its costings. This will provide assurance that costs are robust, and can follow through to business plans and funding decisions in PR24.

South West Water does not present the draft WRMP's impact on customer bills. This means that the bill increases impact does not appear to have been tested with customer engagement, nor is any context provided to show that there will be other costs impacting

bills at PR24. We expect the company to provide sufficient and convincing evidence that the estimated bill impacts of the programme (and other areas of investment for PR24) has informed customer engagement and choices around policy drivers (such as 1-in-500 year resilience timing and environmental destination) and therefore scheduling of investment in the final WRMP.

Customer and stakeholder engagement

South West Water has described wide-ranging approaches used to engage customers, such as the use of surveys and focus groups. This includes engagement by both the company and the West Country regional group. However, the plan lacks detail regarding how these approaches were carried out, such as ensuring fair representation. This would be valuable information to set out in the final plan.

Although the draft plan sets out customer and stakeholder engagement outcomes such as customers priority of environmental approaches over infrastructure, the final plan should also explain how the outcomes have been used to influence decision making and the preferred plan itself.

Regular and ongoing engagement with regulators has been described. However, there is a notable lack of explanation regarding how different industries have been engaged with, and the opportunities this may present. We expect to see this in the final plan.

Assurance

A signed board assurance statement and supporting statement demonstrates the Board's engagement and approval of the plan. A report on governance and assurance gives a description of the review process, including independent assurance.

Information is provided about the future risks of licence capping, however there is no evidence that the Board has been engaged on this issue. This should be included in the final plan.

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.