

Centre City Tower, 7 Hill Street, Birmingham B5 4UA
11 Westferry Circus, Canary Wharf, London E14 4HD

By email

Iain McGuffog
Chair of West Country Water Resources

02 May 2023

Dear Iain,

West Country Water Resources (WCWR) draft regional plan

We welcome the opportunity to comment on WCWR's draft regional plan published February 2023, delayed from November 2022. This letter, which has been published on our [website](#), sets out our assessment of the draft plan. Our comments build on those we provided on the [emerging plan](#) that was published February 2022.

Long term water resources planning is a key business planning activity and is 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 business plans through the 2024 price review (PR24). Therefore, it is vitally important that we consider whether water companies are identifying the best value approaches to achieve the right outcomes. The regional plans and Water Resource Management Plans (WRMPs) are essential in helping Ofwat and water companies get this right. Our assessment of these plans has focused on the need for investment, options considered and their cost, decision making processes, and the approach to understanding best value. We have separately set out the approach we have taken to reviewing the draft WRMPs and regional plans and this letter must be read in conjunction with that overarching letter which is available on our [website](#).

The comments provided in this letter are without prejudice to any subsequent statutory consultation responses we may make on the relevant company WRMP or decisions that we make regarding business plans at PR24 and any subsequent price review. We expect WCWR to address our feedback in its final regional plan, and we expect the final regional plan to inform

companies' final WRMPs. We will take the quality of the final WRMP into account when assessing company business plan proposals¹.

This letter identifies the main themes that we are seeing across the regional groups before summarising the main points relevant for WCWR and finally going into the more detailed feedback covering each of the five areas of our assessment in depth.

Main themes

The draft plans, most of which were published in November 2022, have moved on significantly from the previous emerging plans published in January 2022 and we welcome the progress that has been made by the sector. Nonetheless, many of the cross-cutting themes we raised previously are still relevant and we have concerns about the lack of progress on the WCWR draft plan. These cross-cutting themes apply across the regional groups and are set out below.

The **scale of water needs** has grown significantly from previous planning rounds, driven by long term changes to abstraction under the environmental destination scenarios included in the [water resources national framework](#), agreed sustainability reductions and the impact of time limited licence capping. The latter is raising significant challenges in the short term as many of the options to meet water needs will take time to develop. Because abstraction changes are large and uncertain, companies need to present plans that avoid abortive investment and plan investigations that can prioritise the right solutions. The long-term delivery strategies which companies are developing for PR24 will help manage the uncertainties in this area and we expect to see the common reference scenarios used to identify and justify low regret investment in the final plans.

Despite our previous feedback, and the predicted increased water needs, most regional groups have chosen 2039–40 as the regulatory target for achieving **1 in 500 year level of drought resilience without sufficient testing or explanation**. We expect regional groups to explore fully the trade-offs around different pathways to 1 in 500 year drought resilience at a regional scale and to identify and present the costs and benefits of varying the timing of this in the final plans.

We are still seeing insufficient options scoped in many draft plans. We understand this is linked to the significantly increased water needs the draft plans are seeking to meet. However, water companies, and regional groups, need to develop new and innovative options to demonstrate that the proposals they are putting forward are optimal. This has been reinforced by our review of option costs in the draft WRMPs which has found some companies

¹ [Creating tomorrow, together: our final methodology for PR24. Appendix 9 – Setting expenditure allowances](#), Ofwat (December 2022)

with notably high unit costs that suggest decision-making models have insufficient options to work with.

In line with the UK government's strategic requirements for Ofwat, we expect companies, working as part of regional groups, to **reduce demand for water** to relieve pressures on water supply and increase resilience to extreme drought. We expect companies to use these regional plans to adhere to demand targets including:

- halving leakage across the industry by 2050, in comparison to 2017/18 levels²;
- reducing personal consumption to 110 litres per head per day (l/h/d) by 2050².

A further target, set in the Environment Act 2021³, also now requires the use of public water supply in England per head of population to reduce by 20% from the 2019 to 2020 baseline reporting year figures, by 31 March 2038, and we expect regional groups to demonstrate how they will deliver against this target in their final plans.

Most regional groups and companies are planning to meet government targets for leakage and personal consumption although there are some exceptions that cause concern. However, we are still seeing a lack of robust and tailored glidepaths to meet those targets and our concerns remain around the deliverability of demand management strategies. Without robust testing and tailoring of demand management strategies within and between companies we cannot be confident we are seeing optimal proposals. We have previously highlighted the opportunity for companies to deliver non-household demand management and our expectations that company plans deliver significantly improved levels of water efficiency in the business sector. We expect to see ambitious strategies for non-household demand management in the final regional plans and associated WRMPs. We also expect to see companies delivering on the commitments they made in WRMP19 and PR19 and this should be the starting point for these plans.

Summary of points specific to WCWR

Regulators raised concerns in a letter to WCWR from RAPID in March 2022 about likely disruptions to the development of the regional plan given the departure of the group's lead. Ofwat also made representations on the emerging plan highlighting that significant work was needed to move from a high-level strategy to a best value single preferred adaptive regional plan that can inform individual WRMPs. Despite this, the draft plan shows only modest progress since the emerging plan. As a result, it is not clear how the regional plan has informed the WRMPs as required by the water resources national framework.

² [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)

³ Defra, [Environment Act](https://www.gov.uk/government/consultations/2021/12/21-environmental-targets) 2021: environmental targets December 2021

WCWR should set out, in its statement of response, what improvements are possible for the final plan. It should also explain how the next iteration of the plan will bring about a step change and provide sufficient and convincing evidence to inform the strategic decisions that are coming, such as the potential development of the Mendip Quarries option. Regional plans and WRMPs set out the need for strategic infrastructure and the RAPID programme is intended to advance these projects so they can be implemented in a timely way. Cheddar Two is not currently in either the regional or company plans and cannot qualify for advancement without a robust justification of need.

We have reviewed each draft regional plan and as part of our assessment we have considered:

- Assessment of water needs.
- Options to meet water needs.
- Decision making and prioritisation.
- Ambition and outcomes.
- Stakeholder engagement.

While there has been some progress in areas such as customer and stakeholder engagement and work on pilot catchments, we have outstanding concerns relating to the draft plan which need to be addressed before the plan is finalised.

Our concerns include:

- **Addressing previous feedback** – WCWR has not taken on board some important points raised through our previous consultation responses.
- **Technical evidence** – WCWR has provided limited written technical evidence to support its draft plan.
- **Drought resilience** – WCWR has provided some evidence around how it has explored the tradeoffs it faces through customer and stakeholder feedback. However, no evidence of sensitivity testing around the year in which the plan aims to meet the 1 in 500 year drought resilience has been presented and there is no commentary on levels of service.
- **Abstraction** – given the scale of potential changes, WCWR needs to demonstrate that its final plan can manage this uncertainty without abortive investment and should plan investigations to find the best value options to adapt to future uncertainty.
- **Options sufficiency** – the plan is not clear which options have been considered and is inconsistent with the supporting data tables. It does not provide sufficient and convincing evidence that additional options have been included since the emerging plan stage and therefore the concerns we raised previously about options sufficiency remain. WCWR should improve on this for its final plan and for the longer term, noting that an increased range of options could have implications for scaling, timing or

selection of large infrastructure projects. WCWR should make sure the final plan is consistent with any supporting data.

- **Best value** – WCWR should provide more clarity on what its best value analysis means for the final plan, how sensitive decisions are to the assumptions made, and how cross-sector best value metrics are treated in associated WRMPs.
- **Adaptive planning** – WCWR has not presented a single plan with one preferred adaptive solution and set of options with suggested branch point dates. This should be presented in the final plan.
- **Ambition** – WCWR has not detailed how it will achieve its demand management targets despite our feedback on the emerging plan stressing the importance of providing extra detail in this area to give confidence on delivery.
- **Data tables** – we are concerned about the level of detail and accuracy applied to the regional data tables and whether the options described in those tables have been considered in the plan. The tables had missing, incomplete, and resubmitted data. This led to some difficulties in our assessment. WCWR should provide robust and clear supporting evidence for its data tables.
- **Cheddar Two** – we are concerned that the Cheddar Two solution is not selected in the preferred plan in the regional planning tables, or the company preferred plans despite being in the Regulators Alliance for Progressing Infrastructure Development (RAPID) gated programme. If there is a strong needs case, we expect the final regional plan to set this out with sufficient and convincing evidence of need.

Detailed comments for WCWR

This section sets out our more detailed comments on each of the five areas we have focused on specific to the draft WCWR regional plan.

Assessment of water needs

An appropriate assessment of need is the foundation of a successful plan. We have identified a range of areas that require further focus in relation to this, which are set out below.

Deployable output: WCWR has not provided detail on the methods or modelling used to calculate available water, known as deployable output (DO). The plan is missing technical reporting on the approach used. WCWR should present its method for calculating deployable output up to a 1 in 500 year level of drought resilience in its final plan.

Drought resilience: WCWR has provided some evidence of exploring the various tradeoffs it faces through customer and stakeholder feedback. However, WCWR is yet to fully explore tradeoffs around different pathways to 1 in 500 year drought resilience at a regional scale.

Despite our feedback on the emerging plan, WCWR has not provided evidence of sensitivity testing around the year in which the plan aims to meet the 1 in 500 drought resilience and there is no commentary on levels of service. Sensitivity testing should be undertaken around the year in which the plan aims to meet 1 in 500 year drought resilience. WCWR should explore the costs and benefits of flexing the 1 in 500 year drought resilience target year further using sensitivity testing.

Abstraction: WCWR has progressed its work on the required changes to abstraction since its emerging plan. However, the resulting water need is large and has increased markedly since the emerging plan. Estimated changes have increased from 144 megalitres per day (Ml/d) in the emerging plan to 180 Ml/d in the draft plan. WCWR should focus on how that uncertainty will be managed in its final plan. To support this WCWR should:

- Explain how its final plan considers the full range of potential abstraction changes without unnecessarily bringing forward investment that may not be needed.
- Carefully scope its planned investigations to better understand the links between abstraction and the environment locally (for example, surface water and ground water interactions) and the type of option that may be most beneficial in that context.

The proposed investigations are important because solutions could include reductions in overall abstraction, changes in how abstractions operate (such as changing river flow related conditions, compensation flow arrangements from reservoirs or seasonal variations) or moving where abstractions or discharges are in the catchment / waterbody. We are keen that this sort of thinking informs regional and company plans as we want to see local water management solutions thoroughly considered before companies select replacement water from the list of feasible supply options. Local water management solutions have the potential to be lower cost and to bring greater benefits than simply replacing the water lost with another supply option that is likely to bring its own environmental impacts.

Planning horizon: WCWR has met the requirement for a regional plan to forecast supply and demand over at least 25 years. The plan does cover a suitable planning period of 25 years to 2050 and WCWR states its intention to consider extending this to 2080. However, WCWR does not set out clear reasoning for the chosen time period with reference to the deficits it faces in the long term and should do so in the final plan.

Options to meet water needs

Identifying the right range of options to address needs within a region and more broadly is a critical part of the regional planning process. We have identified a range of areas that require further focus which are set out below.

WCWR has provided supporting data tables. However, we have concerns that it has not considered the full range of options that are presented in those tables. The options in the data tables appear to be a summation of the company options and are not described in the draft plan. WCWR has not provided a description of the regional options identification process, including how the zonal benefit assumptions of the options were used for screening and optimisation. WCWR should clearly identify the options selected in the preferred plan and provide sufficient and convincing evidence that the options selected are best value in its final plan.

WCWR should update the regional plan to ensure it is consistent with the supporting data tables. The plan should include the full range of feasible options to ensure a sufficiently wide range of options are included in the regional planning process (as detailed in our feedback on the emerging plan) and describe the appraisal process for the selection of the preferred plan and least cost plan. A broad range of comparable options is required to develop an optimised programme and to provide viable alternatives across the region.

WCWR has stated its water needs are 180 Ml/d by 2050 under baseline assumption scenarios. However, it is difficult to determine whether WCWR has sufficient options to meet the planning problems it faces as the figures presented in the draft plan do not align with the data tables. WCWR should update the regional plan to ensure consistency between the regional plan, data tables and company WRMPs.

Strategic Resource Options (SROs): The WCWR plan considers three SRO supply schemes, Mendip Quarries, Poole effluent recycling and Cheddar Two which provide a total gain of 75.5 Ml/d for the dry year annual average in 2050. However, the WCWR data table shows that Cheddar Two is not selected in the preferred plan, Ofwat core pathway or least cost plans.

Wessex Water and Bristol Water are co-sponsors of the Cheddar Two reservoir solution in the Regulators Alliance for Progressing Infrastructure Development (RAPID) gated process. We are concerned that the solution is not selected in the preferred plan in the regional planning tables, or the company preferred plans. Despite the draft WRMPs not including any evidence of need, the RAPID programme is being asked to consider the recommendation to progress Cheddar Two beyond the current RAPID gate two development stage. This would result in customers continuing to fund the development of a scheme that is not needed according to the latest published evidence. If there is a strong needs case, we expect the final regional plan to provide sufficient and convincing evidence of this.

Third party options: WCWR has stated in the plan that it has not yet obtained any third party options for the region, but are promoting opportunities via the WCWR website. However, the regional planning tables include three third party preferred options and four third party feasible options. WCWR should clarify whether third party options were investigated and revise the regional plan regarding the inclusion of third party options so that it is consistent with the regional planning tables.

Decision making and prioritisation

Plans must compare options appropriately to arrive at the right outcomes. While we welcome some aspects of the approach taken by WCWR, we have some concerns in relation to its decision making and prioritisation that require further focus before the final plan is published.

Addressing our feedback: WCWR has not responded to our feedback on the emerging plan decision making and prioritisation; we expect all our feedback to have been considered and responded to within the final plan.

Decision making approach: WCWR has provided no additional information on the outcome of its problem characterisation, justification for the planning period, and made no changes to its optimisation approach following our previous feedback.

WCWR should present the outcome of its problem characterisation to justify its choice of decision-making approach. The best value decision-making approach remains basic since the emerging plan and falls short of what we would expect given the planning challenge faced. For the final plan, WCWR should revisit its decision-making approach and use an economics of balancing supply and demand (EBSD) model to complete cost benefit analysis of options as a minimum, including optimisation on best value metrics where possible.

The WCWR regional plan presents the metrics used for assessing best value. However, we would like to see carbon emissions in the final best value plan clearly presented alongside a clear discussion of the trade-offs made between whole life carbon emissions and other considerations to agree the final best value plan.

Decision making is likely to be influenced by artificial constraints. As well as the lack of sufficient options, as mentioned previously, the plan excludes desalination as an option type from the best value analysis.

While the high-level road map presented by WCWR for regional water resources modeling is a step towards informed decision-making, it is important that the evidence of investment is robust and reliable. WCWR should clarify how this will be improved for the final regional plan as well as the company WRMPs. Given the slow pace of progress since the emerging plan stage this is not currently clear.

Adaptive planning: There is qualitative discussion of the plan being adaptive referencing the uncertainties in climate, demand and environment, and that the plan can change as these become more certain with time. However, the plan does not set out which options are selected in the preferred and adaptive plans in detail and cannot be described as an adaptive plan at this stage.

WCWR has not presented a single preferred best value adaptive plan with clear trigger / branch point dates. WCWR should work towards this as a priority. The choice of adaptive pathways and trigger points should be made based on the uncertainties and drivers of the uncertainties at that time. Headroom is expected to reduce in the longer term as uncertainty is absorbed into the adaptive planning approach. WCWR should ensure it is not double-counting uncertainty. We provided this feedback following the emerging plan and this point has not yet been addressed.

Solving the planning problem: WCWR has not provided sufficient and convincing evidence that its planning problem has been solved by the plan presented. The regional planning tables show there are two water resource zones that have a supply demand deficit. In the final plan, WCWR should include sufficient options to resolve the supply demand deficit across all water resource zones in the region for the whole planning period.

Least cost and best value comparison: WCWR's plan should compare the cost of the best value plan to the least cost plan. The difference in expenditure should be clearly stated and cost drivers fully explained. The NPV costs of the plans in Table 4 of the regional planning tables should be checked for consistency between plans and with the Company plans.

Cost information: In terms of whole life unit costs, for both operational and capital expenditure, WCWR companies are selecting options that have higher unit costs than the average across the industry. There are a range of lower cost feasible options available and WCWR should explain in its final plan why high-cost options have been selected in their place. Market engagement would help WCWR reduce the risk against costing and could support them to increase data quality for the final plan. We would encourage WCWR to engage with the market.

Low regrets investment: WCWR should provide sufficient and convincing evidence to demonstrate that the preferred programme represents low regrets best value investment over the long term.

Bill impacts: WCWR should clarify how bill impacts have been considered as part of the final regional plan.

Ambition and outcomes

It is important that plans are sufficiently ambitious and likely to achieve agreed outcomes. As we said above, Ofwat expects companies to use these regional plans to adhere to demand targets including personal consumption, leakage and overall water use^{2, 3}.

WCWR has taken on board some feedback in this area. For example, we previously noted that the Roadford option has been approved as part of the green recovery and that its benefits

should be reflected in the baseline water needs assumptions. WCWR has taken on board this feedback and included Roadford in its baseline.

We have identified a range of areas relating to 'ambitions and outcomes' that require further focus which are set out below.

Leakage and water efficiency: WCWR is proposing to get to 110 litres per person per day by 2050. However, this does not appear to be calculated as dry year annual average (DYAA) based on the data tables which show per capita consumption (PCC) at 112.9 in 2050. We expect to see the regions planning to meet 110 at DYAA.

WCWR notes that government policies will heavily influence the level of personal consumption achieved by 2050. However, it does not explain what assumptions it has made. WCWR has not added detail on its approach to water efficiency since the emerging plan despite our feedback on the importance of providing extra detail in this area to give confidence on delivery. Our feedback does not appear to have been acted upon in this area and further detail is required to give the final plan credibility. While WCWR has discussed options for managing water demand in business (non-household demand) it has not included any costs for these options or used them to develop a credible approach to managing demand. These should be provided in the final plan.

WCWR aims to halve leakage by 2050 from a 2017-18 baseline. However, it has not yet developed a plausible or costed route to achieving this which is required and should be included in the final plan.

WCWR should set out in its final plan how it will align with the [government target](#) to reduce the use of public water supply in England per head of population by 20% from the 2019 to 2020 baseline reporting figures, by 31 March 2038, with interim targets of 9% by 31 March 2027 and 14% by 31 March 2032, and to reduce leakage by 20% by 31 March 2027 and 30% by 31 March 2032.

Profiling activity across the planning period: WCWR has not developed credible approaches for increasing water efficiency or managing leakage. These are a pre-requisite for then profiling the approaches over time and across the region to develop an optimised strategy. WCWR should develop this further for its final plan.

The WCWR draft plan discusses broader resilience benefits beyond drought. These include flood and 'energy risks' which feature in its best value metrics table. However, it is not clear whether or how these are quantified and how they have influenced the plan. Further work is required to explain this for the final plan.

Stakeholder engagement

Stakeholder engagement must be meaningful and have sufficient reach. We are concerned by the delay in providing the WCWR data tables and that these have not been published. This has constrained our ability to engage with the plan and may have also presented an issue for others. WCWR should make this information widely available and make sure that it is provided alongside its final plan. Nevertheless, we are encouraged to see the wide engagement carried out by WCWR to seek views on the approach taken and the proposed programme of solutions.

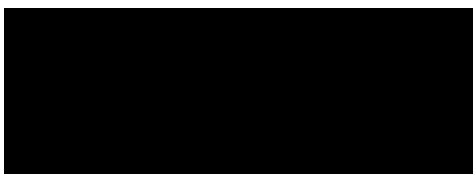
WCWR has involved a large number of stakeholders across all 15 of its key segments, including customers and local government, and has engaged with them through numerous workshops, dissemination events and both formal and informal meetings. WCWR has pulled out several key themes and messages from its engagement programme and used these to inform and influence the selection and refinement of WCWR's approach to water resources management in the regional plan. However, the customer and stakeholder feedback summary remains quite broad in describing priorities such as investment in solutions (particularly new supply options), need for collaborative research, catchment and nature-based solutions rather than the specifics in how to go about these and this should be developed for the final plan.

WCWR should continue to liaise with stakeholders on how the consultation responses will affect the final plan. WCWR should now consider the responses to its draft regional plan consultation, and any additional stakeholder engagement carried out, and explain how these have influenced its final plan.

Planning to meet water resources needs over the coming 25 years and beyond is of the utmost importance and these plans will have important implications for customers, society, and the environment. This is why we have pulled together this detailed feedback and why we expect to see the necessary improvements for the final plans. Once you have had a chance to consider these comments in detail, we would like to hear how you plan to address them and note that we have a session scheduled to do so later this month.

Yours sincerely

Aileen Armstrong



Senior Director, Ofwat