

## Severn Trent Water's response to November 2015 consultation on the draft Water Resources Planning Guideline

*1. We welcome your comments on the draft Water Resources Planning Guideline. Since the 2012 version we have made substantial changes to the guidelines including reducing the number of pages to less than 40 (compared to over 200 pages in 2012).*

1a) Do you think the substantial changes that we have made have improved the guidelines since 2012?

1b) Do you understand why these changes have been made?

1c) Do you support the new guideline?

1d) Is there anything missing or does anything require further explanation within the guideline?

We welcome the changes to the WRMP guidelines and support the move towards a more flexible, risk based approach. The guidelines are more accessible than in previous planning rounds and strike a good balance between recommending good practice without being overly prescriptive. In particular, we welcome the recognition that alternative technical approaches exist and that companies should select the most appropriate method based on their circumstances.

We believe there are three areas where further improvements would be beneficial:

### 1. Policy and guiding principles

The 2014 WRMP guidelines contained a very helpful chapter where government and regulators set out clearly their expectations around important national planning policies such as water metering, leakage and demand management. This provided a consistent set of planning policies for final WRMPs should satisfy. It would be beneficial for the WRMP guidance to include an update on these policies and guiding principles.

### 2. Structural reform and policy changes.

There are a number of significant planning policy and regulatory reform changes that will have a material effect on the next round of WRMPs. For example, the ability to make reliable forecasts of commercial consumption while adapting to the retail / wholesale split; the implications of WFD no deterioration on existing abstraction licences and future options; the use of AICs for access pricing; and how companies should incorporate the recommendations from both the Water Resources Long Term Planning Framework and the National Infrastructure Commission's first national infrastructure assessment. It would be beneficial for the guidelines to clarify how these policy changes should be incorporated into company plans.

### 3. Synchronising submission with the 2019 Price Review (PR19)

We accept that the onus should be on companies to develop robust plans based on appropriate assumptions. However, there is a significant uncertainty created by the current timeline as PR19 submission coincides with consultation on Draft WRMPs. It would be beneficial for guidelines to explicitly address how this planning uncertainty should be addressed and coherence between the WRMP and PR19 will be achieved.

*2. We have introduced 'process verification' in the early stages of the planning process. As part of this process water companies should publish a method statement explaining the methods they intend to use in developing their Water Resource Management Plan (WRMP). They should also enter into early discussion with the regulators to discuss the methods. This is to encourage companies to have the confidence to innovate and use methods that are most appropriate for them, and will enable dialogue with regulators to give them confidence in the methods.*

2a) Do you understand what this 'process verification' step is trying to achieve?

2b) Do you understand how this will work?

We support the recommended 'process verification' stage as this formalises the ongoing technical engagement that we carry out with the EA and NRW throughout the WRMP process. This new step also provides a helpful audit trail for evidencing our decision making process from the early stages of the WRMP through the final published version.

We believe the benefits of this stage would be maximised if:

1. Both the EA and NRW appoint a single point of contact for each company. It is essential that sufficient resources are made available to liaise on technical issues throughout the process.
2. An additional milestone is introduced which requires the EA to respond to the published 'method statement'. This would provide planning clarity for companies, and would enable the EA to ensure that a nationally consistent approach has been applied across all WRMPs.

*3. We have asked that water companies produce a plan with a supply forecast that as a minimum tests their supply to the worst drought on record. We would like companies to test how their supply forecast may react to a drought worse than what they have experienced in the past 100 years.*

3a) Do you believe all water companies can produce a plausible drought that is worse than what has been experienced in the past 100 years?

3b) Do you believe new methods need to be developed to allow water companies to undertake this work?

3c) To achieve this, do you believe water companies will need to invest further in computer modelling?

3d) How do you think such droughts can be explained to customers?

We support the flexibility provided for companies to decide on the drought they plan for. Our current WRMP tests our system against the worst drought in our 91-year hydrological record. For our next WRMP, we plan to extend this record to improve our understanding of drought risk. We believe that our existing computer modelling capability can be used to assess more extreme drought scenarios.

We also note that a set of spatially coherent future national drought scenarios will be created as part of the Water Resources Long Term Planning Framework (2015-2065).

We would like the guidelines to be extended to clarify how these more extreme drought scenarios will be used, and how the national drought scenarios should be used alongside company generated extreme drought scenarios. This clarity would help us in our scenario modelling, interpretation of the results and enable us to better understand how to engage with our customers.

*4. The new guideline aims to explain how the WRMP links to all other relevant plans such as water company drought plans, business plans and river basin management plans.*

4a) Do you think the guidelines sufficiently explain those links?

It is critical that there is clear alignment between all the plans produced by a company. The improved links in the guidelines between WRMP and the Drought Plan and River Basin Management Plans are clear (though we note these have not yet been approved by the Secretary of State).

However, as noted in our response to Question 1, we believe more needs to be done to synchronise the WRMP and the business plan (Price Review 2019) process. We note that Ofwat have committed to work “closely with Defra, the Environment Agency, Natural Resources Wales and companies to align our price control processes in the run up to such reviews with other planning cycles and ensure that companies have the greatest clarity possible.” (Ofwat, Water 2020: Regulatory framework for wholesale markets and the 2019 price review, published December 2015).

We accept that the onus should be on companies to develop robust plans based on appropriate assumptions. However, there is a significant uncertainty created by the current timeline (submission of our PR19 plan coincides with consultation on our Draft WRMP). Companies are at risk of incurring additional costs if the Final WRMP is significantly different from the Draft due to the outcome of the PR19 process, and/or risk an impaired Risk Based Review outcome if assumptions made for the PR19 plan are not supported.

We would like the guidelines to explicitly address how this planning uncertainty should be addressed and coherence between the WRMP and PR19 will be achieved. Potential solutions include better alignment between the timelines, or for a ‘no harm approach’ to be adopted by Ofwat in the PR19 process.

4b) Are there any other plans we should link to?

Although we support the need to link WRMP to local authority development plans, we are concerned that the draft guidance requires companies to use the new housing forecast set out in Local Development Plans. Our recent historic experience suggests such plans significantly overestimate household growth levels.

Our 2014 WRMP (appendix B, pg12) shows the planning assumptions we have used for the two most recent WRMPs set against published government household growth figures. For each plan, published Regional Spatial Strategy/Local Authority forecasts for our region showed a stepped increase in new household properties over historically observed numbers. For each of our 2009 and 2014 WRMPs, we downwardly adjusted published growth figures

to be more in line with observed recent growth trends which we believed were more appropriate given prevailing economic conditions and forecasts.

We therefore believe the guidelines should allow the flexibility for companies to adjust housing forecasts to produce realistic growth assumption. Where adjustments to Local Development Plan forecasts have been made, companies should clearly evidence the reasons for the change.

Additionally, as AICs will be needed for access pricing more guidance may be needed to ensure that they can be used for this purpose.

5a) Do you think that the new guidance sufficiently emphasises the need to consider different options for building resilience in your water supply?

5b) Do you understand how long term resilience to droughts can be explained within the WRMP?

5c) Please tell us if there is any further information on resilience you would like to see.

We support the recognition that water resource schemes can deliver multiple benefits such as resilience to flooding and pollution events, drought resilience, maintenance efficiency and resilience to supply interruptions. These benefits should be reported in the WRMP and be considered as part of the overall evaluation of WRMP options.

However, we need to ensure the purpose of WRMPs is not confused with company PR19 business plans. The WRMP should focus on long term supply / demand needs and the ability of companies to cope with drought / dry weather events; PR19 should include the costs and benefits of all aspects of service provided by a company.

Given this, it is essential that the guidelines clarify how additional benefits should be included and reported in the WRMP. It is not clear how the current format of the WRMP methodologies and associated reporting data tables can be used to demonstrate the benefit of non-drought related resilience schemes. In addition, guidelines need to explain how schemes delivering multiple benefits will be evaluated in WRMP and in the PR19 process (see also Question 7).

*6. For companies wholly or mainly in England, water trading and solutions being provided by a third party are strongly encouraged in the guideline.*

6) Do the guidelines provide enough information on how to include these options in the planning process?

The guidelines are clear on how these third party trading options should be considered alongside other options. However, the lack of synchronicity between the WRMP and PR19 timelines does not facilitate the inclusion of such options.

The requirement to “*confirm that there is no risk of deterioration from a potential new abstraction of from an existing source before you consider it as a feasible option*” (Section 6.8), means potential donors would need to carry out a WFD no-deterioration assessment

and gain EA's support early in 2016-17. This would need to be done without having certainty of the receiving companies' supply needs.

It will therefore be difficult for new trading options to progress beyond the unconstrained 'long list' of options to the feasible list of options to be considered in more detail. We believe that if the PR19 and WRMP regulatory timetables were better aligned, it would help potential donor and recipient companies scope out trading schemes to be considered as feasible options with the plans.

*7. The guideline provides far more flexibility for companies to decide on how they will find the best solution for the problem they face.*

7) Would you like to see any standard requirements included in the guideline to allow comparison between water companies?

We welcome the flexibility that the new guidelines provide to companies when presenting their preferred water resources strategy. In particular, it is helpful that the guidelines acknowledge that there are broader considerations than just 'least cost planning'.

We believe it would be beneficial for the guidelines to provide clarity on the assessment criteria the EA will use when they evaluate company plans, and how these criteria fit with Ofwat's Risk Based Review approach. This clarity will help ensure companies can present information in a way which helps facilitate effective decision making.

*8. Most water companies will need to complete a strategic environment assessment (SEA). In doing so, environmentally damaging options should be screened out.*

8) Do you believe we need to require water companies to make a monetised assessment of the costs and benefits to society and the environment, for all (remaining) feasible solutions?

Our understanding of the SEA process is that there should be no need to make monetised assessments of environmental costs for the WRMP.

However, the investment proposals that we will be making in our PR19 business plan will need to be linked to our understanding of customers' willingness to pay for service / environmental improvements. Therefore, for PR19 process we will need to make monetised assessments of environmental and social improvements.

As such, we believe that the guidance should simply require that companies make clear how environmental and social cost considerations have shaped their WRMP.

*9. We have made many changes to the water resources planning tables by reducing the amount of data we ask for, simplifying the structure, and removing a lot of the functionality so it is primarily a data gathering template.*

9a) Do you agree these changes are positive?

9b) Do you think we should require any further information in these tables?

10) Please tell us if you have any other views or comments on the guideline that have not been covered by previous questions.

We support efforts to reduce the complexity of the WRMP data tables.

Referring back to our response to Question 5, it is not clear how options to improve resilience should be presented in the plan. For example, options to improve resilience to flood events or pollution events will not translate into deployable output / water available for use benefits and so will not be reportable in the data tables. It would therefore be helpful if the guidelines are clear on how the resilience benefits case should be presented, and whether there is an expectation that this is outside of the WRMP data tables.

In addition, we have tested a selection of the draft WRMP data tables and have observed the following minor issues that will need to be addressed for the final tables:

<b>Table reference</b>	<b>Issue</b>
3.BL Demand	Cells H7, I7 and H10 are set at zero – needs to be a formula
3.BL Demand	Cells H20, H27, impacted by issue 1, pcc calculation uses zero cells to give an incorrect PCC.
8. FP Demand	Row 9 should contain a formula, currently each cell is set to zero
5. Feasible Options	Clicking arrow in cells E7 and G7 does not display drop down list to select from
4. BL SDB	Updated DI calculation formula misses out voids USPL (row 3)
9. FP SDB	No DI calculation formula in row 3