

## Appendix 27: Ofwat

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| 1.1      | Representation                          | <p>While we welcome the improvements set out in the revised draft plan, we are still concerned that the plan does not provide sufficient evidence that it delivers in the best interest of customers in several areas, including:</p> <ul style="list-style-type: none"> <li>• regional co-ordination and strategic solution planning;</li> <li>• consideration of all available options; and</li> <li>• the validity of some of its planning assumptions.</li> </ul> <p>We expand on our concerns in the following sections of this letter.</p>  |
|          | <b>Our Response</b>                     | <b>See our responses below.</b>   |
|          | Summary of any change to our final WRMP | <i>If there is no change state: N/A</i>   |
|          |   |   |
| 1.2      | Representation                          | <p><b>Regional co-ordination and strategic solutions</b></p> <p>While the revised draft plan sets out the strategic regional solutions that Affinity Water is considering, we continue to expect company ownership in ensuring consistency between different company plans. We understand this is not an issue for Affinity Water alone, and as we stated in our initial assessment of PR19 business plans, we expect it to continue to work with other companies and regional groups to consistently develop truly regional solutions to address challenges in the south-east. In particular, the company should address the following issues:</p> <ol style="list-style-type: none"> <li>1. Inconsistencies, in terms of timing and magnitude, remain between Affinity Water's transfer options and those of its neighbours. This has the potential to significantly impact selection of the optimal regional solution and other companies' plans.</li> <li>2. The company identifies its preferred regional strategic solution. However, the company does not clearly evidence its assessment of each alternative option and rationale for its rejection. Rejecting options (for example, the River Severn to River Thames transfer) without compelling justification at an early stage can have significant impact on neighbouring company plans. Affinity Water should ensure that costs and benefits of regional solutions are presented consistently and transparently in future documentation.</li> <li>3. We continue to expect Affinity Water to work collaboratively with others to fully evaluate feasible options and select the optimum portfolio that will ensure short, medium and long-term resilience for the south-east, offering best value to customers, and realising appropriate wider environmental and social benefits.</li> </ol> |
|          | <b>Our Response</b>                     | <p><b><i>Introduction:</i></b><br/> <b>We are committed to developing the best value regional solution and will continue to work with our regulators and third parties, including other water companies, to identify and promote the best solution within AMP7 and beyond.</b></p> <p><b><i>Inconsistencies in alignment:</i></b><br/> <b>Significant coordination has been undertaken between ourselves and other water companies when producing our respective WRMPs. This included coordination between the companies on approaches to adaptive planning, checking volumes of</b></p>  |

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existing and proposed transfers and shared options to address deficits in supply-demand balance. As part of both the Business Plan and WRMP updates we have directly coordinated with Thames, Anglian, Southern, United Utilities and Severn Trent Water to ensure our proposals for AMP7 (2020 to 2025) strategic scheme investigations are fully aligned. The dates presented for our adaptive strategy and monitoring plan reflect that process.

As a result of these efforts, we were generally aligned at the rdWRMP stage. However, we will ensure that our final WRMP is fully consistent with neighbouring company WRMPs in respect of shared option timing and magnitude of water supplied to Affinity Water. On the specific question of our alignment with Thames Water's fWRMP19, this is detailed in the Statement of Response and in Chapter 7 of our fWRMP19 (see also our response to R1.2 from the EA which clarifies the confusion in relation to the timing and magnitude of certain options shared with Thames Water). Further explanation of our approach to shared projects is set out below.

For the strategic scheme investigations, we will carry them out as co-developments with other water companies or the Canal and Rivers Trust (CRT). This will be delivered in two stages, or "gates", with governance, including the decision or not to proceed beyond the first gate (Quarter 3, 2022), provided by our regulators (as described in the fWRMP19 Monitoring Plan).

We have added a 'rapid development' pathway to manage high growth and/or high levels of sustainability reductions, which potentially involves acceleration of the Grand Union Canal (GUC) transfer or a water trading option for delivery by 2032 (these are the only options with shorter development times), but with customer consultation if that is not a best value solution.

We have also aligned our WRMP monitoring plan to that of Thames Water, to further help with alignment between the activities being carried out ahead of the Spring 2023 decision point. More detail on this issue is now available in Chapter 6 of our fWRMP19.

Our Business Plan submission on the 1st April 2019 also provides additional information relating to our proposals for joint working and collaboration with partners for all our strategic regional options. These proposals include the shared understanding of the scheme descriptions, our approach to joint working methods and activities, scheme costs and programmes, and gated deliverables linked to an Outcome Delivery Incentive type mechanism.

*Further clarification on selection of options:*

The Severn-Thames Transfer was not rejected an option at the rdWRMP stage and it was not our intention to give that impression. We have clarified our position on this and other schemes, as discussed below, and have provided further detail in our decision making report and Chapter 5 to provide clarity on the reasons for the schemes being selected in our modelling (including further information on costs to improve transparency). We also explain more fully our intention to continue investigations on schemes that are not currently selected as preferred options (e.g. the STT and water trading options with Thames Water). to manage uncertainty within our adaptive strategy.

Moreover, in response to EA representations we have created a new 'stand alone' option based on the treatment and transfer (from the River Thames) elements of the SESR and Severn Thames Transfer (STT) schemes, but with an option that the source water may be provided by a trade with Thames Water (for example where Thames develops Beckton re-use as an offset for trading) if the regional modelling in AMP7 demonstrates that this is better value than the SESR or STT. We have clarified our position on the STT to show that we will actively consider this as an alternative to the SESR based on water trading if it becomes a preferred regional option through the AMP7 investigation process that is being carried out by Thames, Severn Trent and United Utilities.

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|          | Summary of any change to our final WRMP | Updated Chapter 6 and 7 and Technical Reports 4.4 and 4.9  |
| 1.3      | Representation                          | <p><b>Considering all available options</b></p> <p>We welcome the inclusion of third-party options as part of the overall programme, such as the Grand Union Canal transfer. However, the revised draft plan does not provide sufficient evidence that all unconstrained supply and demand options have been adequately considered and developed. In particular:</p> <ol style="list-style-type: none"> <li>1. Affinity Water has opted to reduce the frequency that it intends to use supply-side drought permits and orders to a 1-in-200 year level of service. This decision is not clearly evidenced as there is potential for these measures to provide benefit in drought conditions, on a more frequent basis. We identify that a number of these interventions, with an approximate benefit of 18 MI/d (for the central region), could represent good value solutions for meeting the supply-demand balance with low environmental risk.</li> <li>2. The plan did not appear to consider appropriately any feasible options to reduce outage, which may represent a good value option for ensuring long-term supply-demand balance. The company rejects unconstrained options to reduce outage without providing sufficient justification.</li> <li>3. It is not sufficiently clear which aspects of the 'Supply 2040' programme are required to meet the supply-demand balance deficits, and which are needed to improve non-drought resilience. The company should provide clear articulation of the purpose of the expenditure and the evidence to support it. Any resilience options should be considered in the context of the significant headroom allowance and the observed issues driving the outage levels.</li> <li>4. We observe that the company has significantly decreased its metering ambition from over 90% by 2025 in both its 2014 plan and in the original draft 2019 plan, to 79% in the revised draft plan. We also note that the 'Water Savings Programme' is included within the baseline plan. The company could improve its plan's transparency through considering its Water Savings Programme as a potential option for its final plan. This would help to demonstrate whether the company should continue the programme in its current form or change it by appraising it against alternative options.</li> </ol> |
|          | Our Response                            | <p><b>Drought permits. The decision to minimise the need for these options after 2024 is supported by the Environment Agency. It is also consistent with the development of our Drought Management Plan, which demonstrates in the associated drought permit Environmental Assessment Reports (EARs) that there is potential for environmental impact from the use of these permits. Our approach is therefore to defer the use of these options for as long as possible, but we note that all permits are likely to be needed in the summer or autumn at the time of maximum environmental stress. Unlike other water companies, as we do not have significant raw water storage, we cannot rely on winter Permits</b></p> <p><b>In terms of outage options, we have reviewed the options and have included additional text within our main plan and associated options appraisal report to explain more fully our position. We also considered catchment management in great detail as part of our PR19 business plan and this approach was discussed and agreed with the Environment Agency at workshops throughout the screening stages of our WRMP19 options appraisal.</b></p> <p><b>We have included details of the timing and schemes from our "Supply 2040" strategy in the fWRMP19, and shown how they affect individual WRZ supply-demand balances under all of our modelled futures within our Technical Report 4.9: Economics of Balancing Supply and Demand Modelling and Decision Making Process. In summary, all of the proposed AMP7 developments, which are detailed in our Business Plan, are required to support the transfer of 17MI/d out of WRZ6 into</b></p>   |

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|          |   | <p>WRZ4, or enable the Grafham transfer enhancement. AMP8 (2025 to 2030) then contains our second stage transfer from WRZ6 to WRZ4, and finally we have a scheme to transfer water from WRZ1 to WRZ3 in the longer term. This is now more fully described in the main Plan document.</p> <p>Our Plan incorporates the individual elements of “Supply 2040” as early as they are needed to ensure that surpluses within individual WRZs are usefully transferred into other WRZs in the Central Region. The fWRMP19 supports the requirement to distribute water to areas of need, avoiding strategic deficits and surpluses. We will continue to plan investment as quickly as is necessary to avoid water deficits and surpluses, which will also avoid building strategic schemes earlier or later than is necessary.</p> <p>We have updated Technical Report 4.9: Economics of Balancing Supply and Demand Modelling and Decision Making Process to include the most up to date assessment of our supply demand balance for each future which supports the timing of the requirement for the transfers. The individual balances within each WRZ for each future are provided as graphs within the technical report.</p> <p>We anticipate 80% meter penetration by 2025 and 90% meter penetration by 2045. We recognise this represents a lower target than at the dWRMP19. This is largely as a result of the higher than anticipated need to install internal meters, and taking on board experience to date around the practicalities of installing meters internally as well as wider industry learning. An explanation of the reasons for, and very limited implications of, the slower rate of metering as part of the Water Saving Programme are included, along with justification of the approach to smart metering rollout is in Chapter 6.2 Our demand management strategy in the fWRMP19.</p> |
|          | Summary of any change to our final WRMP | Updated Chapter 6 and Technical Report 4.9  |
| 1.4      | Representation                          | <p><b>Assumptions</b></p> <p>We identified material uncertainty in areas of the revised draft plan and have concerns regarding the validity of the assumptions made. In particular:</p> <ol style="list-style-type: none"> <li>1. We note the company’s target headroom of 12% is the highest in the industry and significantly so in comparison to an average of 8%. The company should further justify this figure in the final plan and evidence that it has considered options that would reduce or mitigate the components identified, such as gradual pollution.</li> <li>2. We found that Affinity Water’s climate change assessment concludes further work is required to provide evidence and justification for the sensitivity of the Clay Lane group of sources to both drought and climate change. The assumptions made has a significant impact on the availability of water for the zone and the need for investment in solutions. The company should provide further evidence to justify using this assessment and identify additional work it intends to undertake to increase confidence in its output.</li> </ol>   |
|          | Our Response                            | <p>The 12% quoted here is based on our Final Plan Target Headroom and is expressed as a percentage of Final Plan DI. We are concerned that this does not provide a representative comparison for two key reasons. Firstly, the use of Final Plan DI makes our Target Headroom appear artificially high, as we have one of the largest reductions in total demand across the industry within the early years of the Plan. Such an analysis effectively penalizes our position as a result of our demand management ambition. Secondly our Target Headroom is only high in comparison to other water companies at the start of the planning horizon. We have compared our target headroom with the target headroom of other companies. This shows that by the earliest date for delivery of a strategic supply-scheme (2038) our overall target headroom is similar to Southern Water’s and is below South East Water’s and Severn Trent Water’s. Our fWRMP includes this analysis.</p>   |

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|          |   | <p>We acknowledge that it is unusual that target headroom is higher at the start of the planning period than the end. This is because we have included the risk associated with the water saving programme (WSP) and the associated delivery risk within our baseline demand forecast, rather than as an option for development in our decision-making process. In line with the guidance we have adopted a high risk percentile (95%) in the near term, which ensures that we are investing in sufficient demand management to balance supply and demand even if the WSP programme does not deliver the expected 18% demand savings. In the medium term our average Target Headroom reduces, which reflects the fact that we will have time to adjust our programme to address emerging risks.</p> <p>In terms of climate change impacts in Central region, we have included a more detailed explanation of the vulnerability of the Clay Lane group of sources in section 3.4 of the fWRMP19. Any uncertainties that we have referred to represent and additional risk to the source, rather than any over-estimate of the risk under drought and climate change conditions.</p> |
|          | Summary of any change to our final WRMP | Updated Chapter 3 and 4  |
| 1.5      | Representation                          | I welcome the changes made in Affinity Water's revised plan and look forward to seeing the points raised above, addressed in Affinity Water's statement of response and final water resources management plan.   |
|          | <b>Our Response</b>                     | <b>Thank you.</b>  |
|          | Summary of any change to our final WRMP | N/A  |