Thames Water Draft Water Resources Management Plan 2024 Statement of Response

Appendix F: Response to CCW's Representation

August 2023

Introduction

In this Appendix we set out the points raised by CCW in their representation to the consultation on our draft WRMP24, our consideration of the points and relevant changes made to our draft WRMP24. We have copied the text from CCW's representation directly and this is shown in bold font, and our consideration of the points raised is shown in normal font.

1. **The plan is underpinned by a per capita consumption reduction to 123 l/h/d by 2050 which the plan acknowledges is above the government's target of 110 l/h/d. This is due to Thames not having confidence in the achievability of 110 l/h/d at present. If, through the timescale of the dWRMP, it emerges that 110 l/h/d is achievable, does the adaptive planning framework enable Thames to take account of this in the solutions it will adopt to balance supply and demand?**

   Since the publication of our draft WRMP24, the Water Resources Planning Guideline (WRPG) has been updated to require water companies to plan to achieve the water use target of 110 litres/head/day (l/h/d) by 2050. Our revised draft WRMP24 has been revised to accommodate this target.

   We maintain that reducing water consumption remains uncertain. Whilst we are committed to making the most of water resources, the successful achievement of sustainable reductions in water use will require concerted, coordinated effort from government, stakeholders, customers and water companies. The activities that are within our control are largely limited to the installation of water meters, promotion of water efficiency activity and, in the future, introduction of tariffs. The success of these measures is dependent on individuals response and cultural changes to water use. Furthermore a significant contributor to forecast reductions in water use are government-led changes in policy and regulations.

   We have used sensitivity testing to test the potential impact of under-delivery of these targets and to prepare alternatives where possible, linked to our monitoring plan which is presented in Section 11 of our revised draft WRMP24.

2. **The dWRMP asks respondents whether the uncertainty of the demand reduction, which addresses over 50% of the supply/demand gap in Thames' best value plan, means Thames should plan for additional sources of water should the demand side savings not emerge. We expect the adaptive planning approach to be able to reconcile supply and demand. This should also be true should emerging technology/innovation mean that demand side interventions can contribute more and supply side solutions less. The framing of the question could push respondents down the route of favouring supply side solutions (which may also have inherent uncertainties e.g. planning permission). In addition, the technical summary suggests that if anything the benefits associated with smart metering could be understated.**

In line with the requirements of the WRPG we have adopted an adaptive planning approach, and as you correctly state, with this approach we can change and modify our approach. We have set out a monitoring plan and will carefully track progress of a range of factors such as water demand, population growth, climate change and environmental improvements, and with clear decision points identified, we can modify our approach and bring in alternative approaches should these be needed, to ensure we can maintain a secure water supply for our customers.

Specifically in respect of smart water meters, the evidence we have collected shows that on average the installation of a new smart water meter will result in a 13% consumption reduction per property. Around 10% of this saving is due to changes in behaviour and 3% is due to repair of wastage[1]. We don't consider that the benefits are understated. Further detail on the smart metering programme is provided in Section 8 of our revised draft WRMP24.

3. The overall best value plan option indicates that if you assumed demand side solutions would be less effective you would elect now for a 150Mm3 SESRO rather than the 100Mm3. Whilst the dWRMP seeks views on the size of the reservoir it seems likely that respondents could favour the former in view of how demand reduction uncertainty, and its impact on the reservoir sizing, are referenced.

Representations to the public consultation showed that there is opposition to the reservoir from some members of the local community whilst customers were, on the whole, disappointed that the proposal was for the smaller size reservoir (100 Mm^3), as they considered that building a larger reservoir was thought to better protect the area from running out of water in the future with no obvious downside bar the immediate disruption of the build. They felt that having a larger reservoir seemed like the best approach to ensure a secure water supply for the future without the need for further investment.

Our revised draft WRMP24 presents our revised programme appraisal, which was led by WRSE to ensure coordination across the South East. This confirms that reservoir in Oxfordshire is the best value solution for provision of long-term resilience of the South East region and the 150 Mm^3 reservoir option presents best value to customers. Sections 10 and 11 of our revised draft WRMP24 present further information on the decision making for the programme and specifically the case for promoting the larger reservoir.

4. With regard to the SESRO scheme, the dWRMP indicates that the 15-year lead time means planning application needs to be made imminently and should this not be forthcoming then there is a considerable risk to the supply/demand balance with little opportunity to respond. This does not seem to be consistent with the adaptive planning framework underpinning companies' dWRMPs.

In the adaptive plan we set out the key decision points across the period, highlighting what decisions will be needed and the information needed to inform those decisions. There are

[1] Artesia Consulting, May 2022, 'Smart Metering Benefits Template_2022-05-18'

decisions to be made now, and in 2030 and 2035 that will set the direction for water resources in the region and in our supply area. The plan contains least regrets resource options that need to be either completed or commenced in the first ten years of the plan irrespective of future uncertainties or changes to different pathways. SESRO is included in the SE regional plan and our revised draft WRMP24 to be available to provide water to customers of Thames Water, Affinity Water and Southern Water from 2040 and as such work needs to be progressed now to secure the necessary planning consent in sufficient time.

5. We have some concern that the bill impacts could be misunderstood. We feel there is scope for someone to believe that the additional £37 by 2035 is additive to the £14 bill impact by 2030 rather than the incremental impact between 2030 and 2035 being £23.

   Alongside the public consultation on the draft South East regional plan and our draft WRMP we undertook two phases of customer research. The first was qualitative research with Thames Water's customer community to seek feedback on the draft plan and the second was quantitative research, in conjunction with the other SE water companies, on potential alternative plans for the region, and customer sensitivity to future bill impacts.

   The findings of the quantitative research, which was led by independent market research agency – Eftec, showed that overall – without any bill impact factored in – customers most preferred plan is for a balanced regional plan i.e., those that feature a mix of strategic resource schemes and higher levels of demand management ambition. This is in line with the best value plan proposed for the South East, and in turn our revised draft plan.

   In respect of the bill impact, unsurprisingly customers were sensitive to the level of bill impact when it came to selecting their preferred plan(s). When bills were lower, customers showed greater support for the least cost plan, but as bills increased their preference switched to the best value plan. The more costly a plan, with more uncertainty about what it would deliver, the less support it achieved. This was particularly the case for the alternative plans that excluded SESRO and which had the lowest level of demand management built in.

6. The dWRMP suggests an additional £14 on customer bills by 2025/30. This will be in addition to the bill impact from other regulatory requirements and investment needs. To ensure this necessary investment can go ahead while protecting those most in need from higher bills, the sector needs a more consistent affordability scheme.

   Our water resources are under pressure and this will only increase with time. We need to plan ahead to ensure we can provide a safe and dependable water supply. The consequences of not having a secure water supply for our economy, society and the environment is huge. That said, we do recognise the financial pressures on some of our customers. We currently provide £110 million a year to support our vulnerable customers and are looking at affordability and support measures we can provide to our customers as part of the development of our Business Plan. Whilst our proposals are still to be finalised, we aim to enable support to customers with an average value of over £142 million per year, totalling over £700 million during the period 2025 to 2030. Please see the Business Plan for further information on the measures to protect, and provide help, to some customers.

7. **The plan asks whether respondents have any views on the regulator-supported approach to target the highest level of environmental improvements (i.e. abstraction reduction). The plan does not provide the necessary information (e.g. how alternative environmental improvement scenarios could affect bills). As such we do not feel able to say.**

   The basis for environmental improvements is largely set by our environmental regulators to ensure compliance with legislation and guidance.

   In response to comments from the Environment Agency and Natural England, that it is not acceptable to plan for environmental destination reductions to be made after 2050, we have moved our environmental destination scenarios so that all reductions are made by 2050 in the high scenario and have also considered whether there are opportunities to accelerate investigations, and the design and implementation of solutions. We note CCW's comment that the relationship between the level of environmental improvement and how the level could affect bills is not set out. The Business Plan will include more detailed information on the proposed bill impact for customers in relation to the investment needed across all service areas.

8. **The least value plan takes as an input the government aspiration to reduce leakage by 50% by 2050. However, the least value plan report notes that it is economically suboptimal as it represents an expensive option. We'd like to see evidence that during the decision making process you tested with customers alternative leakage reduction strategies both from the perspective of cost and in any knock-on effect on customer behaviour and customer demand?**

   Reducing leakage has been highlighted as being a priority for customers. Customers consider that current levels of leakage unacceptable and think that we need to act to reduce the amount of leakage. Customers largely support the government target of 50% leakage reduction by 2050. noting some customers suggested we should aim to reduce leakage further and faster than proposed in our draft WRMP, while others recognise that disruption may be caused if we fix a large amount of water pipes, particularly in a heavily populated area such as London.

   In Section 8 of our revised draft WRMP we describe in detail the different actions which we could take to reduce leakage and consumption of water, and how we have created different demand management programmes, including how we have prioritised different interventions within a given programme. Overall, our revised draft WRMP24 contains more demand reduction activity than is economically optimal (i.e. more than a true least-cost plan would require) and this is driven primarily by government policy expectations.

   For our revised draft WRMP, we have revised our leakage forecast for AMP7 and early AMP8, leading to a further reduction in leakage by 2049/50 of 52.5% under our Low, Medium and High demand management profiles, this is in line with government and customer expectations.

9. **The dWRMP outlines that the Gateway desalination plant was out of action for the entirety of 2022 owing to planned maintenance. It also points to restoration of site capability of 50Ml/d by February 2023 which will be reflected in the final WRMP. We now understand that this will not be brought into operation until May 2023 at the earliest. We would expect any prolonged inoperability of the works and any knock-on effects to the supply/demand balance to be reflected in the final WMRP. Whilst we note that any reduction in WAFU from the baseline would not have a material impact on the supply schemes being selected we would be concerned if this led to any customer detriment in the short to medium terms.**

   We have presented the Deployable Output reduction from the Gateway desalination plant as a 'Change in DO from prolonged Outage' as we consider that this was the most appropriate classification.

   We have a programme of investment for the rest of AMP7 and AMP8 which will restore the capability of the desalination plant.

   We have incorporated the availability and forecast future capability of the Gateway desalination plant into our monitoring plan, in order to ensure that our plan is resilient.

10. **The dWRMP highlights the discrepancy between ONS and local authority population growth forecasts (noting that the regulatory requirements necessitate focus on the latter). The adaptive planning framework sets out nine pathways with decision points in 2030 (population growth) and 2035 (environmental improvement and climate change). This seems at odds with the statement that you have set a single pathway for the first ten years to 2035. We need some clarity on your approach.**

    To assess efficient plans across the range of future supply demand challenges, WRSE has developed branched pathways through the range of future forecasts. These branched pathways form 'situation trees' with branch points at 2035 and 2040 and decision points five years earlier in 2030 and 2035 respectively. These timings allow focus initially on the variability caused by different growth forecasts and then on resilience, environmental destination and climate change

    The branch to 2035 has been selected to be in line with regulatory guidance. It includes growth based on Housing Plans developed by Local Authorities, licence reductions that would be required to comply with currently known legal requirements (including the potential impact of licence capping).

    At 2035 there is a split into three branches after a decision point in 2030. This aligns with the Business Plan cycle and guidance that after this point growth forecasts beyond Local Authority housing plan should be considered.

    At 2040 the split to nine branches occurs after a decision point in 2035. Here the focus is on environmental destination and climate change where we use a high projection in the upper branches of each set, medium (median, for climate change) in the middle branches and low in the lower branches.

11. Demand management should be an integral part of any strategy to address risks to future water supplies and meet Defra's target to reduce water demand. The non-household retail market has so far failed to deliver a market for water efficiency assistance for business customers in England to the extent that was envisaged when the non-household retail market opened for all businesses in 2017.

    We agree that demand management should be an integral part of the strategy to address risks to future water supply and leakage and demand reduction measures, together with drought measures, make up around 80% of the forecast water shortfall in our revised draft plan. We note your commentary in relation to the non-household retail market.

12. While the introduction of a new business demand Performance Commitment by Ofwat in the PR24 final methodology means there will be greater transparency and an opportunity to set challenging targets, this is not a regulatory measure that can deliver demand reduction by itself. Wholesale companies' plans need to be clear on how they will manage business demand, especially in areas more at risk of water scarcity. We welcome the six-fold increase in non-household demand reduction included in the dWRMP24 relative to WRMP19.

    Our revised draft WRMP24 includes further focus on reducing water use amongst businesses and in line with the Environmental Improvement Plan we have included targets of 9% and 15% reduction in non-household usage by 2038 and 2050 respectively.

    The programme has an expanded programme of activity including installation of smart meters (around 120,000 by 2035), water efficiency savings enabled by our Smarter Business Visits, targeted continuous flow fixes, and the development of new tariffs.

    It should be noted that whilst we will work with business and retailers to achieve these water savings the increase in planned reduction brings risk which is addressed through our monitoring plan.

It's everyone's water