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20 August 2019

Dear ██████████,

Thank you for your 13 August letter in relation to Anglian Water's Draft Determination - WRMP Scope and Best Value Option Appraisal Challenges. We appreciate you sharing your views on this area of your draft determination however, to ensure consistent treatment for all companies, we are unable to assess or provide any feedback on the new information you have provided ahead of the 30 August representation date. Instead we have provided clarity on what we have said in your draft determination in relation to each of your points below. I am responding as ██████████ is on leave and I am the senior director responsible for the 2019 price review at Ofwat.

Ofwat is a statutory consultee on the draft water resources management plans (WRMP). We have worked closely with Defra and the EA to ensure that we have a common understanding of the issues and challenges with each company's WRMPs. The draft WRMPs hold limited detailed information on the costs and benefits of specific schemes to meet customers' demand needs. Our draft WRMP representations on specific company plans set out our views based on the information available, but without prejudice to decisions we may take at PR19 consistent with our role.

In PR19, we are challenging companies to do more to meet the needs of customers including leakage targets and water efficiency on the demand side; and allowing additional investment to fund the development of strategic regional water resource solutions. These challenges go beyond what companies have set out in their draft WRMPs.

The WRMPs, even once approved by the Secretary of State, do not provide a static plan for delivering water security. Companies are expected to keep these as live documents which change as information about demand and supply projections and relative cost of delivery

options becomes clearer and evolves. Through the PR19 process, Ofwat continues to challenge companies on the robustness of their option selection and overall cost of meeting these needs to ensure that each company is delivering the best value for customers and the environment based on the evidence available, even if the WRMP is approved and published before our PR19 final determinations.

As part of the supply-demand balance enhancement assessment we have applied similar challenges to options in all company business plans including those identified as being needed in the WRMPs. We expect all companies to deliver a programme that meets the levels of service within its WRMP and within the context of its total revenue controls. In the initial assessment and draft determinations, we made clear the areas of concern we had with each company's plan in this area and what we would expect to see to address these concerns. This was consistent with our consultation responses to the draft WRMPs.

Below we provide responses to the points you have raised in your 13 August letter, clarifying the points raised in the draft determination:

a) Capacity scope challenges

At draft determination we apply a cost challenge for insufficient evidence that the capacity of some of the interconnectors is required, even by 2045. We expect to see clearer evidence for selecting the chosen sizes of the interconnections, the drivers for these capacities, and where efficiencies have been identified for flexible delivery such as modular assets that can be upgraded when the additional future need is more certain.

For investment to meet additional drivers beyond the baseline supply-demand balance requirements such as resilience (for example single sources of supply, more severe climate change scenario, etc) we expect clearer evidence to demonstrate the need to invest in resilience, consistent with the refined criteria we identify in the [Securing cost efficiency technical appendix](#), pages 45-46.

b) Challenge of insufficient demonstration of optioneering

For some solutions the evidence of full optioneering is not provided. This is particularly evident in the consideration of third party and trading options, especially where proposed connections are adjacent to other incumbent companies' areas where they have potential surplus water to trade in their WRMPs. There are also instances where limited feasible options are presented for decision making. We expect to see clearer evidence to justify the processes followed and why the decisions taken are appropriate.

c) Challenge on long term enhancement expenditure

We base our draft determination allowance on the options identified in the WRMP stress testing to meet longer term needs. It should also be noted that companies receive expenditure to develop future WRMPs, including optioneering, as part of the base model allowances. If investment is needed in 2020-25 to meet the demand challenges after 2025, the need should be identified in the WRMP and solutions to resolve this identified and clearly articulated.

d) Challenge on ability to deliver a strategic regional solution

You justify the proposed interconnection investment in 2020-25 to solve both short term deficits and meet future challenges and opportunities. We also note that the strategic regional water resource solution development funding for a reservoir and transfer is to facilitate planning for future challenges including water trading. We recognise the potential implications on network design of the integration of these programmes (including their scope as both substitution and complementary solutions) and we will consider any further evidence provided in this area.

We anticipate that you will reflect on this response to your letter in your draft determination representation, together with providing appropriate supporting evidence in the areas where we found insufficient evidence to support your business plan proposals, as outlined above.

We look forward to receiving your representation response by 10am on 30 August.

Yours sincerely,



Senior Director Water 2020, Ofwat