



Sir John Armit
Chair, National Infrastructure Commission
4th Floor, Finlaison House
15-17 Furnival Street
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29 October 2018

Dear Sir John,

I am writing on behalf of the Water Resources in the South East group (WRSE) following the Government's response to the National Infrastructure Commission's National Infrastructure Assessment. The six water company-members of WRSE feel it is important to respond directly to you on the Commission's recommendations and highlight the activity that is already underway and being planned to address the long-term resilience of water resources.

WRSE welcomes the NIC's assessment and the detailed work it has undertaken. The opportunity to be involved throughout the process and the open and accessible way in which your team engaged with us and the wider industry was of great value. The early publication of "Preparing for a drier future" was appreciated, allowing the water companies to build the report's recommendations into their 2020 to 2025 Business Plans, which were submitted to Ofwat in September 2018.

Your assessment supported and confirmed the work carried out by the industry in 2016 on a long-term planning framework for water resources. The approach you took to assessing the cost of a severe drought to the wider economy and society, for the first time, highlighted the stark contrast between investing in resilience to avoid a severe drought and the cost of emergency measures being deployed - together with the wider social and economic consequences. In the long-term planning framework, it was estimated that the restrictions needed to manage a severe drought could result in losses to the economy of some £1.3 billion per day through a 37% reduction in Gross Value Added (GVA). London and the South East together contribute more than 40% to the total GVA of the England and Wales.

The increased resilience in water supply that is needed, and the long-term targets identified to help achieve that, provide us with a clear direction of travel and the opportunity to think differently about how we do that across the South East. It is vital that we continue to examine the industry and regulatory frameworks to ensure that they are fit for purpose, can effectively balance social and economic needs and that, as a consequence, customers are

provided with the highest standards of service and best value for money in the short, medium and long term.

Responding to the NIC recommendations

The companies involved in WRSE are already rising to the challenge. Their respective Business Plans all contain targets to reduce leakage by 15% or similar by 2025 and to halve leakage by 2050. Likewise, activity to reduce customer demand for water is increasing with most companies targeting PCC levels of below 136 litres per person per day by 2025, while all have longer-term plans to reduce demand to between 100 and 120 litres per person per day by 2050. However, it is important to remember they are all at different starting points, so the rate of progress and the methods used to reach those targets will vary from company to company.

It should be highlighted that to date, investment in leakage has been driven entirely by economic factors. The approach now being taken by companies is a significant departure from this and takes the industry into new territory. This brings opportunity through the potential for greater innovation and consideration of the most effective strategies for the future. There is however a critical difference between supply and demand-side schemes and this is in relation to certainty of delivery. It must be recognised that measures such as PCC and leakage reduction are not guaranteed to succeed as they are influenced by external factors such as customer behaviour, weather conditions and advancements in technology. Supply-side schemes offer greater certainty and tried and tested methods of delivery – delivering greater levels of resilience in comparison.

That said, WRSE is committed to progressing demand-side activity by providing a platform for collaboration to encourage its members, and the wider industry, to consider different approaches to meet these ambitious long-term targets. Regarding leakage, an ongoing focus on find and fix techniques will need to be considered against other methods, such as more widespread mains replacement programmes and policies associated with supply-pipe ownership, which potentially offer more resilience for the long-term. Stimulating the market to deliver new, innovative solutions will be a critical aim of this work.

In addition to this, there is a need for Government to look more broadly at the other policy levers available to them to support this agenda. Allowing all companies to carry out compulsory metering, establishing a mandatory water label for water using products and increasing water efficiency requirements for new housing all provide opportunities to deliver a long-term shift in water use behaviour and avoid significant regional differences in the way's consumers use and value water. The water economy, as I know you are aware, has a much wider base than the water companies alone and it is crucial that we explore all avenues as part of our future work.

With regard to supply-side infrastructure, your recommendations clearly identify the need for new strategic resources and an enhanced transfer network both within and between regions. There has been an increase in connectivity across the South East through the construction of new transfers and bulk supply arrangements, largely driven by the regional

modelling carried out by the WRSE over recent years, and there is a clear commitment to advance this further where it increases the resilience of the region.

To support member companies' Business Plans and Water Resources Management Plans, WRSE carried out its most extensive modelling to date to identify preferred strategic solutions that provide the best value for the region. This continues while WRMPs are finalised and the latest modelling incorporates the NIC's recommendations. The water companies' Business Plans commit to the investigation and development of several new resources and transfers. These include:

- development of a new reservoir at Havant Thicket in Hampshire with associated transfers – a joint project between Portsmouth Water and Southern Water
- a strategic transfer between South West Water and Southern Water
- development of a new reservoir at Abingdon in Oxfordshire with associated transfers – a joint project between Thames and Affinity Water
- feasibility studies on an inter-regional transfer between United Utilities, Severn Trent and Thames Water in association with the Environment Agency and Natural Resources Wales
- development of a water transfer hub by Affinity Water.

Developing a regional plan

In addition to the above schemes and activities, the six-member companies have committed to developing a regional plan for 2024. This is a bold and complex ambition that, if achieved, will transform our ways of working and how we collaborate and co-ordinate. Most importantly it will transform how we plan water resources optimally for more than 40% of the population and nearly two-million businesses in the South East region, which contributes £627 billion per year to the UK economy; while at the same time ensuring that future resource plans offer the best solutions for the environment.

We will continue to work closely with Defra, the Environment Agency, Ofwat and the DWI throughout the process to manage any barriers and challenges of implementing a genuinely regional approach. This includes, as an important first step, the need to review the current statutory WRMP process and identify how best regional planning can be formally embedded and whether any legislative or industry framework changes are needed.

To achieve this, we need a responsive regulatory regime and the establishment of a national framework that enables regional groups to operate consistently and support the needs of other water users. We also need to make sure that regional groups have clear and concise terms of reference to ensure they can focus on the goal of regional plans that collectively address the national water supply challenge so clearly articulated in your report.

We are pleased to see the proactive and collaborative approach being taken by the Environment Agency to develop a national framework and are supporting this work. The timescale associated with the development of a regional plan, so it can effectively inform both WRMPs and Business Plans in 2024, is challenging and will require continued focus and commitment from all parties – not least if changes are needed to existing legislation.

We also recognise Ofwat's ambition to develop an effective market for water resources and drive greater efficiency into the process. Delivering greater resilience will require more collaboration than ever before and we must ensure that market development takes this into account; short-term and sub-optimal solutions will simply not support our ambitions for the region. You can be assured that, as we develop the regional plan, we will take all these factors into account and focus on the ways the market can support delivery of high quality, resilient water supplies.

In closing I'd like to thank you, your commissioners and officials for the valuable contribution made to this important debate and I hope we can continue to work closely in the future, including on the study into the resilience of the UK's economic infrastructure announced today.

Yours sincerely



Simon Cocks

Independent Chair, Water Resources in the South East

The WRSE was originally formed in 1996 following a recommendation from the Monopolies and Mergers Commission which suggested there should be better regional co-operation when it came to sharing water. The water companies involved in WRSE include Affinity Water, Portsmouth Water, South East Water, SES Water, Southern Water and Thames Water. Together they serve 19 million customers and provide 6 billion litres of water per day.

CC: Rachel Fletcher, Dr Sebastian Catovsky, Sir James Bevan, Marcus Rink, Steve Robertson, Ian McAulay, Anthony Ferrar, Paul Butler, Pauline Walsh, Neville Smith