



Water Resources East (WRE) Ltd

The Enterprise Centre

University of East Anglia

Norwich, NR4 7TJ

### **From the Chairman**

By email only to: [waterdetermination2020@cma.gov.uk](mailto:waterdetermination2020@cma.gov.uk)

Dear Sir or Madam,

Many thanks for the invitation from the Competition and Markets Authority for interested parties to provide comments on the issues raised by Anglian Water, Northumbrian Water and Ofwat following Ofwat's referral of the two companies' Final Determinations to you.

Water Resources East (WRE) Ltd is an independent, not for profit, organisation which has co-created a multi-sector strategy for long-term collaborative water management across Eastern England.

The reason that a long term strategy that works with multiple stakeholders in Eastern England is so urgent is that the environment and biodiversity are already suffering badly from the early effects of climate change, and our current systems do not have the resilience to cope with increasingly erratic rainfall patterns. Warmer wetter winters are no consolation if there is no ability to capture, store and move water to where it is needed in times of drought or low rainfall.

If we want to sustain economic growth, reduce our carbon emissions, and enable businesses to compete globally, we need to manage our precious water resources and water quality by introducing flexibility to how we manage water so that we increase overall resilience in what is already the driest region within the UK.

Following the guidance contained within the recently published Environment Agency National Framework for Water Resources, Water Resources East (WRE) is now working with over 100 organisations representing water users from right across Eastern England to prepare a Regional Plan for water resources management, which we will publish in 2023. Water company Water Resource Management Plans (WRMPs) will be required to have clear line of sight to the relevant Regional Plan and in turn to the National Framework.

WRE's Regional Plan will deliver increased resilience for all water users in the region, will ensure that water is not a barrier to sustainable economic development, and will provide environmental enhancement. The Regional Plan will cover the period through until at least 2050, providing a long-term roadmap for future water resources investment by all sectors in our regional economy, covering multiple WRMPs and regulatory price reviews.

WRE operates as an inclusive, collaborative membership organisation, with members including water companies, the agriculture and food sector, Local Authorities, Local Enterprise Partnerships (LEPs), environmental organisations, community groups, power companies and other interested parties. Of the five water companies within our membership, two, namely Anglian Water and Northumbrian Water, have recently asked Ofwat to refer their Final Determinations to the Competition and Markets Authority. 85% of the water abstracted in Eastern England is used for public water supply, and Anglian Water and Northumbrian Water (trading as Essex & Suffolk Water in our region) account for almost 70% of this. Therefore, any decisions which have an implication for these companies with regard to water resources have a potentially profound impact on WRE and our region as a whole.

Having reviewed both companies' Statements of Case, and Ofwat's response, we would like to comment on several important aspects regarding both companies.

Firstly, with regard to WRMPs, we note that both companies raise strong concerns that aspects of their WRMP proposals have been disallowed, and we note Ofwat's response. Specifically we note Northumbrian Water's concern that costs for a new raw water main between Abberton and Hanningfield Reservoirs has been disallowed, and for Anglian Water, concern over the scope of their 'inter-connector' programme as part of the development of a Strategic Grid.

Both of these schemes have been identified through the company WRMP process, and following sign-off with other regulators, both companies have been allowed to publish their WRMPs. This assures us, as WRE, that a robust technical approach has been followed to identify and justify the need for the schemes as per their published design.

Since the publication of both company WRMPs, both the EA National Framework and WRE have produced new data and evidence to further characterise the water resources planning challenges in Eastern England. These include revised figures around future irrigated agricultural demands and future water needs for the energy sector as it develops a strategy to decarbonise through, for example, expansion of hydrogen, a water-intensive process. This information was not available to water companies before they published their WRMPs. A summary, taken from WRE's Initial Resource Position Statement, published in March 2020, is presented below:

Sector	Pressure	Dry Year Annual Average Estimated Impact (Ml/d)		Comment
		Lower	Upper	
Public Water Supply	Climate Change	54	180	Includes range of possible high/low climate change impacts - mostly on reservoir yields
	Sustainability Reductions	139	500	Upper limit accounts for indicative levels of enhanced environmental ambition
	Growth (population)	159	408	Upper limit accounts for maximum possible build-out rates in OxCam Arc and failure to make significant progress with planned demand management measures
	Drought resilience	88	88	Note: methodology uncertainties which are subject to work in progress
	Regional exports	(-)	(-)	Unknown at this stage, although 100 Ml/d export is currently assumed for work on the South Lincolnshire Reservoir scheme
Power	Decarbonisation	17	192	Assumes rapid transition to Hydrogen economy with 20% of the national production in WRE region
Agriculture	Growth (irrigation)	74	288	Based on range of plausible growth factors for spray irrigation in the WRE region
<b>Total</b>		<b>531</b>	<b>1,656</b>	

We accept that these are long term figures, and that these deficits will not manifest themselves in the period covered by the current Final Determinations, but we are concerned that any short term decisions to restrict investment in the next five years could hamper our ability to deliver for the long-term benefit of our region.

Water resource planning is a complex technical process which is fraught with uncertainties, and one way to deal with these uncertainties is to essentially 'put off' decisions until more technical information is available. This of course creates a significant risk that long term costs will rise because of failure to take action early. WRE's future forecast around water deficits in the region show that there is no time to lose, and we believe that it is time for some 'no regret' decisions to be made.

Specifically looking at Northumbrian Water's proposals for a new Essex raw water transfer pipeline which would allow the recently expanded Abberton reservoir (near Colchester) to support Hanningfield reservoir (near Chelmsford), we note and agree that current data indicates a supply surplus in the Essex Water Resource Zones for decades to come. However this surplus is dependent on the continuing supply of water via a long distance transfer from Norfolk and a transfer from the River Thames at Chigwell. We will need to build our Regional Plan into a national picture with the other regions, including Water Resources South East who are focussed on the future use of the River Thames. As part of this process, we will have to look at whether alternatives to these transfers, including more local options, will be more appropriate for the long-term. A central pillar of our future strategy is the promotion of additional storage of water in the landscape of Eastern England to drive resilience. Whilst we note that the Abberton to Hanningfield transfer does not *per se* increase the volume of stored water, it would enhance the operability and resilience of these two crucial strategic reservoirs and potentially take pressure off water resources in the South East and London, which the work on the National Framework shows to have the largest challenge of any region.

As WRE, we are also keen to stimulate active trading of water within and between sectors in our region. Whilst there is further work to do to develop our approach, having the flexibility to move water around a county such as Essex may open up opportunities in the shorter term for trading, which may offset the need for other infrastructure development elsewhere in the region.

We also note that Northumbrian Water received 89% customer support for its proposals to increase resilience in Essex, and we aren't clear on the necessity for an intervention in this part of the Business Plan.

Our view is that the proposed scheme would appear to be a well-supported, technically appropriate, relatively low cost, 'no regret' option for the county of Essex and beyond.

We regard Anglian Water's Strategic Grid and the associated interconnector system as an essential element of the future strategy for water resources across Eastern England. As with all aspects of Anglian Water's WRMP, the technical approach which proposed the strategic grid has been optimised and has been signed off by the appropriate regulators, and the plan has been published. Whilst we welcome Ofwat's broad support for Anglian Water's WRMP programme, we note Anglian Water's strong concerns over a technical challenge around the size of some of the interconnectors and the potential for this to introduce constraints within the system. This could restrict Anglian Water's ability to fully utilise the system and move water into the south of their region, potentially leading to the need to continue to abstract water from other, more sensitive water bodies. It will also impact the opportunities for other sectors such as agriculture and the food production sector, in England's most important food chain region, to sustainably meet future demand.

Whilst we are not in a position to comment from a technical economic regulation viewpoint, we are surprised to see what appears to be a technical intervention in a previously agreed and approved programme. We also note the very high level of support from Anglian Water's customers for the project in its entirety. We are particularly alarmed at the suggestion that some sections of pipe would need to be replaced or upgraded in the near future; again we would be dismayed if short term decisions for the next five years had a significant impact on the longer term strategy for our region's resilience.

We would ask the CMA to very carefully examine the arguments. Again our view is that delivery of the strategic grid and associated interconnectors, as designed, would be a 'no regret' approach delivering significant benefits for our region in the short and longer term.

One of our most significant concerns is over leakage. In the driest part of the UK, with high growth, high environmental needs and potentially high climate change impact, a crucial aspect of WRE's strategy is to promote multi-sector water efficiency, including demand management. Leakage management and water efficiency are front and centre of the strategy. We are very supportive of Anglian Water's ambition to reduce leakage by 22% by 2025 vs 2018 levels and Northumbrian Water's ambition of a 17.5% reduction for its Essex and Suffolk operating region, and will encourage them to strive to go even further. We also note that both companies are exemplars with regard to water efficiency.

We note in the Companies' Statements of Case that Anglian Water state that the Final Determination means that they have not been granted adequate funding to meet their ambitious leakage plans. As frontier performers for leakage in the sector, both Essex and Suffolk Water and Anglian Water have a view that they could indeed be penalised for their performance on leakage. Ofwat disagree with both companies. Whilst we are not in a position to comment from a technical economic regulation viewpoint, our view is that there should be appropriate, funding, reward and recognition for those companies who excel with regard to leakage. We are particularly worried that any perception of penalty, subsequently leading to a change in strategy or approach, could have significant impacts on our planning assumptions and the region's water resources as a whole.

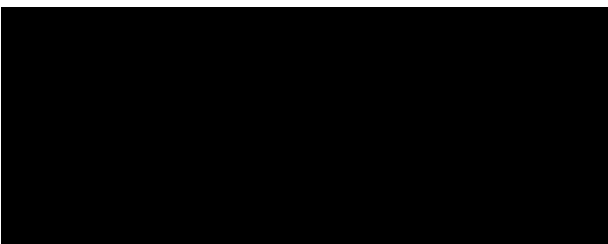
We ask that you very carefully consider the arguments from all parties around leakage, ensuring that excellent performance and ambitious forward plans are in no way disincentivised.

If I may summarise, changing weather patterns are already showing a wide difference in rainfall and timing between adjacent catchments in our region. We must have a flexible infrastructure with the ability to move water to where it is needed within catchments that are under stress, with a thriving trading market in operation across and within sectors

Our Victorian structures and historical drainage systems were designed to evacuate water and drain it away. They are not able to capture, store or move it around the region to supply areas from those in surplus to those suffering from shortage. In a fast growing region it is imperative that we address this to enable the sustainable economic and housing growth plans which have been agreed with government by the LEPs and Local Authorities. Furthermore, care of the environment, wildlife, flora and fauna are things which everybody is becoming increasingly aware of and there is a pressing need to act now and not push decisions which can benefit the environment onto future generations. Not acting now to increase our resilience to changing weather patterns would be a complete dereliction of our responsibilities to them.

I do hope that this feedback is useful to you as part of the process which you are following. If I can support you in any other way or provide any further detail regarding the contents of this letter, please do not hesitate to contact me.

Yours,



Henry Cator OBE

Independent Chairman, Water Resources East (WRE) Ltd