# Water resources planning guideline

**The guiding principles for developing a water resources management plan**

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# Introduction

Water companies in England and Wales are required to produce a water resources management plan every five years. The plan must set out how a water company intends to maintain the balance between supply and demand for water over a 25 year period. This is complemented by a water company drought plan, which sets out the short-term operational steps a company will take as a drought progresses.

The water resources planning guideline provides a framework for water companies to follow when developing and presenting their water resources plans. It sets out good practice in developing a plan, the various approaches to follow, the scope for flexibility within the plan, and the information that a plan should contain. Water companies should follow this guideline to make sure that their plans cover the requirements specified by the Water Industry Act 1991[1].

This section of the guideline provides an overview of Government policy and advice to water companies and other interested groups on the process involved in preparing a water resources management plan, the legal requirements that must be met as well as the role and responsibilities of Government, regulators, water companies and their customers.

This guidance will be updated later this year to reflect changes being introduced by the Welsh Government to create a Natural Resources Body for Wales, which will bring together the Forestry Commission Wales (FCW), the Countryside Council for Wales (CCW) and the Environment Agency Wales (EAW). The new body will be vested on 1 April 2013 and will have a key role in protecting and managing natural resources in Wales.

[1] Water Industry Act 1991 Section 37 A to D, as amended by Section 62 of the Water Act 2003

# Key messages

Water Resources Management Plans should ensure an efficient, sustainable use of water resources. They should focus on delivering efficiently the outcomes that customers want, while reflecting the value that society places on the environment.

The water resources planning process works alongside the process for setting water companies' price limits. Aligning the two will play an important role in providing better incentives for the water sector to deliver the best outcomes for customers and the environment. Accordingly, this guideline reinforces and complements the incentives for efficient and sustainable water resource use that Ofwat proposes to introduce for the next price review[2].

Water companies must also take responsibility for making effective links between these two processes. They must make sure that they engage with their customers and other stakeholders consistently over their Water Resources Management Plans and the business plans that they prepare as part of the price review.

The Water White Paper made clear the importance that the UK Government attaches to the sustainable use of water resources, and set out a number or market and other reforms to help achieve this. The Welsh Government will be publishing a Water Strategy for Wales for consultation in Winter 2012. The key policy priorities that both Governments expect water companies to address in their plans are all aimed at providing secure, sustainable and affordable supplies of water to customers. They include:

i. taking a long term perspective, beyond the 25-year planning horizon, to make companies' systems more resilient to future uncertainties, such as the impacts of climate change, and to allow efficient, sustainable water resources planning to meet the needs of customers and the environment;
ii. taking better account of the value of water by reflecting its scarcity and the environmental and social costs of abstraction in order to make the water sector's activities more sustainable;
iii. considering all options to balance supply with demand, including water trading, cross boundary solutions and third party supplier solutions, and providing up to date information about the availability of water to third parties (including any future entrants to the market), in order to reduce costs, ensure efficient allocation of available resource and improve innovation within the sector; and
iv. reducing the demand for water by managing leakage and providing services to help customers use water efficiently where there is a reasonable prospect that the benefits of doing so will outweigh the costs.

[2] See 'Future price limits- statement of principles' - http://www.ofwat.gov.uk/future/monopolies/fpl/pap_pos201205fplprincip.pdf

v. ensuring the views of customers are properly taken into account on service levels and costs.

We have introduced greater flexibility and transparency into the planning process, so that, in turn, the water sector can respond more flexibly and efficiently to challenges and opportunities. For example, we have made provision for third parties to “bid” their own solutions into companies’ plans. And we have made it easier for companies to adapt their solutions over time to take advantage of new opportunities (including trading and third party schemes) without triggering a formal review of their plans, subject to materiality.

## Legislative framework

The legislative requirements for water companies to prepare and maintain a water resources management plan are set out under sections 37A to 37D of the Water Industry Act 1991, (as amended by the Water Act of 2003). These provisions set out the procedures companies must follow when developing their plans.

The Water Resources Management Plan Regulations 2007[3] provides further detail on the process, particularly around:

- consultation requirements;
- handling representations and the statement of response to representations;
- the power of the Secretary of State and Welsh Minsters to hold an inquiry or hearing;
- publication requirements.

In addition Directions provide further detail on other matters to be addressed in the plan. The links below are the Directions for the 2014 water resources management plans.

The Water Resources Management Plan Direction 2012[4] sets out the further matters a water company must address when preparing its plan.

[3] http://www.legislation.gov.uk/uksi/2007/727/contents/made
[4] http://www.defra.gov.uk/environment/quality/water/resources/planning/

# Government policy

## For water companies within England

In 2011, the Government published two white papers – *The Natural Choice,* a Natural Environment White Paper which set out the benefits of healthy rivers, lakes, groundwater, estuaries and wetlands, and *Water for Life,* the Water White Paper.

*Water for Life* sets out the Government's objectives for providing secure, sustainable and affordable supplies of water. It outlines the challenge that climate change and population growth present for future water resources, and the case for action to build resilience and ensure a good quality water environment. The Environment Agency's *Case for Change – current and future water availability*, published alongside the White Paper sets out new scenarios for water availability in the 2050s to illustrate the scale of the challenge, and the level of uncertainty involved in planning for this changing future.

The Water White Paper sets out the Government's objectives for the water sector, and how it will work with others to drive change, support economic growth and protect the environment. It emphasises the importance of a stable regulatory environment for the water sector to ensure it remains attractive to investors. It also sets out the Government's vision for greater choice, innovation and efficiency in the water sector to deliver better outcomes for customers.

Planning for this changing future will be a complex task. The water industry has a key responsibility for managing the challenges ahead. The Water White Paper recognises that solutions will vary in different parts of the country, but will include more action to manage the overall demand for water; increasing water trading and associated interconnectivity to allow water to be transferred from one area to another; allowing other parties to provide water resources and investing in infrastructure through both large and smaller scale projects to capture and store water. Companies will also need to be able to respond flexibly between price limits in order to produce the best results for customers.

The Water White Paper emphasises the importance Government attaches to the water resources management planning process, and its intention to strengthen the planning guideline to reduce costs to customers and improve benefits for the environment. In particular, it is looking to companies to:

- reflect the longer term supply challenges through to 2050;
- more accurately reflect the cost of abstraction to the environment;
- set ambitious goals for reducing average water consumption, supported by detailed implementation plans;
- consider the scope for improved interconnection; and
- make greater use of water trading and options provided by other parties.

The Water White Paper stresses the need for the water sector to focus on its customers. It sets out a package of reforms to extend competition in the water sector in England by increasing choice for business customers and making the market more attractive to market entrants[5]. Subject to the legislative timetable, these reforms will start to come into effect during the period of the next water resource management plans. As a result companies may need to consider for the possibility of non-household customers switching retailer[6]. This includes planning for the possibility that such switches will lead to a reduction in demand as the new retailers seek to reduce their customers' demand. Companies will also need to consider where there is potential for entrants with their own upstream resources connecting to and using their networks to deliver water to their customers.

The key policy priorities Government expects water resources management plans to address include are:

- taking a long term perspective;
- water scarcity and environmental damage;
- water trading, cross boundary solutions and third party solutions;
- reducing demand for water.

It is also important that companies seek the views of their customers on the proposals in water resource management plans and take account of their views on service levels and willingness to pay. Acting on these issues will help to make sure the industry provides reliable, sustainable supplies at best value to customers while protecting the environment.

### i. Taking a long-term perspective

The planning horizon in water resources management plans is 25 years, but that does not stop water companies from taking a longer term view where this is appropriate. Government expects companies to assess the vulnerability of their resources to climate change and analyse how their supplies might be affected within their resource zones.

A longer term review of resilience will enable companies to make sure that they can respond flexibly to future uncertainties, such as the impacts of climate change, population growth and changes in demand. It will also allow companies with longer term investment plans to provide the evidence needed to justify their proposals and to make sure that schemes are sustainable and efficient, so customers do not pay too much and investment is not made in unnecessary infrastructure. The ability of companies to respond flexibly (between price limits) to an uncertain future is key to achieving the best results for customers and the environment.

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[5] A market entrant is an organisation that can offer a solution to a supply demand issue.

[6] Since 1 December 2005 entrant companies with a "combined supply licence" have been able to supply water and retail services to eligible non-household customers. Since 15 December 2011 the thresholds for eligibility to switch supplier have been:

- customers using more than 5Ml/year for companies wholly or mainly in England; and
- 50Ml/year for companies wholly or mainly in Wales.
- The Water White Paper sets out Government's intention to move the threshold requirement in England.

Given the long lifespan of water infrastructure, it is important that water resources management plans are resilient to a range of potential climate scenarios and are designed with climate risks built in. To achieve sustainable long-term results, water companies must be able to see beyond the immediate price review period.

Section 2.10 of the technical guideline provides further detail on how climate change is assessed within the plan and section 8.0 describes testing plans.

**ii. Water scarcity and environmental damage**

The Government wants to see water resources management plans that better reflect water scarcity and the associated environmental damage. Changes to the planning process will help reduce the uncertainty around the sustainability of existing abstraction licences, allowing water companies to plan strategically to meet public supply needs and reduce damaging abstractions.

Water resources management plans already take account of the environmental and social costs of the preferred programme of options. However, Government believes that this could be improved by a better understanding of the value of water by reflecting its scarcity and the environmental and social costs of abstraction. The technical guideline includes an updated approach to calculating environmental and social costs. We expect this to lead to a more sustainable plan to balance supply and demand.

Section 3.2.1 of the technical guideline provides further detail on the incorporation of sustainability changes. Section 6.0 covers in detail how water companies include environmental and social costs and benefits in deciding a preferred option.

**iii. Water trading, cross boundary solutions and third party resources**

The Water White Paper emphasises the importance of companies considering all options to balance their supply and demand including water trading. It also set out reforms to make it easier for non-household customers to switch their retail supplier and to make it easier for parties with their own water resources to use water companies' networks to provide that water to eligible[6] customers.

The UK Government expects each water company operating wholly or mainly in England, to demonstrate that its preferred solution is best value for water company customers and the environment. In developing a preferred option, a company must demonstrate it has considered:

i. **interconnections between its own water resources zones** - Increasing interconnection between a company's own resource zones where it is cost effective will mean companies can use water resources more flexibly, efficiently and reduce the need for new resources and infrastructure;
ii. **water trading -** through bulk supplies between water companies (neighbouring or not);

iii. **Abstraction licence trading within catchments -** This provides a water company with an option to purchase or sell licences to help meet its supply needs or to sell surplus water to other abstractors;

iv. **Supply/demand options provided by other water companies or by third parties -** allowing others to provide demand and/or supply options in the plan increases the scope for lower costs and innovative solutions. Options proposed/provided by other water companies or third parties will need to be included in the options appraisal alongside other feasible options.

Water companies operating wholly or mainly in England should also respond flexibly to new opportunities between price limits, for example where new entrants offer competitive solutions to those set out in the companies' published plans, to achieve the best value for customers.

Where a water company operating wholly or mainly in England includes an option to transfer water from a water resource zone of a water company which is wholly or mainly in Wales, it should provide the opportunity for Welsh Ministers to make representations on its plan.

The technical guideline sets out the minimum a company must demonstrate it has done to investigate such options. Any company proposing to develop a new source of supply will have to show that it has fully assessed the costs and benefits of water trading with neighbouring companies, increased connectivity, abstraction licence trading and options provided by third parties. Water companies can expect to be challenged on the evidence for their approach throughout the planning process. The Secretary of State may direct a company to change its plan if she believes that water trading options, or supply/demand options proposed by other parties, have not been sufficiently considered.

An important part of this assessment will be evidence that the company has provided sufficient information to other water companies and third parties to enable them to put together realistic options for inclusion in the plan. In order to ensure that trading is effective, companies must make available information about water surpluses and deficits throughout the planning process. They must keep this information up to date so that trading can continue as a dynamic process throughout the implementation phase.

Should the technical guideline be unsuccessful in promoting efficient water trading for the next round of water resource management plans the Government will consider whether more prescriptive guidance is needed in future, for example rules on the information to be provided to other parties, a standard methodology for assessing bids and rules on pricing.

**Market entry**

The Water White Paper sets out reforms to the Water Supply Licensing (WSL) regime which will affect water resource planning. The reforms will give:

- business customers a choice of retail supplier; and
- make it easier for other parties, with their own water resources, to use water companies' networks to deliver that water to eligible customers.

Extending the WSL to cover sewerage services could also stimulate a market for recycled water.

The timetable for implementation of these reforms has yet to be finalised but, subject to the legislative timetable, implementation will begin during this planning period. As a result companies will need to plan for the possibility of non-household customers switching retailer and the possibility that such switches will lead to a reduction in demand as the new retailers seek to reduce their customers' demand. Whilst water companies will continue to provide the water to retail licensees to serve their customers the new retailers might find it profitable to reduce their customers' demand and share in the savings. Water companies need to be aware of the potential demand effects of retail switching when planning.

Companies also need to consider the likely early impact of implementation of the upstream reform package, and the potential for upstream entrants, with their own resources, to start connecting to and using water companies' networks to deliver water to their customers.

Customers who switch might previously have been served by the water company's own resources. If an entrant fails, a system of "strategic supply designation" should avoid water companies having to make contingency plans to ensure that they can supply water for domestic purposes to the entrant's customers. If an upstream entrant's supply is designated as strategic, and if the entrant cannot continue to operate the supply, then the entrant will be subject to special administration procedures and the strategic supply will continue to be made into the company's supply system (for more details on this see Ofwat's strategic supply guidance[7]).

**iv. Reducing demand for water**

If no action is taken to manage the demand for water, we are likely to see increasing demand due to a growing population, demographic changes and, to a lesser degree, the effects of climate change on patterns of water use. The last round of plans increasingly used demand measures to balance demand and supply. As these plans are implemented, average demand for water should level out or decrease over the planning period. However, Government believes further action will be needed to tackle demand pressures, especially in areas of current or likely future water stress.

Government is currently reviewing the evidence and methodology supporting areas designated by the Secretary of State as areas of "serious water stress" under regulation 4 of the Water Industry (Prescribed Conditions) Regulations 1999 (as amended by the Water Industry (Prescribed Conditions (Amendment) Regulations 2007). The Environment Agency is likely to be consulting on a revised methodology during summer 2012.

Government expects water companies to show in their water resources management plans how they will promote efficient water use and the impact that will have. Where a company is in an area designated as water stressed, or

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7 http://www.ofwat.gov.uk/competition/wsl/gud_pro_stratsuppguid.pdf

where it has demand that is above the national average (147 litres per head per day)[8], Government expects the demand trend to be significantly downwards. Where an increase in population or commercial use leads to increases in total demand, the company must ensure that its plan demonstrates a decrease in per capita consumption.

To achieve this direction of travel, water companies must consider all technically feasible demand side options together with other options to balance supply and demand through the options appraisal process. They must take into account the wider environmental and social benefits of demand-side measures, including those to which it is difficult to attribute a monetary value. The Government expects companies to choose demand-side options as part of their preferred programme wherever there is a reasonable prospect that the benefits, broadly defined, will outweigh the costs.

Government has concluded that a blanket approach to water metering is not the right way forward, as the costs and benefits of metering[9] programmes will vary from region to region, depending on the level of water stress and environmental and social factors. However, where a water company is in an area designated as an area of serious water stress, it must consider compulsory metering as part of the feasible options in its options appraisal providing full costs and benefits of its proposals[10]. Government would also expect an effective metering programme to include provision to support customers in reducing the amount of water they use, for example through water audits and water efficiency advice.

Where a company plans an extensive metering programme, it must show it has considered the impacts of its plans on its customers and has a strategy for managing those impacts, which takes account of its customers' views.

Water leaking from water company pipes is wasteful of water and energy if the benefits of reducing it would outweigh the costs. This is a high priority issue for customers and can damage the industry's reputation. The industry has shown that it can become more effective in detecting and fixing leaks. Leakage has fallen by 36% since 1994-95 and is expected to fall by a further 3% by 2015.

Water companies must fully consider managing water leakage as an efficient way to balance supply and demand. We expect water companies to continue to innovate and develop expertise in preventing, identifying and repairing leakage more effectively during the water resources management plan period.

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[8] This figure is based on 2011 Annual Reviews

[9] When developing metering options, the company should consider the wider benefits - for example the scope for metering to improve affordability for vulnerable customers and, by helping such customers to manage their bills, to reduce household debt. Sources of information on costs and savings include the database developed for UKWIR project WR 25C – cost effectiveness of demand management, and the Waterwise reports – Evidence base for large-scale water efficiency.

[10] Ofwat's report 'Exploring the costs and benefits of faster, more systematic water metering in England and Wales' may help - http://www.ofwat.gov.uk/future/customers/metering/pap_tec201110metering.pdf

We want to see the downward trend for leakage continue. If a water company is unable to reduce leakage further during the planning period it must clearly justify its position. We expect all companies to take action to ensure that total leakage (Ml/d) does not rise at any point in the planning period. If a water company cannot do this, it should clearly explain the reasons why and what it would do to reverse it.

Within the Water White Paper, the Government acknowledges the limitations of the current guidance on calculating the Sustainable Economic Level of Leakage (SELL), which does not fully reflect the long-term sustainability of the water environment. Government will work with Ofwat, Environment Agency and the water companies to review SELL with a view to producing revised guidance. Ofwat will take the conclusions of this review into account when considering how best to incentivise companies to reduce leakage.

The technical guideline at section 4 explains the approach companies should take in developing their water resources management plans and explains how companies should detail how they plan to meet Government's policy objectives. Section 6 provides details of how water companies can assess reducing leakage as one way of tackling a deficit in the supply-demand balance.

## For water companies operating wholly or mainly within Wales

The Welsh Government Programme for Government 2011-2016 sets out the key actions being taken forward in relation to water and sewerage services in Wales. This builds on the wider commitments set out in the Environment Strategy for Wales 2006, the Sustainable Development Scheme – One Wales: One Planet 2009, the Climate Change Strategy for Wales October 2010 and the Strategic Policy Position Statement on Water February 2011.

The Welsh Government intends to publish a Water Strategy for Wales and an Action Plan in 2012/13 which will set out clear actions to provide and manage water resources in Wales now and in the future. The Welsh Government will expect water companies operating within Wales to take into account policy priorities in Wales when developing their water resources management plans.

### i. Climate change

The Welsh Government expects water companies operating wholly or mainly within Wales to produce water resources management plans which reflect current climate change projections and are informed by a Strategic Environmental Assessment and an Appropriate Assessment of their impact, where appropriate.

The Welsh Government Climate Change Strategy sets clear targets for reducing greenhouse gas emissions and a framework to help make sure that Wales adapts to the impacts of climate change. The water sector in Wales needs to play a key role in both the emission reduction and adaptation agenda by providing water and energy advice to consumers.

The need to account for future climate change, the impacts of a growing population and future development mean it is essential that water companies in Wales consider fully the costs and benefits of demand side measures to provide a secure public water supply.

### ii. An ecosystem based approach

The Welsh Government supports measures to encourage innovation and a longer term shift towards a system that recognises the value of the water resource available to Wales. A high quality water environment is essential to support a healthy ecosystem, which, in turn, provides a number of services for people and wildlife. The Welsh Government is adopting an ecosystem approach to managing water, focusing on ecosystem services as well as meeting European environmental obligations, as set out in 'A Living Wales[11].

### iii. Future water resource management

The Welsh Government recognises that the planning scope for water resources management plans is 25 years, but that should not limit water companies from taking a longer term view where it is appropriate. It is

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[11] http://wales.gov.uk/topics/environmentcountryside/consmanagement/nef/?lang=en

essential to take a long term approach to water resources planning to make sure that appropriate measures are being taken to consider the impacts of future demands and climate change on our water resources.

### iv. Water trading

The Welsh Government expects water companies operating wholly or mainly in Wales to only agree bulk supplies where it would not be detrimental to the incumbent company. Where a water company's preferred solution to meet demand includes an option to transfer water from a water resource zone of a water company which is wholly or mainly in Wales, it should provide opportunity for Welsh Ministers to give representations on its plan. The expectation is that any proposals should be explored during the pre-consultation phase of developing a plan. If such options are likely to be considered as part of the preferred solution, water companies are expected to consult the Welsh Government on these options as early as possible in the process.

### v. Demand management

The Welsh Government recognises leakage issues can be brought about by severe weather conditions and expect water companies in Wales to plan for a more resilient network and reflect the guidance set out in the existing Sustainable Economic Level of Leakage (SELL). However, the Welsh Government is aware of the limitations of the existing guidance for companies calculating SELL, as it does not fully reflect the long-term sustainability of the water environment. The Welsh Government supports the review of SELL and providing revised guidance. As a minimum the Welsh Government does not expect baseline leakage forecasts to drive the need for new supply or demand options. The Welsh Government also expects companies to include leakage management as a fully explored option to achieve a secure public water supply.

The Welsh Government expects water companies operating wholly or mainly in Wales to demonstrate how they will promote efficient water use in their water resources management plans.

Water companies operating wholly or mainly in Wales do not currently have the powers to implement compulsory metering. The Welsh Government does not consider compulsory metering to be an appropriate option for demand management in Wales. However, metering programmes can be used in conjunction with other schemes to tackle affordability. The Welsh Government will give further policy direction on this in the forthcoming Water Strategy for Wales which it intends to publish in autumn 2012.

No areas of Wales are currently designated as water stressed. Therefore, the parts of the water resources planning guideline aimed at designated water stressed areas will not apply in Wales.

### vi. Investment

Water company water resources management plans provide the evidence and justification for future investments, which will inform water company business plans as part of Ofwat’s price review.

### vii. Natural Resources Body for Wales

It is important for water companies operating in Wales to note that in May 2012, the Minister for Environment and Sustainable Development, John Griffiths announced that a Natural Resources body will be created to bring together the Forestry Commission Wales (FCW), Countryside Council for Wales (CCW) and the Environment Agency Wales (EAW). This new organisation will begin operating in April 2013. The new body will have a key role in protecting natural resources, working with businesses in Wales. It will also provide environmental advice and input to the planning processes and the development of new legislation, helping to designs new regulatory arrangements which simplify regulatory processes and encourage investment whilst maintaining the environmental well being of Wales.
Until there are more details of how this new organisation will work, the guideline will continue to refer to the separate organisations.

# Roles and responsibilities

## Water companies

Every water company is responsible for developing and maintaining an efficient and economical system of water supply within its area. It must also make sure that all arrangements have been made for:

(a) providing water to premises in its area and for making water supplies available to those that demand them;
(b) for maintaining, improving and extending its water mains and other pipes.

Each water company must prepare and maintain a consistent and cohesive water resources management plan, with the involvement of its customers,[12] that shows how it will manage and develop water resources to balance the supply and demand for water. The company must review its plan annually and send a statement of the conclusions of its review to the Secretary of State/ Welsh Ministers.

The company should engage its customers when preparing its water resources management plan (see next section). For example, the company should seek customers' views on the levels of service (in terms of frequency of restrictions on use) that they prefer.

A water company will be required to prepare a revised water resources management plan in each of the following cases:

- following the conclusion of its review, if the review indicated a material[13] change of circumstances;
- if it has been directed to do so by the Secretary of State/Welsh Ministers;
- within five years of the date of publication of its previous water resources management plan or a revised plan.

[12] See Involving customers in price setting – Ofwat's customer engagement policy, Ofwat, August 2011

[13] In the context of the annual review, 'material' changes are those with significant impacts on customers either through loss of security of supply or higher bills. Changes which do not impact detrimentally on security of supply or customers' bills would not normally require the company to prepare and consult on a revised water resources management plan.

## Customers

Companies must take responsibility for involving their customers and seeking their views in preparing their water resources management plans. For example, customers may take a view on the levels of service (in terms of frequency of restrictions on use) or have particular priorities or concerns about levels of metering and leakage. These views should be ascertained through direct engagement and consultation with customers.

Companies should make sure that their water resources management plans reflect a sound understanding and reasonable balance of customers' views. Each company has a Customer Challenge Group, the role of which is to test the quality of its engagement and how it plans to respond to customers' priorities. This group could also be used during the stakeholder consultation process for WRMPs to help ensure effective customer engagement and consistency with business plans.

Water resources management plans will inform the supply-demand balance part of the companies' strategic business plans that companies submit to Ofwat as part of the process of setting price limits. The price-setting process requires companies to develop plans in consultation with their customers and stakeholders[2]. Customers need to know that the bills they pay are fair and legitimate. Good customer engagement is essential to achieving this.

The quality of customer engagement will be an important factor in determining the level of scrutiny Ofwat will apply to the companies' business plans, including the Water Resource Management Plan elements of the supply and demand balance, for the next price review.

## Defra/Welsh Government

Defra and the Welsh Government are responsible for water policy and provide the statutory framework and policy guidance for water resources management plans, within which water companies must operate. Both Governments are responsible for setting out policy.

Defra and the Welsh Government issue joint guidance, with the Environment Agency and Ofwat, setting out what is required in a water resources management plan. Following the publication of the draft water resources management plan, interested groups send representations to the Secretary of State or Welsh Ministers and these are forwarded to the appropriate water company.

The Secretary of State or Welsh Ministers will consider the water company plan and statement of response to determine whether there should be a public hearing or an inquiry. Defra will seek advice from the Environment Agency before making a decision.

The Secretary of State or Welsh Ministers may direct companies to make changes or to publish a new plan.

## Environment Agency

The Environment Agency has a major role in water resources management planning.

The Water Industry Act[14]requires a water company to consult the Environment Agency before preparing its plan. The Environment Agency provides advice to water companies through the water resources planning guideline and through regional water resources planning teams to help water companies understand what they need to do to comply.

Once the draft water resources management plan is published, the Environment Agency, as an interested organisation, may make representations[15] to the Secretary of State/Welsh Ministers on the content of the draft plan. The comments will cover any issues it considers relevant and will be set against the context of the Government's policy position for managing water resources.

Once the statement of response is published, the Environment Agency provides technical advice[16] to the Secretary of State and Welsh Ministers to help them decide on the next steps. The evidence requested from the Environment Agency is likely to cover:

- whether the plan meets the statutory requirements;
- whether the company has properly addressed the representations received;
- whether or not the changes proposed to the plan in the statement of response are significantly different to the draft on which the company consulted on;
- the improvements the Environment Agency advises should be made to the plan.

The Environment Agency does not recommend what Ministers should do or the decisions they should take.

When Ministers decide that a water company should publish its plan, the Environment Agency will advise the Secretary of State and Welsh Ministers if the published plan meets any Directions made by Ministers. The Environment Agency will then provide advice to the water companies on implementing their plans and preparations for the next round of plans.

For those companies going to a hearing or an inquiry, the Environment Agency will be a main party to the hearing or inquiry and will present Government policy views. Hearings and inquiries provide an opportunity for disputed issues to be considered by an inspector.

If the Secretary of State or Welsh Ministers ask a water company for further information, the water company may request the help of the Environment Agency in responding to that request. The Environment Agency may be asked to provide advice to Ministers once the additional information is submitted.

[14] Section 37A(8)(a) Water Industry Act 1991
[15] Section 37B Water Industry Act 1991
[16] Section 37(2) Environment Act 1995

## Ofwat

The Water Services Regulation Authority (Ofwat) sets price limits for water and sewerage companies in England and Wales. It is Ofwat's role to make sure that water companies carry out their functions and that they can finance those functions. At the same time, Ofwat protects consumers' interests, wherever appropriate by promoting competition. It also has duties to help achieve sustainable development and to promote economy and efficiency.

Ofwat has a major role in the water resources management plan process, as water companies have a statutory obligation to consult Ofwat before preparing their plans (pre-consultation phase). Ofwat's views on water resources planning issues are reflected in the updated water resources planning guideline. Ofwat is also in the process of reviewing how it sets price limits in the future. It published its "Future price limits- statement of principles" in May 2012. One of the aims of this review is to ensure more sustainable use of water resources. Ofwat plans to provide incentives consistent with the water resources planning process for companies to manage water resources more efficiently by increasing water trading, reducing unsustainable abstraction and increasing interconnection between a company's own resource zones, where this is the most cost effective way of managing supply and demand .

Once the draft water resources management plan is published, Ofwat, as an interested organisation, may make representations to the Secretary of State or Welsh Ministers on the content of the draft plan. The water resources management plans inform the supply-demand balance part of the companies' strategic business plans that they then submit to Ofwat as part of the process of setting price limits.

Ofwat will look to water resources management plans to demonstrate that water companies have:

- taken account of the opportunities to share resources with neighbouring water companies;
- fully and consistently explored options to manage demand;
- enabled third parties to propose options to balance supply and demand and assessed these options consistently with other options;
- taken account of the views of customers in producing their plans;
- estimated fully the costs and benefits of the range of options considered;
- determined the best value solutions to balance supply and demand, taking account of climate change and the need for sustainability and resilience.

## Natural England/Countryside Council for Wales

Natural England works for people, places and nature to conserve and enhance biodiversity, landscapes and wildlife in rural, urban, coastal and marine areas. Natural England promotes access and recreation and contributes to the sustainable management of our natural resources.

Sustainable management of water resources is important to Natural England because it is responsible for protecting habitats, species and ecosystems that depend on water, in particular European sites, Ramsar sites and Sites of Special Scientific Interest (SSSIs) in England. These freshwater habitats include rivers, lakes and wetlands, and can also be found in coastal environments. The freshwater environment is important both for the habitats and species it supports and for the ecosystem services it provides. A healthy natural environment also helps to provide clean freshwater.

Water resource management plans are not only important for helping water companies manage and develop water resources to balance supply and demand for water, but also for making sure that the freshwater environment has enough water for its needs. Abstraction can have, and has had, a significant impact on the environment, with initiatives such as the Restoring Sustainable Abstraction programme and the Water Framework Directive aiming to reduce these impacts where they occur. The sustainability reductions required by the Environment Agency and planned for in the water resources management plan process is part of this. Natural England works closely with the Environment Agency and water companies to identify which abstractions are having a negative impact on the environment and to find sustainable and cost effective solutions to reduce or remove those impacts, taking into account the interest features of the site(s) affected.

Countryside Council for Wales is the Government's statutory advisor on sustaining natural beauty, wildlife and the opportunity for outdoor enjoyment in Wales and its inshore waters.

Natural England and the Countryside Council for Wales are statutory consultees for water resources management plans under the Habitats Regulatory Assessment (HRA) and the Strategic Environmental Assessment (SEA). It is recommended that a water company consults with Natural England and/or Countryside Council for Wales at an early stage when producing its plan.

## Approach to planning

A water company has to set out an initial forecast of demand for water for 25 years, taking into account factors such as population and demographic changes and a changing climate. This forecast should incorporate Defra/Welsh Government policy as well as any future changes in legislation.

A water company needs to compare this forecast of demand against a forecast of available water supply, considering what resources are available now and how these might change in the future, including challenges such as climate change.

This will result in the water company having a surplus or deficit of water in each year. The water company will need to follow the methods outlined in the technical section of the guideline when developing its plan. A company in deficit will need to decide on a preferred solution to return it to surplus. A company in surplus can implement options to increase security and adhere to Government policies and aspirations, improve the environment and carry out the wishes of its customers.

A preferred solution will have to be decided on the basis of it being the best value for water company customers and the environment. The final preferred solution may not necessarily be the least cost option. Water companies should use the processes available to monetise costs and benefits that do not have a market value, and give weight to costs and benefits to which it is difficult to attribute a monetary value.

Each company's plan should follow Government policies and aspirations to the extent that this does not impact **unduly** on water company customers' bills. An undue impact would be one that is not justified by the wider benefits that accrue from the plan, including the priorities that customers have identified through the consultation process. If a company is unable to follow Government policies and aspirations without having an undue impact on water bills or customers, it should demonstrate that it has explored the most cost-effective ways of following those policies and aspirations and considered a full range of potential solutions.

A water company's plan should provide a realistic approach to managing water resources and reflect customers' preferences. If a company believes a particular position is not possible it should state why and what the barriers are. The company should provide evidence to support its chosen plan and demonstrate it clearly understands how its system performs, the main factors affecting its balance between supply and demand, what levels of service and risk are acceptable to customers, and how the plan is flexible and can adjust to the various risks and uncertainties, including the potential impacts of climate change.

Once the water company has finalised its plan, it must continue to review it. Water resources management plans should evolve as circumstances change and new opportunities become available in order to achieve the best results for customers. The water company must report any changes in its annual review to the Secretary of State or Welsh Ministers. If there are any material[17] changes at any point in the plan, the company may need to develop a new plan.

[17] Plans should evolve as circumstances change and new opportunities become available. In the context of the annual review, 'material' changes are those with significant impacts on customers either through loss of security of supply or higher bills. Changes which do not impact detrimentally on security of supply or customers' bills would not normally require the company to prepare and consult on a revised water resources management plan.

## National security and commercial confidentiality

Water companies have a duty to publish water resources management plans (and drought plans), but the plans may contain information that could be considered sensitive on grounds of national security.

When submitting plans to the Secretary of State/Welsh Ministers for agreement to publish the draft plan for consultation, water companies should submit a statement from the company's Security Manager, certifying that the plan has been reviewed and that it does not contain any information that would compromise national security interests. The statement must also say whether the plan contains any information that may be considered to be commercially confidential. Where information has been edited out, the company should indicate the nature of the information that has been removed.

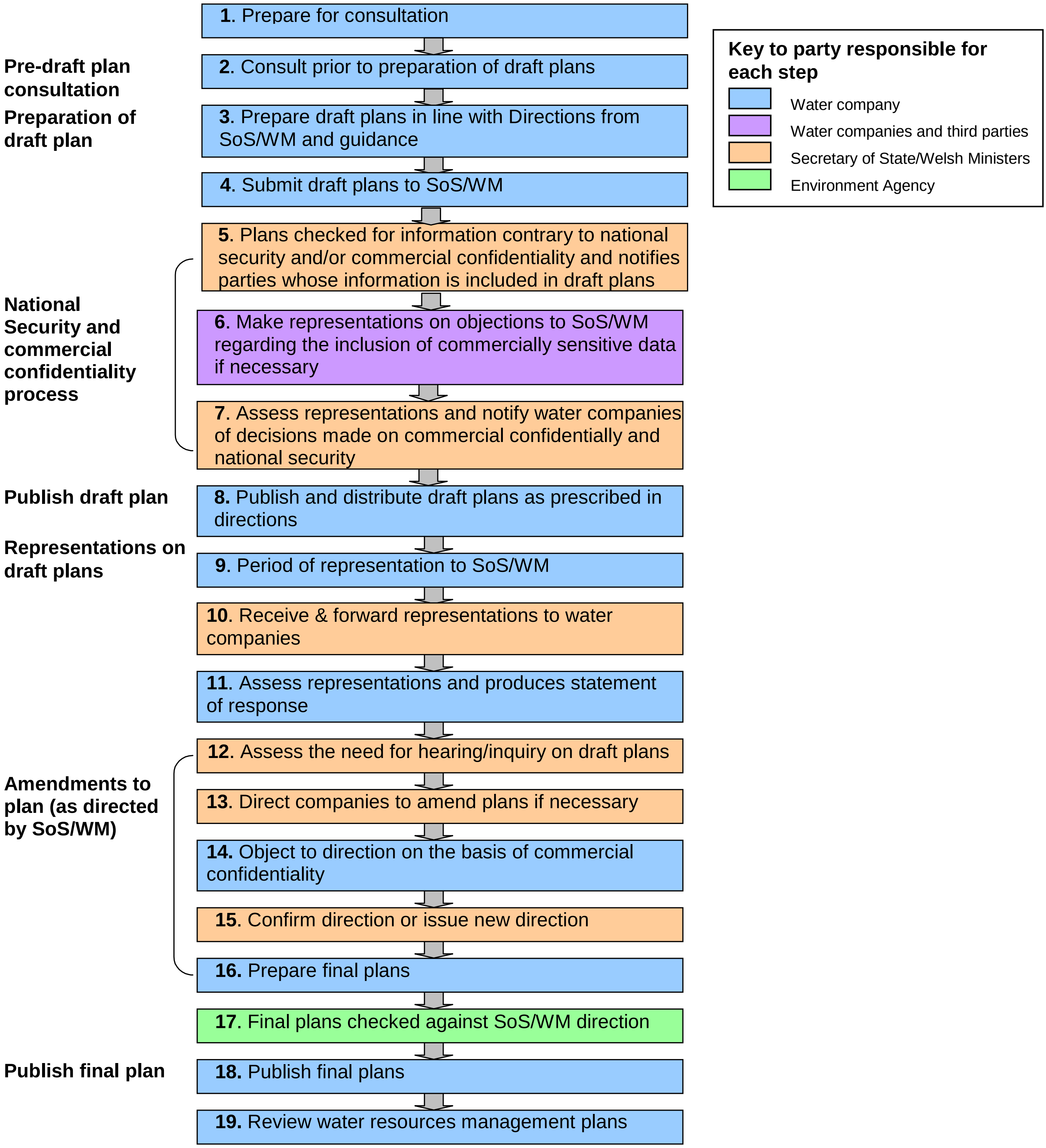
The Secretary of State/Welsh Minsters may also direct a water company to leave out any information from its plans that would be contrary to the interests of national security or would be considered commercially confidential[18].

The technical section and planning tables within this guideline show some areas that are sensitive and a company will need to decide whether to exclude this from the public version of the plan.

[18] Section 37B(10)(a) and (b) of the Water Industry Act 1991, as amended by the Water Act 2003.

# The process for developing a water resources management plan

The diagram below gives an overview of the statutory process for developing a water resources management plan



The steps numbered below correspond to the diagram above.

## Step 1 - Prepare for consultation

**Who?** Water companies.

**What?** Review existing water resources management plans and consider any improvements.

- Review recommendations from previous Environment Agency water resources management plan reviews, directions from Government and lessons learned from recent water company experience.

- It is important to review water resources management plans in the context of drought plans to make sure the plans are consistent.

## Step 2 - Consult before preparing draft plans

**Who?** Water companies.

**What?** Consult the following groups before preparing the draft plan:
  - Environment Agency
  - Ofwat
  - Secretary of State/Welsh Ministers
  - any licensed or appointed water supplier that supplies water in the water company's area via the company's supply system. A licensed water supplier must provide the water company with the information it needs to prepare its water resources management plan. Companies should take this information into account wherever possible when developing their plans.
  - Customers through direct local engagement and the Customer Challenge Group.

It is good practice to involve the Environment Agency and Ofwat throughout this stage as a company develops its plan. A close working relationship during this time may improve the plan and reduce the need for further changes following the consultation.

Consult other groups that may have an interest in the water resources management plan and who could be directly affected by actions within the plan.

In particular, companies should consult neighbouring water companies and third parties for potential options. Companies should also consult at an early stage with Natural England and/or Countryside Council for Wales if the plan may affect a designated Special Area of Conservation (SAC), Special Protection Area (SPA), Ramsar site or Site of Special Scientific Interest SSSI.

Other parties can propose options for the water company to include in its water resources management plan, for example parties with their own water resources in the water company's appointed area or neighbouring water companies who can provide bulk supplies. Water companies must consider these bids from other parties.

Companies must take account of the views of customers to shape their water resources management plans. Each company should use a range of means to ascertain customers' views and to involve them in decisions. Focus groups and input from the Customer Challenge Group can help challenge the quality of and response to this engagement in its draft plan. Engagement can also inform debate and help communicate the issues, as well as give companies an opportunity to listen to priorities and possible concerns.

The pre-consultation process provides the opportunity for the water company to set out its overall approach and highlight key differences from its previous plan. The company should also use this opportunity to indicate any areas of the plan where it might take a different approach from the guideline and explain the reasons why.

Those organisations being consulted should use the pre-consultation period to set out what they expect from the plan and highlight any issues that emerged during the previous planning period where action is needed, as well as raising any potential concerns.

Companies may wish to include a summary of the information they gained from their pre-consultation of their draft plans, but this is not a requirement.

**When?** Companies must start consulting before preparing draft plans no later than three years after they have published their previous final plan. Although not a legal requirement, we recommend that where a water resources management plan has changed significantly, pre-consultation should start no later than six months into the 12 months allowed for companies to revise their plans.

We suggest that companies submit their requests for information within six weeks of starting the review of their draft plan and allow appropriate time for responses.

**Step 3 - Prepare draft plans in line with Directions from the Secretary of State/Welsh Ministers and water resources management plan guideline**

**Who?** Water companies.

**What?** Prepare draft water resources management plan after pre-consultation.

- Follow the relevant regulations and directions issued by the Secretary of State/Welsh Ministers on the form of the plan and what the plan should address.

- Water companies should follow this guideline to make sure that draft water resources management plans cover the requirements as specified under 39B of the Water Industry Act 1991.

Water companies should also take account of information gathered as part of the pre-consultation process to develop draft plans and include details of any bids from other parties they have received and, if any bids were rejected, explain why in the draft plan.

**When?** As directed by the Secretary of State/Welsh Ministers.

**Step 4 - Submit draft plans to the Secretary of State/Welsh Ministers**

**Who?** Water companies.

**What?** Submit draft plans.

- The submission should include a summary, main report, technical reports and tables.

- The submission should include a statement to declare whether any information in the plan is, or might be considered to be commercially confidential in relation to the company or another party, and inform the Secretary of State/Welsh Ministers. The company must also provide the names and addresses of third parties concerned.

- All draft plan content should be publicly available unless companies make a case to the Secretary of State and/or the Welsh Ministers for it to be considered commercially confidential.

- The Secretary of State/Welsh Ministers will pass the draft plans to the Environment Agency to review in its role as the Government's technical advisor and in relation to its responsibility for managing water resources.

- The Secretary of State/Welsh Ministers will pass the draft plans to Ofwat to review in its role as the independent financial regulator.

- When submitting the draft plan the water company must also notify any bidders whether their bids to supply water have been successful or not. The water company must provide unsuccessful bidders with reasons as to why their bid was unsuccessful.

**When?** Water companies must submit draft plans to the Secretary of State/Welsh Ministers no later than five years after the company's previous final plan is published.

**Water companies operating in or affecting Wales**
Water companies whose supply area is wholly or mainly in Wales must submit their plans to Welsh Ministers to make decisions on these plans and on matters such as commercial confidentiality and on whether to hold a public inquiry;, but only after consulting the Secretary of State on aspects of plans that relate to any part of England. Companies whose supply area includes any part of England should also send their draft plans to the Secretary of State when they are submitted to Welsh Ministers.

Water companies whose supply area is mainly in England but includes parts of Wales must submit their plans to the Secretary of State, but only after consulting Welsh Ministers on aspects of the plan that relate to any part of Wales. These companies should also send their draft plans to Welsh Minsters when they are submitted to the Secretary of State.

Under the Welsh Language Act 1993, companies operating wholly or mainly in Wales should publish both Welsh and English language versions of non-technical summaries of their water resource management plans and drought plans.

**Step 5 – Plans checked for information that is a risk to national security and/or commercial confidentiality and notify parties whose information is included in draft plans**

**Who?** Secretary of State/Welsh Ministers.

**What?** Plans checked for sensitive information. The Secretary of State/ Welsh Ministers will notify any named third parties whose information may be commercially confidential that their sensitive information is included in the plan and that the plan has to be published.

**Step 6 – Make representations on objections to Secretary of State/Welsh Ministers about including commercially sensitive data, if necessary**

**Who?** Water companies and third parties.

**What?** Where appropriate, raise objections to publishing draft plans containing any information that is commercially sensitive to them and make representations to the Secretary of State/Welsh Ministers to justify the objection.

**Step 7 – Assess representations and notify water companies of decisions made on commercial confidentiality and national security**

**Who?** Secretary of State/Welsh Ministers.

**What?** Assess representations and notify companies of decisions to amend/publish their draft plans.

- Review any representations received on whether information should be left out of the published draft plan because of commercial confidentiality.

- Determine whether or not the information is commercially confidential and let the water company know accordingly.

- Direct companies to leave out information if it appears to be a risk to national security. If a company considers that there is no information in its plan that may be commercially confidential it should confirm with the Secretary of State/Welsh Ministers whether it can proceed to publish its draft plan.

**Step 8 - Publish and distribute draft plans as prescribed in regulations**

**Who?** Water companies.

**What?** Publish draft plans on the company website and in paper form.

- Companies should publish an appendix to their plans containing a list of the people and organisations they have directly consulted and providing details of where and how they have made the plan available to the public. Defra or the Welsh Government will ask for this information if companies do not provide it.

- Companies must publish a statement with the draft plan stating whether any commercially confidential information has been left out and the general nature of the information.

- Companies must describe how any interested party can make a representation, specifying where the representations should be sent and the date by which representations must be received by the Secretary of State/Welsh Ministers.

Water companies must publish draft plans both in paper form and on their website as outlined in the Regulations. Companies need to consider how best to communicate and liaise with anyone who is likely to be affected by the plan. In particular they should look for suitable ways to ensure their customers understand the draft plan and its implications by communicating the challenges and proposed solutions.

- Publish the draft plan on the company's website and consider how to let interested parties, including customer groups, know about its publication.

- Send electronic copies of draft plans to the statutory consultees listed in The Water Resources Management Plan Regulations 2007[19]. Paper copies must be sent where the draft plan cannot be sent electronically.

- Companies should make paper copies of the draft plan available at their main office. They should state on their website that paper copies are available and send these to statutory consultees and other parties on request.

**When?**

- Companies should wait for direction from the Secretary of State/Welsh Ministers before publishing their draft plan, and publish it following any dates specified in the Direction.

- Once companies have received the direction to publish, they should publish the draft plan for consultation within four weeks.

**Step 9 - Period of representation to the Secretary of State/Welsh Ministers**

**Who?** Water companies and consultees.

**What?** Set and run a consultation period for representations on the draft plan.

- Water companies must specify where interested groups should send representations and the latest date the Secretary of State/Welsh Ministers should receive the representations. Any party that wants to comment on a draft plan, including neighbouring water companies or third parties whose proposed options do not feature in the preferred solution proposed in the draft plan, can submit representations to the Secretary of State/Welsh Ministers during this period.
- Ministers expect water companies to involve their customers fully when consulting on their draft plans. Companies need to consider the best way of making the public and those likely to

[19] http://www.legislation.gov.uk/uksi/2007/727/contents/made

be affected aware of the draft plans. This could include advising customers through water bills, advertising in local media and placing the plan in public places such as local council offices, libraries or National Parks offices as well as the water company's main office.

**When?**

- Water companies should allow at least 12 weeks for consultees to respond to the draft plans, and longer for more complex plans. The consultation will include customers and their representatives and the companies' independent Customer Challenge Groups. Parties who are not familiar with the plan or with water resources planning should be allowed enough time to consider the issues.

- A company must publish its statement of response to representations (details in Step 11 below) within 26 weeks of publishing its draft plan. Companies need to consider this when they set the amount of time for representations.

## Step 10 - Receive and forward representations to water companies

**Who?** The Secretary of State/Welsh Ministers.

**What?** Send copies of representations to water companies. At the same time as the Secretary of State/Welsh Ministers send them to the company, they also send copies to the Environment Agency to review them in its role as technical advisor to the Government.

Water companies should consider whether to involve interested parties to resolve issues raised during the consultation, before preparing a statement of response.

## Step 11 - Assess representations and produce statement of response

**Who?** Water companies.

**What?** Assess representations made on the draft plan and produce and publish a statement of response.

- The statement should include:

  - an explanation of how the company has considered representations it has received on its draft plan;

  - an outline of any changes the company has made to its plan and the reasons for making these changes;

- a clear explanation of how the changes affect parts or the whole of the plan;
- any changes in timing and schemes selected to maintain a balance of supply;
- an explanation where it has not made changes as a result of representations.

- Companies should consider whether the statement of response alone provides enough detail for customers and stakeholders to understand the changes a company has made to its plan. A revised draft plan is not required, but companies should consider whether it would help interested groups to understand the changes made through the statement of response.
- If a revised draft final plan is produced it should be as close in format and structure to the draft plan as possible; any major changes between draft, revised draft and final plans should also be presented clearly and comprehensively in the statement of response.
- Companies should publish the statement on the company's website and let those who made representations, including customer groups, know that the statement has been published.
- Companies should contact Defra or the Welsh Government directly if they have any questions on producing the statement of response.

**When?** A company must publish a statement of response to representations within 26 weeks of publishing its draft plan.

## Step 12 – Assess the need for hearing/inquiry on draft plans

**Who?** The Secretary of State/Welsh Ministers.

**What?** Direct that a public hearing or inquiry be held over the draft water resources management plan if required.

- By involving interested groups effectively throughout the consultation process a water company may be able to resolve many issues relating to its plan. A hearing or an inquiry may be needed where there are substantial unresolved conflicts of opinions; where a water company has not provided enough evidence to justify a particular course of action or where a substantial change to the plan has been made that did not form part of the consultation.

- The Examination in Public (EIP) process enables the Planning Inspector to use a structured but informed discussion between the parties, in a similar approach to a hearing, but to use cross examination to those specific areas identified by the inspector as requiring it.

### Step 13 - Direct companies on amendments to plans if necessary

**Who?** Secretary of State/Welsh Ministers

**What?** Advise of any changes that need to be made to the plan as a result of representations received, statement of response or the outcome of any hearings or inquiries.

- Directions may apply to a single company or a number of companies.

### Step 14 - Object to a direction on the basis of commercial confidentiality (if required)

**Who?** Water companies.

**What?** If necessary, object by notice to the Secretary of State/Welsh Ministers on any commercial confidentiality issues arising from the direction.

### Step 15 – Confirm direction or issue new direction

**Who?** Secretary of State/Welsh Ministers.

**What?** Consider the water company notice and whether to confirm the current direction, or cancel it and issue a new one.

### Step 16 - Prepare final plans

**Who?** Water companies.

**What?** Prepare final plans

- Take into account any directions from the Secretary of State/ Welsh Ministers when producing their final plans.

- Send final plans to the Secretary of State/Welsh Ministers, who will pass the plan to the Environment Agency to carry out Step 17.

- When submitting final plans, a statement must be included to confirm the plan does not contain information that is commercially confidential or a risk to national security.

**Step 17 – Final plans checked against Secretary of State/Welsh Ministers directions**

**Who?** Environment Agency and Secretary of State/Welsh Ministers.

**What?** Check final plans to make sure they comply with directions and that no new information that is a risk to national security has been included.

- Report to Government on how directions have been considered in final plans.

- Plans checked for new sensitive information.

- The Secretary of State/ Welsh Ministers have the power[20] to make sure the water company publishes its water resources management plan, including any directions made regarding the content of its plan.

**Step 18 - Publish final plans**

**Who?** Water companies.

**What?** Publish final plan

- Publish to the same requirements as publishing the draft plan in Step 8.
- Explain its implications to customers and stakeholders.

**When?** Companies should wait for direction from the Secretary of State/Welsh Ministers before publishing the final plan, and publish following any dates specified in the direction.

**Step 19 – Review of water resources management plans**

**Who?** Water companies.

[20] Section 18 of the Water Industry Act 1991

**What?** Start the cycle to review the water resources management plan if either circumstances change significantly[21] or if directed by the Secretary of State/Welsh Ministers.

**When?** Where a company has a significant change in circumstances that affects any aspect of its water resources management plan, it must prepare and re-publish a revised plan within 12 months of the change. The process of revising plans should start from the pre-consultation (Step 2).
A company must revise and resubmit its water resources management plan no later than five years after it published its latest plan. This is separate to any annual reviews of the plan.

A water company may need to change its water resources management plan as circumstances change and it should report this through the annual review process. The company must let the Environment Agency, Ofwat, Defra and/or the Welsh Government know directly if there is a change and involve the Environment Agency and Ofwat as soon as possible.

A water company must detail all the changes to its water resources management plan in the plan's annual review. It may also want to let any parties that have made representations on the draft plans know of any changes to the final plan or, alternatively, make them aware of the annual review, which will describe these changes.

Government recommends that a company should publish its annual reviews on its website so customers and interested groups can see the progress being made.

[21] 'Material' changes are those with significant impacts on customers either through loss of security of supply or higher bills. Changes which do not impact detrimentally on security of supply or customers' bills would not normally require the company to prepare and consult on a revised water resources management plan.

## Water resources management plans and the business planning process

The water resources management plan shows how a water company will manage its supply and demand for 25 years and is reviewed every five years.

A water company also has to produce a business plan that covers all aspects of a water company's business and shows where it will spend the money it raises from customers. The business plan covers a five year period of a water company's longer term strategic direction statement and is used by Ofwat to set price limits.

Developing the water resources management plan and the periodic review of price limits (price review) are two separate but linked processes. Defra, the Welsh Government, Ofwat and the Environment Agency have worked together to streamline the processes to complement each other as much as possible, and thus incentivise efficient and effective responses by companies. Complementary to this update of the water resources planning guideline, Ofwat is reviewing the way it sets price limits and developing a framework for how it sets price limits in the future (see 'Future price limits – statement of principles[22]). This includes proposals for targeted incentives to companies to manage water resources more efficiently, by increasing water trading, reducing unsustainable abstraction and optimising company networks. Other aspects of the framework focus on outcomes, enhanced customer engagement, equalising the incentives for capital and operational expenditure by adopting a total expenditure (totex) approach and separate wholesale / retail price limits. These will also incentivise companies to maintain the supply demand balance, and allow innovation and a flexible response to customers' views and environmental conditions.

Ofwat will expect the supply-demand balance element of a company's strategic business plan to reflect its water resources management plans. Ofwat's view of the robustness of a company's water resources management plan, and the effectiveness of customer engagement in its development, will determine the level of scrutiny it will give to the supply demand element of the strategic business plan.

At the next price review, a company's forecast of demand will be a common element in both its water resources management plan and its business plan. This forecast will determine the costs of the company's feasible options when it carries out a cost effectiveness analysis to determine its preferred solution. In turn, these costs will directly underpin the business plan's supply demand investment proposals. Finally, Ofwat will use the same demand forecast to determine the company's projection of revenue when it sets price limits.

The draft water resources management plan will precede the submission of the strategic business plan to Ofwat. However, the final water resources

[22] http://www.ofwat.gov.uk/future/monopolies/fpl/pap_pos201205fplprincip.pdf

management plan will not be published until after the company has submitted its strategic business plan to Ofwat. In order to manage this uncertainty:

- In their response on the draft water resources management plan, Ofwat and the Environment Agency will provide clear feedback on their concerns, providing specific instructions where possible, so that the company can address these in its statement of response.
- Where either Ofwat or the Environment Agency has significant concerns with a water company's draft plan, it will recommend that the company produces a revised draft plan to accompany its statement of response. In the absence of such a recommendation the company should be clear about any changes it has made to its draft plan in response to feedback it has received.
- While the company is under no obligation to produce a revised draft plan this will help to achieve consistency between the final water resources management plan and the business plan. Ofwat and the Environment Agency will work together to review the statement of response and any revised draft water resources management plan in order to provide early feedback to the company on any outstanding concerns. The aim will be to guide the company on what will be acceptable for the business plan and final water resources management plan.

The water resources management plan and price review table below shows how the water resources management plan process will feed into the periodic review process.

- Sections 2.7.1 and 6.8 of the water resources management plan guideline set out links between the water resources management plan and the business plans.
- Section 6.7 of the water resources management plan guideline outlines how companies should approach SEA and HRA.

## Drought plans

A water company drought plan sets out the short-term steps a company will take before, during and after a drought. Companies should consider those common aspects of drought plans and water resources management plans when developing their draft water resources management plan. In particular, changes to deployable output and levels of service may affect both plans.

Companies should make sure that their levels of service are consistent between the drought plan and water resources management plan. Temporary customer restrictions can form part of the group of actions a company could take in a drought to manage demand. The frequency of these restrictions correspond to customer levels of service, which companies should ascertain by engaging with customers, with the scrutiny of the independent Customer Challenge Groups. The starting point for planned levels of service is within the water resources management plan. If there are any differences in levels of service due to drought events and the drought planning process, the company will need to revise its water resources management plan levels of service accordingly. If a company changes its levels of service as part of the water resources management plan process, it needs to consider the implications of this in the context of the drought plan too, and it will also need to review the drought plan.

Changes to deployable output from implementing the water resources management plan may mean a change in the water available in a drought scenario. This may, in turn, affect when drought management actions are needed in a drought. The company should consider the implications of changes to planned deployable output within the water resources management plan to the company's drought plan, which may mean reviewing the drought plan.

The water company drought plan guideline[23] contains more information on drought planning.

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[23] http://publications.environment-agency.gov.uk/pdf/GEHO0311BTOJ-E-E.pdf

# Timetable for the next Water Resources Management Plans and price review

The timetable provided here is indicative and is subject to change. Water companies are encouraged to discuss possible changes or issues with Defra or Welsh Government.

| Date | Planned event | Description |
|---|---|---|
| July 2012 to January 2013 | Pre-consultation - Water companies begin to pre-consult on their draft water resources management plan. | An important step to reducing the time spent in the formal process. Water companies should consult and meet with statutory consultees to discuss proposals for the draft water resources management plan. This should not be a one-off activity but stakeholders should be engaged throughout the pre-consultation period. Water companies should ensure other interested parties such as Customer Challenge Groups are involved in this process to share their views.<br><br>Water companies will need to engage with neighbouring water companies about approaches, findings and whether water can be traded between them.<br><br>Third parties will need to engage with companies about potential options. |
| 31 March 2013 | Submission - Water companies submit their draft water resources management plans to Defra/Welsh Government for security checking. | This is a back stop submission date that will be set out in the 2012 Direction. Water companies are encouraged to submit the draft water resources management plans as early as possible. |
| March -April 2013 | Security checking by Defra/Welsh Government | Water companies will need to submit a statement from the company's Security Manager to certify the plan does not contain any information that would compromise national security interests or any information that may be commercially confidential. |
| April-May 2013 | Public consultation - Water companies publish their draft water resources management plans for consultation. | Water companies can only publish a draft water resources management plan once they have received clearance from Defra/Welsh Government. A company will need to follow the Directions and Regulations surrounding publishing. The expectation is that companies will consult for a minimum of 12 weeks and longer for complex plans. |
| April 2013 to September/October 2013 | Water companies consult on draft water resources management plans / produce statement of response. | Once a company has published its plan for consultation, there is a statutory 26 week period within which they must consult and produce a statement of response. |
| September/October 2013 | Water companies publish draft water resources management plan statement of response / revised draft water resources management plan. | Companies must each prepare a statement of response setting out the consideration they have given to representations and the changes they have made to their plans as a result,. Where representations have not led to a change the statement of response must set out the reasons for that. A revised draft plan is not a statutory requirement. However preparing a revised draft may be the simplest way to demonstrate the changes that have been made to the plan.. |
| October/ November 2013 | Review statement of response / revised draft | Ofwat and the EA to provide initial view on outstanding issues with water resources management plans. |

| | | |
|---|---|---|
| | water resources management plan | Defra and Welsh Government will decide on whether water companies will need to undertake further work. |
| December 2013/ January 2014 | Directions for amendments, hearings/inquiries. | Defra/Welsh Government to inform companies of any amendments or if they are required to attend a hearing or inquiry. |
| January / February 2014 | Water companies submit Business Plans to Ofwat. | The companies should use the supply-demand balance details from the water resources management plan to complete the supply demand section of the strategic business plan. There should be no differences unless a company has been Directed to amend its water resources management plan. |
| January to March 2014 | Water companies publish final water resources management plans. | The Secretary of State or Welsh Minister will direct companies to publish their final water resources management plan. This is subject to plans being of a good quality, active pre-consultation and following the planning guidelines. Delays maybe caused if companies need to provide additional information or have been directed to attend a hearing or inquiry. |
| Summer 2014 | Ofwat publishes draft determination of price limits. | |
| Late 2014. | Ofwat publishes final determination of price limits. | |

# Appendix - Water Resources Management Plan Direction 2012

Defra and the Welsh Government have issued specific Direction[24] that a water company must follow. The company should provide a clear list of Directions and evidence that is has complied with each one. Below is a brief overview of the Directions and what is expected of a water company.

If a company has any questions about the Direction, it should seek advice from its own legal representatives or from Defra or the Welsh Government.

[24] Defra and Welsh Government Directions - Defra, UK - Environmental Protection - Water - Water Resources - Abstraction

| Direction paragraph | Direction text | Guidance | Assessment |
|---|---|---|---|
| **2** | "A water undertaker shall prepare a water resources management plan, for a period of 25 years commencing on 1st April 2015." | Water resources management plans must cover a 25 year time horizon. However, this in itself does not constrain water companies to a 25 year forward look and if it is important to its plans, a water company can provide information past this planning horizon. | Has the company provided a plan that covers a time period from 1 April 2015 to 31 March 2040. |
| **3(a)** | "how frequently it expects it may need to impose prohibitions or restrictions on its customers in relation to the use of water under each of the following -<br>(i) section 76[25]<br>(ii) section 74(2)(b)[26] of the Water Resources Act 1991; and<br>(iii) section 75[27] of the Water Resources Act 1991;" | A water company must set out its planned level of service that it will achieve throughout the planning period for its final planning scenario.<br><br>The company will need to explain any changes or variation with this planned level of service. The company should indicate, as good practice, if customers will actually be receiving a different level of service as options are implemented. | Has the company clearly set out its planned level of service and provided evidence that its final planning scenario will meet that level of service. |
| **3(b)** | "the appraisal methodologies which it used in choosing the measures it intends to take or continue for the purpose set out in section 37A(2)[28], and its reasons for choosing those measures;" | Section 6 of the water resources planning guideline technical document sets out the approach to be followed by a water company when appraising a new option or solution to remove a deficit.<br><br>Where this method is used a water company need only state that it is using the approach set out in the Guideline.<br><br>A water company may use an alternative approach, but it must set out the appraisal method and the reasons for choosing that method.<br><br>If the water company is part way through delivery and using an alternative approach, it must explain its existing measures and reasons. A narrative rather than a | The water company has confirmed it has followed the guideline showing transparency through its decision process. |

[25] Section 76 Water Industry Act 1991 - Temporary use bans, including hosepipe bans
[26] Section 74(2)(b) of the Water Resources Act 1991(c) - ordinary drought orders to restrict use
[27] Section 75 of the Water Resources Act 1991- emergency drought orders
[28] Section 37A(2) Water Industry Act 1991 – to manage and develop water resources to meet its obligations of providing water.

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| | | full appraisal will suffice. | |
| **3c** | "the emissions of greenhouse gases which are likely to arise as a result of each measure which it has identified in accordance with section 37A(3)(b)[29];" | A water company will need to produce an assessment of the likely emissions of greenhouse gases from its current and future activities. This should be produced in the water resources management plan for its final planning scenario. The company can decide at what point it starts its assessment but it should be the same for all components. | The company has produced clear set of information about the total emissions of greenhouse gases for its final planning scenario for each year. This should include current and future operations. |
| **3d** | "how the supply and demand forecasts contained in the water resources management plan have taken into account the implications of climate change;" | Climate change may have a large impact for some water companies. The technical guideline sets out the approach for assessing climate change for supply and demand using the latest information and methods available.  Section 3 details impacts on supply and Section 4 details impacts on demand. A water company can decide to include an allocation with target headroom using the methods presented in the technical guideline.  All water companies should follow these methods, clearly displaying the results and how they achieved them. If a water company follows an alternative approach it must give reasons for not following guideline. | The company has assessed and detailed the impacts of climate change within its final planning scenario. It should have used the methods covered in the water resources planning guideline technical section. |
| **3e** | " how it  has estimated future household demand in its area over the planning period, including the assumptions it has made in relation to population and housing numbers, except where it does not supply, and will continue not to supply, water to domestic premises," | A company must describe how it has estimated current and future household demand unless it only supplies industrial/commercial customers. | A company has included a demand forecast for households that are based on the methods detailed in the guideline.<br><br>The company will need to detail in its plan how it has derived these forecasts and how it has involved local authorities in building them. |
| **3f** | "its estimate of the | Section 144A of the Water Industry Act 1991 relates to the right of a | |

[29] Section 37A(3)(b) Water industry Act 1991- to manage and develop water resources as in section 37A(2),  but also taking into account bulk supplies.

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| | increase in the number of domestic premises in its area, over the planning period, in respect of which it will be required to fix charges by reference to volume of water supplied to those premises under section 144A[30];" | consumer to elect to be charged by reference to volume of water.<br><br>A water company must provide an estimate of how many additional meters it will install as a result of customers asking for them (optants) over the planning period. | |
| **3g** | "where the whole or part of its area has been determined by the Secretary of State to be an area of serious water stress under regulation 4(1) of the Regulations, its estimate of the number of domestic premises which are in the area of serious water stress and in respect of which it will fix charges by reference to volume of water supplied to those premises over the planning period;" | Those water companies whose areas (or part of whose areas) are designated as an area of serious water stress must provide an estimate of the number of households[31] in that area that will be compulsorily metered over the planning period. | |
| **3h** | "its estimate of the increase in the number of domestic premises in its area (excluding any domestic premises which are included in the estimate referred to in sub-paragraph (g)), over the planning period, in respect of which section 144B(2) will not apply because the conditions referred to in section 144B(1)(c) are not satisfied and in respect of which it will fix charges by reference to volume of water supplied to those premises;" | Those water companies designated within an area of serious water stress need to provide information on the number of households that they would plan to compulsorily meter using powers associated with being designated as an area of water scarcity over the planning period.<br><br>s.144B(1)(c) refers to the conditions to be satisfied in limiting the ability of water undertakers to compulsorily meter. The Water Industry (Prescribed Conditions) Regulations 1999 set out a number of situations in which those conditions will not be satisfied. These include situations relating to the use of premises, and the use of the water supplied. They also include areas determined to be areas of Serious Water Stress, where a programme of metering | |

[30] Section 144A Water Industry Act 1991 – The right of the consumer to elect for charging by reference to volume (water meter).
[31] "Domestic premises" has a wider meaning here than under s.17C of the Water Industry Act 1991. Under the Direction, it simply means premises in which, or in any part of which, a person has his home.

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| | | applies, or areas of Water Scarcity.<br><br>Water undertakers should estimate the number of domestic premises (not already accounted for under paragraph 2(b) above) where it will compulsorily meter under s.144B(1)(c).<br><br>This does not apply to companies wholly or mainly in Wales. | |
| **3i** | "full details of the likely effect of what is forecast pursuant to sub-paragraphs (f) to (h) on demand for water in its area;" | A water company must assess the impact on household demand forecast under paragraphs (a)-(c) as a result of metering schemes for optants and compulsory schemes.<br><br>Water companies in an area of serious water stress need to establish programmes of metering installation for optants and compulsory metering, under sub section (a) to (c).<br><br>This does not apply to companies wholly or mainly in Wales. | The company has provided a forecast of demand as a result of different metering options if appropriate for the company. This is regardless of the option appraisal mechanism outlined in the guideline. |
| **3j** | "the estimated cost to it in relation to the installation and operation of water meters to meet what is forecasted pursuant to sub-paragraphs (f) to (h) and a comparison of that cost with the other measures which it might take to manage demand for water, or increase supplies of water, in its area to meet its obligations under Part III of the Water Industry Act 1991;" | A water company must assess the cost of installing and operating of estimated opt-in metering and compulsory metering. As part of its options appraisal a water company must set out, for comparison, the cost of metering programmes and alternative programmes to balance supply and demand.<br><br>This does not apply to companies wholly or mainly in Wales. | The company has provided detailed cost of additional metering as an option. |
| **3k** | "a programme for the implementation of what is forecasted pursuant to sub-paragraphs (g) and (h)." | A water company must set out its implementation plans for its programme of compulsory metering.<br><br>This does not apply to companies wholly or mainly in Wales. | Only applied if a company has outlined it will implement a compulsory metering programme. |
| **4** | "Except where the | A water company must submit its | A water company has |

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| | Secretary of State or the Welsh Ministers otherwise permit, a water undertaker must send its draft water resources management plan to the Secretary of State or the Welsh Ministers in accordance with section 37B[32](1) before 31 March 2013." | water resources plan to the Secretary of State or Welsh Ministers by 31 March 2013, unless directed otherwise. | submitted its plan on time. |
| **5** | "Except where the Secretary of State or the Welsh Ministers otherwise permit, a water undertaker must publish its draft water resources management plan in accordance with section 37B(3)(a) within 30 days of the later of the date on which the Secretary of State or the Welsh Ministers — …." | The water company must publish its draft plan within the set timescale and exclude information that is determined to be commercially confidential or contrary to the interests of national security. | The company has published its plan within the timescales and removed information in accordance with the Secretary of State/Welsh Minister's direction. |
| **6** | "Except where the Secretary of State or the Welsh Ministers otherwise permit, a water undertaker must publish the statement required by regulation 4(2)(a) of the Water Resources Management Plan Regulations 2007(**a**), and send a copy of the statement to the persons specified in regulation 4(2)(b), within 26 weeks of the date of publication of the draft water resources management plan." | The water company must publish its statement of response within 26 weeks of the publication date of the draft water resources management plan. The statement of response must be sent to any person that has made a representation. Within the 26 week period, Government suggests a period of 12 weeks for the consultation. | The company has published its statement of response. |

[32] Section 37B Water Industry Act 1991 – Water resources management plans: publication and representations