

COPY FOR INFORMATION
12 March 2009

For the Attention of

Defra
Water Supply & Regulation Division
2nd Floor, Area 2C
Ergon House
Horseferry Road
LONDON SW1P 2AL

Mr Neve
ARN/KL/WRMP

Dear

**WATER RESPONSES MANAGEMENT PLAN
Statement of Response**

I am writing further to our letter dated 30 January 2009 which accompanied our Statement of Response to our Draft Water Resources Management Plan as required by the Water Resources Management Plan Regulations.

Since submission of that document there has been considerable dialogue between ourselves and Ofwat, our financial regulator, in respect of the Final Business Plan which we are due to submit on 7 April and which will form the basis of our investment decisions over the five year period from 2010 to 2015. There are two key issues which we need to draw to your attention.

1. The Water Framework Directive Implications (S4.1.5.2.)

In our Draft Water Resources Plan we incorporated an allowance in the headroom calculations in our forecasts to take account of the potential loss of abstraction capacity which we anticipate will result from the implementation of the WFD. During the AMP3 and AMP4 Periods we have been heavily involved in Habitats Directive investigations and these have resulted in 'sustainability reductions' at most if not all of the sources implicated. These Habitats Directive driven reductions have been included in this Draft Plan and will also be included in the Final Plan.

In November 2008 the EA provided us with a considerable list of Water Framework Directive investigations which it requires us to conduct during the AMP5 Period and judging by our Habitats Directive experiences we have little doubt that such investigations will result in some further licence reductions. However we are advised by Ofwat that 'The EA has committed not to impose any reductions until replacement water is available' and on that basis we should not plan for reductions until the investigations are completed.

As a result of the latter advice we have therefore removed any uncertainties relating to licences from the Water Framework Directive in our Headroom calculations and this part of the Plan will now comply with the EA's Planning Guidance.

2. Climate Change (S4.2.6)

You will note from our Statement of Response that a number of organisations criticised the Company for not including the impacts of climate change in its Draft Plan. In our Statement of Response we explained, as we had in the Draft Plan, that we had received confusing results from the modelling work undertaken to inform the Draft Plan.

We have reviewed the earlier work undertaken by our consultants and have also considered some work done by the EA which has come to light since our Draft Plan was submitted. Both sets of research predict similar impacts and we believed this complementary research to be sufficient to incorporate into our Final Water Resources Plan for the next 25 years.

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We had also been hoping that the forecasts from the UK Climate Impacts Programme would have been published last year to confirm or modify our forecasts. Unfortunately, we now understand that this work is not now likely to be available until later this year.

Our financial regulator, Ofwat, has advised us that it will impose a financial penalty upon us if we incorporate our current evidence, which it considers insufficiently robust, in the supply/demand appraisal of our Final Business Plan, albeit that it will reconsider its view if the UKCIP forecasts confirm our earlier conclusions. Since the Water Resources Management Plan guidelines clearly require us to incorporate the effects of climate change in our Water Resources Management Plan, and this is the view of consultees too, then it is possible that there may be an inconsistency between our Final Business Plan and Final Water Resources Management Plan. Our Business Plan will not include climate change impacts but our Water Resources Management Plan will!

We, and I suspect many others, would welcome the outcome of the UKCIP forecasts as soon as they can be published.

3. Options Appraisals (Section 4.4.1 and 4.4.7)

Following the assurances from the EA regarding the Water Framework Directive Investigations, we have reviewed the list of feasible options. Two of them promote increased abstraction from existing sources at Worlds End Water Treatment Works and Lavant and Brickkiln Water Treatment Works, and they are both in catchments which are the subject of Water Framework Directive investigations in the AMP5 Period. Since there are obvious concerns about the impacts that current levels of abstraction may have upon the local ecology, as well as the fact that both schemes are in CAMS Management Units which are classed as 'over-licensed' we have removed them from the list of feasible options taken through to the least cost analysis.

If the investigations identify that there are no significant effects caused by these abstractions then we may well be able to include them as feasible options in future reviews of Water Resources Management Plans.

4. Options Appraisal - Metering (Section 4.4.3)

Further work has been carried out on the least cost analysis since the submission of the Formal Statement of Response. This has confirmed that Universal Metering over a twenty year period from 2010 to 2030 will be demonstrated as part of the least cost plan **without** the need for 'unquantified benefits' to be included.

It is therefore expected that a 20 year metering programme will be included as part of the Least Cost Solution in the Final Water Resources Management Plan. The solution also includes targeted mains renewals, Leakage Savings Initiative, the Water Efficiency Programme, the Retrofit of Dual Flush devices together with the development of the Farlington Washwater Recovery scheme and Havant Thicket Winter Storage Reservoir.

I do apologise unreservedly for such significant alterations to our Final Statement of Response but do hope that in these particular circumstances there are very good reasons for these changes to be made at a late stage. I hope that there is sufficient clarity in this letter to enable the Minister to make the necessary directions to enable us to complete and submit our Final Water Resources Management Plan. Please do let me know if you need us to clarify these issues further.

Please note that I am sending a copy of this letter to all of the respondents who received a copy of our Statement of Response.

Yours sincerely

A R NEVE
Technical Director