

Andrew Beaver
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NWL

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Dear Andrew,

I was asked by NWL to review their long-term delivery strategy (LTDS) with a view to compatibility with the Ofwat guidance.

Overall, I can offer reasonable assurance that the document is broadly compatible:

- At my suggestion, the modelling contractor, Peter John, has provided separate assurance that this work has been concluded to the best of his ability (I am not qualified to offer a judgement on the quality of the detailed modelling). The assurance looks to my untrained eye a little on the thin side, but NWL commercial colleagues will be better placed to judge whether it is in fact industry standard.
- Points made from my preliminary assessment several months ago have been largely taken on board.
- There is a good and clear assessment of how the plan has taken on board points from Ofwat's feedback to the company after their presentation in Jan/Feb
- The annex document shows how the NWL scenarios, which are not identical to those of the Ofwat guidance, match to that – along with WRMP and other scenarios. I have suggested that some further clarification be included and have been assured that this will happen (I have not seen this clarification as yet, given time scales).
- The approach to adaptive planning and trigger points seems broadly consistent with the Ofwat guidance and demonstrates good understanding of the principle of adaptive planning.
- Board assurance and stakeholder/customer engagement both seem consistent with the guidance.
- There is some more work to do, which I understand is ongoing, to demonstrate compatibility between the plan and the Ofwat guidance on net zero targets – in particular their guidance on the use of 2035 as a mid-point, where compatibility is set down with UK carbon budget targets.
- NWL have assured me that the plan is consistent with the latest steers from the EA, notably on funding resilience in this PR only to low scenario climate projects.
- I think NWL could do more to show that they have fully complied with Ofwat's requirements to demonstrate 'forecast improvements from base expenditure'. NWL have explained that more work is continuing on this, and that they have not finished the key table in annex 4 (which I have not yet seen) which is intended to demonstrate this. Given the importance which Ofwat are likely to attach to this element the board may want to form an explicit judgement on this element. I stand ready to comment on any table which is produced, of course.
- NWL have helpfully clarified that the plan includes:

- a) core pathway investment (statutory investments)
- b) core pathway - lead replacement (non-statutory but considered low/no regrets and therefore core as it is needed to meet the Water UK target / DWI long-term expectations)
- c) core pathway water resource management plan (WRMP) enabling investment - to keep Lowestoft and North Suffolk options open.
- d) Non-core pathway WRMP included in central plan – NWL are checking on the investment differences are they we can be explicit about what the plan includes.
- e) Core pathway drainage and wastewater management plan (DWMP), including investment to deliver sewer flooding reductions of 60% by 2050 under RCP8.5 scenario.

This is not, of course, to say that Ofwat will choose to fund all suggested enhancement spend. There may be particular risks on lead replacement and DWMP elements.

Perhaps the most substantive point to note is, as mentioned above, NWL's approach to scenarios goes some way beyond that of Ofwat, and the structure of their LTDS is not fully compatible with the suggestions for structure in the Ofwat guidance. I would suggest that NWL go the extra mile to help Ofwat work through the LTDS. NWL have explained that they will submit the LTDS document, the annex document and the model itself, as well as the long-term business plan tables. They have also got a separate 'guide to the plan' which will point Ofwat in the right direction, as well as an appendix on Board assurance for the whole plan that they will signpost in. My judgement is that going the extra mile here would be sensible.

There is one final point: one of the adaptive 'trigger points' (for the Caister water reuse plant) comes after start of PR24 but could entail expenditure before the start of PR29. The Ofwat guidance is not fully clear as to how such an eventuality should be tackled. At my suggestion NWL will make this clearer in the document.

Yours



Martin Hurst