



AFW Targeted Controls, Markets and Innovation

Evidence Document

March 2019

Table of Contents

1	High level response to Ofwat Feedback.....	3
1.1	Summary.....	3
2	Detailed response to Ofwat feedback actions	4
2.1	AFW.CMI.A1	4
2.2	AFW.CMI.B1	7
3	Additional Ofwat Feedback	10
4	Appendices.....	11

1 High level response to Ofwat Feedback

1.1 Summary

We welcome that Ofwat acknowledges that the September Plan does provide sufficient evidence of deliverability in terms of RCV allocation (Test Area Question CMI 5) and the Bid Assessment Framework (Test Area Question CMI 6). With regards the latter, we intend to publish the revised Bid Assessment Framework in advance of Ofwat's deadline of 15 July 2019.

In terms of the other feedback we have responded to the Ofwat test area actions in full, for actions of both Required and Advised status. In addition, where Ofwat made further statements, we have included additional Ofwat feedback in the action responses.

For action AFW.CMI.A1 (Required) we have provided evidence of how we have assessed our potential strategic options in our revised draft Water Resources Management Plan (rdWRMP), how rdWRMP aligns with our Revised Plan and how this fits well with our innovative adaptive planning approach. We have also provided evidence of how we are engaging with interested parties and stakeholders to progress these options in the future. Our CCG formed a rdWRMP sub group and have challenged us throughout our engagement. We have also addressed additional Ofwat feedback on the deliverability and optimisation of our draft WRMP and how this has been addressed in our rdWRMP.

For action AFW.CMI.B1 (Advised) we have demonstrated how a culture of collaboration and innovation is central to our work here at Affinity Water. We have provided evidence of where we have shared resources to form common research outcomes and innovations. Our teams have a proven track record of collaborating in this way, specifically in the areas of leakage, catchment management and water quality. We have also addressed additional Ofwat feedback on use of markets for water resources by providing further details of our recent work on water trading.

Additional Ofwat feedback on Direct Procurement has been included in the commentary on data table App 21.

2 Detailed response to Ofwat feedback actions

2.1 AFW.CMI.A1

2.1.1 Overview of test area action

Table 1: Action details for AFW.CMI.A1

Action Ref.	Action
AFW.CMI.A1	The company should ensure that the business plan sets out the potential strategic supply options that it has assessed and explain how it will engage with interested parties and other stakeholders to progress these options. We also expect the business plan to align with the revised water resources management plan.

Nature of adjustment: action completed

2.1.2 Our response

Under the Ofwat IAP this action has Advised status. As well as providing a response to this action we have also taken the opportunity to respond to the Ofwat feedback on deliverability and optimisation of the proposed WRMP.

Potential strategic options assessment

Our Revised Plan includes potential strategic supply options assessed in developing our rdWRMP. We are including development of four strategic supply options in our Revised Plan, two of which were selected as preferred options in our rdWRMP and two of which were included in Ofwat's IAP but were not selected as preferred options. Further details of the assessment are included in Appendix CMI.A1.1

Table 2: Alignment between rdWRMP19 and our Revised Plan for our regional strategic options

Scheme Name (rdWRMP19)	Scheme Name (IAP)	(IAP) Development partners	Included in our rdWRMP strategic assessment	Selected in our rdWRMP19 'Best Value Plan'	Taken forward for Gate 0 (April 2019)
South East Strategic Reservoir and associated transfers	Abingdon Reservoir Regional Transfer from Thames to Affinity	Thames and Southern Water	Y	Y	Y
Severn-Thames Transfer	Severn Thames Transfer	Thames, Severn Trent and UU	Y	N	Y
South Lincolnshire Reservoir and transfer	Eastern Regional Transfers	Anglian Water	Y	N	Y (Transfer only)
Grand Union Canal Transfer		Canal & River Trust, Anglian and Severn Trent Water	Y	Y	Y

The adaptive nature of our rdWRMP aligns well with the “strategic regional solution development” and gated process being developed by the six companies, which is included in our Revised Plan. Adaptive Pathways Planning is part of the UK Water Industry Research (UKWIR) Decision Making Methods guidance and is an innovative way to respond to uncertainties over future risks in a structured way.

Whilst only two of the schemes have been selected in the rdWRMP19 best value plan, we are collaborating with other companies and will assess all four schemes in supporting the strategic regional solution development process in the Ofwat IAP, AFW.CE.A2. This will include any changes to the forward programme coming out of the rdWRMP consultation.

How we will engage with interested parties and stakeholders

Apart from other water companies, interested parties and stakeholders including regulators, delivery partners, local authorities, government, environmental groups and local pressure groups. Some examples of the wider group of stakeholders for engagement on our current rdWRMP include Hertfordshire CC, Buckinghamshire CC, Oxfordshire CC, Vale of Whitehorse District Council and Greater London Authority. We are also engaging with Group Against Reservoir Development (GARD) and a local river group, the River Chess group.

We outline the current approach for our rdWRMP stakeholder engagement plan. The full report is in our revised draft Water Resources Management Plan Technical Report 7.1 on engagement (as sent to Defra on 4 March 2019). The report details who all the parties and stakeholders are that we engage as part of our WRMP process.

Beyond proactively identifying interested parties and stakeholders we are developing a programme of tailored engagement activities suiting the specific interests of each group and their preferred method of exchange and communication. We are implementing this approach for engagement on a selection of strategic options for our rdWRMP. For example, we are holding stakeholder assemblies which are aimed at developing partnerships with our stakeholder group, joint regulators and local stakeholder meetings.

We are holding a stakeholder assembly in April 2019 in central London and have invited a broad range of stakeholders to contribute to shaping future strategies. There will be a number of workshops, one of which is long-term strategic water supply solutions: adapting to future uncertainties.

We are also working with the regional groups to reach out to a wider representation of interested parties.

Appendix CMI.A1.1 includes information and references to evidence as part of our rdWRMP19 submission where we also explain our collaboration with the other companies and third parties since our draft WRMP submission.

The process of consultation for the WRMP is described within our rdWRMP main document, and we have incorporated the full list of consultation meetings carried out as part of the rdWRMP development process within Appendix CMI.A1.2.

Customer research on the rdWRMP has provided customer views on a number of issues - particularly long term resilience - in relation to the proposed strategic supply options and drought resilience. The focus groups also sought customer views on a number of demand side options. This is detailed in test area evidence document Engaging Customers, appendix EC.Summary.1. Wider customer and stakeholder engagement on the strategic need for our schemes will continue

to be incorporated into the next round of WRMP consultation, which we will need to start in 2022 once the Stage Gate 1 position is known on the options that are being investigated.

We have worked very closely with our CCG on improving the strategy and approach for engagement. We formed a dedicated CCG sub-group led by the Chair Teresa Perchard and including representation of EA and CCW for the rdWRMP. The sub-group challenged constructively throughout the development of our methods of engagement. For example, the sub-group challenged us in undertaking a representative quantitative customer survey, which we subsequently included in our programme. They also provided valuable challenge on effective engagement through our pre-consultation customer focus groups, public consultation survey, non-technical summary document, animated video and leaflet campaign. The next meeting of the CCG sub-group will be held in May 2019 to review the findings and feedback from our consultation and engagement with customers. Following this meeting, the CCG will be producing a report and will present their conclusions back to our Board.

Alignment between Business Plan and the rdWRMP

Our adaptive plan consists of key future scenarios with decision points to allow delivery of schemes with long lead-in times. The first three years of our rdWRMP (2020 to 2023) provides for investigation and development of SESR and GUC in order that, by our first decision point in 2023, we have these options ready to develop if they are needed. At our decision point in 2023 we expect to be at Gate 2 of Ofwat's gated process for these options.

The South Lincolnshire Reservoir and transfer is not selected in our best value plan. It is, however, identified as our third preferred option and our rdWRMP indicates that we will work with Anglian Water to explore options for reducing the overall costs of the scheme. It is also identified as potentially being needed in addition to the SESR and/or GUC if GLA draft development plan growth assumptions prove to be correct.

Deliverability and optimisation of the proposed WRMP

We recognise that Ofwat only had access to our dWRMP on which to base this statement. Our rdWRMP now provides Ofwat with a much fuller, open and transparent document to allow scrutiny of the optimisation of our solutions.

The rdWRMP also provides additional clarity on the deliverability of our strategic regional solutions and our adaptive planning approach allows us to manage the uncertainty relating to these schemes. Further to which, our rdWRMP and the Thames Water rdWRMP are aligned on a 2022/23 decision point on large scale option development. This provides a clear coordinated way forward on the potential development of this shared resource. A briefing note was provided to Ofwat on 9 January 2019 and a subsequent teleconference demonstrated how the rdWRMP and the Statement of Response will be aligned once our further consultation period has closed.

2.1.3 Implications across the plan

As mentioned previously, this action has links to AFW.CE.A2 within the Cost Efficiency test area which describes how we will, in conjunction with other companies, develop strategic regional solutions to be construction ready by 2025/26.

2.1.4 Assurance

This action response is noted by the CCG.

2.1.5 Evidence

Table 3 Evidence to support the response to AFW.CMI.A1

Appendix	Description
CMI.A1.1	rdWRMP Assessment of Options and alignment of rdWRMP and September Plan
CMI.A1.2	Stakeholder engagement plan

2.2 AFW.CMI.B1

2.2.1 Overview of test area action

Table 4 Action details for AFW.CMI.B1

Action Ref.	Action
AFW.CMI.B1	The company should explore sharing resources to form common research outcomes and innovations, aligned to the common challenges that the company and others face.

Nature of adjustment: action completed

2.2.2 Our response

Under the Ofwat IAP this action has Advised status. As well as providing a response to this action we have also taken the opportunity to respond to the Ofwat feedback on Use of Markets in this Test Area.

Understanding the common challenges

We continue to explore the sharing of resources to support common research outcomes and innovations with other companies. We have a very active role in UKWIR and we also work with regulators and universities on areas of research.

Shared challenges across the water industry include increasing water scarcity, due to lack of supply or increasing demand, climate change, environmental impact, water quality, leakage and the use of smart networks and getting water company datasets ready to use big data techniques. It also includes challenges relating to safety, security, supply chain and customers in vulnerable circumstances.

Our current areas of focus are leakage, catchment management and water quality. Further details can be found in Appendices CMI.B1.1, CMI.B1.2 and CMI.B1.3 respectively.

Where we share resources to form common research outcomes and innovations

Leakage

- Fast logging. We have been instrumental in the implementation of the fast logging approach to measuring household night use in our network. We recognised the potential of the system early on and have invested in the development of fast logging and worked with the consultant Artesia to continually innovate and improve the system. We have encouraged the publication of any results and the methods for fast logging for use by other companies and provided data to the UKWIR project, which published the best practice for fast logging to the wider industry.
- Leakage Task Force. We have created a leakage taskforce, which has been holding knowledge-sharing sessions with other water companies and suppliers to help identify best practice and identify success drivers for leakage. Further details can be found in Appendix CMI.B1.1.
- Zero leakage by 2050. One of the outcomes of the zero leakage by 2050 UKWIR programme of research is to confidently quantify leakage and demonstrate when it is zero.

Catchment Management

- Thames Catchment Management Steering Group (TCMSG). We were instrumental in establishing the TCMSG, which is an innovative water company partnership between Affinity Water, Thames Water and South East Water, and unique in the UK. This partnership will continue into AMP7 with aligned plans to ensure effective coverage for future schemes. The partnership has been extended to other companies, such as Wessex Water to pilot a reverse auction using the EnTrade catchment-trading platform to reduce nitrate leaching to groundwater. See Appendix CMI.B1.2 for further details.

Water Quality

- Collaboration and innovation. We are strongly represented on water quality and laboratory related groups to lead and develop in areas of innovation, research and collaboration. See Appendix CMI.B1.3 for an example of research outcomes leading to consideration of new technologies and an outward-looking approach to solutions.
- Knowledge transfer. We also share water quality data with seven other water companies on Drinking Water Safety Plans. This knowledge transfer supports our collaboration with other companies where we share bulk supply agreements. We are represented on Public Health England and local authority groups where we also work with water industry colleagues to develop common response plans. An example of this is our work with Anglian Water on responses to reports of cryptosporidium detections during 2018/19.

Use of markets and innovative trades to support our water resources strategy

Since our dWRMP we have continued to progress our efforts to support our water resources strategy with water trading and third party options. We have been progressive and forward-looking in our attempts to trigger market activity in the area of water resources. Our recent work in this area has included the development of:

- A range of long term strategic regional options that are supported by collaboration with other water companies and third parties, which will be further developed in AMP7.

- The early stage feasibility analysis of a cross-sector licence sharing option (referred to as the Didcot – RWE Licence Trading option) for near-term water trading. This would extend the concept of conjunctive use across sectors and would potentially involve a licence-sharing scheme to benefit customers of both the energy and water industries through efficient transfer of capacity during non-coincident periods of utilisation. This is referred to on page 123, section 7.4.2 of the rdWRMP.
- The publishing of our Bid Assessment Framework (BAF) including the Water Trading Portal to support the market for water resources, demand management and leakage services – this was well received by Ofwat in IAP (Test Question CMI 6)

We take our commitments to the bilateral market very seriously, in terms of the relevant data tables, since our draft plan we have changed Wr7 to accommodate a split between water resources and network plus price controls and both Wr6 and Wr7 have been fully audited by Atkins as detailed in action AFW.CA.A6 in the test area Securing Confidence and Assurance.

2.2.3 Implications across the plan

Through our collaborative work in these areas, particularly on leakage, we expect these innovations to realise efficiencies that would not be achieved on our own. We are encouraged by the prospects for future innovation and this is a critical part of our future strategy necessary to deliver our plan for customers and shareholders alike.

2.2.4 Evidence

Table 5 Evidence to support the response to AFW.CMI.B1

Appendix	Description
CMI.B1.1	Leakage – fast logging and task force visits
CMI.B1.2	Catchment Management
CMI.B1.3	Water Quality research, innovation and collaboration

3 Additional Ofwat Feedback

As part of our response we have also undertaken an exercise to identify other actions or feedback that Ofwat may have provided us with. The additional Ofwat feedback from Test Area Questions in CMI 3 on use of markets and deliverability and optimisation of WRMP have been included the Action responses. Also, the feedback on Direct Procurement in Test Area Question CMI 7 has been addressed in the data and commentary on data table App 21 and associated commentary.

4 Appendices

All the appendices listed below for this evidence document are included in the appendices titled AFW Targeted Controls, Markets and Innovation Appendix.

Table 6 Full summary of targeted controls, markets and innovation appendices

Appendix	Action ref(s)
CMI.A1.1 - rdWRMP Assessment of Options and alignment of rdWRMP and Business Plan	AFW.CMI.A1
CMI.A1.2 - Stakeholder engagement plan	AFW.CMI.A1
CMI.B1.1- Leakage – fast logging and task force visits	AFW.CMI.B1
CMI.B1.2 - Catchment Management	AFW.CMI.B1
CMI.B1.3 - Water Quality research, innovation and collaboration	AFW.CMI.B1