

By Email To:

Mr Peter Perry, Chief Executive Officer, Dwr Cymru Welsh Water

Cc: Mr David Black, Chief Executive, Ofwat

Tuesday, 30<sup>th</sup> May, 2023

Dear Peter,

We were disappointed to read your press release on 25 May regarding the potential mis-calculation of leakage and per capita consumption figures in Wales. The outcome of your own internal review has identified that the current reported leakage numbers are too low and the per capita consumption figures too high. You have proposed therefore a re-balance in supply-demand, which will be investigated by Ofwat.

Your original reported leakage for 2021/22 was 157.4 MI/d compared to your corrected figure of 240.3 MI/d (an 82.9MI/d or 52% increase). Since 2017, your leakage reporting has been as follows (MI/d, based on your annual performance reports):

2017/2018	172.9
2018/2019	169.5
2019/2020	167.9
2020/2021	2.20% (166.4)
2021/2022	240.3

This would suggest a significant rise in leakage during the 2021/22 operating year or a potential issue with leakage reporting data prior to 2021. We would ask Ofwat to clarify this as part of their investigation.

Your corresponding corrections to per capita consumption result in a reduction from 174.7 litres/day to 154.8 litres/day (11%).

Afonydd Cymru is concerned on a number of counts which we detail below:

#### **PR24 Business Plan**

Afonydd Cymru is part of the Independent Environmental Advisory Committee and the Independent Challenge Group for PR24. This means we have been party to proposals for your investment programme for AMP8 and we have challenged on a number of areas, particularly in relation to your

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investment for environmental improvements. Your investment programme for PR24 includes funding to deliver against a range of measures, including to secure long-term sustainable water resources (via the Water Resource Management Plan) and the Drainage and Wastewater Management Plan (DWMP). Intrinsic to their delivery are assumptions regarding demand in Wales, including leakage profiles and per capita consumption.

In IEAP, on 25 May 2023, I made queries regarding the impact of these errors to your overall investment programme and to your funding requirements. Welsh Water's response was that *'one balances the other out'* and that there would likely be *'no impact to the investment programme'*. We are unclear how this can be the case for the reasons outlined below.

### **Water Resource Management Plan**

The leakage and per capita consumption figures form part of your Water Resource Management Plan (WRMP), published for consultation on 16 November 2022. We supported your proposals [in our response](#) as your focus was on leakage reduction and demand measures instead of implementation of new water resources which would be impactful to our environment.

- The Executive Summary of your WRMP states *'we are forecasting a 15% leakage reduction in AMP7 which is the starting point for our supply/demand balances'*. You have now identified an error in current leakage reporting which may therefore change the starting point for your supply demand position. We seek clarification from Welsh Water and Ofwat regarding whether the investigation into leakage now impacts this starting position and therefore the foundation of the WRMP published. We would expect a revised and final WRMP to reflect these changes.
- Your announcement does not clarify how this leakage data adjustment is distributed across your customer base. For example, is it customer-side or non-household leakage? This is significant in terms of your capacity to fix leaks within this AMP and also in terms of implications that this has for your supply demand balances which underpin your WRMP.
- On page 44 of your main technical report, a table was included of costs for leakage reduction activity. We query the following:
  - Assuming that your AIC costs (average incremental costs) are based upon current costs to reduce leakage against the amount of funding you spend, the data re-adjustment suggests that your AIC costs are now incorrect. Is this the case? If so, again, we would expect a revised WRMP to be published which reflects changes to AIC.
  - The costs for leakage reduction vary depending upon where and what type of leakage you are fixing. The table as included within your WRMP shows a significant variation in these costs. Therefore, depending upon how the leakage numbers have been adjusted may have consequences for the investment required for AMP8 to deliver the leakage reductions as proposed. We are not clear, based on the re-adjustment, as to whether this changes the optimal cost effective solution by water resource zone and whether alternative supply options now become more cost-effective. Again, if this is the case, we would expect a revised WRMP to be published.

- In August 2022, NERA undertook an assessment of Southern Water tariff setting. As part of [this report](#), NERA compared different ways of setting tariffs within the company. One of these methods was tariffs based upon AIC and their impact to long-run marginal costs, which sets the allowable differential between the charged costs on unmetered and metered customers. We assume that this issue will be included within the Ofwat investigation as to the impacts of mis-reporting on leakage data within Welsh Water. We ask this because it impacts the overall income to Welsh Water and its ability to deliver environmental improvements across Wales.

Leakage through find and fix	AIC
Leakage through find and fix	£83.6p/m <sup>3</sup>
CSP Leakage benefit from metering	£81.4p/m <sup>3</sup>
Combined find and fix plus metering (There is also benefit to find and fix through metering/demand analysis)	£47.9p/m <sup>3</sup>
Metering – leakage and demand savings combined	£22.3p/m <sup>3</sup>

**Table 8 – Leakage Options**

- *‘We propose to make a 10% leakage saving in AMP8, of which the majority will be saved on our customers’ pipes’.* As part of the investigation, we need to understand whether this reduction is now impacted by the announcement today?
- *‘Although our average household PCC has risen as a result of the Covid-19 pandemic through an increase in home working and schooling and the associated behavioural change, with society moving back to more normal practices we are seeing demand patterns return towards pre-pandemic levels’.* Given the revised reporting, we are no longer clear whether this effect was actually experienced? Understanding baseline data is critical to understanding where and how per capita consumption (PCC) needs to be controlled moving forward. For example, we supported enhanced metering of Welsh Water customers as a means of future controls on PCC. We need to be clear now as to whether this is appropriate customer spend and whether funding would be better prioritised elsewhere given the decrease in reported PCC.

### **Drainage and Wastewater Management Plan**

We responded to Welsh Water’s consultation on DWMP in [September 2022](#). The DWMP identified, at an area level, measures to deliver significant drainage and wastewater management opportunities which Afonydd Cymru believes are critical to a solution across a number of areas, including the operation of sewer overflows.

It was evident within the DWMP that the control and management of per capita consumption played a key part in the delivery of the programme.

Whilst we recognise that this reporting error is likely to have a lower impact on the DWMPs than the WRMPs (due to granularity) Welsh Water should reflect in their DWMPs any changes in the leakage and per capita consumption data.

### **Funding**

Welsh Water has identified a further £54 million to spend on leakage as a result of the concerns announced today, as well as customer refunds that are estimated to be in the region of £14 million.

Afonydd Cymru seeks reassurance that this spend does not impact on other environmental improvement commitments given by Welsh Water and would like clarity as to where these funds have been identified from. Furthermore, it would seem that further funds become available to deal with ad hoc issues such as challenges on sewer overflows and wastewater treatment works, and now on leakage errors. This is in conflict of delivery against a prioritised plan and suggests that further funding is available, which could have been spent on enhanced environmental improvement earlier and in a more prioritised fashion.

We welcome Welsh Water being transparent on data within the organisation and being transparent in terms of the outcomes of their own assessment. We also welcome the announcement that Ofwat will now undertake an investigation of this assessment and report findings on the issues and concerns on the data. We would ask that as part of this assessment, consideration is given to Afonydd Cymru's concerns above and recommendations are made for improvement in data reporting going forward. We would also ask that more robust systems are in place such that issues are identified as part of the regulatory process.

I look forward to hearing from you at your earliest convenience.

Regards,



Gail Davies-Walsh  
Chief Executive Officer, Afonydd Cymru