

UUWR_29

PR24 Draft Determination: UUW Representation

Area of representation: Lead pipe replacement

August 2024

This document outlines our representation in response to Ofwat's draft determination related to the enhancement case for lead pipe replacement.

Reference to draft determination documents:
Water Quality PCDs

1. Key points

- **We have completed revised tables in line with Ofwat's guidance from Query OFW-IBQ-UUW-013:** This reflects that the previous table submission omitted the customer supply pipe element of lead replacement.
- **Target of 30,000 full pipe replacements, based on DWI notice:** Our obligations require that both the customer supply pipe and communication pipe is replaced in order to remove the lead risk for the customer, as required by the DWI. Funding at DD only reflects the communication pipe (from water main to customer boundary) rather than full supply pipe to customer tap and therefore needs to be revised.
- **Continuation of innovative and popular approach to facilitating replacement of customer pipe:** In most cases, this allows the customer – not the water company – to make their own arrangements for replacing the customer-owned supply pipe. These costs are then reimbursed to the customer via a grant. The scheme is expanding to provide additional provisions for customers in social housing.
- **We propose a revision to the PCD approach to better align to customer appetite and demands:** Replacement of lead supply pipes can be disruptive for homeowners and social housing tenants. Their appetite for replacement can vary over time – for example, due to general economic conditions, budgets and/or the timing of major works to the kitchen or driveway. In order to maximise take-up of lead pipe replacement in line with customer preferences, we suggest that the PCD should have a tolerance of +/-20% in each year, subject to a hard target of 30,000 replacements by 2030, in line with the DWI notice.

2. UW's PR24 proposal

Our business plan enhancement case (UUW60 Case 3) stated that we will replace 30,000 lead pipes from the water main to the compliance point at the first customer tap to reduce the risk of customer exposure to lead.

The grant scheme offered by UW is essential to achieving the volumes of full pipe replacements as this incentivises the customer to replace the supply pipe. This customer-driven programme has proven successful in AMP7 and will be expanded in AMP8 to include proactive replacement (non-grant) work. This will improve accessibility of the scheme to non-owned properties. This targeted replacement will help to remove the risk of lead in drinking water in areas where there are very high levels of lead service pipes and economic deprivation which inhibits customer ability to afford service pipe replacements.

We have an estimated 506,421 lead pipe stock across the North West. This claim covers the replacement of 30,000 lead pipes (communication and supply) during AMP8 for quality reasons as clarified in Ofwat query 007.

Long-term exposure to lead can be harmful to health especially for more vulnerable groups and 'there is no level of exposure to lead that is known to be without harmful effects'¹.

The DWI states that full replacement of the pipe is the only long-term solution to reducing lead risk. All other techniques including pipe lining is only a short-medium term mitigation option and full replacement of the lead pipes is the only long-term solution. We are aligned to this full replacement approach.

This case was aligned with DWI expectation as set out in our AMP8 lead strategy submitted to the DWI in March 2023, and in line with our long-term ambition to remove all lead by 2070 as set out in our long-term water quality plan submitted to the DWI in January 2023.

We have a formal notice for lead from the DWI to replace 30,000 full supply pipes to the customer tap: *'Proactive replacement of customer side lead supply pipes (including those where grant has been allocated). The target number of replacements that we have proposed to Ofwat in our AMP8 business plan is 30,000. Date: 31 March 2030'*.

¹ [Lead poisoning \(who.int\)](https://www.who.int)

3. Draft determination position

At submission, we put forward an enhancement case for lead pipe replacement and requested an allowance for the replacement of 30,000 full lead pipes from the water main to the compliance point at the customer tap. The full lead pipe, both the communication pipe and supply pipe (internal and external) elements must be replaced to satisfy the DWI legal instrument (UUT-2023-00011_AMP8)² and remove lead risk to the customer.

We were awarded £47m based on 30,000 communication pipes only. This is because we populated table CW6 lines 24-27 with zero.

Following Ofwat query OFW-IBQ-UUW-013, we now understand that CW6 lines 24-27 should be completed with the supply pipe internal and external volumes to be replaced in AMP8. These lines are now being re-submitted to represent these volumes.

4. Issues and implications

Only communication pipes are included in draft determination

The DD included an allowance for the communication pipe element of the lead pipe replacement. We have updated our cost driver data in line Ofwat's response to query OFW-IBQ-UUW-013 and we are now including the volumes included in the grant and proactive supply pipe replacement in table CW6 lines 24-27.

In UUW60 Case 3 point 7.1.2 we state that 'only full replacement to the compliance point will be part of the enhancement case'. Point 7.1.3 states that 'the PCD will be based on number of pipes removed from the water main to the compliance point at the first customer tap. This number is made up of the communication pipe and the internal and external customer supply pipe'.

Under the innovative UU grant model for supply pipe replacement, the work to replace the supply pipe is organised by the customer and reimbursed by the company through a grant scheme. This means that numbers associated with the grant model did not fully align with the line definitions in the tables. As such, the table lines CW6.24-27 'Number of external/internal lead supply pipes replaced or relined' were completed with zero. However, based on the response to query OFW-IBQ-UUW-013, we now understand that these lines should reflect the same volumes as the number of communication pipes.

This number is 6,000 per year in AMP8 to reflect that where the communication pipe is replaced, the supply pipe will **always** be replaced either by the customer under the grant scheme or on behalf of UU in the targeted replacement scheme. Both the communication and supply pipe elements to the customer tap, need to be funded for replacement to meet the DWI legal instrument.

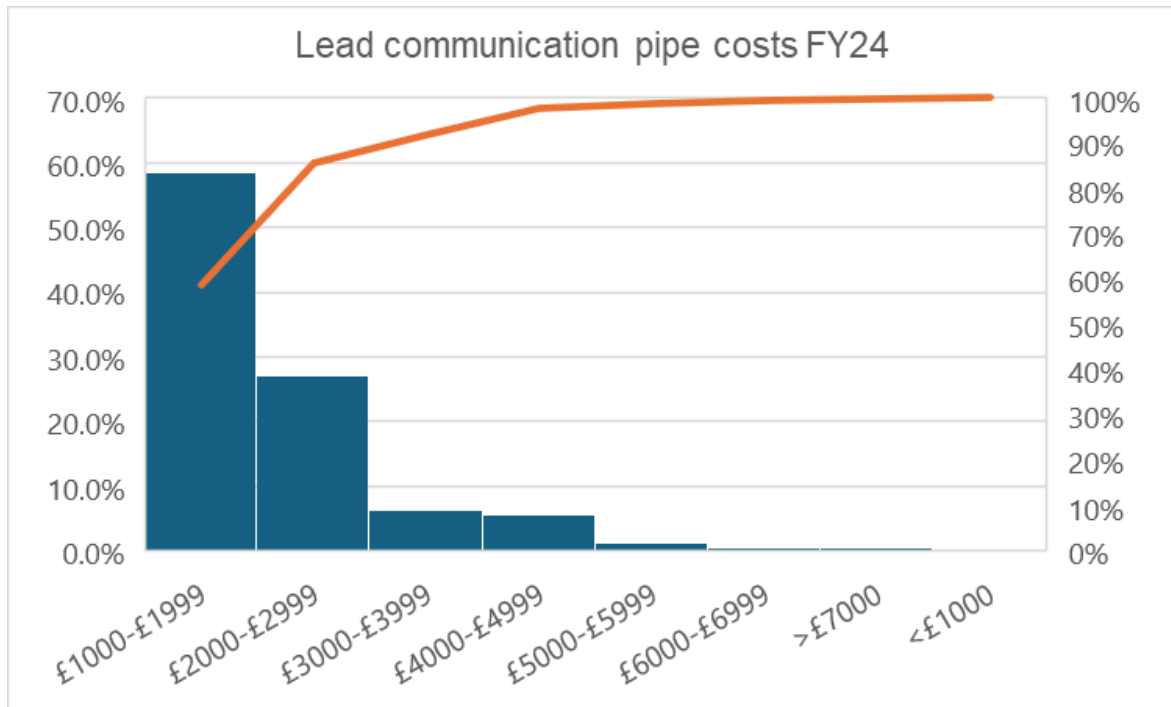
The replacement cost of the communication pipe and internal and external supply pipes will be covered by the totex award as part of this enhancement case adjusted following revision of the table volumes. The totex allowance for lead replacement will be used for both communication pipe replacement and to replace the supply pipe either through the grant scheme or targeted replacement scheme.

As part of this replacement activity, there will be a range of both simple and more complex cases. For a single property with a single pipe replacement, the costs and complexities will be lower than where there are multiple properties on a common supply pipe. A proportion of cases will involve the laying of a new water main to connect the property. This can sometimes be a significant length. As this is a 'customer-driven' scheme to remove lead risk, we accept applications of all complexities and as such the unit rate of replacement can often be significant.

The complexities are illustrated by the wide range of costs associated with the replacement of a communication pipe, some including significant main laying to the nearest water main. For example, during FY24 41% of jobs completed cost greater than £2000 and there were 22 lead communication pipe replacements (0.5%) that cost greater than £7000 each.

² - [Drinking Water Inspectorate \(dwi.gov.uk\)](https://www.dwi.gov.uk)

Figure 1: Lead communication costs FY24



We need to complete a range of simple and more complex jobs within AMP8. If we focused only on the simple lower cost cases in AMP8, we would effectively be storing up the more complex and costly jobs for later AMPs as ultimately all lead will need to be removed. This would mean costs increasing in later AMPs. Completing a proportion of complex jobs each AMP will spread the cost of lead replacement among different generations of customers. If we do not complete these jobs, all the complex jobs will be stored up for future AMPs meaning that the cost of removing lead will ramp up significantly in future AMPs as all the complex jobs are left.

Support for the grant model to deliver ambitious volumes in AMP8

Our enhancement case reflects the continued use of a customer-centric approach to replacing the customer-owned portion of the lead supply pipe. In most cases, this allows the customer – not the water company – to make their own arrangements for replacing the customer-owned supply pipe. These costs are then reimbursed to the customer via a grant. It is essential that **the full pipe** from the water main to the compliance point at the customer pipe is replaced to remove the lead risk.

Without the grant element, many customers would be unwilling or unable to afford the supply pipe side replacement. The grant has been very successful with the scheme being temporarily paused at times when the yearly cap was reached. This led us to ask for the annual cap on numbers to be removed, and this was granted by Ofwat in May 2023.

Where properties are not directly owned by the customer – for example, where they are in social housing – then alternative arrangements will be entered into with the property owners – e.g.: the housing association – to ensure that customers who do not own their property and are in social housing also have the opportunity to reduce lead risk.

External research completed on lead pipe replacement such as the UKWIR report: [Customers' Lead Pipes - Understanding Reluctance to Change \(ukwir.org\)](#) shows how "cost is probably the key barrier to lead pipe replacement for some customers"³, "this research shows that removing cost from the equation is likely to have the biggest impact on motivating people to replace their lead pipe".⁴

³ [Customers' Lead Pipes - Understanding Reluctance to Change \(ukwir.org\) Page 5](#)

⁴ [Customers' Lead Pipes - Understanding Reluctance to Change \(ukwir.org\) Page 6](#)

UUW serves the most deprived region in England and Wales and lead pipes tend to be concentrated in areas of relative deprivation. Therefore, the grant model is essential to ensure that customers are appropriately supported when removing lead from their water supply.

DWI support

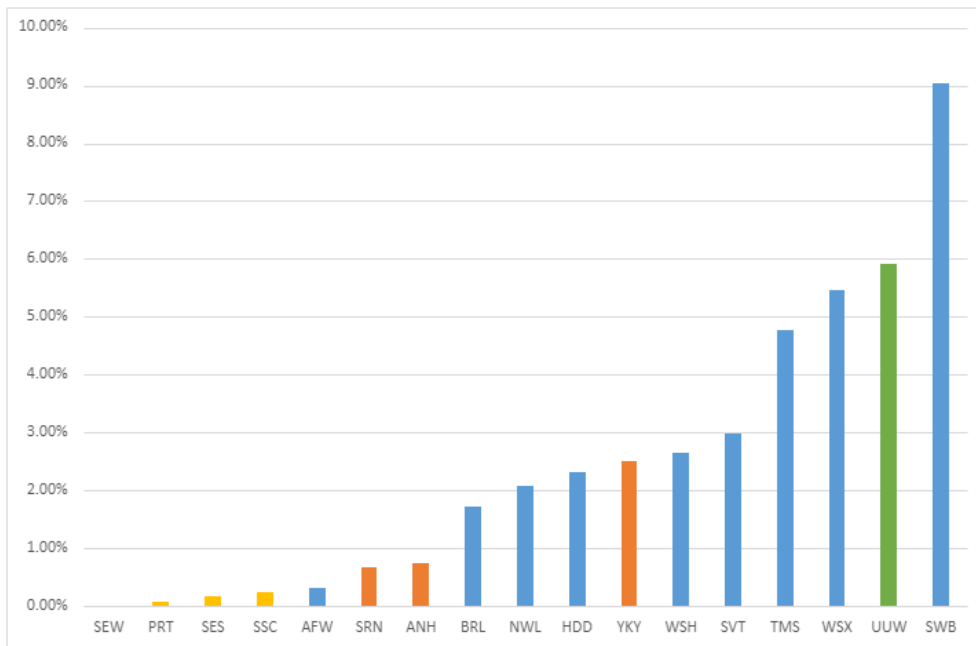
The DWI stated verbally in advance of the submission of the lead strategy and enhancement case that they expected to see a step change in terms of an increase in scale of ambition for lead pipe replacements from AMP7 to AMP8. Since submission of the lead enhancement case, we now have a legal instrument in place with the DWI requiring us to complete 30,000 full lead pipe replacements.

The target of 30,000 lead pipe replacements was informed by liaison with the DWI and was judged to be the most appropriate scale of ambition in terms of satisfying DWI ambition but also being deliverable within the 5 year period. This step change in volume is required as part of the profiled removal to achieve long-term ambitions for lead removal as set out in the company long term delivery strategy (LTDS)⁵. There is an adaptive plan within the strategy and LTDS setting out how the scale and type of activities can adapt to changing legislation/ technology etc.

The DWI acknowledges the scale of the challenge and feedback that although they accept the AMP8 proposed strategy, ambition is low compared to the overall scale of the challenge. This tends to support the view that the 30,000 replacements proposed in the enhancement case does not represent an overly ambitious replacement rate.

Although DWI state that the overall ambition is low, our analysis of other company submissions (Figure 2) shows that we have proposed a more ambitious scale of replacement than other water companies within AMP8.

Figure 2: Proposed lead pipes replacements in AMP8



As well as the AMP8 commitment of 30,000 replacements, the DWI notice also states that the company will need to ramp up for AMP9 - 'Develop the company’s draft Lead reduction plans for AMP9, demonstrating the required ramp-up pipe replacement rate. Date: 31 July 2027'. This further supports the proposed AMP8 volume.

We are supportive of initiatives to support the replacement of lead in non-owned accommodation and have recently consulted on the Greater Manchester 'Good Landlord Charter' to support a new voluntary standard for landlord excellence.

⁵ [UUW12.pdf](#)

PCD

Given that the replacement of the lead pipes is predominantly customer driven via the grant model, we request a revision to the PCD approach to better align to customer appetite and demands and provide greater flexibility in terms of delivery between years within the AMP. This was previously recognised by Ofwat (in May 2023) with regards to the AMP7 lead delivery when the in-year cap was converted to a cumulative cap to allow flexibility to help manage demand across the AMP.

Replacement of lead supply pipes can be disruptive for homeowners and social housing tenants. Their appetite for replacement can vary over time – for example, due to general economic conditions, budgets and/or the timing of major works to the kitchen or driveway. In order to maximise take-up of lead pipe replacement in line with customer preferences, we suggest that the PCD should have a tolerance of +/-20% in each year, subject to a hard target of 30,000 replacements by 2030, in line with the DWI notice.

5. Approach for final determination

Table CW6 lines 24-27 have been updated to reflect the volumes of internal and external supply pipes that will be replaced for water quality purposes. This approach was confirmed in query OFW-IBQ-UUW-013.

We therefore request that the updated tables should be used to determine the totex award for full lead pipe replacements, reflecting that the replacements – in line with the DWI undertaking – cover both the communication and supply pipe elements. (This was not reflected in our earlier table submission.)

UUW have submitted appropriate volumes for lead replacement in AMP8 as part of our long-term commitment to remove lead risk and ask that Ofwat support this ambition through a revised totex allowance. This is essential to meeting the requirements of the DWI legal notice and removing lead risk for customers.

The PCD should have greater flexibility for delivery within the AMP. We will need to replace lead pipes in line with the appetite of homeowners and housing associations; this can vary from year to year due to (for example) economic conditions. It is therefore perfectly plausible that through a customer-centric approach, demand for lead pipe replacements might vary from year to year (5,000 in one year but 7,000 in another.) We do, however, expect to deliver the full 30,000 replacements in line with the DWI notice over the 5 year period.