

Confidential to OFWAT

28 August 2015

Resilience Consultation
Ofwat
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By email only to resilience.consultation@ofwat.gsi.gov.uk

Dear Sir

Response to consultation – Reliable services for customers – consultation on Ofwat’s new role in resilience

This response is provided for and on behalf of Independent Water Networks Ltd (“IWNL”) a member of the Brookfield Utilities UK (“BUUK”) group. We welcome the opportunity to respond to the Consultation on Ofwat’s new role in resilience (the “Consultation”).

We broadly support Ofwat’s approach to resilience. Ofwat has defined resilience as:

“the ability to cope with, and recover from, disruption, trends and variability in order to maintain services for people and protect the natural environment, now and in the future”

We agree that this definition embraces the notion that resilience is not limited to the reliability of assets and infrastructure but also focuses on services for customers and the environment.

We also consider it important that Ofwat, in furthering the resilience objective, must continue to embrace the idea of proportionality and must recognise that, in light of the asset classes and types of infrastructure owned and operated by new appointees, such new appointees may need to consider different mitigants to possible hazards, with the delivery of resilient services driven by operational capabilities.

Although we recognise and support the need for resilience to ensure the reliable and continued provision of services to its customers, IWNL considers the delivery of resilient services to customers through operational capabilities and contingency planning to be equally relevant as to delivery through capital intervention. In some cases where a risk based consideration for a specific IWNL geographic region might warrant it, such operational intervention could be more significant in specifying mitigants or contingencies.

Typically IWNL will focus on capital intervention through resilience planning. We believe that this can be achieved through a standards based approach and the continued use of industry and, in some cases, company specific asset design standards. As part of an overall resilience intervention strategy, IWNL looks to understand the full range of possible hazards to particular asset classes within each of its geographical regions and to incorporate mitigating measures.

On the other hand, IWNL would also need to reconcile the likelihood of any hazards occurring against the cost of implementing mitigating measures. As a result of the current charging methodologies, IWNL margins are limited with little scope for incurring excessive costs for capital intensive mitigants. In such instances IWNL would look to support the provision of resilient services through suitable operational responses embedded within its corporate governance process.

The delivery of resilient services to customers is also incentivised through existing statutory and regulatory measures to deliver reliable services to customers. These include compensation payments under companies' guaranteed standards schemes, providing for alternative supplies under the Security and Emergency Measures Direction obligations and preparing Water Resources Management Plans.

It is for these reasons that we agree with Ofwat's approach not to mandate a single approach to resilience nor to set sector-wide targets or to turn resilience into a compliance issue.

However, it should be noted that IWNL is a new appointee that relies predominantly on incumbent undertakers to provide services to IWNL for new developments. IWNL does not own or operate large scale water resources or treatment facilities nor does it own or operate strategic transmission mains for the regional supply of services to a broad customer base. IWNL's infrastructure is ring-fenced on a site by site basis and its assets are dependent on incumbents' assets and delivery capabilities. It is important for this reason that new appointees and incumbents engage with each other to ensure that incumbents' delivery of resilient services are not only limited to their own consumers but also take into account service delivery to new appointees. We believe that Ofwat should be empowered to monitor and oversee any such arrangements and any disputes that may arise in relation to the provision of resilient infrastructure and assets to serve inset sites.

Yours sincerely

Mike Harding
Head of Regulation