



# South Staffs Water

Green Lane, Walsall WS2 7PD  
www.south-staffs-water.co.uk

Resilience Consultation,  
Ofwat,  
Centre City Tower,  
7 Hill Street,  
Birmingham,  
B5 4UA.

By email: [resilience.consultation@ofwat.gsi.gov.uk](mailto:resilience.consultation@ofwat.gsi.gov.uk)

28<sup>th</sup> August 2015

Dear Sirs,

We are pleased to submit our response to the Ofwat consultation on resilience.

**Q1 Is our basic understanding of resilience aligned with your own – are we addressing the right things in the right way?**

We agree with the overall definition that is purposely an all-encompassing definition. We also accept the ten main principles for the sector, being built on the understanding of risk and customer views which we agree are critically important.

Other regulators, such as Defra, the EA and the DWI have had a significant historic impact on resilience and a significant part of the challenge in the past has been to obtain the funding for schemes which have already been agreed with other regulators at business plan time when the focus is on minimising cost and making efficiencies. Although many companies, including ourselves, have been moving away from building costly physical assets in favour of more innovative solutions, it is still often the case that resilience work, especially systematic change, will involve additional cost. If Ofwat has an objective or desire for an overall increase in sector resilience then it needs to accept that this must be funded appropriately and provide itself with the appropriate tools at business plans to be able to assess these schemes appropriately and fairly. In particular we note that the low likelihoods in many resilience problems (eg flooding risk or terrorist threats) can make it difficult for a scheme to pass traditional cost benefit tests.

We also think that more thought is necessary, by Ofwat, companies and other regulators, on how best to assess customer views on resilience projects. Quite often resilience projects have local effects or are only in the minds of those who are immediately affected. The PR14 process highlighted the variation in willingness to pay data across companies and therefore we consider that a more national approach to customer willingness to pay would help consistency across the industry, particularly on common themes such as water supply capability, supply reliability, flooding or water supply contaminations.

As resilience in general has been an active theme for some time, not just in water but across many sectors nationally, we are surprised that Ofwat makes no reference or link to the National Risk Registers and Local Risk Registers which are produced by Government and Local Resilience Forums. Using these as a guide would help companies know what threats to look at and plan for.

[Q2 Do you agree with our view of what Ofwat should deliver, including where we might step in, and what is for others to deliver?](#)

We agree that it is Ofwat's role to develop and provide the right regulatory framework, however there is no mention of the linkage or overlap with the Environment Agency, for example in drought planning, climate change impacts, water resources planning etc.

The EA in particular, but also other bodies too, have significant regulatory powers on the resilience theme and we are concerned that the interactions need to be clear, otherwise we create conflicts and as a company are left juggling regulatory objectives. As an example of this we would point to the experience of companies on the NEP schemes at PR14 where companies were bound by their commitments to the EA yet subject to significant scheme and cost challenge by Ofwat on the already agreed commitments, primarily at a high level via the TOTEX models and special factor claims process.

[Q3 What views do you have on how the water and wastewater sector might measure its performance in delivering resilient services – and the best way for us to demonstrate that we are carrying out our role?](#)

We note Ofwat's view that it will not be setting sector wide targets or standards and that resilience will not become a compliance issue (p.19). It is therefore for individual companies to assess resilience as it pertains to their business, their own regions and their own customer views.

Given the company / region specific focus, we are concerned that attempting to provide comparative performance measures across companies can result in misinterpretation and has the potential to set standards accidentally. This could have highly significant implications for companies from pressure to deliver performance improvements in these metrics, whilst not having the underlying drivers for change.

For example comparing absolute leakage figures between companies does not give the context of that company's resource position, economics of operations, or their customers' preferences. It also neglects to mention the intense water resource planning activity that companies undertake and which is regulated by the EA. It is easy for customers and the media to pick up on seemingly poor performers when in fact the company is fully meeting its obligations in the context of its own operating conditions. For example, the wording of the case study on page 6 expresses as positive that Affinity Water are reducing leakage by 14% (the 'highest in the sector'). This could be misinterpreted as implying that other companies are not doing enough, when in fact they may already have a healthy water resource balance. With resilience metrics context is extremely important.

We are not against the principle of some form of independent audit, but as the definition of resilience is so wide we would like to see some initial guidance on what such an audit would cover and how it would work. Ofwat would need to be careful not to create a disproportionate burden on companies by implementing an audit process to cover all aspects of resilience.

Yours sincerely,

Philip Saynor,  
Director of Finance and Regulation.