WATER UK RESPONSE TO:

RELIABLE SERVICES FOR CUSTOMERS – A CONSULTATION ON OFWAT'S ROLE IN RESILIENCE.

1. Water UK is the policy development organisation for the water industry, representing all major water undertakers in the UK. We span public, private and not-for-profit sectors, from the largest to some of the smallest. We have been working closely with Ofwat on this policy area, and we are pleased to respond to this consultation. Companies have a range of views on the questions asked, and they will be responding individually. However, there are some key points that many in the industry support:

    a. Ofwat are the right body to form a view of the overall resilience of the sector, which is aligned with their new duty;
    b. Ofwat need to be clear about how resilience is incorporated within setting price limits. There needs to be a mechanism that allows efficient investment in resilience to a level that meets customers' expectations, and
    c. The wider resilience landscape is already fairly confused (with Water Resource Management Plans, SEMD, WFD, etc.). Companies would like Ofwat to be clear about how its response to the new duty fits with existing frameworks and guidance.

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

    Whilst companies may have different approaches to many areas of their activity, they are all agreed on the need to ensure safe, reliable supplies for the future. To this end, Water UK undertook, with all of the four Policy Advisory Groups, to work towards a shared understanding of resilience. The groups agreed on this phrase:

WATER UK

"Resilience is the ***ability of assets, networks and systems*** *to anticipate absorb, adapt to and / or rapidly recover from a disruptive event to customers"*

This is close to the Cabinet Office definition. The definition agreed on by Ofwat's Task and Finish Group, and set out on page 10 of the consultation document, is also a good starting point. Companies would be pleased to develop further engagement on what resilience means for the sector, and welcome the Ofwat's recognition that it is important to do this in good time in the run up to PR19.

Companies agree that the scope of the resilience duty should cover both water and wastewater services to customers, and that the companies should take ownership of resilience plans to ensure reliable supplies to customers. They welcome the recognition both that resilience can take time to deliver, and that there is a balance to be struck between more resilient levels of service and a balanced and fair bill. Some companies suggest this will mean:

- greater certainty and confidence to plan over long time horizons;
- appropriate consideration of the potential unintended consequences of regulatory approaches (for example cost assessment methodologies); and
- flexibility and, potentially, incentives for companies to innovate, to realise dynamic efficiencies while improving resilience.

Some companies were keen to make the point that the experience from past events and risks provide insufficient evidence to demonstrate resilience into the future. Therefore, companies should be encouraged and incentivised to plan on the basis of potential future scenarios, taking into account the best available evidence and with an appropriate treatment of uncertainty. In doing so, companies should be better able to take informed decisions that reduce whole-life costs and increase the benefits to society from improved resilience.

One company suggested that Ofwat could engage more with other sectors, for example the energy industry, to understand their resilience requirements and obligations.

3. **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?**

One of Water UK's priorities, in particular for the Environment Policy Advisory Group, has been to develop thinking on resilience. As part of this work Water UK hosted an event earlier this year which brought together members, regulators and government officials to consider what the practical implications of a duty of resilience might be. We are pleased to see that some of the themes that were considered at this event are reflected in the consultation document.

Several themes emerged from the discussions which those attending thought worthy of further discussion:

- Where does risk sit in the industry?
- What are the "business as usual" risks? What are the economic risks of inaction (e.g London or Birmingham without water)?
- Can we find a way of describing scenarios like "high probability, low risk" in a way that customers will find easy to understand?
- Would it be possible to collate the risk assessments already carried out by companies in WRMPs?
- Is the sector resilient to unexpected changes in the future, e.g. A stable workforce, apprenticeships and innovation?
- How quickly can the sector recover? Are we sweating the assets too much? Do we need to re-establish headroom?
- Are there international comparisons we can learn from?
- Can we drive institutional change to ensure greater resilience in drainage and sewerage?
- Evolving more effective partnerships to tackle resilience risks in a more integrated and cost effective fashion;

- Is there a way of adequately anticipating the needs and requirements of customers in the future?

We would be pleased to meet and discuss the best way of answering some of these questions.

Willingness to pay

The other theme that emerged from the event was a desire to understand customers' willingness to pay, especially for environmental improvements. MWH have worked with Water UK to understand what the information companies have gathered can tell us, and these initial findings were presented at the Water UK Innovation Hub earlier this year. MWH are further refining this work and we will be pleased to share it when it is complete.

We have also attached a brief summary of the key themes explored in the Innovation Hub as an Appendix to this consultation response.

4. **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 role?**

Companies believe that the customers should be at the heart of all decisions on resilient water and wastewater services. All companies are considering a successor to the customer challenge groups, and some have suggested that this could be one way of independently assessing performance. Companies have told us that they agree that it would not be appropriate to set a baseline for any resilience.

Some companies have suggested that resilience requires more than industry standards and frameworks – it requires:

- The confidence of stakeholders in the industry at a local and national level;
- An understanding of other sectors' needs and inputs as, and,

- The ability to deal with uncertainty, and the timeframe over which risks and opportunities to resilience emerge.

As always, we would be more than happy to discuss any parts of this consultation response with you in more detail.

RESILIENCE: ENVIRONMENT, INVESTMENT AND CUSTOMERS
A WATER UK INNOVATION HUB
Tuesday 16th June 2015, hosted by IBM
EVENT REPORT

Resilience is far from a new concept for the water industry. It is at the heart of the industry; decisions made today can have impacts for generations. It has come into sharper focus of late as a key area of the policy response to a series of emerging challenges including climate change, population growth and ageing infrastructure. As a result, the 2014 Water Act prescribed a new primary statutory duty for Ofwat to further the resilience objective.

On 16 June, Water UK hosted an Innovation Hub focusing on *Resilience: Environment, Investment and Customers*. It brought water companies and other key stakeholders together to share ideas and experience and to work towards the development of a shared vision for the years ahead.

This event report summarises the exchange of understanding and expertise from this, our sixth annual Innovation Hub. It will inform our policy work and feed into the policy work of others as we look to contributing to a roadmap for the future addressing the resilience challenge.

The programme

9.30am	**Welcome** Pamela Taylor, Chief Executive, Water UK
9.40am	**Regulatory keynote** Cathryn Ross, Chief Executive, Ofwat
10.00am	**The definition, challenges and opportunities of resilience** **How resilience for tomorrow starts today** Understanding the risks of different approaches Led by Peter Simpson, Chief Executive, Anglian Water Group
10.20am	**Ideas Exchange: A forum to exchange perspectives from across the sector** **Investor viewpoint** Neil Griffiths-Lambeth, Associate Managing Director Infrastructure Finance Group, Moody’s **Water industry resilience - friend or foe to sustainability?** Rob Cunningham, Head of Water, RSPB **Customer viewpoint: Willingness to Pay** Chris Barker, Technical Director, MWH Bruce Horton, Principal Sustainability Consultant, MWH
11.20am	**NETWORKING BREAK**
12 noon	**Mitigation and adaption: Protecting your network** Led by Richard Flint, Chief Executive, Yorkshire Water Panel: Knowledge transfer and external insights Chaired by Ancel Boucher, Water Industry Lead, Energy & Utilities Team, IBM Clive Bairsto, Global Head of Business Resilience and Continuity, National Grid Richard Flint, Chief Executive, Yorkshire Water Dr Vicky Pope, Head of Integration & Growth, Met Office
1.05pm	**Networking lunch**
1.45pm	**Resilience for the future: Getting the balance right** Led by Chris Loughlin, Chief Executive, South West Water
2.05pm	**Delivering 21st century drainage** Sarah Mukherjee, Director of Environment, Water UK
2.20pm	**Challenge Hubs: Moving the debate forward** Facilitated roundtable discussions Led by: Sarah Mukherjee, Director of Environment, Water UK
3.30pm	**Close**

Challenge Hubs: Moving the debate forward

There was lively discussion amongst six groups. The key points are summarised below.

What are the risks that lie behind the provision of water and wastewater services to customers, the environment and society?

- Customer behaviour and attitudes
  - Customers not valuing the service or product and "taking water for granted". If customers do not care how or where their water comes from, this could be a challenge when needing their support for resilience measures in the future
  - Customers perceiving water as a 'right' – interruptions are not acceptable
  - Customer attitudes towards re-using water is not always positive
- Affordability – customers' future ability to pay
- Mindsets – the environment and society are viewed separately – this requires an integrated approach
- Stress on environmental capacity
  - Over-abstraction and the capacity to assimilate discharge impacts upon the quality of water available from the environment.
  - The variability and unpredictability of weather such as:
    - distribution of rainfall
    - too much water from instances such as flooding
    - multi-year droughts
  - Changing ecology – changing customer/regulatory expectations
- Changing demand for water, considering the predicted 4°c increase in global temperature and:
  - people's expectation to have green lawns, air conditioning etc.
  - agriculture sector's needs
  - ground movement – affect to leakage and ground inundation
- Migration driven by climate change
- The risks and additional costs surrounding stranded assets
- Uncertainty creates risk because of the prospect of not knowing and potential outcomes.

Opportunities, development and implementation

Delegates debated what needs to be done to realise the potential of non-capex and demand-side measures. From developing the customer relationship and how this might impact on customers' willingness to pay, to where there are opportunities to make the whole "system" more resilient, particularly addressing non-capex solutions and leveraging the opportunities totex could provide.

Customer relationship

- Empower employees to improve customer services
- Develop trusted brands - this may require education. For example, the work of green energy companies to educate children from a young age about the importance of recycling
- If customers are perceived to take water for granted - develop communication to demonstrate the importance and value of water - address the gap. May not help with willingness to pay, but may have positive impact for emergency situations
- Take a strategic and political approach to gaining headroom or capital with customers both domestic and commercial, for example, engage with agriculture sector at all levels.

Information sharing

- Opportunities exist within urban design to make the whole system more resilient, leverage City affiliations and learn from examples from other countries
- Capture learning from city regeneration plans
- Share different water companies approaches to resilience – regional based or distributed
- Could building regulations that already drive water efficiency enable even greater impact on demand-side consumption?

Finance

- Review totex ways of thinking as companies are still recording capex and opex
- Are finance teams driving an opex orientated budget and missing other opportunities ?
- Create internal funding review groups to consider both opex and capex
- The industry needs to take into account NPV of both opex and capex; the solution is to avoid jumping straight to capex.

Potential partnerships and collaborations

Discussion closed by focusing on identifying those beyond the water companies that could help the industry meet the challenges of resilience.

- Senior government leaders
    - Promote integration of the value of water
    - A strategic political approach is needed from the top to set the example and to promote the integration of the value of water across the UK
- Ofwat promoting flexibility to alternative solutions – as achieved with South West Water on funded third party projects

- Engagement with all those involved in water reform planning
- Large water users such as agriculture and other sectors
- New entrants, who may also have new ideas and approaches
- Catchment-based water management companies e.g. NGOs, water companies, local authorities, landowners, farmer representative bodies, angling clubs
- Incentivise the supply chain, including contractors, to provide non-traditional solutions such as “green” solutions
- Enable flexibility and innovation within water company procurement teams to leverage opportunities and innovation from collaboration with the supply chain
- Leverage the opportunities that the localism agenda and local action plans are driving to encourage companies and agencies to work together
- Collaborative solutions to multiple problems, for example, multi-agency approach to address property and highway flooding
- Collaborate with: customers, property developers, power companies, supply chain and other utilities.

Actions

Participants identified a range of actions for Water UK and others.

Water UK

- Continue to engage with Ofwat to drive successful and innovative resilience plans forward and to share where Ofwat have developed flexible innovative approaches such as the approach to third-party funded projects at South West Water
- Facilitate building a better relationship with the agricultural sector
- Continue providing a forum for the industry to share ideas, different approaches and explore new ways of thinking from ideas
- Facilitate collaboration and learning opportunities with other sectors e.g. energy, urban designers, government and regulators for example, identify inter-sector resilience activity on cities and seek industry involvement
- Contribute to Ofwat’s consultation on resilience.

Industry

- Develop customer communication on the importance and value of water to contribute to the development of a trusted brand
- Review internal organisation operations including totex ways of thinking, incentive schemes with supply chain, organisational structures
- Explore ways to collaborate and work with other sectors such as energy, agriculture, local authorities, supply chain

- Address the communication gap - communicate the importance and value of water to all its customers
- Take responsibility for the delivery of resilient services through owning customer relationships
- Maintain the industry’s attractive investment proposition.

Delegates

First name	Surname	Company
Clive	Bairsto	**National Grid**
Andrew	Ball	**South East Water**
Chris	Barker	**MWH**
Ancel	Boucher	**IBM**
Gail	Boucher	**Lodestar**
Tim	Bowen	**Costain**
Simon	Boyland	**United Utilities**
James	Bullock	**United Utilities**
Sarah	Burnop	**IBM**
Graham	Butler	**IBM**
Alison	Clegg	**IBM**
Nick	Cliffe	**Innovate UK**
Jacqui	Collins	**Water UK**
Rob	Cunningham	**RSPB**
Gareth	Dalglish	**Natural England**
Daniel	Davies	**Dwr Cymru Welsh Water**
Andrew	Dunbar	**Scottish Water**
Roger	Eatwell	**Deloitte**
David	Essex	**Arup**
Richard	Flint	**Yorkshire Water**
Miles	Foulger	**Yorkshire Water**
Emma	Frith	**Water UK**
Camilla	George	**Deloitte**
Karen	Gibbs	**CC Water**
Dominic	Gogal	**WWF-UK**
Daniel	Green	**Wessex Water**
Neil	Griffiths-Lambeth	**Moody's**
Sarah	Hendry	**Defra**
Martyn	Hopkinson	**Future Water Association**
Bruce	Horton	**MWH**
Steve	Howells	**IBM**
Kathryn	Hughes	**Yorkshire Water**
Alli	Hull	**Severn Trent**
Louise	Jackson	**Dwr Cymru Welsh Water**
Dr. Hans	Jensen	**UKWIR**
Ceri	Jones	**Northumbrian Water**
Steve	Kaye	**Anglian Water**
Dr Mike	Keil	**Severn Trent**
Richard	Kershaw	**Yorkshire Water**
Sona	Khagram	**Deloitte**

Delegates, continued

First name	Surname	Company
Mike	King	**Bristol Water**
Ian	Kirkaldy	**Southern Water**
Tracey	Legg	**Bournemouth Water**
James	Leigh	**Deloitte**
Mark	Lille	**Deloitte**
Chris	Loughlin	**South West Water**
Deepak	Malhotra	**Deloitte**
Simon	Markall	**Ofwat**
Paul	Martin	**South Staffs Water**
Gavin	McHale	**Veolia Water**
Sarah	Mukherjee	**Water UK**
James	Mulliner	**IBM**
Karma	Ockenden	**The Water Report**
Chris	Offer	**Affinity Water**
Mike	Pocock	**Affinity Water**
Dr Vicky	Pope	**Met Office**
Milo	Purcell	**Drinking Water Inspectorate**
Richard	Ratcliff	**MWH**
Allan	Reef	**Dee Valley Water**
Gordon	Reid	**Scottish Water**
Rob	Riley	**Accenture**
Cathryn	Ross	**Ofwat**
Nicci	Russell	**Ofwat**
Alan	Scott	**Scottish Water**
Thomas	Sharples	**Water Industry Commission Scotland**
Christopher	Shipway	**Thames Water**
Peter	Simpson	**Anglian Water**
Dr. Heather	Smith	**Cranfield University**
Lester	Sonden	**Sutton and East Surrey Water**
John	Spence	**Southern Water**
Jean	Spencer	**Anglian Water**
Alan	Sutherland	**Water Industry Commission Scotland**
Pamela	Taylor	**Water UK**
Jacob	Tompkins	**Waterwise**
Paul	Treagust	**Portsmouth Water**
Mark	Walters	**JP Morgan Asset Management**
Steve	Webber	**J Murphy and Sons**
Rob	Wesley	**Water UK**
Mark	Worsfold	**South West Water**