

Reliable services for customers – consultation on Ofwat's new role in resilience

Resilience Consultation

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Dear Ofwat,

Thank you for the invitation to provide views on how you intend to secure the new primary duty to further the resilience objective as set out in the Water Act 2014. Our responses to your specific consultation questions are set out below.

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

We consider that the concept of resilience should cover any risk to supplying customers. In this regard, we consider that Ofwat's working definition of resilience developed by the independent 'Task and Finish Group on resilience' is helpful.

In terms of how this view of resilience translates into operational and strategic activities, our approach to assessing our supply resilience considers whether an asset is critical based on a set of criteria¹. Using a methodology based upon the guidelines presented in UKWIR Report: RG06 Resilience – Making a Business Case for PR14 (2013), we then consider the likelihood of a list of hazards² occurring, which enables us to develop appropriate risk mitigation measures. The whole process has been independently audited by a third party. This is entirely consistent with the approach you propose where you state that true resilience planning is based upon asking a series of 'What If' questions.

A good example of resilience is removing the overdependence of customers on a single asset. Within the previous AMP period, we have built the Bristol Resilience Scheme, which provides improved security of supply to over 150,000 customers in central Bristol. The new network assets allow us to move water from our northern sources into the heart of Bristol in the event of a loss of supply from our southern, Mendip based sources.

We note that the Water Act 2014 is very clear in its wording, with the specific focus firmly on infrastructure resilience. For instance, the resilience objective talks about securing the long-term

¹ Methodology for the determination of asset criticality, Bristol Water, 2013 revision

² Examples of hazards considered are severe weather, site access issues and loss of power supplies

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resilience of supply systems, as well as undertaking long-term planning, investment and water resource management to secure the ability to meet future demand. Ofwat's working definition of resilience, in so far as it impacts on policy decisions, etc., must clearly relate back to the specific wording of the duty and the objective it was intended to achieve.

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?

Whilst we agree with you that it is for the companies to own and deliver resilience, the Water Act 2014 requires Ofwat to secure the resilience objective. This is a strong requirement and therefore we would expect Ofwat to;

- set up a number of Key Performance Indicators (KPIs) to monitor resilience; and
- require companies to assess potential improvements in resilience, consistent with customer views.

This would allow Ofwat to monitor companies' performance on resilience, as well as having a framework to ensure resilience considerations were effectively taken into account at future price control reviews. We understand the reasons why you are reluctant to set specific standards for resilience and we agree that customers preference for the level or speed of change in resilience may vary from area to area. We believe it would be useful for companies to report against standard comparative measures (see response to Q3 for suggestions) and that a standard methodology is used for assessing risk.

We would also suggest that in light of the Water Act 2014's requirement for Ofwat to promote appropriate long-term planning and investment by relevant undertakers, it may be beneficial to introduce 25 year plans for resilience akin to the existing Water Resources Management Plan. This would be entirely consistent with Ofwat's current thinking in the Water2020 consultation, where you are considering how best to incentivise companies over the longer term.

We also consider that sensible thought should be given as to the most appropriate ways to ensure that customer priorities and preferences in relation to resilience are understood and reflected in company plans, both in terms of the scope of the proposed activities, affordability and willingness to pay. We agree with your observation that different communities and groups of customers will have different views on this, particularly in light of historic experience, and we consider that each company should be empowered to respond appropriately to the needs and concerns expressed by its customers based on their circumstances, with any interventions based on comparative benchmarking being sensitive to that.

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?

In our business plan, we have the Outcome 'Resilient Supply'. Our performance measure for this Outcome is 'Population at risk from asset failure' and is defined as populations in centres of greater than 25,000 who are at risk of supply failure in the event of failure of a single supply asset serving them. We also have a sub-measure relating to populations of greater than 10,000. Having a standard

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comparative measure for the number of customers dependent on a single asset would enable Ofwat to assess the vulnerability of customers to service failure and we strongly recommend Ofwat adopts such a KPI.

Another potential comparative measure for resilience is the expected frequency of loss of continuous mains supply due to drought (eg. rota cuts/standpipes). This gives an indication of how resilient a company is to periods of drought. The imposition of standpipes/rota cuts on a population would have significant adverse effects on the communities affected in both economic and social terms. Understanding the risk of this is important if resilience is to be properly monitored.

If Ofwat is monitoring companies' performance on resilience through a set of standard KPIs, it should not be necessary for you to seek independent reports as all companies' data will be assured.

Other comments

In section 4, you set out a series of principles that are intended to capture types of behaviour that will contribute to resilience. Whilst these make sense as high level concepts, we would be concerned if these were to detract Ofwat's focus from securing the resilience objective as specifically defined in the legislation. Ofwat should also be clear that the resilience planning principles outlined in 'Resilience – outcomes focused regulation'³ continue to remain valid for the sector to follow, and should not be seen as having been replaced by the behaviour-related principles.

Please contact us if we can be of further assistance on this.

Yours sincerely,



Mike King
Regulatory Director

³ Resilience – outcomes focused regulation, Principles for resilience planning, Ofwat, May 2012

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