

# Reliable services for customers - consultation on Ofwat's role on resilience

## Introduction and general comments

This is Bournemouth Water's response to Ofwat's 'Reliable services for customers – consultation on Ofwat's role on resilience'.

Culturally we are a resilient sector, familiar with the need for resilience and responsive to the wants and needs of both customers and society in general. The PR14 focus on customer engagement has further concentrated companies' attention on what really matters to their customers, while sector-wide regimes such as the SEMD and Drinking Water Safety Plans provide robust frameworks and approaches within which to work and which provide a national focus.

That said, we agree that more can be done to further resilience. Companies need to collaborate more and the regulatory regime needs to be more flexible and longer-term in its approach. Ofwat faces a significant challenge to reconcile its new duty of resilience with its recent short-term approaches. Companies too will need to rise to the challenge to become more innovative and collaborative in their approaches, particularly in relation to water trading. However, in any discussion about resilience in the water sector it is hard to get away from the fact that to achieve full service delivery resilience there will inevitably be a need to invest in new and potentially expensive infrastructure. How many of the UK's surface water treatment works, for example, are able to rely on bankside storage? Or have sufficient interconnectivity with other plants to be able to deliver normal service during a pollution event? Investment will result in an impact on bills and the probability of occurrence of a serious incident needs to be weighed up against this. But there is no doubt that improvements in service resilience can require substantial investment.

This new regime should take the best of what already takes place and build on it. It is essential that it takes a long-term view that enables companies to plan to deliver resilient services for future customers and it must take national considerations into account. It should not be overly prescriptive and should allow companies the flexibility to deliver what is relevant to their situation and evidence their contribution to furthering resilience. However, at present it is not clear how major regional or national resilience infrastructure in the water sector would be promoted. In such cases costs and benefits could be shared across several water companies – but there is no obvious regulatory mechanism to facilitate this.

Resilience should be viewed across the value chain. It is sector-wide and will require all stakeholders to co-operate and collaborate for the benefit of customers, wider society and the environment. Regulators alone should not develop the new regime, all stakeholders must play their part and we support the Water 2020 initiative.

Introducing a formalised approach to evaluating sector resilience should facilitate moving it to higher levels and we welcome the opportunity to contribute to the debate both now and in the future.

Our responses to the specific questions are below.

## **Responses to questions**

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

Resilience is long-term, requiring long-term strategic planning and an appropriate degree of redundancy in systems to ensure they're there when needed. The descriptors used by Government in 'Keeping the Country Running' (2011) are aligned with our own thoughts.

We broadly agree with Ofwat's thoughts. However we are unclear as to why the Task and Finish Group on Resilience has developed its own definition of resilience when in our opinion the definitions in 'Keeping the Country Running' are more concise and therefore easier to evaluate against.

The Task and Finish group's definition, which Ofwat intends to use to inform its work, is at such a high level we cannot see that it will provide a sufficient reference to evaluate and report against.

**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 broadly agree with the view of Ofwat's role set out on page 15 and with the examples of ways in which the sector could be supported. However as Ofwat's duty is to 'further' the resilience objective we suggest it also needs to facilitate companies and other stakeholders working together.

Facilitating the framework that allows the sector to focus on the resilience needs and wants of their customers and deciding what is appropriate, will enable the companies to enhance the customers' trust and confidence. However the need for a long-term view may at times conflict with customers' own views, for example in times of cost of living pressures, customers may not see the benefits of investing in ways to manage water resources over the longer term. Ofwat will need to work carefully with companies should these instances arise rather than focussing purely on customers' views.

Other regulators' actions could affect Ofwat's and companies' ability to further the resilience of the sector. For example, abstraction reform could impinge on the available water for customers. In line with principle 7, 'partnership' it will be necessary for regulators to also collaborate.

Ofwat will also need to clearly define how and when it would step in with regard to any issues it has identified. A framework or flow diagram could be produced for comment on how and when Ofwat should step in. This would provide clarity to all stakeholders.

**Q3.** *What views do you have on how the water and waste water sector might measure its performance in delivering resilient services – and the best way for us to demonstrate that we are carrying out our role?*

A company's corporate risk register, its key strategic risks and controls would provide a company-specific baseline against which to measure the resilience issues listed in resilience principle 1.

Outcome and performance commitment delivery would further demonstrate increasing resilience in areas that matter to customers.

Ofwat too should be accountable for demonstrating what it has done to further resilience and it would be appropriate for it to report its activities and any quantifiable outcome arising from them on an annual basis.

*Request for views: In relation to how might customers know their service providers are getting it right. - We would welcome views on this point, including how it might be done at all – and whose role that should be.*

It is for companies to effectively engage with, and be accountable to their own customers and stakeholders. This could be achieved via an annual assurance statement expanded to include information on what companies are doing to ensure resilience and their response to customers' specific issues. The requirements of the performance monitoring framework will complement the process.

Ofwat must be responsible to wider society for collating an overall view of resilience in the sector and highlighting areas where it has assessed that further work is required.

### **Further responses to requested companies' views**

*We welcome views on indicators of resilience and leading indicators of resilience-related risk that we could include in our assessment framework.*

In line with our response to question 3 it would be sensible to use existing measures that evidence resilience in specific areas and thereby reduce the need to develop new measures.

- Boards' own key strategic risks and the control measures in place could provide company-specific information on the assessed level of resilience and residual risk.
- Outcome and performance commitment delivery
- SEMD audits, compliance with CPNI guidelines, CPNI audits and Water Safety Plans are all indicators that would provide relevant information.
- Company risk registers and control measures, disaster recovery processes, key financial ratios, and Water Resources Management Plans are further company-specific examples.

Used in conjunction with any new measures these would provide robust indicators.

*We also welcome views on whether there are specific approaches we might usefully alert service providers to as part of our wider engagement with them.*

This question aligns with our view that Ofwat should facilitate the furthering of resilience. We agree that service providers cannot deliver resilience in isolation and in this case we support Ofwat creating a collaborative framework for consulting other stakeholders and encouraging dialogue.

Facilitating such discussion and encouraging partnership approaches would be a valuable approach.

*How best to provide information to customers and wider society*

Companies' annual reports and assurance statements, plus their progress against outcomes and performance commitments will provide stakeholders with ongoing company-specific resilience status.

Any sector-wide assessment or independent report that Ofwat commissions should be put in to the public domain, along with Ofwat's own annual report as suggested in our response to question 3.

*The questions a service provider might ask itself in assessing resilience and the stress tests it might perform.*

We can further develop our existing audit and exercise programme and conduct stress tests. A stress test example could be a desk top risk assessment review against specific criteria set by Ofwat. The frequency of such a test would be bi-annual.

*In particular, we would welcome views on whether we should seek independent reports, which service providers would need to fund, from time to time on company-specific or cross-cutting sector resilience issues, and on what criteria we might use to trigger such reports.*

We support the concept of an independent strategic review of the sector's resilience status which could be undertaken no more than once per price control period and used to track the effectiveness of the regulatory framework in furthering resilience. Ofwat, companies and stakeholders should fully participate in the process to ensure a robust analysis.

Any company-specific issues and investigations should be triggered by Ofwat's risk-based approach and the trigger points used previously ie reporting, horizon scanning, third-party information, the response to events and so on.

Companies have differing risk appetites and resilience issues and these will reduce the effectiveness of cross-cutting sector initiatives. We therefore do not at this point in the development of the process see how such a review would add value.

*We also welcome your views on any other aspect of this consultation.*

Increasing competition, especially in regard to upstream and abstraction reform, will make measuring, reporting and governance more difficult as there will be conflicts of interest.

### *Views on financial structures*

We agree with Ofwat's statement that the choice of financial structures is a matter for service providers and their investors. We do also agree that high levels of gearing may leave companies with fewer options for raising additional finances and therefore having the available investment for resilience programmes and/or being able to react quickly. The *structure* of debt also places constraints on companies, for example securitised long term debt means that changing ownership structures is more challenging and companies also have less flexibility in how they may operate.

### *Resilience principles for the sector*

We broadly agree with the high level principles but have some concerns with the content. Furthering resilience will be collaborative and not necessarily 'black and white' and this needs to be recognised. For example, as we have previously highlighted we are of the opinion that there may be occasions when the 'national good' will need to take priority over customers' stated wants, needs and willingness to pay, and this does not come across in the principles. While we support the concept that customers' views are key we question whether resilience should be treated more as a fundamental national issue.

## **Summary**

To summarise:

- The new regime should take the best of what already happens and build on it. It must be long-term in its approach and be flexible to companies situations while also considering the national need.
- We accept and agree that companies should take ownership, but also that Ofwat must also play its part in delivering its duty by facilitating stakeholders to jointly further resilience.
- Ofwat also needs to ensure that the principles underlying PR19 support this longer term view on water resource planning and investment.

*Bournemouth Water  
August 2015*