

## RESPONSE TO WATER SERVICES REGULATION AUTHORITY'S (OFWAT) CONSULTATION ON RELIABLE SERVICES FOR CUSTOMERS – OFWAT'S ROLE IN RESILIENCE

### 1.0 Summary

- 1.1 We welcome Ofwat's new duty on resilience and its ongoing commitment to ensuring the resilience of services in the water sector. We agree with Ofwat's aim to create a regulatory framework to enable, incentivise and encourage service providers to plan and invest for resilient services now and in the future. This is consistent with Defra's policy on resilience 'Climate Resilient Infrastructure: Preparing for a Changing Climate', in which Defra outlines its ambition for effective and reliable infrastructure that enables economic growth. We believe this Strategic Policy Statement should be used to direct both Ofwat and water companies in their resilience duties.
- 1.2 As the environmental regulator of the water industry we believe there needs to be a strong focus on:
- resilience of the public water supply infrastructure to severe droughts
  - retaining adequate water within the environment to protect ecosystems
  - resilience of wastewater networks to sewer flooding and pollution incidents
  - managing coastal, groundwater, surface and fluvial flooding risk to assets and infrastructure
  - managing and adapting to the heightened pressures resulting from climate change
- 1.3 We note that Ofwat's remit, as set out in the Water Act 2014 is focused on a resilient water industry. However, we believe it is important that resilience in the water industry is placed in the wider context of a resilient environment, taking into account all water users.
- 1.4 The consultation document sets out a high level approach to resilience. We would like to discuss the proposals in more detail, in particular Ofwat's expectations of the companies and when it might intervene. We make the following points on resilience and the proposals within the consultation:
- We believe primary responsibility for assessing resilience risks to business operations and delivering any strategic infrastructure to improve resilience should rest with individual businesses.
  - An integrated catchment planning approach should be taken to resilience planning. Water resources supply, wastewater and environmental resilience should be considered together. We believe planning should explore options that maximise multiple benefits for all water users.
  - We agree that resilience is 'reliability' in its broadest sense. Resilience planning is as much about managing ongoing risks (asset deterioration) as it is extreme events.

- The approach, assumptions, decisions and conclusions around resilience planning should be transparent. This should include what is and what is not planned for.
- We believe that companies should more clearly state the levels of service offered to their customers by explaining return periods in terms of the duration and magnitude of events.
- In setting resilience targets, we believe companies should take account of customer's willingness to pay along with wider social, economic and environmental considerations. The levels of service offered to customers and the environment should be clearly explained and set out by companies.
- We believe further work is needed to understand the strategic infrastructure and resilience needs for England. We plan to work with Ofwat and the water companies along with other water using sectors to review strategic options for increasing resilience in this area.

## **2.0 Environment Agency response to the specific consultation questions**

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

- 2.1 Overall, we believe that Ofwat is addressing the right issues appropriately. We welcome recognition of the need for resilient ecosystems. We would like to understand how Ofwat might apply more detailed approaches on adapting to a changing climate as set out in Defra's Strategic Policy Statement.
- 2.2 We agree with Ofwat's working definition and basic understanding of resilience and are pleased to note that the natural environment features in this definition. Care needs to be taken to ensure that the appropriate weight is given to both wastewater and water resource activities. It is also important to recognise that the biggest risk to resilience is not necessarily an "event"; smaller aggregated or accumulative impacts such as climate change, insufficient asset renewal, or development can have greater unobserved effects.
- 2.3 We believe the proposed focus on the resilience of both services and systems is the right approach. Customer behaviour can be as important as infrastructure, for example in managing demand during drought, or preventing blockages of sewers, by following good practice.
- 2.4 How Ofwat require companies to consider resilience in the next price review and the transparency of this process is important. Ofwat's work with UK Water Industry Research (UKWIR) on resilience planning was a significant step forward at the last price review. This should be assessed in terms of whether the industry is more resilient as a result of the price review in 2014.
- 2.5 We support Ofwat's resilience principles for the sector, which include putting resilience at the heart of the business and recognising that resilience, and service provision, should be valued appropriately. We agree with Ofwat's view that increased resilience for the future may mean additional investment now,

and that trade-offs between current and future customers' services and bills will need to be discussed with customers.

***Q2. Do we agree with Ofwat's view of what it should deliver, including where it might step in, and what is for others to deliver?***

- 2.6 Ofwat's list of proposals for how it might enable, incentivise and encourage companies seem appropriate. Further information on where Ofwat might plan to intervene when assessing companies' progress would be helpful.
- 2.7 Drought plans, climate change adaptation plans, water resource management plans (WRMPs) and flood resilience plans are all key mechanisms for driving resilience within the companies. We will need to continue to work together on expectations around resilience through these important processes.
- 2.8 We agree that responsibility for planning and delivering any strategic infrastructure to improve resilience should rest with individual businesses taking into account the needs of other water users and the environment. This should include resilience targets and performance commitments. It would seem appropriate for Ofwat to maintain responsibility for carrying out industry level assessments. We believe Ofwat should also consider providing advice on national planning decisions that affect the water sector. This would help with decisions relating to interconnections with other companies and major infrastructure. This new legislative requirement on Ofwat provides an excellent opportunity to raise the profile of interconnections between companies.
- 2.9 We believe it is a good idea to use resilience principles to encourage particular behaviours. In providing a clear understanding of the risks to services (principle 1) there needs to be a clear link to existing processes such as WRMPs and drainage strategy frameworks.
- 2.10 The list of Ofwat's duties on page 18 does not include any consideration of the impact on the environment. We would like to see an acknowledgement of the potential consequences of decisions made by Ofwat on the environmental duties of other regulators, and other water users.
- 2.11 Ofwat should acknowledge the Secretary of State's resilience power and its role if the Secretary of State was to use it.

***Q3. What views do we have on how the water and wastewater sector might measure its performance in delivering resilient services – and the best way for Ofwat to demonstrate it is carrying out its role?***

- 2.12 Measuring performance is a key part of resilience planning. It is important to understand what steps are being taken to minimise the consequences of high return period natural events or what progress is being made on managing long-term pressures. The outcome of resilience schemes may not be realised for many years so it is not always easy to relate outcomes to actions. This should be clearly explained to customers and accompanied by a standard set of scenarios so that customers can benchmark proposed resilience performance.

- 2.13 Ofwat’s consultation favours encouraging behaviours rather than setting standards. This focus on outcomes is likely to help innovation and efficiency. However, there is also value in setting minimum standards in a regulated industry, e.g. minimum standards for flooding for key pieces of infrastructure. Ofwat does not need to define the minimum standards, but it could require the industry to define and justify the recommendations.
- 2.14 A specific example of how the sewerage system performance can be tracked long-term is the use of event duration monitoring at storm overflows which will have good coverage by 2020. Ofwat and other regulators should continue to review company plans, including water resource management plans and drainage strategy frameworks to check they cover long-term resilience.
- 2.15 We agree that it would be useful to set out the characteristics of a resilient service provider. This could include stress tests and descriptions, and examples of good practice, similar to those included in the consultation. We have applied a similar approach in developing our own expectations of operational performance for companies and would welcome the opportunity to join with Ofwat to develop a similar set of expectations on resilience.
- 2.16 The consultation suggests that service providers will need to consider how they measure and demonstrate their work in delivering resilient services. We support this and suggest companies should publish this work to share good practice.
- 2.17 Ofwat may wish to consider adopting metrics for reporting how water companies are meeting the challenges of adapting to a changing climate and the interactions with development and other water users. The following metrics are contained in the Committee on Climate Change’s recent statutory report on the national adaptation programme:

<b>Indicator Description</b>	<b>Indicator Type</b>	<b>Data Sources</b>	<b>Time Series</b>
Amount of actual and planned investment in resilience measures by water companies	Action	Water companies	2010-2020
Reduction in leakage (Ml per year)	Action	Ofwat	1992 - 2011
Number/length of water company sewer networks in poor condition	Vulnerability	Not identified	
Volume/amount of investment in renewals of sewer networks (actual and planned)	Action	Not identified	
Number of interruptions to supply due to severe weather	Realised impact	Data does not record cause of interruption.	

### **3.0 Conclusion**

We support Ofwat's aim to create a regulatory framework to enable, incentivise and encourage service providers to plan and invest for resilient services now and in the future. We agree that these high level proposals indicate that Ofwat is addressing the right issues appropriately. We would like to work with Ofwat in developing more detailed proposals to ensure that the resilience needs of both regulators for water companies are aligned and integrated across all aspects of water company businesses, taking into account impacts on the environment and all water users. This should include identifying clear responsibilities for long-term national planning for resilience of water supply.

#### **Further information**

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