South East Water's Response to Ofwat's Consultation on Reliable services for customers – consultation on Ofwat's role on resilience

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This paper sets out South East Water's views in response to Ofwat's role on resilience.

1 INTRODUCTION

The following document provides South East Water's response to the 'reliable services for customers – consultation on Ofwat's role on resilience'.

2 GENERAL COMMENTS ON THE APPROACH

Within the consultation document, Ofwat states the proposed definition of resilience created by the Task and Finish Group. Upon review, this document does not consider the company's ability to plan for events, as well as react to them. We propose a slight amendment to the definition, as follows;

"Resilience is the ability to, ***plan for,*** *cope with, and recover from, disruption, trends and variability in order to maintain services for people and protect the natural environment, now and in the future."*

We believe that this new amendment better defines resilience in the water industry.

Ofwat's document currently discusses different forms of resilience, financial resilience, corporate structures and asset network resilience. For this response, we will be focusing on the asset and network elements as we believe financial and corporate resilience are adequately covered under the proposed financial monitoring framework as well as many other existing Licence and governance conditions. We also believe that the new duty was intended to focus on the ability of assets and processes to provide resilience in key areas.

Within this response, we focus on an overall approach to discharging the resilience duty and improving the confidence customers and stakeholders will have in the industry's ability to operate whilst remaining resilient. We believe in doing do so we have covered the three key questions relating to definition, Ofwat's role, measurement and accountability detailed in the consultation document.

We do this under three key headings:

1. Understanding the current resilience position.
2. Understanding the variability in the current position.
3. Understanding the ability and likelihood of the current position to change.

We then move to a proposed framework that given this understanding, will enhance confidence in the industry. This will be achieved in part by providing customers with equitable and transparent service levels without necessarily impacting customers' bills.

Understanding the current resilience position

A fundamental part of understanding and discussing risk and resilience at an industry and company level is to agree how resilience should be measured and articulated. Without this information we are merely discussing resilience changes and not resilience itself.

We would therefore propose that the first step should be to create a framework that specifies a range of resilience measures and baseline standards to allow the current resilience levels to be understood and compared across the industry.

We propose that the industry in collaboration with Ofwat, should develop this framework and request companies to provide their individual data against a set of key measures. For the water service, these measures would include items such as:

- Frequency of hosepipe restrictions;
- frequency of environmental drought permits and orders;
- frequency of drought driven civil emergency;
- number of sites at risk of flooding under set return periods;
- number of customers on a single source;
- number of customers reliant on a single strategic main.

This is a basic list that in some cases will need to be caveated by other approaches used to enhance resilience, such as differing maintenance regimes (i.e. dual assets to reduce failure). It does however, present a real opportunity to understand current resilience.

This information will provide a baseline position to assess and discuss whether the current position is rational, defendable and if known by customers would increase or decrease their trust and confidence in the industry. We would then propose asking customers whether this variation is appropriate and whether they would prefer a regional or national set of resilience standards.

Understanding the variation in the current position

To inform this response, we have examined the variability in the current resilience standards in the public domain. For example; looking at data in company's drought plans, it is apparent that the variability of resilience measures across the industry, as well as the differing levels of service offered on a limited range of measures (see Appendix 1). Once gathered, we expect other measures to show the same degree of variability. This will then encourage conversations to be held between stakeholders, customers and companies with regards to the appropriateness of this variability.

Understanding the ability and likelihood of the current position to change

The proposal within this consultation appears to focus on resilience standards being led by customers and implemented by companies. Whilst South East Water fully supports general

service levels being set in this way (i.e. aesthetic water quality standards, retail service levels etc.), we do not support the customer being used to set standards for resilience. This statement has not been made lightly and is based on experience and evidence.

To also better inform this response, we have conducted an industry survey (details will be provided once complete) which demonstrates that across the last three price review periods, a notably small percentage of resilience linked service standards have been changed as a result of customer consultation.

Many standards have remained the same since privatisation, particularly the key standards such as the frequency of hosepipe bans. We would therefore suggest that this can be for any combination of the following reasons:

- The cost of changing the service level (either improved or reduced resilience) against the benefit to the customer is not deemed to be beneficial from the customers' point of view.
- The way we have to articulate resilience (i.e. in terms of highly unlikely yet big impact events) is difficult for customers to relate to (e.g. discussing 1 in 200 year flood events).
- There is a strong preference for maintaining the status quo at the current risk level for fear of unintended consequences.

This position has determined that the variation ingrained into companies over time has been retained whilst remaining diverse. It also suggests that in using customer engagement in the future we are unlikely to see changes to the resilience of the industry unless driven by real failures that customers can then relate to.

Due to the importance of resilience in the industry and the clear objective that resilience standards should be changed as a proactive measure designed to prevent significant service failures rather than as a reactive measure implemented as a result of significant service failures. It therefore seems inappropriate to have this level of immovable variation across the industry.

However, we do believe that customer engagement is essential when companies are assessing different options of how resilience can be improved. However, customer engagement should not be used solely to determine resilience measures. In other words, companies should engage with customers on how we should become more resilient and not what the measures of this resilience should be. An example of this process is; during the Water Resource Management Planning process, several customer workshops were held that explained our different options for improving our resilience against growing customer demand. These schemes included desalination plants, new reservoirs and water reuse to name a few. We shared information on each scheme, such as the cost and potential increases to the level of water output. On review of all of the information available, customers said that the water reuse scheme was preferable to the other options available.

These customer interactions then helped to inform our decision making process for the Water Resources Management Plan where a number of water reuse schemes were included.

The consultation also states that societal priorities should also be taken into account when considering resilience. We agree with this principle in general, however, we believe that this is difficult to adequately assess from customer engagement. Societal priorities are best dealt with via policy and not at a regional level. This approach also fits with our overall proposal which is described in further detail below.

South East Water Outline Proposal for the Discharging of Ofwat's Duty and Improving Resilience in the Sector

The following points describe how we believe the framework could operate given the evidence and objectives provided above:

1. Develop a set of key resilience standards and request all companies to provide detail of their current resilience against a set of simple measures as detailed early in this document (i.e. create the current resilience baseline).
2. Interact with customers to determine whether a regional or national approach to resilience is preferable.
3. If supported by customers, set central resilience standards for the industry against these key measures via policy changes. If not supported by customers, progress can be made using the current regional based approach to resilience while setting the context of where each company ranks relative to other companies (i.e. show customers the proposals from each company against those offered by other companies using the baseline information).
4. Allow companies to achieve these standards in ways most acceptable to their customers.
5. Assuming national standards have been preferred; ensure companies whose customers are receiving resilience levels above the national standard drive these levels to decrease overtime. This will be achievable in part by sharing with companies that have a resilience shortfall.
6. Monitor for government and society generally against these standards supported by companies own assurance.

This approach has the following benefits:

- Customers' views remain instrumental in the methods used to change resilience and whether resilience should be a national or regional consideration.
- It ensures resilience is not seen as a post code lottery and is applied consistently across the UK. In our view, a consistent approach to something as important as resilience will build trust and confidence in the industry. Regional differences that are difficult to justify and explain will not.

- Consistency is important both from a customer point of view in terms of equitable treatment. It also makes the sharing of resources across company boundaries more likely as they balance their respective resilience service levels.
- Whilst there may be increased costs in some areas of the UK as standards are raised, other areas will see a decrease in standards and therefore costs. The net position will not be clear until after the industry has collated its current resilience position.
- It provides the developing market and new participants with clear guidelines to meet and increases the likelihood of a level playing field.
- Performance against standards can be transparent, publishable and comparable by customers and allow regulatory interventions should there be the need.

3 APPENDIX - DROUGHT PLANS ANALYSIS

Resilience Range	Level of Service				
	Demand Side Actions			Supply Side Actions	Supply Side Actions (Emergency Planning)
	Appeal for Restraint	Temporary Water Use Restrictions	Non-essential Water Use Restrictions (Drought Orders)	Application for permission (via Drought Permits and/or Drought Orders) to vary abstraction licence conditions and quantities	Emergency Drought Order (Abstraction restrictions further relaxed, rota cuts, standpipes and tankering)
Low Resilience	Once in 5 years (20.0% annual probability)	Once in 10 years (10% annual probability)	At a frequency no greater than 1 in 20 years (5.0% annual probability)	Once in 20 years (5.0% annual probability)	Not more than once in 100 years (1.0% annual probability)
High Resilience	Once in 20 years (5.0% annual probability)	Never	Never	Never	Never