

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

Severn Trent Water response

28 August 2015

Summary of our response

We support Ofwat's overall approach to resilience. We agree with the following overarching position:

- Companies are responsible for the services they provide and for managing the risks to services appropriately;
- Companies need to understand priorities of their customers so they can deliver the resilience that customers want and need; and
- Ofwat needs to ensure that the regulatory framework creates the right incentives for long term planning and investment in resilience.

Ofwat have an important role to play in promoting resilience of the water sector. We recognise the progressive work already being undertaken in this area, including setting up an independent Task and Finish Group on resilience to consider key resilience issues in water and wastewater.

Ofwat's role can be characterised by three key activities; firstly, to establish a framework to measure resilience, secondly to ensure the regulatory framework incentivises necessary investment in resilience, and thirdly, to ensure there is coherence between this and other planning frameworks.

Like Ofwat, we think it is important that companies take ownership for understanding and delivering the resilience that matters to customers. We support the inclusion of resilience in Ofwat's forthcoming strategic assessment framework that will test progress against the vision of trust and confidence in water and sewerage services. However, we recognise that it is difficult to assess just how resilient the sector currently is. The key to addressing this problem is not through new incentives or prescriptive guidance but rather through more effective use of information. In particular we think Ofwat is well placed to establish a framework to address this issue by promoting a new measure that:

- Establishes a consistent baseline position of resilience that reflects companies' long-term asset health and approach to risk management.
- Reveals gaps or shortcomings; and
- Provides a signal for action. In most cases this will require companies to take action, with Ofwat intervening as a last resort to protect customers. But action may also be required by Ofwat if there is a regulatory or legislative barrier to progress.

In developing this measure, we have considered how Ofwat could best strike the balance between empowering companies to understand and deliver the resilience that their customers want, whilst providing transparency about resilience at a sector level.

We think a sensible solution would be for the sector and Ofwat to develop a basket of indicators that reflect the key components of resilience as set out in their new duty. Having clear visibility of the resilience of the sector would allow Ofwat to calibrate what more needs to be done and how this could best be achieved, including through regulatory or legislative change and facilitating more partnership working across sectors. One area that needs particular attention is flooding where there are multiple sectors involved in understanding and managing flood risk. This was recognised by the Pitt Review although there are still a number of outstanding actions from that review related to surface water management and flooding.

Ofwat should focus on establishing a framework, i.e. it should not issue prescriptive guidance. This will support ownership and responsibility for resilience being with companies rather than the regulator. Clarity and transparency are also important; the framework must not be unwieldy.

The second area to focus on is ensuring that the regulatory framework incentivises necessary investment in resilience. The current framework has enabled significant investment in specific resilience schemes. However, the weakness with the current approach is that it uses a backward looking assessment of historic resilience expenditure as a starting point. This could disincentivise companies from making a step change in how they approach resilience because it embeds historic behaviour and creates unnecessary uncertainty in the price review process. We need a framework which incentivises companies to propose future investment which reflects both the priorities of their customers and allows them to manage risks to services appropriately.

Ofwat could also consider expanding water companies' remits to cover areas where they are best placed to manage risk and deliver outcomes that meet their customers' expectations. Flood risk management is an area where this could potentially happen. It is currently a complex area where people are unclear about who is responsible for delivering protection to people and property. The resilience duty presents an opportunity to explore ways to improve the delivery of wider societal resilience outcomes, such as flood risk management.

Finally, we appreciate the difficulty in defining resilience in a manner that reflects the wording of the new duty. There are many different aspects that could be covered. The current definition is very broad, which could reduce the effectiveness of Ofwat's efforts. We think this can be overcome by establishing a clear framework for measuring resilience, as discussed above.

Another issue with a broad definition is the potential overlap with the work of others such as the Centre for the Protection of Critical National Infrastructure, Defra, the DWI and the Environment Agency. Ofwat need to ensure that there is clarity between the new resilience framework and existing planning guidelines and statutory obligations, such as the Water Resource Management Plan or the Security and Emergency Measures Direction. We believe the primary focus for Ofwat's work should be on resilience not covered elsewhere, i.e. the long term resilience of water and waste service to customers and the environment. We think Ofwat play an important role in helping to ensure coherence between the other areas of resilience so that responsibilities are clear, particularly in situations where investment is needed or service failures occur.

We have provided a more detailed response to each of the three questions in the remainder of the response. If you would like to discuss anything in this response further, please do not hesitate to contact myself or a member of my team.



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

We appreciate the difficulty in defining resilience. There are many different aspects that could be covered. The current definition seems very broad, and this creates a risk that resilience means everything, without being meaningful in any tangible manner.

We feel this can be overcome by establishing a clear framework for measuring resilience. This framework could be used to establish a consistent baseline position, identify gaps and will ultimately drive resilience of the sector forward. We have set out our initial thoughts on what this framework could look like in the answer to question 3.

A broad definition of resilience could also cause unnecessary overlap with water companies' activities where existing processes exist and have proven to work well. The primary example is the statutory Water Resource Management Planning process that follows guidelines produced by the Environment Agency. These forward looking plans take a long term view of the drivers that influence supply and demand, including climate change, the environment and water efficiency. Another example is the work being done on assessing financial resilience.

We need to ensure that any additional resilience guidance fully recognises, and is aligned with, existing processes and does not look to reinvent the wheel. It needs to focus on areas not already covered, i.e. it needs to focus on the long term resilience of water and waste service to customers and the environment.

At this stage it is difficult to make a judgement on whether Ofwat are addressing the right things in the right way. In our answer to question 2 below we set out our thoughts on how Ofwat can address resilience in a manner that is consistent with their new duty.

2 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 agree that companies, rather than Ofwat, should take responsibility for the actual delivery of resilient water and sewerage service, and we agree that it is for companies to understand their risks and manage them accordingly.

We also think that Ofwat have a crucial oversight role that is defined in their duties and this should be reflected in their approach to resilience. Ofwat are uniquely placed to develop an overarching perspective of the resilience of the sector. This overview would allow them to determine if policies and price setting methodologies need to be improved to reflect the need for resilience. We fully support that Ofwat want to ensure that customers have trust and confidence that the core services they receive are delivered in a resilient way. An important aspect of this is that the companies must also have trust and confidence that the regulatory framework actively embeds resilience.

For Ofwat to effectively deliver against their new resilience duty we think Ofwat should:

- Gain, maintain and publish an overview of the resilience of the sector. This overview would allow Ofwat to track the extent to which resilience is being embedded into service provision and give them the evidence base to support their own work programme. This can be done through the development of resilience performance measures – this is discussed below in our answer to question three.

- Identify areas where further regulatory policy or price setting methodology reforms are needed to resolve any gaps or weaknesses. The overview of the resilience of the sector would act as the evidence base to support this work and this would ensure that the right areas have been identified. This should be accompanied by plans to address the priority areas.
- Ensure that the regulatory framework incentivises necessary investment in resilience. The current framework has enabled significant investment in specific resilience schemes, but the cost assessment approach uses a backward looking assessment of historic resilience expenditure as a starting point. We need a framework which incentivises companies to propose future investment which reflects both the priorities of the customers and allows them to manage risks to services appropriately.

3 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?

We agree that it is companies' responsibility to report on their own progress to their customers and stakeholders. We support the inclusion of resilience in Ofwat's forthcoming strategic assessment framework that will test progress against the vision of trust and confidence in water and sewerage services.

Water companies generally have a good understanding of their own level of resilience, with their own specific challenges reflected in their performance measures. However, given the diverse nature of performance measures agreed at PR14 the sum of individual company metrics does not adequately reflect the overall position of the sector regarding resilient services. We need a measure that will establish a consistent baseline position, identify gaps and will ultimately drive resilience of the sector forward. Ofwat are well placed to establish the framework for this.

This measure could take the form of a basket of indicators which cover the four resilience categories set out in UK Government guidance (redundancy, resistance, reliability and response/recovery) and consideration of resource efficiency. The basket of indicators should include forward looking capacity building measures to ensure a long term view of resilience is adopted. The measures and targets for each company should reflect the priorities of their customers and their current resilience levels and needs. There has already been some good work in this area; some companies are already using resilience ODIs and we can build on this. We would like to play our part in developing the approach, and have included a simple overview of how this could work on the next page.

We think it is appropriate for Ofwat to collect this information. This would ensure consistency and quality of the data. Given the nature of resilience and associated measures, it may not be necessary to collect this data on an annual basis. More importantly, we think it is necessary for Ofwat to understand the scale of the current and forecast resilience deficit in order to target where policy change or future market reform is required. Without a view of the resilience deficit, there is a risk that ineffective action could take place and/or resources could be misallocated leading to service standards being threatened.

A framework for measuring resilience – transparent, simple and comparable:

