

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

Response by United Utilities

We welcome the opportunity to comment on Ofwat’s role in resilience. As the consultation recognises, resilient water and waste water services are a very high priority for customers. This is consistently demonstrated in our customer research.

We support the general approach set out in the consultation, that:

- Companies’ role is to understand customers’ priorities and address risks to resilience.
- Ofwat’s role is to ensure that there is an appropriate framework, incentivise appropriate measures to deliver resilience, and step in if companies fail to deliver. We agree that Ofwat’s role is to be supportive and encouraging but that it is companies’ responsibility to ensure that their services and systems are resilient.

We consider that companies should develop resilience performance measures to reflect their own circumstances and customer priorities. A report produced at the start of every 5-year price review period by each company on its plans, actions and performance would demonstrate to Ofwat and other stakeholders whether a company is resilient.

Our responses to the questions raised in the consultation 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?

The definition of resilience

Resilience is the ability to 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 support the proposed definition of resilience. However, in terms of introducing any new measures and reporting, we consider that the emphasis should be placed on assessing risk of service failure from hazards such as flooding which threaten service. We recognise that the legal definition of resilience is broad. However, a number of the aspects included within the definition are already managed through existing processes, in particular:

- the Water Resource Management Plan process ensures water supplies are resilient in relation to supply-demand pressures;
- adaptation to changing weather patterns is addressed through climate change adaptation reporting; and,
- issues of financial resilience are addressed as part of Ofwat’s Water 2020 programme and in the recent consultation on the financial monitoring framework.

Understanding of resilience

We feel that the 10 principles of resilience as set out in the consultation document provide a good broad risk-based approach to considering resilience. We agree on incorporating factors such as the financial resilience of companies and the inclusion of wider influences on the delivery of effective services, such as relationships with the supply chain and other stakeholders.

The framework set out in the government guidance on resilience is key to our approach. This identifies resilience as being delivered through redundancy, resistance, reliability, and response / recovery. We advocate a balance between preventative and preparative resilience. Planning response and recovery is essential for being able to deal with extreme circumstances, unforeseen hazards, or lower impact events. Low impact risks may only require monitoring. A balanced approach to protecting services and ecosystems ensures that resilience is provided at a cost which is affordable to customers.

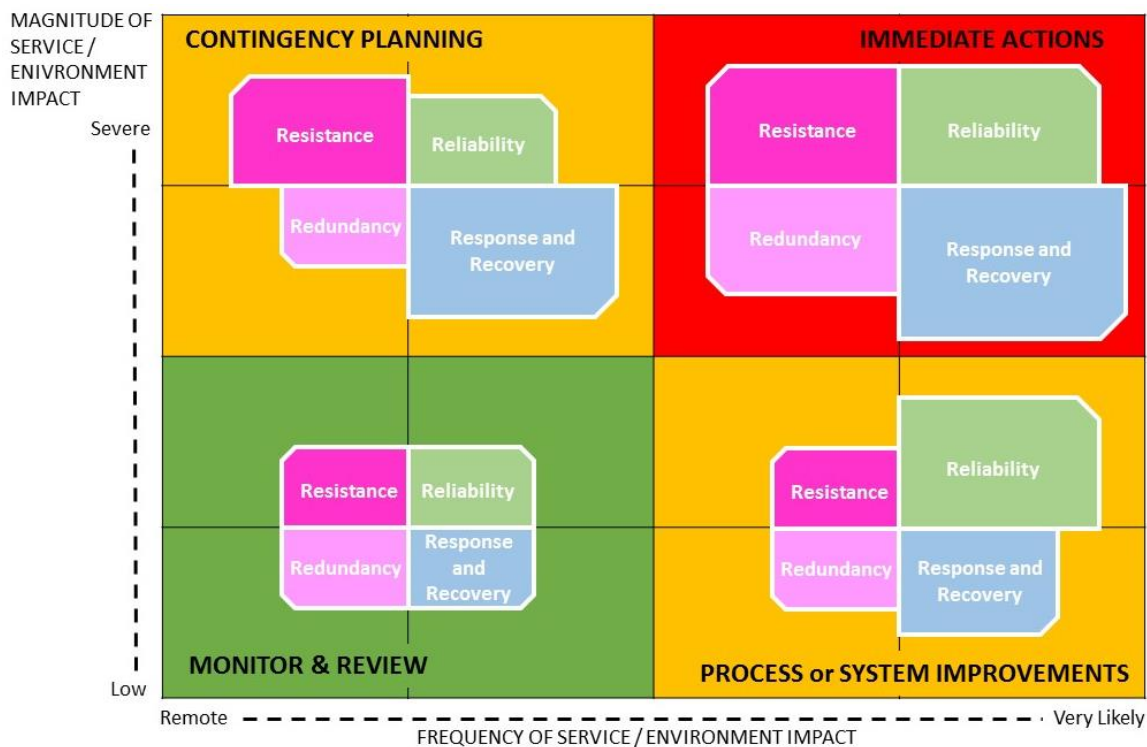


Figure 1: Resilience Intervention and Risk Quadrants

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 agree that Ofwat’s role is to:

- Create the right regulatory framework, including:

- Incentivising long-term planning and appropriate investment in resilience (an approach using past expenditure as a starting point may not provide for the appropriate level of investment to meet customer needs).
- Ensuring that resilience is maintained or improved when there are developments in the framework, such as opening markets to competition.
- Have an overview of resilience in the water sector.
- Help to ensure coherent links between price reviews and other planning frameworks.
- Step in to provide a safety net where companies fall short.

As indicated in the consultation, it is for companies to take responsibility for addressing risks to resilience and reporting on their performance to customers and stakeholders.

Ofwat should step in where a company is unable to demonstrate that it has an appropriate level of resilience, as assessed through performance against measures and reporting on its approach to resilience. The measures which could be used for company reporting and to enable Ofwat to take an overview are discussed in the response to question 3.

We agree that Ofwat’s role includes ensuring coherent links between our price reviews and other planning frameworks. As shown in Figure 2 below, there are already numerous processes for reporting on resilience. Ofwat’s role is to ensure that a consistent framework is applied across the aspects of resilience and to require additional reporting to ensure that resilience is being delivered, where not covered by existing processes.

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| <ul style="list-style-type: none">● Company annual reports and financial statement● Annual performance reports● Corporate responsibility reports● Water Resources Management Plan / Drought Plan● Drinking water safety plans● SEMD audits● Climate change adaptation reporting |
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Figure 2: Examples of existing resilience reporting and assessment

Encouraging long-term planning

Often interventions to improve or maintain resilience require large-scale or long-term innovative projects that would not deliver measurable benefits within a short timescale, especially if the hazard event they are intended to protect against is rare. Consequently we feel Ofwat could play a supportive role in resilience by encouraging longer-term planning, including incentives that go beyond price control periods.

We welcome the reference to promoting sustainable management, as this reflects our belief that best practice is to deliver and maintain balanced solutions to risks and issues. There is

rarely a single affordable control that will fully mitigate risks and usually the sustainable approach is to apply a basket of interventions selected to mitigate the risk to an acceptable level at least cost.

The role of customer engagement

We agree that customers’ views should be central to Ofwat’s assessment framework. The approach to resilience and reduction of risks should reflect customer priorities on where it is most important to have a low risk of failure, and should take into account customer willingness to pay. However, as noted in the Water 2020 consultation, there are some uncertainties in the estimation of willingness to pay. This applies particularly to issues relating to resilience. Presentation to customers of the issues relating to decisions on reducing the likelihood of failure for low probability, high impact events, is problematic, in terms of establishing reliable willingness to pay estimates.

As noted in the consultation, customer views are likely to be affected by whether they already suffered from loss of service. In the case of long-term interruptions to water supply, most customers will never have experienced this. Severn Trent customers in Gloucestershire who were affected by the loss of water supply in 2007 had a clear expectation that action would be taken to prevent a recurrence of such an interruption.

Therefore, although costs and benefits do need to be weighed up in making decisions about reducing risks of failure, there is a need for an element of judgement, and for a range of customer research approaches to be applied. For critical assets where failure would have a significant impact in terms of effects on the economy, essential services, or potential loss of life, the Health and Safety Executive concept of reducing risks as low as reasonably practicable should be applied.

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?

Measurement of resilience

Resilience is not easily measured because:

- As discussed in the consultation, it relates to all aspects of service delivery to customers and the environment.
- It involves assessment of risk, which is not directly observable.
- There are multiple assets, systems and processes which determine resilience.
- There are numerous hazards and events which affect service provision.
- The most significant potential service failures due to lack of resilience are rare events, so many aspects of resilience cannot be observed from service delivery measures. This means that:

- Lack of any failure event may not mean that a company is resilient.
- Service failure in extreme circumstances does not mean that a company is not resilient.
- Actions taken to improve resilience may not be observable in any measure of asset or service performance.

Therefore any assessment of resilience is likely to involve a number of measures. These may include:

- Measures of service delivery, e.g. interruptions to water supply.
- Asset failure, e.g. trunk mains bursts.
- Assessment of asset condition and performance, e.g. inspection of reservoirs.
- Measures of redundancy, e.g. number of customers capable of being served by more than one supply.
- Risk assessment e.g. estimation of probability of loss of service.
- Assessment of processes to reduce risk.
- Delivery of specific projects to reduce risk.
- Tested response and recovery plans.
- External audit, e.g. Security and Emergency Measures Direction audit.

Appropriate measures will differ between companies according to:

- The issues which a company currently faces, e.g. whether there are any major projects to reduce risk where measures are needed to demonstrate delivery.
- Local customer priorities.

The disparate nature of measures, both quantitative and qualitative, means they cannot be combined into a single index to measure progress.

Companies' different circumstances, e.g. in terms of customer priorities and geography, mean that it is often inappropriate to use individual measures to compare performance. For example, for a company with a relatively rural population it may not be affordable to have a high percentage of customers served by more than one source of supply. This does not mean, however, that it is not resilient. There may be other arrangements in place which are satisfactory for customers, such as tankering of water. However, such a measure may be appropriate for a company which has identified that increasing connectivity of the network would meet customer priorities. Similarly, a company with high risk of flooding due to its geography may have to focus more on response and recovery than a company with low risk.

Where there is a need to address a specific risk then measures to assess the successful delivery of mitigation are relevant for a defined period, such as up to the completion of a project (such as our East West Link main).

As appropriate measures differ widely between companies, we consider that it should be for companies to propose and report against their own criteria and measures to suit their own circumstances.

Case study - Resilience at work... delivering reliable services

We have improved the resilience of our water network through two inter-related schemes. We have built a 1.2m diameter water main across Merseyside and Greater Manchester capable of transporting 100 million litres of water daily. It can carry water east to west or west to east and provides us alternative options for water sources and the ability to move water around the region where it is needed most.

A key benefit is that it has enabled us to shut down the Haweswater aqueduct for a period of cleaning and maintenance. The West-East Link main has therefore delivered increased flexibility in our network enabling improved reliability and resistance in other assets.

Characteristics of a resilient company

We support the principles set out in the consultation. We believe that a resilient service provider is one that can demonstrate:

- Good performance against chosen measures.
- A clear understanding of risks to service.
- Customer and stakeholder views reflected in its priorities for increasing resilience.
- Working with other stakeholders and customers to deliver resilience.
- A least whole-life cost approach to addressing resilience issues.
- A clear response plan for circumstances which threaten service delivery.
- Examples of decisions it has made to protect service delivery.
- Effective plans to meet future challenges.

A company should be able to demonstrate analysis of risk, in terms of impact and likelihood, and how its activities reflect this analysis, as set out in the framework shown in our response to Question 1. The balance of resilience intervention activities required between resistance, reliability, redundancy, and response and recovery depends on the nature of the risk being addressed.

Reporting on performance

A five-yearly report produced by each company within the first year of the price review would give the opportunity to:

- Reflect on performance over the previous five years, including performance against its chosen measures.

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- Give examples of success or any problems identified, where the resilience measures in place were called upon and lessons learnt.
- Describe changes or improvements that are part of the company’s business plan.

The timing would be aligned with climate change adaptation reporting. In addition, quantitative measures which can be continually monitored and are part of a company’s set of performance measures identified in its business plan would be incorporated in annual reporting.

This approach to reporting would encourage long-term planning for resilience and implementation of sustainable approaches.

Publication by Ofwat of a summary of water companies’ submissions would enable the industry-wide challenges to be set out, demonstrate overall progress, and highlight innovation in achieving resilience.