

Resilience Consultation
Ofwat
City Centre Tower
7 Hill Street
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28 August 2015

Dear Sir or Madam,

Consultation on Reliable services for customers - Ofwat's new role in resilience

Thank you for the opportunity to comment on Ofwat's new resilience duty. We recognise that resilience (to 'all hazards') is a water industry priority and welcome recognition of this in Ofwat's formal duties. In defining this new duty we observe opportunities to enhance the water industry's approach for the ultimate benefit of customers.

We welcome the commitment to embed resilience in price review frameworks and in the monitoring and assurance of the financing and governance of service providers, a full integration into the planning and operation of our business. This is the approach we have taken with climate change and the same approach will ensure resilience risks are considered alongside other risks. This is an important principle to deliver the most efficient solution for our customers to address all identified risks to service.

Below we summarise our key points and we enclose our response comments to the specific questions in an attachment to this letter.

- We recognise the imperative of taking an 'all hazards' approach to resilience. It is clear that resilience to climate change and extreme weather is a priority because water and waste water services are so heavily reliant on, and influenced by, the weather. We have significantly advanced our approach to climate change and extreme weather risk management over the last five years. We also have strengths in emergency response planning and long term planning.
- We welcome Ofwat's reference to the Cabinet Office guidance 'Keeping the Country Running' and the four ways in which resilience can be achieved (resistance, redundancy, reliability and response/recovery). Many focus on the resistance approach, which is important, but we also observe the need to consider and balance all four approaches to ensure effective infrastructure resilience. We suggest it is important that the water industry approach to resilience aligns to, and is underpinned by, the Cabinet Office four box model.

- Resilience is typically dependent on the local mix of circumstances and we would therefore welcome a framework approach from Ofwat, one that recognises and encourages a broad assessment of customer requirements and potential approaches to determine the right local approach. This framework would benefit from further clarity and national agreement on the characteristics of effective resilience and the appropriateness of minimum national standards. We would again encourage alignment with the government's Cabinet Office guidance, which includes scenarios and standards that are to be "reasonably expected".
- A range of resilience metrics and reports are already developed and published in the sector, for example we recently submitted our second Adaptation Report to Defra, and a range of resilience metrics are included in performance commitments. There is a need for an approach that avoids duplication of reporting. Additionally, it would further mature the industry's approach to climate change and extreme weather resilience if associated reporting is embedded within standard annual and price review assessments and reporting.

We look forward to hearing more about your approach later in the year and we would welcome the opportunity to have further discussions to inform Ofwat's approach.

Yours sincerely

Wendy Kimpton
Regulatory Strategy Manager
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Q1 Is our basic understanding of resilience aligned with your own – are we addressing the right things in the right way?

The proposed Ofwat definition of resilience is broad in scope and aligns reasonably well to other definitions within the UK such as 'Keeping the Country Running'. This will be helpful in gaining coordination and alignment of resilience responses across sectors and with government. The broad scope also helps the important and welcome debate about the type of risk and opportunities we should consider. We anticipate that resilience risks and opportunities will develop and evolve over time and will need reviewing and updating to address changing circumstances at appropriate time steps.

We note and support Ofwat's focus on resilience of the end service, it is important to note that the service is intrinsically linked with the assets and operations that provide it. Infrastructure resilience is closely associated to service infrastructure.

We broadly agree with the identified principles for the sector but regard the emphasis on partnership to be too strong. We have agreed a performance commitment with our customers to incentivise partnership solutions and we currently have procedures for evaluating such partnerships. The potential partnership solutions are taken forward for optimisation alongside conventional solutions in order to select the best overall value for our customers based on risk, cost and wider benefits. It is important to note that in addition to the many benefits partnership can bring, there is also increased risk in a partnership approach. Added complexity, timescales and uncertainty can reduce or delay resilience.

We welcome Ofwat's reference to the Cabinet Office guidance 'Keeping the Country Running' and the four ways in which resilience can be achieved (resistance, redundancy, reliability and response/recovery). We would advocate a greater alignment to the Cabinet Office model for infrastructure resilience. This would assist integrated actions for water companies, its regulators, government and customers.

In addition, we feel that a focus on the resistance element of resilience is not always the most appropriate or sustainable option, and potentially overlooks the many other ways in which we manage our climate and other resilience risks, such as an ability to re-zone customers' supply, or to allow an asset to flood but recover it quickly. A mature resilience approach will see activity in all four elements of the Cabinet Office model.

We recognise climate change and extreme weather as a priority resilience risk and have matured our approach significantly over the last five years. In common with the rest of the water industry, Yorkshire Water submitted its first Adaptation Reporting Power (ARP) report in January 2011 and provided our second report to Defra a few weeks ago. Since our first ARP report we have:

- carried out a business-wide assessment of our climate risks,
- published our official position paper on climate change,
- carried out detailed modelling work to assess the risk to our assets and services from coastal erosion, drought/water resources, and fluvial flooding , and
- developed our climate change strategy, published on our website as part of our price review submission and recognised as one of the most advanced holistic climate strategies available.

'Adapting to a changing climate – Yorkshire Waters Adaptation Report 2015' is our latest iteration of our climate change risks and covers assets, services and the natural environment. We would be happy to discuss this work and its alignment with the approach to the resilience duty.

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?

Resilience issues vary across the country and companies need the freedom to innovate and respond to their circumstances and their customer's views. We therefore welcome Ofwat's recognition of the need for a framework approach that engenders consideration of the broadest range of risks, potential solutions and customer requirements.

This framework would be strengthened by the mutual development and clarification of the characteristics of a resilient service provider and further consideration of the, principles set out in chapter 4 of the consultation document. This would aid discussions with customers and the consideration of future customers.

Some parts of the water and waste water service already have minimum resilience standards with varying degrees of legislative and regulatory formality, for example with hosepipe ban frequency and sewer design return periods. To support the establishment of an effective resilience framework, we would welcome national debate about minimum resilience standards by considering these high level questions:

1. What is the sectors approach to the government's "reasonably expected" standards and scenarios outlined by the Cabinet Office in the 2011 guidance document "Keeping the Country Running, Natural Hazards and Infrastructure"?
2. What is the best course of action where these standards are not currently being achieved?
3. What is the right balance of the four components of effective infrastructure resilience as identified in the Cabinet Office model? Particularly the balance between resistance and response/recovery.
4. How do we ensure alignment across inter-dependent infrastructure operators?

The current Water 2020 consultation and this Resilience Services for Customers consultation helps build mutual understanding of the resilience risks and opportunities between Ofwat and the Industry. There will be further work to consider for coherent links to other planning frameworks and also to develop customer engagement further. We have demonstrated some of the areas of other planning frameworks to consider below in our answer to question 1 and 3.

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?

With regard to reporting there are opportunities to consider resilience alongside and integrated with other reporting requirements, for example the existing requirements for water companies (and Ofwat) to report to Defra about how they are assessing and addressing their extreme weather and climate risks. The annual returns to the EA on how water companies are contributing to the Flood and Water Act, requirements to contribute to statutory post-

event flood investigations and bi-annual SEMD audits offer other potential reporting alignment and integration.

We would welcome consideration by Defra, Ofwat and the water companies of how the water industry will approach future reporting on climate change and extreme weather risk management. To further mature the sectors approach we observe opportunity to embed climate change reporting within the industry's standard annual and price review reporting processes. Conversely we also see potential for duplication and mis-alignment that needs to be avoided.

The use of quantitative indicators needs careful consideration since they may inhibit innovation and move towards a mandated approach to resilience. Qualitative indicators are possible, for instance looking for robust long-term strategies, the strength of the risk governance within companies and evidence that resilience has been discussed with customer forums and supported through customer consultation.

Independent performance assessment reports for resilience are not necessary in our view since performance is generally now routinely managed and assured by the companies themselves. However, reporting could review the risks identified against Ofwat's proposed principles for the sector as well the review of the mitigation activity and engagement with customers. The ultimate indicator of adaptive capacity is the ability to maintain service in the face of disruption, trends and variability. Many existing industry KPIs and performance commitments inherently indicate levels of resilience, for example the basket of measures included behind the industry's stability and reliability factors.

The move to outcomes and lighter touch regulation mean that there are few industry wide datasets that are constantly and consistently collected and reported. The Adaptation Sub Committee have already highlighted that this is an issue for them in assessing the resilience of the sector and thus advising government as to what action is required. They have made the following recommendations (amongst others):

- All infrastructure providers to develop consistent incident reporting together with indicators of network resilience and performance, which should be presented by operators under the next round of ARP reporting, which should be mandatory (the next round will be in 2020).
- The Cabinet Office to confirm that the services provided by all CNI are now resilient to a 1 in 200 year flood event and see that sector resilience standards are implemented.
- The Cabinet Office should place a legal duty to securely share information on asset and network resilience between operators of interdependent assets with Local Resilience Forums.
- Ofwat should require each water company to report on the area of land where above ground SuDS has been installed.

The government will publish their response to these recommendations on October 15th and this needs to be considered in the Ofwat and water industry approach to resilience.