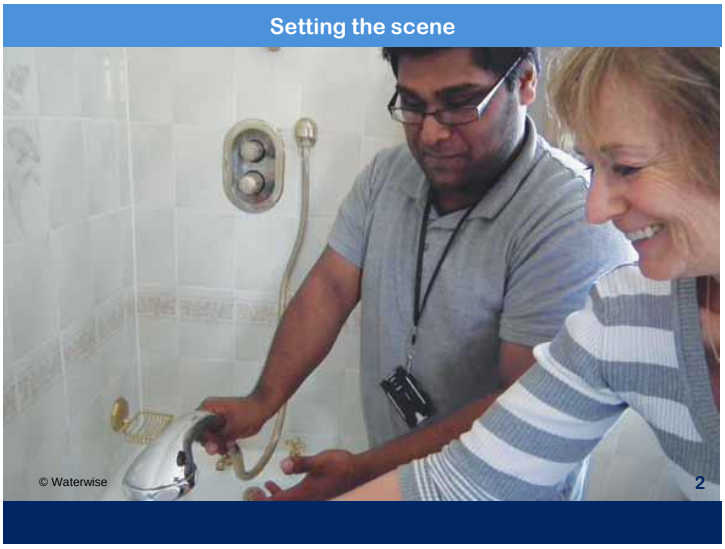
Building trust and confidence – the importance of resilience
Cathryn Ross 19 March 2015

Setting the scene



Thank you to Jacob and Alan and Waterwise for inviting me here today.

Great to be here. Always great to hook up with Waterwise. Organisation I have great respect for and one which has achieved so much on water efficiency over the past decade. **Happy anniversary!**

Conscious that in speaking at this event I am following in the footsteps of Sonia Brown who spoke last September at the conference in Oxford.

Also conscious of just how much has happened since then…

Particularly of note - we have issued our **final determinations on PR14**...

… but building on PR14 we have also launched our **new strategy**. Indeed Jacob helped us launch it!

It is a strategy that sets out a vision for the sector of **trust and confidence** in provision of these vital public services….

… which vision is one that **Ofwat cannot achieve alone**. It is a vision that relies on the sector stepping up and owning it. And taking responsibility for delivering that trust and confidence.

… which sees us **encouraging the sector to take that responsibility**. To understand and deliver against expectations. In a world where delivery (or lack thereof) is going to be really transparent. And really under scrutiny.

As a regulator we will be giving companies **more flexibility** as to how they deliver against their responsibilities. But we will be helping to **shine a light on their performance**, and we will of course be **ready to step in where we need to**, where companies fall short, and we need to protect customers.

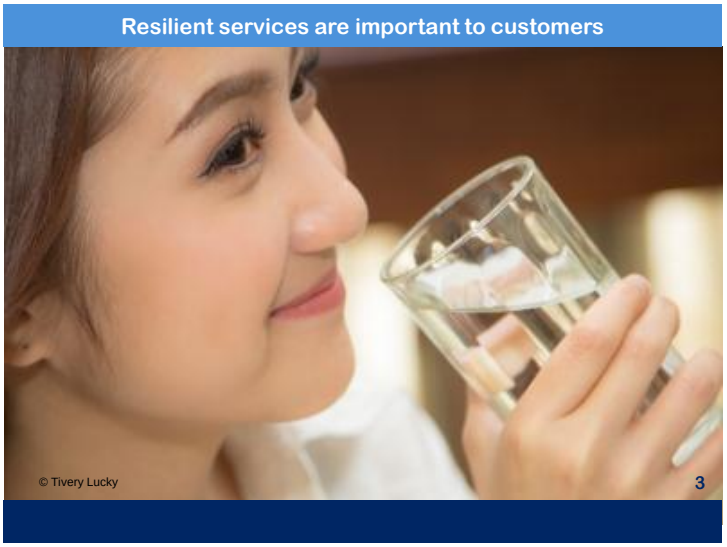
It is very much in the spirit of looking forward through the lens of that strategy that I want to talk to you today.

And I want to talk about **resilience**.

Not least because we have a new statutory duty on resilience.

And because I suspect that it is a theme that will be quite dominant in conversations across the sector over the next few years.

Resilient services are important to customers



I think it is entirely appropriate that resilience is a dominant theme in the sector. After all it matters a great deal to customers.

I have no doubt that resilience of water and waste water services is a key driver of trust and confidence in the sector.

If you look at companies' customer engagement through PR14 the number one thing customers' care about is being confident in the provision of safe reliable drinking water and confident that waste will be taken away.

It must also be important beyond the direct customer, for society and for our economy. If you think about the risk to: public health and well being, to social cohesion and economic prosperity and to environmental sustainability if we didn't have resilient water and waste water services, that must be true.

But through PR14 and through our strategy – we recognise that it isn't Ofwat providing those services. And the responsibility to deliver against the expectations of customers, the environment and society on resilience cannot therefore sit with us.

So… what is our role?

So resilience is imporant to Ofwat

Resilience does matter to Ofwat…

… because it matters to customers, the environment and society.

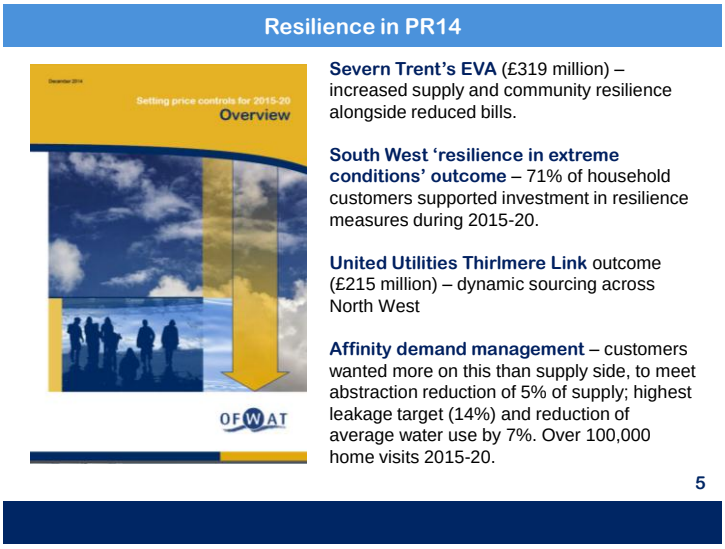
… and yes also because we have a new primary statutory duty on resilience.

Although I would argue very strongly that it would still matter to us in any case, because it matters to customers.

Indeed, we've been thinking about it for a while.

- Before PR09 we published the '**Strategic Risk Framework'** for asset resilience.
- In 2010 we published a paper entitled '**Resilient Supplies** – how do we ensure secure water and sewerage services'
- In 2012 we set out some **principles for resilience planning** in the context of developing our outcomes-focussed approach in PR14 – helping companies to integrate resilience into their business planning process, take ownership of the issue, and build it in to customer engagement.

Resilience in PR14



That wasn't all hot air… real things resulted from it.

Resilience expenditure requirements were **included in our totex cost modelling**. With adjustments made where companies had compelling arguments that the models did not accurately predict their need to work on resilience, as supported by the customers.

I have already noted that every company through their **customer engagement** found resilience issues in some form to be customers' number one priority (closely followed by levels of bills).

There are very many **performance commitments** and ODIs directly and indirectly relating to resilience. Such as

- Welsh Water's ODI in relation to adaptation to climate change.
- Yorkshire's commitment to reduce average consumption per head by 4% to 138 litres.
- Affinity's commitment to reduce leakage by 14%. And the increase in metering across the sector as a whole that will rise across the next control period from 48% to 61%.

And there are some examples on this slide of **specific schemes** that were included in company plans, and in the final determinations to support resilience.

Safeguarding future resilience

So far… so good.

But where do we go from here.

As a regulator it is logical for us to go back to our statutory duties…

I'll confess that **I was pretty sceptical** about a new statutory duty on Ofwat on resilience. I was worried about:

- pushing us to accept potentially costly solutions that did not have customer support – becoming a charter for gold plating
- throwing the sector back into a focus on capex focus
- creating a focus on pouring concrete that would have negative consequences for the environment and sustainability overall

But I actually think the duty we have **ended up with is helpful** in the way that it is phrased.

I won't read it out to you, or indeed rehearse the guidance and other documents that sit around it. But a number of things are clear:

- There is an emphasis on **services**
- There is an emphasis on the **long term**
- There is an emphasis on **sustainability**
- There is an emphasis on a **'range of measures'** including those on the demand side

Now, I can take the opportunity today to be clear about **some things that we are not going to do** going forward.

- We are not going to own the responsibility for delivering resilience. We can't.
- We are not going to tell the companies what they have to do.
- Neither are we going to establish national measures or standards or targets or benchmarks for 'resilience' whatever they would look like… because we don't want to undermine the fact that resilience issues will vary from area to area and so will customer expectations and priorities.

Rather, we will stay true to the direction we have set out in PR14 and in our strategy:

- encouraging companies to own the issue and take responsibility,
- to understand what the right thing to do in their area is – bearing in mind their customers' priorities overall, and
- to do that efficiently.

But very much in the spirit of our new strategy, and in line with our desire to use all the tools in our regulatory tool kit, **we are keen to be somewhat provocative in this area**. We're keen **to stimulate the debate**, to make sure that the issues have

been scoped and properly thought through. What Jonson sometimes refers to as being the 'restless regulator'.

And I think resilience is ripe for this. I think the whole issue raises some serious questions for the sector.

Let me pose some of those now:

- We are talking here about the resilience of water and waste water services to customers, the environment and society. But **how well do water companies really understand the risks that lie behind the provision of those services?**
- I raise this question because one issue that came up for us in PR14 was that some companies – not all – clearly struggled to provide compelling evidence to us that supported some of their investments. Maybe it was just in relation to the evidence they provided to us – maybe they had this stuff back at the ranch – but in what we saw, there was not a lot of investment appraisal on the basis of the value a service had to customers, identification of the risks to that service, understanding of the different options available to mitigate that risk, and an assessment of the cost of those different options in the light of the value of their benefit in terms of risk reduction.
- We've been on a bit of a journey in PR14 with totex. Trying to help address the 'capex bias' in the sector by removing the distinction in the regulatory regime between capex and opex and the regulatory incentives to favour capex.
- But **how well integrated into the businesses are totex ways of thinking? And how well understood are non-capex ways of improving resilience?**
- There is a particular issue here with demand side measures… which links into a further question…
- One of the massive potential areas where I think we could see huge strides in improving resilience is by working with customers. There are lots of opportunities here. Partly in relation to reducing consumption. Possibly also in relation to smoothing consumption over time (things like on-site storage potentially). And also… thinking more broadly about how to mitigate the impact of any breakdown in service… keeping customers informed, giving them the information they need to plan and make the best choices for them when things have gone wrong. How geared up are companies to for this? And crucially **do they have the sort of relationships with their customers that will be needed to fully realise the potential of demand side measures?**
- More broadly still… If you think about the system from which the water and waste water services we all use are a part… how well do we really understand

the linkages and interdependencies across that system. **How well do we understand the opportunities that exist to make that whole system more resilient?** And I'm talking here about looking well beyond the boundaries of the traditional water company into catchments, and beyond. **Who else beyond the water companies could help meet the challenges of resilience?**

- And even more broadly, **what other aspects might there be to resilience?** Should we – collectively - be thinking about **corporate resilience?** Resilience of financial structures? Decision-making process? The workforce?

Trust and confidence

I think if you really tease through these issues around resilience, they are pretty profound.

And – as a restless regulator – **we are very keen to see them explored in a broad and open way**. In a way that really makes the companies we regulate, and maybe others, think. In a way that might – just might – reveal scope for some real innovation.

With that in mind, and given everything I have said about us not owning this issues, we have established **a resilience working group**, to do just that.

It is **independent** of Ofwat – so it can think what it likes! But I have guaranteed that we will take very seriously whatever it has to say.

Jacob from Waterwise is chairing – thank you Jacob – and the group includes a wide variety of people from the sector (incumbents and entrants) and outside, and people whose personal experience means that they have a lot to contribute to this debate.

I have asked it to consider **three questions**:

- What is resilience?
- What should the sector think about when it thinks about resilience?
- What should Ofwat think about when we think about resilience?

The order here matters – regulation needs to enable and support the sector in doing sensible things.

It has about a year to come up with its thinking, which will enable us to build it into the development of our thinking for PR19 and indeed more widely.

So… if you have a chance to engage with the group I would **urge you to do so and to participate in this exciting and important debate**. Indeed, I thank you in advance for doing so.