

Delivering Water 2020:

Ofwat PR 19 Draft Methodology – CH2M response



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Summary

CH2M welcomes the opportunity to respond to Ofwat’s methodology for the 2019 price review. The draft is comprehensive and thorough – clearly, considerable thought has been given to both addressing the issues of today and preparing the industry to provide the greatest value to customers in the future. In preparing our response, we have focused on the topics where we feel our breadth of experience and expertise will add the most value.

Specifically, we welcome the holistic and innovative approaches that the draft methodology is encouraging water companies and suppliers to embrace, and we look forward to supporting the wider industry - including water companies, regulators and stakeholders - to solve the many complex challenges and opportunities we face over the years ahead.

Our response is specifically focused on responding to your questions on the following chapters:

- 05 Securing long-term resilience**
- 07 Targeted controls, markets and innovation: direct procurement for customers**

Securing long-term resilience

Do you agree with our resilience planning principles?

We welcome the addition of these seven planning principles to the framework. We believe they provide a strong structure that improves both understanding and ability to plan for resilience.

From our experience, we know that these principles broadly reflect an holistic approach, which could strengthen the decisions and choices around resilience that must be taken in the long-term interests of customers and the environment.

In summary, we strongly support this approach to resilience, which we believe is one of the biggest issues facing the sector. In particular, we welcome:

Integration of water and wastewater resource planning

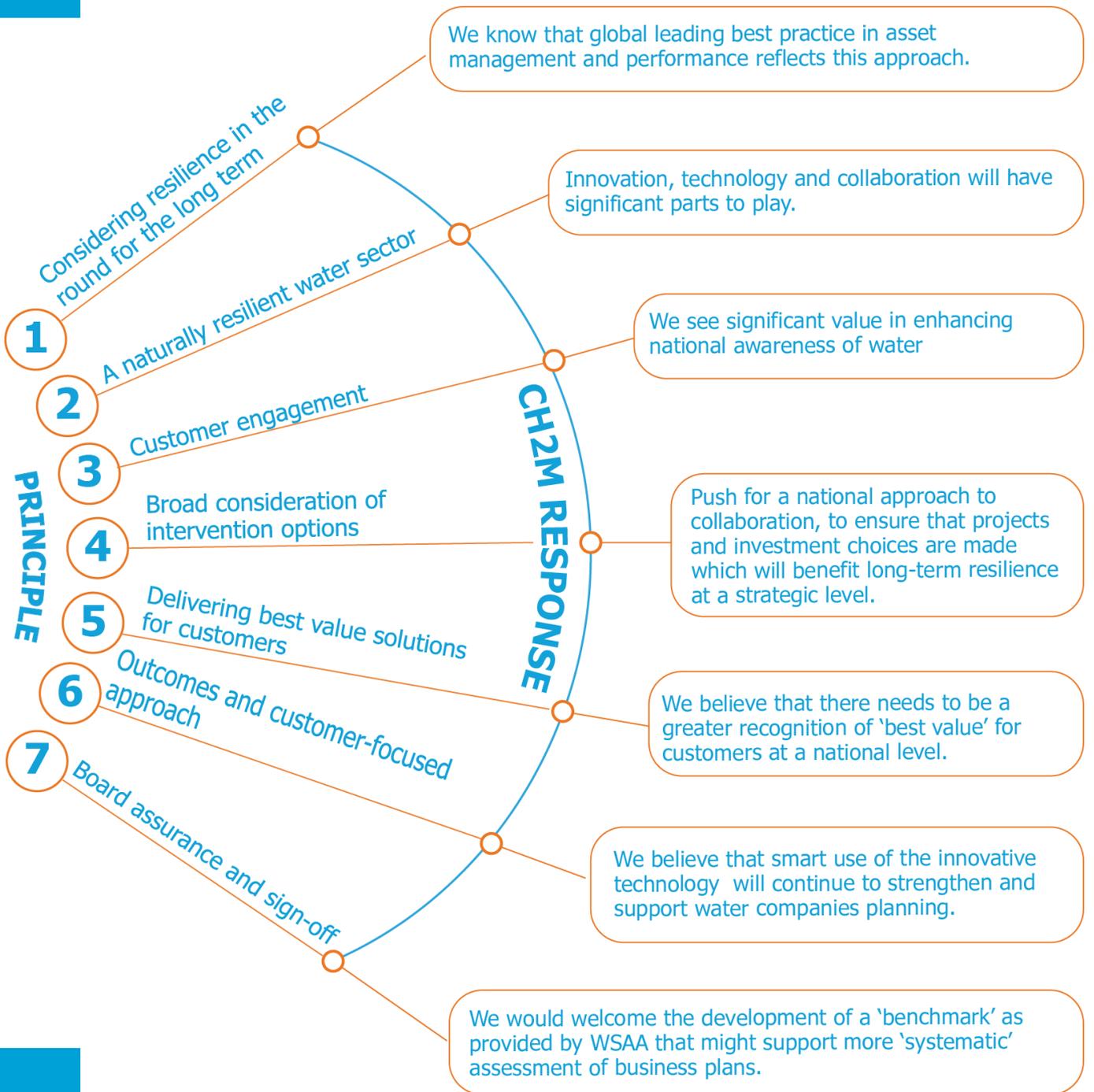
– specifically, the move to broaden the focus to a national level that requires national resilience solutions

Holistic approach to resilience

– recognizing the strategic, rather than purely operational, nature of resilience issues and the potential for systems, processes and organisations to influence successful outcomes

Greater collaboration at a national level

– we believe that this is where the greatest potential for innovative, ‘game changing’ investment sits – in particular for engagement with the Environment Agency and other stakeholders looking across not only geographic regions, but also sectors



Detailed CH2M responses:

Principle 1 - Considering resilience in the round for the long term

CH2M response

As the sole provider of benchmarking services for the Water Services Association of Australia (WSAA) which encompasses companies from around the world, we know that global leading best practice in asset management and performance reflects this approach.

Our assessments on behalf of WSAA mirror the review of processes, systems and people at a corporate, financial and operational level. We would be very happy to share more details from WSAA, and how this might support the UK water companies.

Principle 2 - A naturally resilient water sector

CH2M response

We strongly support the focus on the wider ecosystem and biodiversity the water sector supports as an integral part of the business planning process. Whilst companies have a core duty in providing water and wastewater services they also have broader responsibilities in protecting and enhancing the environment. We anticipate that innovation, technology and collaboration will have significant parts to play in the successful delivery of these wider responsibilities.

Principle 3 - Customer engagement

CH2M response

We see water companies really raising standards in communication and engagement campaigns, not only to understand their appetite for risk but also to influence customer behaviour. We also see significant value in enhancing national awareness of water as a vital resource – helping customers to understand the impact their behaviour can have on both water services, resilience and the environment at a national level.

Whilst the work of Discover Water has gone some way towards this ambition, it has not really tackled environmental benefits, which may support the successful delivery of Principle 2.

Principle 4 - Broad consideration of intervention options

CH2M response

This approach is very much welcomed by CH2M. We have been working with our clients, including the water companies and other key stakeholders, to push for a national approach to collaboration to ensure that projects and investment choices are made which will benefit long-term resilience at a strategic level. We are pleased with the progress that has been made so far building a strong platform for a cohesive plan across the companies.

We are also pleased that the *Direct Procurement for Customers* approach compliments this thinking, and provides water companies with a vehicle for developing and delivering this type of national or regional investment project.

We have a unique insight into this type of innovative thinking through our work with the Thames Tideway Tunnel and many similar challenges elsewhere around the world.

Principle 5 - Delivering best value solutions for customers

CH2M response

We welcome the focus on customers throughout this methodology, however, we feel that it must be recognised that 'customers' in some regional or national investments may be harder to define. We believe that there needs to be a greater recognition of 'best value' for customers at a national level to ensure that the wider benefits of investing in long-term flood, drought alleviation or water transfer projects are reflected in the business case at a higher level.

We believe that in addition to the water companies efforts, there may be a role for the National Infrastructure Commission, Defra or Ofwat in developing and supporting these messages.

Principle 6 - Outcomes and customer-focused approach

CH2M response

Having played a key role on the Elan Valley Resilience Project, as referenced on p93, we would welcome more outcome-based resilience measures. We believe that smart use of the innovative technology and modelling, already available in our business and in others, will continue to strengthen and support water companies in their planning – enabling their teams to make targeted investments to ensure the long term viability and health of their assets.

Principle 7 - Board assurance and sign-off

CH2M response

As assurance providers to a significant element of the water industry in England and Wales we, and other similar organisations, will be keen to ensure that we have access to the most relevant information on the reporting requirements and expectations for the companies' business plans. We would welcome the development of a 'benchmark' as provided by WSAA (as mentioned above) that might support more 'systematic' assessment of business plans.

Do you agree with our approach to assessing resilience in the initial assessment of business plans?

We welcome the introduction of the two tests for resilience at an early stage – specifically, the requirements for evidence to assess and prioritise risks, and resilience mitigation options that represent Value for Money (VfM). For investment in long-term resilience projects, the development time goes beyond traditional AMP cycles. We trust that this new methodology recognises exceptional and innovative thinking from water companies that supports them in engaging and thinking holistically and long-term about their vision for the sector and their customers.

We believe that the commitment to reflect and test resilience at a corporate, financial and operational level further supports the prioritization of innovative investment in mitigation measures – such as cross boundary and water transfer schemes of water companies – and will be much-welcomed by water companies looking at projects outside more traditional delivery routes.

Direct Procurement for Customers (DPC)

CH2M is particularly excited about the introduction of Direct Procurement for Customers (DPC) into the methodology for PR19. This is exactly the sort of innovative thinking that we know, through our unique experience on the Thames Tideway Tunnel and other national infrastructure projects, will deliver a step change for this industry.

Specifically, we:

- Agree that supporting water companies to draw up their initial ideas at PR19 is critical to getting enabling works and options development in place
- Strongly believe that this approach provides a great opportunity to address long-term resilience via large scale infrastructure or cross-sector solutions
- Would advocate keeping the tender model open and flexible to encompass innovation and drive best value solutions for customers

Q1

Do you agree with our draft guidance that appointees should focus on projects likely to deliver the greatest customer value for DPC at PR19? (We ask that appointees provide a list and description of which projects, based on our guidance, they consider would be in scope at PR19.)

As already stated, we welcome the opportunities that DPC offers – in particular for relatively discrete, large-scale enhancement projects that might not otherwise have been promoted within the normal AMP cycle.

To this extent, it is essential that water companies are asked to document their thinking on potential projects at this early stage.

DPC provides a real opportunity for water companies in thinking creatively and innovatively about projects of a size, scale and complexity that would have previously been consigned to the 'too hard' box. The delivery of a large scale scheme which potentially spans several companies will present a new challenge to the companies, in that it will affect several groups of customers and stakeholders which will add a new dimension in the business planning processes and consultation. This will require an innovative approach and collaboration across the companies at a level that has not been seen before.

Keeping the guidance as open as possible, and allowing for real innovation in both solutions and delivery, will, ultimately, realise the greatest benefit for customers at a national level.

What are your views on the type of tender model (ie an early or late tender model) appointees should use? Do you have any views on whether or not we need to specify a tender model companies should use?

Our view is that any tender model must be kept open to allow the water companies as much flexibility to explore as many options as possible. We believe that this will strengthen the development of solutions that meet the widest possible needs and deliver the widest customer benefit.

We support the flexibility afforded by the development of the various models illustrated in Figure 7.1. Our experience through strategic partnering with clients at the 'Early' stage in particular suggests that keeping this model flexible will provide water companies and their customers with the greatest opportunity to collaborate and engage for a best value solution.

When examining the need for a single tender model, there are clearly advantages and disadvantages to this approach. Adopting a common approach to a large range of similar schemes, and creating a model that will be familiar to both investors and the supply chain, could attract greater interest and potentially reduce the overall cost across the industry. The disadvantage of a common approach is that it potentially stifles innovation and limits opportunities to deliver best value. However, for larger and more complex schemes there will undoubtedly be unique challenges requiring a bespoke approach with respect to delivery, financing and regulation.

What are your views on the overall commercial and regulatory model, including our draft procurement and contract principles set out in Appendix 10?

As outlined in our earlier response, we support the approach taken towards the development of a common commercial and regulatory model, as we see this attracting wider interest across investors and the supply chain, and ultimately, delivering greater value for customers.

We are also supportive of the draft procurement and contract principles set out in Appendix 10 which reflect and build on good practice, and may already be embedded within more traditional tendering processes, or have been developed building on experience from similar approaches.

Whilst we see this common approach being beneficial for the majority of similar schemes, we also welcome the recognition that for certain larger and more complex schemes, a different approach may be required. This will certainly be the case with, for example, a large water transfer scheme, which may not only extend across several company regions but also involve several clients and ultimately serve multiple groups of customers. Such a scheme would present a range of complexities that would need to be addressed and would undoubtedly require the development of a bespoke model, albeit founded on the same principles set out in the consultation.

From our experience in developing similar schemes and models across a range of sectors, we see Direct Procurement for Customers as an opportunity to create a step-change in the way the industry operates, not only in delivering services to customers, but also in promoting wider opportunities for collaboration. This will be key in unlocking greater value and also facilitating a holistic approach to meet many of the wider challenges set out in the consultation document.

About CH2M

At CH2M, we help to lay the foundation for human progress by turning challenge into opportunity. We take on our clients' most complex infrastructure and natural resource challenges, and we solve them in new ways. We work in the water, transportation, energy, environment and industrial markets, with gross revenues of US\$5.5 billion. We have 20,000 employees around the world who are passionate about improving the communities where we live and work. Our culture is based on respect, collaboration and entrepreneurship, and it's grounded in our core priorities of ethics, safety, sustainability and corporate citizenship.

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