
south east water

Ofwat's emerging strategy

South East Water response

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Pure know_how

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1. Introduction

This paper sets out South East Water's response to Ofwat's emerging strategy issued in May 2019.

Any queries in relation to this document should be sent to oliver.martin@southeastwater.co.uk.

2. Overall comments

Thank you for the opportunity to comment on your emergency strategy and vision. The material and approach taken by Ofwat to share their emerging thinking, including the wider supporting material, in such an open way is really welcome.

We support the actions and activity proposed from the vision and strategy in particular the long term outcomes focus relating to water resource planning and resilience. As you will know we are firm supporters of the national framework approach and welcome its inclusion and the focus on a long term view within the vision.

We also welcome the proposed approach to re-examine the incentives supporting innovation as it is our view that there is an opportunity to create a toolbox of innovation incentives moving away from comparative competition incentives alone. We will be responding separately to Ofwat's consultation on driving transformational innovation.

In addition we are pleased by the increased focus on public value, an area we have found is really important to customers, stakeholders and our shareholders. The emphasis of this in the emerging strategy aligns well with our view and the approach we outlined in our Business Plan. You will recognise we started this journey some time ago with the creation of our own customer driven Responsible Business Strategy.

In this response we thought that we would also offer some suggestions on how the vision is presented and articulated that might be helpful in its further development. The document includes a number of activities and areas to focus on, each of them individually worthy of inclusion, however we feel the line of sight between the vision, the challenges and the corresponding activities could be strengthened.

For example we have taken each component of the strategy, challenges and activities and tried to show this in the following diagram.

Vision - Delivering everyday excellence - Stewardship for the future - Value for individuals and society							
Challenges	Sector wide challenges				Challenges in meeting the vision		
	Climate change & pressures on the natural environment	Long term water resources & growth in population	Affordability for all	Sector legitimacy	Operational resilience	Fit for purpose regulatory framework	Customers' changing expectations
Current position	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]	- [add text to describe current position of the industry]
Retain and evolve	?	- Markets, trading and competition	?	- Financial resilience and board leadership	?	- An allowed return on the assets of the regulated company - Outcome based incentives, reset every five years	- Customer engagement
Shifts - creating a better future	?	- Planning for sustainable	?	?	- Ensuring long-term operational resilience	- Setting long term targets	?
Shifts - driving transformational change	- Encouraging affordable solutions for the environment	?	?	- Maturing companies' relationships with their customers	?	- Enabling adoption of innovative approaches	- Turning information into insight
Shifts - encouraging private enterprises to deliver public value	?	?	?	- Looking to companies to own their public purpose - Encouraging the delivery of social and environmental value	?	- Ensuring value in the round for customers, communities and the environment	?

Collating the activities in this way enables a clear line of sight between the vision, the challenges and each activity. Producing an overview like this also identifies if any challenges are missing (for example the item in yellow above – ‘fit for purpose regulatory framework’) and allows a mapping to be undertaken to articulate a summary of the current industry position which can then be used to show why some aspects are retained/evolved and where a more dynamic shift is needed.

The question marks in the diagram above also show where there are no obvious activities listed in the document that can be easily mapped to one of the challenges. You will note that this process highlights that there may be some challenges without any corresponding activities shown.

We believe, explaining the emerging strategy in this way helps to ensure that the vision articulates what the fundamental outcomes the vision is aiming to achieve and more clearly identifies challenges that the vision is trying to overcome as well as challenges in achieving the vision.

Our view on the key challenges facing the industry and the key shifts identified by Ofwat

Our view at the highest level the challenges faced by the industry are, climate change, growth in population, achieving affordability for all and sector legitimacy. We can see that Ofwat has clearly identified these challenges as well.

In terms of the ‘three shifts’, identified by Ofwat, they arise where the current regulatory tools and company actions are currently not suited to the challenges we face. For example it could be expressed that a focus on the future and the need to set long term targets is more important than ever as the challenge impacts are uncertain and less predictable over the medium to long term than they have ever been.

Another example is the comment on the need for transformational change, the individual transformational change items listed are all meeting a range of different challenges, from legitimacy in terms of working with customers and the environment to enabling easier adoption of innovation that meets new externality challenges and also aids affordability.

It is not as easy for the reader to understand why these areas need shifting if not played against the challenges that drive them or the weaknesses in the current performance or approach that generate the need for change. This further illustrates the need to create clearer line of sight as described in the diagram above.

The approach of linking the elements of the vision to the challenges would also work well in the section that discusses what Ofwat could do. Indeed, the activities listed in the diagram should identify if they are ones that Ofwat is undertaking. For example setting long term expectations is described as a tool for helping the industry target innovation, whereas we would consider that setting long term expectations is more fundamental for an industry facing a changing environment and should consider a range of solutions to be adequately considered some of which would be delivered through innovation.

3. Consultation response

3.1 Based on the draft in our discussion document, what do you think should be included in a shared vision for the sector? What are the collective aspirations it needs to achieve?

We believe the aspirations should relate to the challenges we face going forward, as articulated above, and the vision should focus on meeting these challenges.

3.2 Should water companies be encouraged or incentivised to consider wider public value in what they do? What does this phrase mean to you, and should Ofwat take a role in making that change happen?

There are a number of key considerations relevant to this question:

- Ideally this should be seen as a relationship between customers, society and companies.
- However without incentives from regulators in this area will the focus be squeezed out in favour of the existing stronger incentives? The regulator must be seen to be at least supportive of the need for change as the absence of support will create a disincentive for the sector to engage fully in this area.

Our September 2018 Business Plan set out our approach to our Responsible Business Strategy and includes 10 responsible business commitments that, alongside our comprehensive outcomes package, covered all aspects that customers told us is important to them.

3.3 Do you think long term aspirations and targets will be effective in driving the sector forwards? What should they cover and how should they work in practice?

We agree that setting long term aspirations are key to better outcomes, including via innovation, as it enables everyone to see the ultimate objective and to have time to test and learn, to collaborate more effectively and to follow adaptive planning approaches that are more likely to achieve an outcome where the future is uncertain and the solutions being sought are untested.

3.4 Do you think we're focusing on the right areas in which to drive transformational change, as we've set out on pages 26-29? E.g. innovation, the natural environment, customer relationships?

We have a different view on the areas that need transformational change. The areas that we consider need transformational change are:

- Developing a culture that is striving to meet society's expectations of a provider of an essential service, this will include the environment and customer relationships.
- Encouraging innovation across the whole value chain in particular innovation focusing on the longer term. (current ODIs will incentivise key short term outcomes)
- Increased collaboration in meeting long term resilience and security of supply outcomes

3.5 How do you think we could evolve our approach to price controls, building on the conversation on page 36?

The items identified on page 36 are worthwhile to pursue through industry dialogue.

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