



WRSE response to Ofwat's Emerging Strategy

Water Resources South East (WRSE) is an alliance of the six water companies operating in the south east of England. The water companies involved include Affinity Water, Portsmouth Water, South East Water, SES Water, Southern Water and Thames Water. Together they serve 19 million customers and provide 6 billion litres of water per day. It also involves a number of stakeholders including Defra, the Environment Agency, Ofwat and CCWater.

WRSE intends to develop a multi-sector, regional resilience plan, ahead of the next round of Water Resource Management Plans and the 2024 Price Review, with the aim of planning for a wider set of resilience risks - beyond just drought - and to address the needs of other sectors that are highly dependent on water. We will do this through a systems-based approach.

Our role will be to build consensus between companies and sectors in developing the plan and facilitate its progress through the enhancement of regulatory, policy and planning processes. It will be a best value plan that delivers for customers, other water users, the environment and society.

We welcome the opportunity to respond to Ofwat's emerging strategy and do so from a WRSE perspective – it is not made specifically on behalf of the individual water companies involved. It focuses on the role of regional groups in delivering Ofwat's vision for the sector.

We support Ofwat's approach to retain and evolve but we would encourage an emphasis on evolution in order to meet the rapidly changing environment we are operating in. The sector is facing significant disruption from a number of angles including customer expectations, environmental priorities, climate change and technological advancements and must be in a position to respond quickly to changing circumstances and new imperatives. Regulation, including economic regulation, will need to be responsive and able to adapt quickly to changing circumstances.

Creating a better future

We welcome the recognition by Ofwat that a new regulatory framework is needed to deliver resilient water resources for the long-term and fully support its commitment to put delivery of this at the heart of its strategy. There has been a much-needed shift in focus and significant collaboration between water companies, regulators and government since the National Infrastructure Commission's National Needs Assessment highlighted the resilience challenge we face and set out its recommendations for addressing them.

Ofwat has shown its commitment through the establishment of a collaborative team – RAPID – to help the delivery of the strategic infrastructure needed to build long-term resilience. This is an important step-forward, but the identification of the solutions needed – including new infrastructure, demand management and catchment solutions – must be supported by effective regional planning under a National Framework. With work to develop this already well advanced and regional groups such as the WRSE established, it is critical that RAPID works as part of this framework to ensure alignment between the processes.

Ofwat, along with the other water industry regulators and government, have indicated that they expect regional planning to play a strengthened role in building resilient water supplies. This is welcomed but it must be recognised that it will require significant advancements to the work currently undertaken at a regional level and must be funded appropriately to enable to the step-change required. Furthermore, collectively we need to fully understand how we embed the regional planning layer into the regulatory regime if it is to become part of the statutory process.

One area in particular we welcome is Ofwat's recognition that in delivering long-term expectations there must be a mix of firm targets versus aspirations and trends. As companies' aspirations increase, so does the reliance on innovation – much of which is currently unknown. There must be acceptance that not all new ideas will work and that this is acceptable as long as it's recognised quickly, and it enables companies to learn and progress. The focus on binary targets limits much needed aspiration due to the fear of poor performance reporting. The introduction of non-binary targets – particularly in areas such as leakage where the step-change in performance aspirations is significant and where progress will be heavily reliant on innovation – would be welcome. For example, when considering leakage reduction, part of the target could be binary and based on evidence, but where it goes further than the current evidence base it becomes non-binary and has a different form of performance target – such as qualitative or reputational reporting. This would avoid what are significant improvements in performance, such as a 14.8% reduction in leakage, being classed as a failure.

We believe this shared vision should equally extend to wastewater service delivery. The development of longer-term plans for this part of the sector (DWMPs), which link in with the established long-term plans for water resources, would allow a shared vision for both services and wider outcomes such as environmental delivery. Collaboration is key, both between companies, with stakeholders and between regulators. A shared vision for the environment, customers and the economy will be essential for a progressive sector which is able to respond to future challenges efficiently and effectively. This should include key targets that the regulators and government would like the industry to achieve. This could be updated every five years but always setting out the goals for the next 25 years.

Driving transformational change

Regional planning has the potential to enhance long-term planning in areas beyond water resources. Enhancing long-term planning in areas such as wastewater, drainage and surface water management is equally as important as securing water supplies. Regional planning will play a key role in increasing operational resilience, particularly the response to regional and potentially national events such as drought and freeze/thaw – transforming the experience of customers and other water users.

Regional groups can also play an important role in driving the transformational change identified within the strategy that all involved in the sector are committed to – not least in helping to stimulate innovation and delivering enhancements to the natural environment. Collaboration will be critical to achieve this, as will clarification of how collectively we achieve this and a shared view of priorities and ambition. The strategy would benefit from recognising the importance of the evolution of regional groups and their role in delivering transformational change.

Delivering public value

We support the move towards delivering wider public value and the multi-sector, regional resilience plan will be a vehicle for delivering this. WRSE's ambition is to produce a best value plan that delivers quantifiable benefits to customers, the environment, other water users and wider society. Being able to demonstrate where additional value is being delivered to customers is essential to secure funding and an open discussion is needed about how wider environmental and social benefits are funded.

The regional resilience plan will drive greater collaboration outside the sector as well as within it and has the potential to identify new solutions and facilitate partnerships with a range of organisations to deliver the best value possible for all.

Approach to price controls

WRSE welcome Ofwat's emerging strategy and its collaborative approach to developing it. Providing stakeholders with the opportunity to help shape and develop the future strategy for the sector and increased transparency of decision making is essential in building trust, empowering companies and driving the transformation needed. This is particularly important in the evolution of the approach to price controls. There must be open and honest dialogue with the industry around all four areas of focus set out in the strategy, enabling greater co-creation and providing a clear line of sight to the decisions that are ultimately made. Furthermore, the design of the next price review could be

enhanced by incorporating the views of customers. Using insight to shape the future incentive regime and performance commitments could better align the price review with the needs and expectations of customers.

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