Speech

Given by David Black, Chief Executive, Ofwat
CCW and Met Office climate change adaptation event.
Thursday 11 May 2023

Regulating for climate adaptation – risk and resilience

Introduction

Good morning, everyone and thank you to CCW and the MET Office for inviting me to speak to you all here today.

The Met Office's forecasts that the UK's climate will experience wetter winters and hotter and drier summers. In Wales, the projected reduction in summer rainfall will significantly exceed the projected increase of winter rainfall by 2050. In England, there are estimates showing a 25% chance of the worst drought in recorded history within the next 30 years.

Infrastructure tends to be fixed and inflexible, so increasing variance of weather will put pressure on the resilience of systems and services. Fluxing rainfall patterns could threaten supply. More frequent downpour could impact river ecology and water abstraction as well as overwhelm combined surface water drainage and sewers. Hotter summers could increase water consumption.

And while focus at this event is on adaptation, it is also important to remember that the sector plays a role in accelerating the impact of climate change. For example, the operational emissions of the sector amass to nearly 1% of the UK total. As an asset intensive sector, it is also responsible for significant levels of emissions caused by construction. And if adaption requires the sector to increase capacity, this impact may well increase. The sector can also help to reduce emissions with ability to tap into renewable energy, heat and carbon reductions by nature-based solutions.

So, what does this mean for the sector?

Resilient systems and services are central to water and wastewater services. Everyone and every business needs both services every day. Interruptions to supply are painful and for

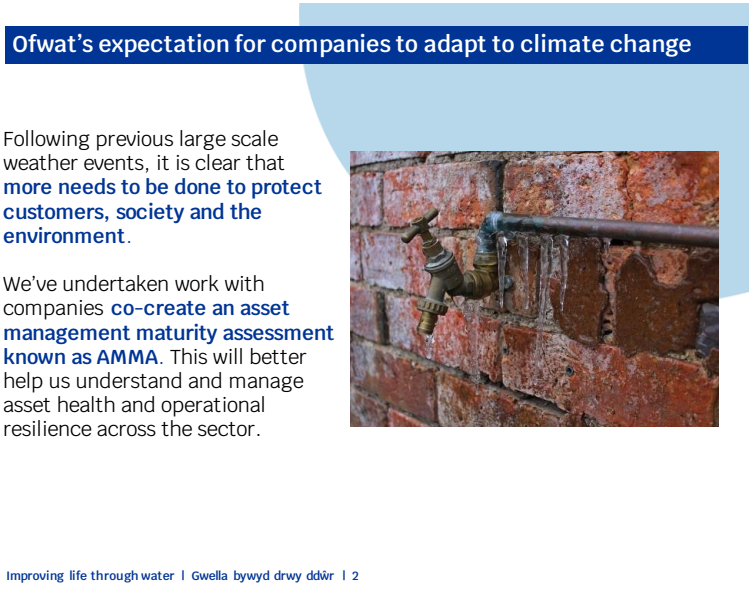
some, life threatening. Water companies have a key role in understanding, anticipating and acting to mitigate risks to resilience. This includes:

- working with customers to improve water efficiency and demand management to reduce pressure on the system.
- smarter networks and proactive approaches to asset health and resilience.
- investing to increase capacity of systems and flexibility to manage impacts of climate change.

The Climate Change Committee and the National Infrastructure Commission have both pointed out in their recent reports and letters to Government that there are still significant gaps in delivering climate resilient infrastructure for the country.

All of this in a sector which has lost trust of customers with high levels of concern and anger over sewage discharges and corporate behaviours perceived to reward failure. Last summer highlighted concerns about resilience of water supplies and excess leakage and raised questions about approach to drought management. Further, we see a number of companies falling short of expectations for performance and seeking to transform their performance along with putting their finances on more sound footing. Customers are experiencing a cost-of-living crisis and a greater number are in need of support. This shows that there is a momentous set of challenges for the sector.

Ofwat's expectations of companies to adapt to climate change.



The climate has and will change. I expect companies to anticipate and prepare for challenges that will put on their resilience at risk. It will not be possible to prepare for every contingency,

but customers rightly expect companies to be resilient to broad range of events. It is important to learn from the past, but very important that we don't just lean on historical incidents to prepare for the future.

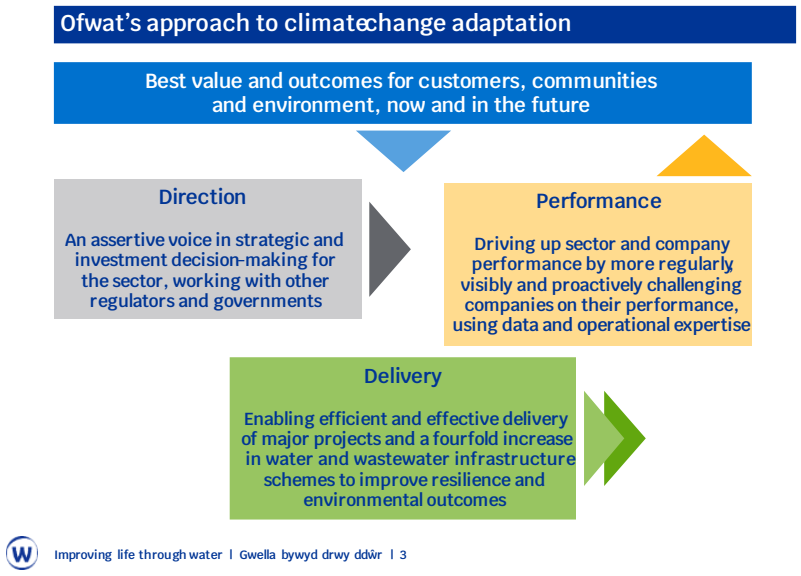
We experienced freeze thaw events in 2018 and 2022. In 2018, the UK experienced a prolonged spell of low temperatures and snowfall as Arctic chill brought biting frost to our doorsteps. Following the thaw, customers of some companies experienced widespread disruptions as burst pipes drained service reservoirs and led to service failure and companies struggled to inform customers and provide alternative supplies. In similar incident in 2022, two of these companies also experienced significant disruption, suggesting insufficient lessons learned.

In summer 2022, UK experienced a number of heat waves and record temperature and peak water demand soared. The issue was not the availability of resources but the ability to treat and distribute water to customers at sufficient pace to meet surging demand.

These incidents illustrate the need to better understand and anticipate the risk these events can have to the resilience of services and take effective action to mitigate these risks. To learn lessons from past but also expect new challenges in the future.

Now I want to talk a little about how Ofwat can work to promote adaption in the sector.

Ofwat's approach to climate change adaptation

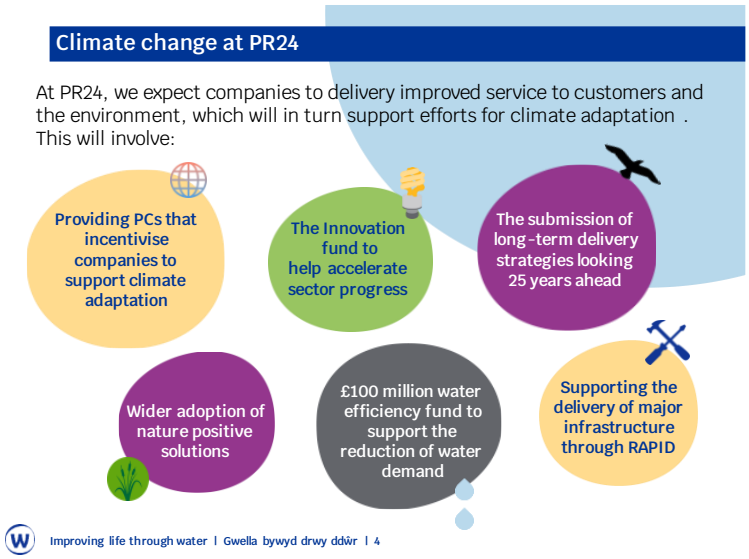


In 2019, we set out our strategy that would push companies to transform their performance, meet long term challenges through increased collaboration, and provide greater value.

But since the launch of our strategy, much has changed across the UK and the rest of the world. And with that, our role as a regulator must evolve to ensure we can continue to play a substantive role in enabling better performance for all. I want to share three areas which we see as key to getting great value for customers and the environment.

- First, we want to do more to shape the strategic direction of the sector; ensuring that we are looking ahead and preparing for future challenges. We have established RAPID with EA and DWI, which recently announced the progression of 12 major water resource schemes. These will be key in securing the future of our water resource and providing new infrastructure that is more resilient against the impacts of climate change. We also have a role to play on drainage and wastewater management plans to ensure that we have the wastewater systems we need now and in the future. We have introduced long term delivery strategies to bring companies long term plans together and ensure each 5-year price review period builds to longer term strategy.
- Secondly, I want Ofwat to play a role in enabling the delivery of major infrastructure. We are expecting a step up in both major projects and in smaller scale projects at PR24. We are establishing a new major projects and markets directorate to enable competitive procurement approaches and help ensure effective oversight and shared learnings starting from project conception all the way to its delivery. We also see a greater role in overseeing the delivery of smaller projects. We are concerned about the slow pace of delivery of the PR19 enhancement programme and the challenge will be much greater with the step-up investment in PR24. So, we will look to enable closer oversight of delivery at PR24.
- Lasty, there is how we drive companies to improve performance. The performance of several companies let down their customers, their environment, and the wider sector. We will look to insights from data collected across all regulators to better understand the root causes of poor performance and use this information to push companies to perform better and allow earlier detection of issues, taking enforcement action where appropriate.

How PR24 will drive companies to accelerate efforts for climate change adaptation



At PR24, we expect companies to delivery improved service to customers and the environment, which will in turn support efforts for climate adaptation. Our final methodology sets our key decisions to support this objective:

- Our performance commitments will incentivise companies on measures that will support adaptation to climate change, specifically on supply interruptions, biodiversity, per capita consumption, leakage, business demand, pollution incidents, river water quality, bathing water quality and storm overflows.
- We expect a significant increase in the adoption of nature-based solutions that are lower carbon outputs and sustainable. Our assessment of investment will take more explicit account of environmental and social factors, with the support of our performance commitments.
- You can also expect an expansion in the innovation fund that will continue to help accelerate innovation and action across the sector. We are still seeing a number of promising projects from the last couple of years of running the competition and want to continue to enable further progress.
- We will also be introducing a water efficiency fund of up to £100 million to help stimulate a transformative, sustained and measurable reduction in water demand nationally.

Conclusion

Adapting to a changing climate will challenge the sector's resilience and environmental performance. While these challenges are complex, they also provide opportunity to refresh, to innovate, and build strong partnerships that will deliver better outcomes.

Creating the best value will require companies to think ahead at how longer-term investments provide more secure futures, to act now by establishing what can be done well in the short term, and act smart by being agile, adaptive and future facing with all that they do.

Working alongside Government, regulators, CCW and the MET Office, at Ofwat we will play our part in enabling and incentivising a more resilient sector.

Thank you.