

Environment, Food and Rural Affairs Committee

Oral evidence: Regulation of the water industry, HC 1041

Tuesday 3 July 2018

Ordered by the House of Commons to be published on 3 July 2018.

Watch the meeting

Members present: Neil Parish (Chair); Alan Brown; John Grogan; Kerry McCarthy; Mrs Sheryll Murray; David Simpson; Angela Smith; Julian Sturdy.

Questions 106 - 181

Witnesses

I: Steve Robertson, Chief Executive Officer, Thames Water; Mel Karam, Chief Executive Officer, Bristol Water; Dr Jerry Bryan, Chief Executive Officer, Albion Water; John Reynolds, Chief Executive Officer, Castle Water.

Written evidence from witnesses:

[Thames Water Utilities Limited](#)

[Bristol Water](#)

[Albion Water Ltd](#)

[Castle Water](#)

Examination of witnesses

Witnesses: Steve Robertson, Mel Karam, Dr Jerry Bryan and John Reynolds.

Q106 **Chair:** Good afternoon, gentlemen. You are very much welcome to our inquiry into water. When you speak please lean forward towards the microphones because we have the fans on in order to keep us relatively cool this afternoon. Starting with Mel, would you like to introduce yourselves across the panel and then we will start the questions?

Mel Karam: Good afternoon. I am Mel Karam. I am the CEO of Bristol Water.

Dr Bryan: I am Dr Jerry Bryan. I am the Chairman of Albion Water, the new entrant—rather an old new entrant—to the industry

Steve Robertson: I am Steve Robertson, CEO of Thames Water.

Chair: Just a small company.

John Reynolds: I am John Reynolds, CEO of Castle Water, an independent water retailer.

Q107 **Chair:** We brought you together as different-sized companies with different aspects. I am going to join two parts of my question together. First of all, could you briefly summarise the role your companies play in the water industry? Linking to that, has opening the new retail market for non-domestic water increased competition or just fragmented the sector to the detriment of the environment? I will link those two together. Let us start with Thames Water, Steve.

Steve Robertson: Thames Water is probably one of the world's largest integrated water companies. We deal with the whole water cycle, so the production and distribution of water, and dealing with the waste water side of the business as well. We also are a wholesaler. We support a number of retailers, including John, who is my largest retail customer.

In terms of the opening up of the market, it is quite early. In a previous life, I was the CEO of Openreach. I was the first CEO of Openreach. In that model, relatively quickly, there was quite a lot of innovation in terms of the retail market space. In water, the opportunities are slightly more restricted, but we are already seeing quite a few different approaches, not just with the pricing, but the way in which the retailers engage with customers. The biggest challenge is making sure that we, as wholesalers, provide a seamless service to John and his competitors—end users. That maturing of the processes, especially when something goes wrong, is something that we really need to work quite hard at, and we are quite an early stage on it.

Q108 **Chair:** With you being Thames Water, with 13 million or 15 million customers and being a very big player in the game, you do not really



HOUSE OF COMMONS

want any competition, do you? You are a monopoly, are you not, in your own area? I am being slightly facetious, but I see a little bit of a battle going on here. Perhaps I am wrong. I accept that it is more difficult to have proper competition in the water industry because you have all the pipe work and the sewage systems. There is a lot of cost. Billing is about the only thing you can save money on when you start competition in the retail of water. Is there more that you big guys could do to enable more competition, because I do not think you particularly want it. Lord, make us good, but not yet.

Steve Robertson: Interestingly, in terms of that retail space, we withdrew from the market. We very much welcome competition in that space. I would agree with you that infrastructure-heavy businesses are quite difficult to act as places where competition naturally happens. There are a few things that we can do. Our regulator regulates us on the basis of quasi-competition, so we have lots of league tables and comparative performance, which helps. I would agree that the idea that another provider is going to come along and build an alternative network, for instance, is extremely unlikely.

Q109 **Chair:** Who else would like to come in?

Dr Bryan: Chairman, thank you. We operate pretty much in the same space as a Thames Water. We were created using the competition provisions in the original Water Industry Act 1991, which were pretty modest in ambition, to compete against the established monopoly companies where those opportunities exist. Those opportunities exist most profoundly today, and for the last several years, in new-build developments, and new housing developments in particular. This is where out-of-town and edge-of-town developments tend to identify the weakness in existing networks, where there is not a suitable sewer to connect to and there is not a suitable water main with enough capacity to serve that new development, and where we can start to challenge what is still very much a Victorian model for water supply—one pipe in and use it for whatever you will, even though for much of the use that domestic customers put it to, you do not actually need that level of quality.

We are competing where we can for new developments, and offering what we believe is not only a more economic solution but also a lower-carbon, more sustainable one.

Q110 **Chair:** As far as a company like Bristol Water is concerned—I know Bristol Water quite well because it is on the edge of where I farm, with Wessex Water and Bristol Water all around us—from your perspective, how do you get one with these big companies? Do they give you grief or are they very co-operative?

Mel Karam: I will first answer the original question about the market opening, if you do not mind me saying a few words about that and then I will come back to the point about small versus big, or big boys versus small boys. The market for the non-household in the UK opened in April



HOUSE OF COMMONS

2017 and we have just completed the first year of that market opening up. My assessment of it is that, first of all, you have to remember that this is now the largest open water market in the world. There is nothing like it that exists anywhere else. It is quite innovative. The way that England, in particular, has implemented the market opening, in my view, has been successful. It does not mean that everything is perfect and hunky-dory. We still have some issues, particularly around data quality and on the wholesale side. It affects all of us, big or small.

The first year has been a first year of settling in and making sure the market processes are settling in, working efficiently for the benefit of everyone. We, as a small company, as Steve said, exited; as a wholesaler we exited the retail market. The company I represent, Bristol Water plc, no longer competes with the retailers. We see ourselves as a wholesaler and we very much welcome the market conditions and the competitive nature of that market.

To explain from a personal point of view, I sit as a board director of Market Operator Services Limited—MOSL—alongside John. We are both board members. I chose to do that personally because I believe that MOSL, the market and the operation of the market is very healthy. As a company, we would like to see more opportunities. If you think about it, for a smaller company like us the opportunity is where we have the chance of getting involved in other parts of the value chain. That is our perspective on that. Our performance in the market has been, from a personal and company point of view, pretty good. We are in the top quartile of performance from a market operation and market performance perspective.

Coming back to your second question on big versus small, having spent a lot of my career in the energy sector, on the asset management side and the infrastructure management side, coming to water more recently, and having done quite a lot of consultancy work around the world with utilities, I think there is something positive to say about small companies, particularly about a local, close-to-customer company like Bristol Water. It is quite unique. What I have found in the time I have been at the company is that it is very close to its customers. It had a very good reputation locally, not necessarily renowned nationally but certainly in Bristol and the surrounding areas. It is very well known and highly regarded.

The other unique thing about the companies, particularly small water-only companies, is that some of them—in fact probably the majority of them—were never nationalised. Bristol Water has been in private hands for over 170 years. It was formed by an Act of Parliament in 1846. It has always been private. It was set up as a social enterprise, for the good of the communities. That is the way it actually is. That is the way it operates. There is quite a close affinity and recognition between the employee as a company and the customers. It is a really positive thing.



HOUSE OF COMMONS

That virtue of being there for the good of the communities and the social enterprise should be cherished and is a good thing to maintain.

Coming back to the relationship, it is pretty good. If you take Bristol Water and Wessex Water, we have been co-operating for over 15 years. We have joint billing operations. That has been going extremely successfully, both financially and from a customer service point of view. We collaborate in a number of other areas. We have quite a healthy water transfer arrangement between us, which helps both sides from a water resilience point of view. We have a very good operational relationship with each other. I personally think it is a good thing. That diversity is really good.

Q111 **Chair:** John, as a smaller company what is your view on life?

John Reynolds: The first year of the market has been hard work. A lot of the information, data, processes and systems that were in place historically are not right for the market. Some of that is because of the market structure but a lot of it was because it was not focused on individual customers. It is the other side of looking at the changes being fragmentation. What changes is a focus on how an individual customer is treated, rather than just how a system works as a whole in terms of funding and managing a network, which is a fairly major change.

There are groups who are clearly benefitting. There are multi-site operators who have switched to billing on a national basis, given efficiencies. There has also been a big move from the public sector, so we now supply a number of local authorities and NHS trusts in Yorkshire and the north of England, and the transfer that has gone very smoothly.

There is not enough buy-in from small and medium sized businesses, and there are a couple of reasons for that, one of which is that the central information to support the market, so that small customers without sophisticated buying operations can understand and trust it, is not very good. Even when we offer discounts, which at the smaller end of the market can be 10% of bills, customers are not opting for it. To me that suggests that there is more holding them back. It is not just that water bills in some areas are relatively low. Most people would take a saving like that for a relatively small amount of work if they trusted what was on offer. There are issues there.

Q112 **Chair:** You think they do not trust the fact of changing companies. Is that what you are saying?

John Reynolds: Yes. They do not trust switching utilities, full stop. There is not enough to support what is on offer from water to make it worth taking the risk in some cases, which is a shame because there are savings and there is also a choice of different service propositions now. That choice of service propositions is important. The other thing is that there is more that can be done in terms of competition in terms of how it



affects the operation of resource and supply of resource at the upstream part of the sector, which is still in a very centralised mind-set.

- Q113 **Chair:** In a way that leads me to the last part of my question, which is about whether domestic customers should also be able to choose their water supplier? Should we move from just commercial premises to domestic customers being able to choose their own supplier?

John Reynolds: As a retailer, I have to say, unfortunately, no. The cost of retail water bills at a domestic level is sufficiently small that there would not be a saving that would make it worthwhile. What we need instead is a significant change in the consumer rights framework. The Water Industry Act predates the fairly significant changes in local authority culture that started with the Charter Mark, and certainly predates the types of protections that domestic customers normally expect in things like the Consumer Rights Act. The approach that we have from a regulatory and legal perspective is not fit for purpose to protect domestic customers where things go wrong. It would be relatively simple to give the benefits from a change in consumer protection framework to domestic customers without having to put in place the cost of a market.

- Q114 **Chair:** We will leave it there. As far as a big company like Thames Water, would you welcome competition in the domestic market? I do not quite know where they get their water from in the London area.

Steve Robertson: We are fairly neutral about that, to be honest. We do not have a strong opinion either way.

- Q115 **Angela Smith:** I have the inevitable question: we all know what Michael Gove said back in March. I think it is worth reminding ourselves that over £18 billion was paid out to shareholders of the nine large English regional water and sewage companies between 2007 and 2016. 95% of the profit went on dividends to shareholders. We have had the criticism from Dieter Helm in "Water Boarding" and his analysis of the financial structuring of the water companies. The *Financial Times* has been pretty clear in terms of its view on this issue. We have my own Front Bench, which has been pretty vociferous on the issue. Although I do not agree with its suggested solution of nationalisation, I understand the criticism. What impact do you think the financial arrangements of water companies have had on public trust in the industry? Steve, obviously I am going over to you first.

Steve Robertson: Of course, naturally. It is interesting. We have done research—both Thames Water and the industry—about levels of public trust in the industry. Generally, what the research tells you is that it is quite high. If you compare the levels of public trust with the water industry with other industrial sectors, it comes out pretty well. However, it is important that there is quite a significant caveat there. There is enough noise for us to be paying attention. It is important, not because it is some sort of popularity contest, but if we look at the challenges that



HOUSE OF COMMONS

are facing us in terms of climate change, growth and renewal of our assets, being trusted and having a space where we can have a straightforward discussion is really important.

The things that have happened over the last 12 months—I speak for Thames Water here—are quite significant. The first is that we have a much more homogenous investor base. Over two-thirds of our investors now are pension funds. The discussions I have with them are about 20, 30 or 40-year plans. They are here for the long term and what they are not looking for are windfall returns or anything else. They are looking for steady, sustainable returns with a long-term investment plan to match. Words are cheap, but they have committed and agreed—and the board suggested this—to take no dividends, so no external payments, for the rest of this planning period. That money is being reinvested in infrastructure. We, as an executive team—I and my colleagues—asked for that because we believe that had to be the priority right now. That is very important. It is not a gesture.

Q116 Chair: Do you think it has taken rather a long time to get to this position? We welcome what you are doing, but you have taken a long time.

Steve Robertson: It has taken a long time. If you look at the history of the water industry and you look at the ownership structures, it has oscillated. It has not been unlike the telecoms industry. At one point Thames Water had interests in 40 other countries. We have focused back down now on our core business. We are in a settled place. One of the things that worries me is that if we engage in solving a problem that no longer exists we are going to disable ourselves from solving the problems that do exist around resilience and long-term growth. For me that is really worrying and is why it is really important to have this discussion and put these things on the table in this space.

Q117 Angela Smith: I take that point entirely but your argument, Steve, seems to be that the change in culture is entirely due to changes in ownership structures and that you are in a settled place now. Obviously you cannot speak for the other water companies, but it is your view that Thames Water is in that settled place for how long? What security or sense of commitment can we have over this new place that you are in with shareholders for the long term? How long is that going to last for?

Steve Robertson: It is very stable. Just going back to the ownership structure, the reason I discussed the ownership structure is because that was the nature of the question. There are lots of other things about culture that we could discuss but, coming back to our ownership structure, it is very stable. These are long-term investors: two-thirds of them are pension funds. They include the BT pension fund, the University Superannuation Scheme and a big Canadian pension fund-holder, and they are absolutely in it for the long term.

Q118 Angela Smith: How do you respond to Ofwat's new rules announced



today?

Steve Robertson: Our response to the whole consultation is one where we are clearly supportive in terms of the principles, including around remuneration and dividend policy. We were quite clear about our dividend policy. We have a published dividend policy. On composition of the board, we are committed to having an absolute majority of completely independent non-executive directors. We are absolutely in line with the principle of sharing outperformance; we do not agree with the mechanism that is being proposed. We think there are alternatives.

Q119 **Angela Smith:** Why do you not agree with it?

Steve Robertson: Because we think that it can have perverse consequences. What is being proposed is that the financial structure of your business allows you to generate “financial outperformance” and therefore, as a matter of course, a portion of that money should be returned to customers. Our opinion is that we should be investing that money and that financial outperformance. As it impacts our investors, that is what we need to be focusing on. If our investors were in line for a dividend that was outside the range that Ofwat thought was reasonable, which clearly they are not any time soon, then we would aim to share the benefits of that with customers.

Q120 **Angela Smith:** Do you agree that investment in infrastructure has suffered because of the culture that we have seen over the last few years, where we have very high returns to shareholders and very high debt gearings and so on?

Steve Robertson: I will answer your first question, and come back to returns and gearing. There has been an issue but it is not exactly about the quantum; it has been about philosophy of the investment. It is not primarily or overwhelmingly influenced by the ownership structure or the mix of investors. It has largely been driven by the way in which we have looked at the operation of our infrastructure. At Thames Water, we are very proud to say we have the second lowest prices in the UK. What we have done to help make that happen is to utilise our existing assets very efficiently. There is an issue about this, however.

Q121 **Angela Smith:** 25% leakage is not very efficient, is it?

Steve Robertson: Can I come back to that? I will finish my point. What we have done is made sure that we have absolutely the best out of those assets. It is like when the decision comes when you have to renew your car, where you have to start investing proportionately more in new infrastructure and taking a longer whole-life view of infrastructure.

Chair: We do not want to go on to leakage, because that is question 4.

Q122 **Angela Smith:** No, I am not going to go on to leakage. Forgive me, Steve, but I can analogise your story; it is a bit like me saying, “I have £15,000 surplus income every year and I prefer to go on a luxury holiday three times a year rather than investing it in the home”. Is that not what



HOUSE OF COMMONS

has happened over the years? Because it sounded like that to me.

Steve Robertson: No. I said it was not an issue of quantum. It is an issue of how the money is spent.

Q123 **Angela Smith:** You have sweated the assets, have you not?

Steve Robertson: That has resulted in much lower prices than might have otherwise been the case.

Q124 **Angela Smith:** In the end it is about quantum because that money could have been used. Some of the money that went to shareholders and some of the money that went to pay very high levels of debt could have been used to invest in infrastructure. Is that not the case? I do not accept the argument that levels of investment have gone down since privatisation. That is patently not true. I accept that entirely, but there could have been more investment. We really do need more infrastructure, do we not?

Steve Robertson: We should separate two things here. The levels of debt have resulted in, bearing in mind the company structure, extremely efficient capital structure, which means that money has been able to be raised much more effectively and efficiently and therefore being able to be invested while still keeping prices down.

The level of dividends is a different issue. I was certainly not in Thames Water at that time. I can speak for where we are today and moving forward. Actions speak louder than words. We can fight a battle about investors who have gone and a situation that has changed. My worry is that the battle we need to be fighting, and the discussion we need to have, is about the things we need to be doing now to secure the future resilience of supply in the south-east of England.

Angela Smith: I do accept that.

Q125 **Chair:** We do not need all the panel to speak on every question, but does one of the smaller companies want to add anything?

Dr Bryan: Could I make an observation about the investment question? Ofwat might be able to clarify this, particularly if they are given a little notice. It was certainly the case in the early years of privatisation—the first decade or 15 years—that companies appeared to bid for a certain amount on infrastructure renewals, i.e. updating and replacing the existing infrastructure, and significantly underinvested, and put the difference to profit. That was pretty cynical. It is effectively senior management at the time saying, “I think we can get away with it for another five years or until I retire, so let’s put this money to profit rather than investment”. The other problem, which we saw with some of the work that we undertook, is that where you have high levels of leakage—

Chair: We will deal with leakage in a minute.

Dr Bryan: Okay, but it is very difficult to invest without huge disruption, and that also puts a break on investment.



Mel Karam: The point I would like to make is that the industry has a different face in a small water company. When we talk about financial structures, shareholder returns and higher gearing, there are companies like Bristol Water who do not have complex offshore financial structures. They do not have high gearing. They have not been paying high dividends for years and years and have a very good, strong, local trust and confidence with their customers, stakeholders and communities. They have been investing in the networks and in the environmental protection.

Q126 **Chair:** Are you saying, "Do not lumber all companies together"?

Mel Karam: Exactly. The water sector, particularly on the wholesale side, is very diverse. We should be careful when we talk about the perception; it is not a universal environment. It is very different, particularly for a company like Bristol Water.

Coming back to the Ofwat consultation document, we supported it for exactly those reasons, in terms of high gearing and sharing benefits with the customers. We are there already, so why not support it? We fully support it.

Angela Smith: I suspect, for the record, it is worth pointing out that three of the big regional companies are publicly listed. That makes a difference as well. We just need to put that on the record.

Q127 **Alan Brown:** Talking about the consequences and the aftermath of the Beast from the East in terms of performance, 200,000 customers in England and Wales were without water for four hours, over 60,000 customers were without supply for over 12 hours and some had no supply for more than a week. You can argue that some of what happened was a direct consequence of the weather, but three-quarters of the households and businesses that were off supply did not receive any alternative emergency supplies of water, whilst 93% of consumers who found themselves in vulnerable circumstances did not get any additional support from the company. It is fair to say that that, overall, is poor performance. Does that reflect a lack of resilience and planning within the water industry?

Dr Bryan: One of our sites, at Upper Rissington, is arguably one of the most exposed sites in England, on the top of the Cotswolds. The snow left by the Beast from the East was above hedge-height; you could not see the roads. We had no losses at all of supply, although two of our customers did suffer frozen pipes internally. The reason for that is a reflection of Angela's last question. We had replaced all of the old distribution network. It was new. Previously it leaked like a sieve. There would have been a dire state had we not done so. It is very much a reflection of the status of the infrastructure and how much has been invested in it.

John Reynolds: We did not have a role in restoring supplies during the Beast from the East. That was Thames, in terms of most of our customer



base. There were two things that we were able to do. The first was that we actively and proactively contacted customers and set up a microsite so that when the compensation was being calculated, customers could query the levels calculated and proposed by Thames. Also customers who were not given compensation were actively approached in order to claim compensation. This is just the business customers we were looking after, in London and surrounding areas. We did have a number who came forward. We did pay the compensation in every case. In every case, Thames reimbursed us the cost of the compensation without querying. The approach of actively asking customers and actively challenging from a retailer is quite an important development, and it is something that is new in the market.

The other thing is that there were occasions, when the network was being restored, where we were able to interface with Thames on behalf of vulnerable customers in order to draw their attention so that they could prioritise supplies and put supplies back in place faster for those customers.

Steve Robertson: The first thing to be said about the Beast from the East is that it was a very unusual weather pattern. The focus has been on the freeze and that was not the problem. The problem was the speed of the thaw, which was extremely fast and took temperatures from below freezing to up to 10, 11, 12 or 13 degrees, virtually overnight.¹ The effect of that was the loss of around about 400 million to 500 million litres of water per day.

The first thing that I think was good was that we were able to pretty much replenish that level of incremental demand overnight. Just to get a feel for it, if we had not been able to do that—so virtually turn on a tap inside our production works and deliver an extra 400 million litres of water—the number of people who would have been impacted would not have been, in our case, about 12,000 who were out of service for more than 12 hours; it would have been 750,000 or 1 million. There has been quite a lot of talk about resilience, and one of the points that is quite important is that our water production capability was proven to be pretty resilient. The other thing that helped us was the London Ring Main, which allowed us to balance supply.

Having said that, this was clearly a huge event. About 70% of the water that we lost, out of that 400 million litres, was on customer premise.

Chair: We will talk about that in a minute.

Steve Robertson: I am just trying to give background. If you imagine the situation we were in, clearly there are lessons to be learnt. I would challenge the numbers on vulnerable customers. We had 1,047 vulnerable customers on our register. We got physically face to face with

¹ Note from witness: This was an approximation, the exact speed of the thaw took temperatures from below freezing to up to 10 degrees and above in less than two days.



71% of them. The other 29% of them we left messages for and we also called multiple times and knocked on doors. The issue for me was not the 1,047 that we have on our register. The bigger issue is that that number should be much larger. If we compare the water industry with the energy sector, for instance, we have a long way to go to make our vulnerable customer registers more comprehensive. There is an issue there, but it is not one of us not getting in touch with our vulnerable customers.

There are a lot of lessons for us to learn around communication. I would agree that distribution of bottled water was inadequate. It was not good enough. We had a very traditional view where we basically set up big depots in supermarkets and car parks. If you are a single parent with a child—you will know yourself how heavy water is—it is not very portable. We learnt a lot about how to distribute. We distributed successfully about a million litres—a million bottles—of water, but clearly for a lot of our customers it was stressful; they had to queue or, in some cases, they did not get any at all. I absolutely accept the criticism of that and that is something we are already working very hard to correct.

Q128 Alan Brown: Apart from what you said at the end there about the distribution of emergency supplies, that makes it sound like everything was in control, yet Ofwat found that Thames Water was one of the worst performers in extreme weather. Do you challenge that? Was Ofwat correct? If so, what other lessons have been learned and what has changed internally to make this better for the future?

Steve Robertson: I certainly would not say that everything was okay. There are three things, apart from the distribution. The first thing is that we need to improve our modelling. It was a very unusual weather event. However, we need to improve our modelling so that we can predict it more accurately. There is no question about that.

Secondly, correlating what was happening on our infrastructure versus what was happening with thousands of customers who were calling in because their pipes had burst or they were frozen was something that we should have done much better. We have developed quite a cool tool that will address that issue but there is no doubt that that was a lesson to be learnt as well.

On the back of that, a lot of our communication was dependent on social media. Feedback I have had from the relevant MPs and councillors has been quite direct about, "Social media might be okay but as a channel it is not good for a lot of customers".

The communications, the predictive modelling and the correlation of the impact are all areas where we could step up and do better. In no way, shape or form are we sitting back thinking, "Well, that was okay". It was not. Maybe the most important, underlying lesson is: it was quite an unparalleled event in terms of impact on our infrastructure and on our customers. We need to be thinking the unthinkable a little bit more



HOUSE OF COMMONS

often, because, with climate change, these types of instance are not going to get less likely; they are going to get more likely, so there is a real lesson for us to be learnt.

Q129 Alan Brown: In terms of modelling, are you also reviewing infrastructure and infrastructure investment? Because, if you go to Jerry's point, from his perspective, he is operating a new infrastructure and that has mitigated the potential consequences of the burst pipes and loss of water. Is that all going to combine?

Steve Robertson: Yes.

Chair: I do not want to get into burst pipes because that is question 4. I have been told to keep to the rules.

Q130 Alan Brown: That is fair enough. It is just combining the modelling with the investment and infrastructure.

Steve Robertson: Yes, and especially in some specific local areas. There are parts of south London, for instance, where we need to be paying attention.

Mel Karam: This event was more about operation preparedness, more than big infrastructure investment, in terms of the issues. We knew it was coming. If you look at the weather forecast, you knew there was going to be a freeze, and you knew we would have a thaw after that. If you knew that you would know that you would get lots of pipe bursts, whether on your own network or on the customers' side. It was all about preparation and that is what we did.

We had a severe weather taskforce to start with, and then a freeze taskforce immediately after that. We opened up the incident rooms, filled up all the service reservoirs and made sure all the treatment works were up to plan. There were no planned outages at the time. We started communicating with the local authorities, particularly in Bristol and surrounding areas, and with customers, letting people know what was coming up. We got a lot of our staff and employees to volunteer to start distributing water. We were prepared.

As a result of that, even though the south-west of England was probably one of the worst affected areas in terms of the freeze followed by the thaw—remember there was a lot of snow coming from the west; it was not just the Beast from the East; there was also snow from the west—we managed to have a reasonably good outcome. Customers were affected but in terms of scale it was very much within control. You referred to the Ofwat report. It did not find any issues with Bristol Water addressing the issues. There are clearly a lot of lessons to learn.

Q131 Dr Johnson: I would like to ask about the compensation to customers. When somebody gets on the train and the train arrives late at its destination, as you walk into, say, King's Cross, they will be giving you something into your hand so that you know how to claim your



HOUSE OF COMMONS

compensation and get your money back. If your broadband supply is out then you get an automatic refund. When the water supply is out, you do not get that. Why not?

Steve Robertson: No, you do not. The way that we did this meant that you did not have to claim at all, which I think is better.

Q132 **Dr Johnson:** Is that your water company specifically that does it like that?

Steve Robertson: I am not sure how the others did it, but the way we did it was to look at each area that was affected. We could see the pressure in the network so we proactively went to all of our customers who were impacted and we gave them compensation.

Q133 **Dr Johnson:** What compensation did you give them?

Steve Robertson: The other thing about the schemes that you mentioned is that there are statutory levels of compensation. We have statutory levels of compensation as well. The statutory levels of compensation are that you get no compensation unless you have been out for 12 hours, if you are out for 12 hours you get £20, and for each 24 hours after that you get £10.

We looked at any customer who we believed was out for more than three hours, just to be on the safe side, and we had a scheme that said if you were out of service between four and 12 hours you would be paid £30, if you were out between 12 and 24 hours you would be paid £50, if you were out for 24 hours or more, it would be £100, and thereafter it was £50 per 24 hours.

Q134 **Chair:** You claim that your scheme was much more generous, do you?

Steve Robertson: It is, in fact, much more generous.

Q135 **Dr Johnson:** Was that something that customers would just have seen appear in their bank account without having done something, or did they have to claim that?

Steve Robertson: No, they did not have to claim it. We wrote to them all, explained what we were doing and then followed that up with a letter with a cheque.

Q136 **Dr Johnson:** Jolly good. What about other water companies?

Mel Karam: From our perspective, we pretty much followed exactly the same. If you read the Ofwat review, it says that most companies, including ours, were more generous than the statutory minimum. We did exactly the same: anyone who we thought might have been affected, we voluntarily paid them the additional payment regardless of how long they were off water. As I said, there were not that many, but we were certainly much more generous than the statutory requirements.



HOUSE OF COMMONS

My personal view, to add to that, is that Ofwat's position at the moment is that they are going to review the guaranteed standards, and it is about time to do that. There is an argument that inconvenience caused by not having water beyond a certain time should be recognised more. As a water user myself, it is okay to be without water for an hour or two, but for two days, three days or a week, you need to be ratcheting things up a lot more.

Dr Johnson: Mr Robertson, you have mentioned the inconvenience to vulnerable customers, but my own experience of having no water supply when the Beast from the East came was that I was told to go and get myself some. For me, that is not a problem; I can get in the car and drive to the nearest shop, which is about three miles from my home, where I can buy some water. For a vulnerable, elderly resident, who might not feel they want to go out in the car in that sort of weather, or for people who cannot lift the water, that is going to be very difficult for them to do. I did not get any competition at all, so I guess my cheque must be in the post.

Chair: It depends. You are not with Thames Water, are you?

Q137 **Dr Johnson:** It was not Thames Water. It was not any of your companies. Would you support a statement that this compensation should be automatically provided by every water company? Would you support that?

Steve Robertson: Yes. Why not?

Q138 **John Grogan:** I have one question back to leaks, and then just one supplementary on structures. I have been out in Keighley, which is my constituency, with Yorkshire Water tracking down leaks. I was amazed with some of their technology. We seem to be using some technology in Keighley that was satellite space technology where you look for water on another planet. On the other hand, there were a lot more inspectors they employed and so on, and their target is 40%. The industry target is 15%, is it not? How are you going to achieve that?

As a little codicil to that, the Home Builders Federation have suggested that water companies take responsibility for the customer supply pipes as well. Is that a good idea or a bad idea?

Steve Robertson: Taking the last part of that, there is a lot of merit in that. It would simplify things. It would allow us to more effectively address some legacy issues. There is still quite a lot of lead pipe out there, for instance, which is certainly a concern to us and our customers, so there is a lot of merit to that.

In terms of finding leaks and sorting them, there is a lot of quite cool technology that is now available. Occasionally we will use things like drones, for instance. If you are in a rural area you can see the wet patch in the field. More generally, what we are beginning to deploy at scale is a thing called acoustic loggers. What they do is listen to the water going through the pipe and help to narrow down the area where a leak may be.



HOUSE OF COMMONS

What a lot of people probably are not aware of is that 98% of the water that we lose in leakage is under the ground. You would never see it. You would never know it was happening. If you look at the number of leaks, it is about 75% you would never see. The visible leaks get fixed quickly, so they represent a very small part of the water that we lose.

The real problem is that we have this massive network and, especially in London, it is very dense. If you think about any pipe network, every time there is a connection, there is an opportunity for a leak to happen. We have a very dense network, so what we need to do is be using our technology to identify where those leaks are. We can do it much more efficiently. This is a hot topic in Thames Water. We are probably hitting record levels of fixing leaks now. We need to stay on that, and we are going to get back to the target that we had for this AMP. We need to gear up that machine so that we can keep going to do the other 15%. Customer-side leakage is a big chunk of it. Between 25% and 30% of leakage is on the customer side. We will fix our customer leaks for nothing, by the way. Until you have everybody metered, there are some people who are not so worried about that.

Dr Bryan: I should explain an interest. I used to work for Thames Water before privatisation, and blowing the whistle on leakage figures got me fired. We had, at that time, a rule that leakage could be any number as long as it was less than 20%, but it had to be described every month with two figures past the decimal point to make it sound more reliable. What got me fired was that we conducted the first mass balance exercise in south London and we could not account for 50% of the water. The nail in my coffin was standing up at a senior managers' meeting, a little bit like this, and saying, "But the good news is that south London is a lot better than north London". I was shown the door the following day.

The reality is that leakage figures are notoriously unreliable. The more dense the environment in which the leaks occur, the more difficult it is to find and particularly to fix. We have infrastructure that is of varying quality. I have been told that late Victorian water mains are pretty good and may well last for 200 years, it is assumed, if you look at water company depreciation rates. Whereas post-war water mains are poor-quality steel and rot very quickly, and the early plastic mains similarly. It is a very mixed bag.

When I was at Thames back in the 1970s and 1980s, I was advocating a system whereby we started a database of mains conditions. That was never done so we are still largely in the dark. It is better than it used to be but we are still largely in the dark about where the mains are precisely and what condition they are in. That is a reflection on the lack of investment.

Q139 **John Grogan:** I have just one more question, and I will ask John to come in first on this, because you have experience of Scotland and England, as I understand it. I did not intervene, although we were



HOUSE OF COMMONS

talking about structures, but I will just put a supplementary in now. In Scotland, as I understand it, the water industry is publicly owned, but there is still some business retail in the market. They seem to have pretty good satisfaction ratings. Is it perfectly possible to run the water industry along those lines with a strong regulator, business retail and publicly owned? In Wales, it is mutually owned. Does ownership make a difference one way or the other? Do you have any reflections, gentlemen?

John Reynolds: That is an interesting question. I was a member of the Water Industry Commission for Scotland, which is the Ofwat equivalent for Scotland, for three years. The Scottish market was deregulated in 2008 and was the precursor to the English market. On a daily basis, as Castle Water has a customer base originally in Scotland, I deal with Scottish Water, I deal with Thames Water and I deal with a range of other water networks. I do not think ownership is the deciding factor in terms of how the services are run. We find Scottish Water very good to deal with and a very responsible company to deal with. We find Thames very responsive to us when we need them to be as well.

We do not have a theological view in terms of there being a particularly right or wrong form of ownership. We certainly have not found that the public ownership of the water industry in Scotland gets in the way of the market giving retail choice at the customer level.

Dr Bryan: I was asked by the Water Industry Commission for Scotland—the Ofwat equivalent—to conduct a survey of innovation within Scottish Water and the water sector in Scotland. Despite the differences in ownership, you see the same problems of lack of innovation wherever you get large monopoly businesses. The challenge, which I think WICS has grappled with more effectively than Ofwat, if I am honest, is to try and stimulate that competitive pressure that counters the innate conservatism—small “c” in this place—that you see in any large company, where they stick to their comfort zones. They do not like to go beyond what they have been used to. As an industry, we were world leaders in the 19th century in water supply and world leaders in sanitation, with Bazalgette. That world leadership arguably lasted until the 1930s. Since then the industry in this country has been coasting. It has been resting on its laurels and others have taken the lead. You only have to go to Singapore.

Chair: It was probably starved of cash after the war, do you not think?

Mel Karam: Can I comment, because I have to say that I disagree with a lot of things that Jerry is saying? A picture is being painted that we live in a world where we have no data of our assets and that we do not know where they are or the conditions; that could not be further from the truth. This is from the point of view, knowledge and understanding of having ran and been responsible for gas networks in this country in the capital, the electricity network and assets and water assets in a large number of different companies as well.



We do have a very good understanding of where the assets are. We know where the pipes are. We know what the conditions are. We have models that can predict failure rates. We have all of that. There is definitely a place for technology—satellite technology, et cetera—but what Steve said is also right, which is that a lot of things we talk about, particularly leakage, are about small seepages from the joints of pipes. The pipes themselves, which are Victorian, are in really good condition. It is the joints that leak. A lot of these leaks are, as was mentioned, invisible leaks.

If you do not mind, can I make a point about innovation?

Chair: Can we get the answers a bit shorter because I have been asked to try to keep the meetings shorter? The answers are too long and there are still too many people trying to come in all the time. I am trying to control it a bit more this afternoon, so please get to the point.

Mel Karam: The other point in terms of innovation is that innovation is happening and does happen a lot in small companies and big companies. Bristol Water were awarded the innovating company of the year in 2017, in the Water Industry Awards. Part of the discussion that we will maybe have later on is how we make sure it is incentivised properly.

Q140 **Angela Smith:** Ofwat has a target for reducing leakage by 50% by 2025. I think that lacks ambition. The National Infrastructure Commission has recommended a 50% reduction by 2050. Do you agree with that recommendation?

Steve Robertson: Yes, I think we should try to do it faster.

Chair: Do you all agree?

John Reynolds: Yes.

Q141 **David Simpson:** Should smart water metering be compulsory?

Chair: You were commenting just now that you do not know the water leaks, so if you had your water metered you would have a damn sight better idea of how much water is going through those pipes.

John Reynolds: The answer is that yes, it should be compulsory. The provision of data should not be charged for by wholesalers, Steve, when you put smart meters in place, but do not give the data to the customers, please.

Q142 **David Simpson:** Is there a simple lack of government investment or a reluctance from the water companies to do it?

Steve Robertson: Maybe. We have probably one of the world's largest smart metering programmes, so we are very strong advocates. There are places within our catchment where it is compulsory because of water stress. Even if it is compulsory, we have to engage better with our customers to explain the benefits. I love the idea. It would make my life easy if I could just say, "You have to have it", but the reason why it is



HOUSE OF COMMONS

important is about the potential benefits, why water is a precious asset, and also looking after the potential negative aspects for some customers in terms of bill increases, especially those who may find it difficult to pay. It is a package, if you like. I like the compulsory part, but if we had that we would have to deal with all those other things as well.

David Simpson: We will come on to that point next in relation to your answer, gentlemen, but I do want to hit on the social tariff system as well.

Dr Bryan: From the new-build perspective, we would smart-meter both the potable water and our non-potable supplies to our domestic customers. We would like to work more closely with larger companies who have better economies of scale, because for a small company it is difficult technology to get the best out of. Picking up on an earlier point, we would like to adopt all pipelines to the customer's house and make sure that meters are situated at the customer's house, not in a wet hole in the pavement.

Mel Karam: I do not think compulsory metering is the right thing now. I agree with what Steve said, which is the focus, at least for the next few years, should be on customer education and water efficiency. There is a place for compulsory smart metering later on but unless we have the customers and the public on our side that water is precious, water should stay in the environment and that we should reduce water use, compulsory metering may have a negative impact and backfire.

Q143 **Kerry McCarthy:** This is particularly interesting, as a Bristol MP, to hear what you said about Bristol Water. In terms of consumer responsibility, everybody realises that if you have all your electrical appliances going at full blast, it costs you. I do not think there is that connect with water. Particularly when I went to Anglian Water and looked at how much they were spending cleaning up things like fatbergs and wipes that are not flushable and things, they were spending £30 million a year, something like £7 million was clearing it up and £6 million was on education but it was not doing an awful lot to stop changing people's behaviour. If you do not think smart meters are something that are essential now, will education get you very far? Is there a disconnect with people just thinking the water is there literally on tap? Is what goes on behind the scenes too big?

Mel Karam: If I can talk about my experiences, particularly in Bristol, we have set ourselves a target of getting 66% of our customers metered by 2020. We think the majority of that can happen by increased education, information, joining up with the local authorities, local council, Bristol Energy, et cetera, to get the point across, which is that water is a precious resource and that saving water saves you money and saves you energy at the same time.

Beyond that we are aiming to get to 75% and, until we have done that, moving to compulsory education will have a negative impact. Once we



HOUSE OF COMMONS

are in a position where the majority of customers are at least metered, so the benefits are known, then the last hurdle—the last 25% or 15%—could then move on to compulsory metering.

Q144 Kerry McCarthy: There is quite a high turnover in the population. There are a lot of people in the private rented sector; there are lots of students and so on. They are difficult to get to. It is one thing reaching the settled families who have lived in the same house for a long time.

Mel Karam: There is a policy of most water companies that when there is a change of occupancy or a change in the tenancy we can go in and install meters, which we do. That happens at the same time as voluntary or optional metering that customers ask for.

Dr Bryan: Could I make the point that where that happens, or where new homes are built that are all metered, we adopt smart metering rather than putting in dumb meters and then having to go back at some later stage.

Chair: In my view it is quite clear: surely if you use the water, you should pay for it. It will conserve water because if you do not have your water metered, why on earth do you have to turn the tap off? There are lots of issues here. I understand with the big families.

Q145 David Simpson: I just have a very quick one on the issue of the social tariff system. Do you all agree that should be introduced?

Dr Bryan: Yes.

Steve Robertson: Yes.

Q146 Chair: On the social tariff, if we are going to bring in much more metering, which we should do, we need to get the social tariffs right. You are all in agreement with that.

Mel Karam: Yes.

Q147 Mrs Murray: I want a very quick answer, gentlemen. I am sure you will be able to give it to me, but if you cannot perhaps you could supply us with the information. Mr Reynolds, I have one for you afterwards. What is the current per capita consumption figure in your area and what is your target? If we could start with Mr Reynolds and then go all the way along.

John Reynolds: We supply every area in the country so I do not have a single answer.

Q148 Mrs Murray: What is your ideal per capita?

John Reynolds: I do not have an answer. We are a retailer. We respond to customers.

Steve Robertson: Ours is 146 litres per day. We plan to bring it down to 120-ish but for new builds we would aim to look for about 105, which is the target for new builds in London.



Q149 **Mrs Murray:** 120-ish by when? Is that over the next five years, or 10 years?

Steve Robertson: The target in the water resource management plan is for 2044-45, and it is about 120 or 121.²

Q150 **Mrs Murray:** What is it for new builds now?

Steve Robertson: 105.

Dr Bryan: Ours is currently 90 litres per head per day potable consumption. Our households receive a non-potable supply for toilet flushing and external irrigation. That would typically, over the year, be about 30 litres per day. In hot weather like this, it rises to, I have just been told, probably about 50 litres per head per day. It takes a huge amount of strain off the potable network.

Mel Karam: 147 and 110.

Q151 **Mrs Murray:** Thank you very much, gentlemen. Mr Reynolds, do you think that water retailers are doing enough to offer consumer efficiency services? Are you encouraging your consumers to be more efficient with their use of their water?

John Reynolds: We are working very hard. We had our annual customer conference about a month ago. Half of the conference was external experts talking about water usage. None of the customers present asked a single question about the usage. We currently have an advertising campaign giving free automatic meter reading, which is smart metering, to farms. That is national. We have only had six farmers take it up. We have a section on the website giving water efficiency advice. We have offered water efficiency audits when taking on new customers in the voluntary sector with care homes. On the first day of the contract I phoned them and said, "When can we do the efficiency audit we have offered to do for you?" They have said, "Actually, we are too busy to do it". We try really hard to offer efficiency, and we are trying even harder to get the customers to take it up, but it is not always an open door.

Steve Robertson: We do quite a lot around water efficiency in terms of encouraging our customers, apart from the metering stuff. The main thing that is effective is home visits. We have been doing about 70,000 home visits a year, something we should probably do more of. What that entails is that we go and visit a customer, we will talk about water, give them little devices, spray heads they can put on their taps, bricks that they can put in cisterns, connect them to an app and that sort of thing. The effect of that is about a 12% reduction in usage in general. If it is combined with smart metering that goes up to a 20% to 22% reduction.³

² Note from witness: The exact target in the water resource management plan is 121.

³ Note from witness: The 20% to 22% reduction is a projection.



HOUSE OF COMMONS

Dr Bryan: We are already at 90 litres per head per day. We could get to 80 if we connected clothes washing machines to the non-potable supply. Our belief is that, although we conduct educational work with schools in our area, it is hard wiring those solutions that really achieves the benefits.

Q152 **Mrs Murray:** What do you do to encourage consumers and educate them about saving water?

Dr Bryan: They save water by virtue of the fact that they have a separate supply for toilet-flushing and irrigation, which is part of their community blue/green infrastructure. It is a very low-cost alternative to expensive and scarce drinking water.

Mel Karam: We have a customer education programme. We have an information programme, very similar to other water companies. We promote use of efficient appliances. On top of that, Bristol Water was one of the first companies to back the City to Sea campaign with the Refill Bristol campaign back in 2015, which not only promotes water efficiency and precious water, but also reduces the impact of plastic water bottles at the same time. One of the other initiatives just about to start, right across the whole of the Bristol city, is a city-wide initiative on saving water, energy and money for customers.

Q153 **Mrs Murray:** I would like just a brief answer—yes or no—to this. Is there enough consumer engagement and innovation in this area, not just from you as water companies but from everybody? Do you think there is enough going on?

John Reynolds: No.

Steve Robertson: No.

Mel Karam: No.

Q154 **Chair:** You can take the horse to water; how do you get it to drink?

John Reynolds: We offer incentives for customers to take up programmes that will save them money. That is the retailing model. Customers need to get something out of it from the retailer. We effectively pay them to save money.

Chair: You are all in agreement with that. We have to do more to get customers aware that they could make savings, basically.

Q155 **Dr Johnson:** Coming back to what you just said, you have talked about reducing 146 to 120 or 105, or 147 to 110. You are asking your customers to make reductions of between 18% and 25 and a bit per cent in their water usage. When you are only aiming to reduce your leakage by 15%, but you are wanting them to reduce their supply by about a quarter, is that fair?



HOUSE OF COMMONS

Steve Robertson: If we look at the time scale that this covers, it is almost exactly the same timescale that we would aim to reduce by 50%. That comparison probably still stands.

Q156 **Dr Johnson:** Do you think there is enough incentive for you to do it? Financially those with meters will face financial penalty if they do not reduce their water usage because they will be paying more. What financial penalty will you face, as a company, if water continues to leak?

Steve Robertson: Interestingly, when you supply a meter, there are some circumstances where customers have to pay more and some where you have to pay less. For the 240,000 to 245,000 customers that we have on smart meters now there is probably a net saving of about £4 million for those customers. The real thing for me in this space is that we need to have the right sort of structure around social tariffs. Especially if you look at our area, we have 10 of the poorest boroughs in the UK and, as you know, London also has a lot of places that has people who are well able to pay. The ability to pay and making sure that we look after people who will have difficulty in paying is an important part of this overall picture when we look at the application of meters.

Q157 **Dr Johnson:** You want water charges to be based on family income or wealth rather than the cost of water.

Steve Robertson: For people who find it difficult to pay it is really important; you cannot live without water. You have to make sure that if they are having difficulties paying they get the right kind of support.

Q158 **Dr Johnson:** Moving on a little bit, the weather has been very nice over the last few weeks, which on the one hand is great but on the other hand we are seeing agriculture start to struggle with the weather. In the past we have seen hosepipe bans and such like on consumers. What can be done to transfer water around the country? Because in some areas of the country we have enough water and in other areas of the country we do not. What can be done to facilitate water transfer between one water company and another, where one has a surplus and one has a drought?

Steve Robertson: It is a good question. The first thing to say about this is that if you look at the modelling, the likelihood of simultaneous drought is quite high. If you look at the current situation, for instance, and you look at the level of water stress across the UK, it is relatively uniform. We have to be careful about assuming that we would be able to transfer water.

The second thing is that water is not like other substances like, for instance, electricity or telephone wires and telephone signals. It is heavy. If you want to transfer it, it is quite expensive because you have to pump it up and down hills. There are environmental issues that also need to be handled in terms of invasive species, et cetera.



HOUSE OF COMMONS

The third thing that needs to be dealt with is that mixing different sources of raw water presents a specific set of challenges around when it comes to producing water.

I am not saying that water transfer is not something that we need to take very seriously, because we do. It is a really important part of the overall solution, but it is not a silver bullet. It needs to be put into a broader context where dealing with leakages is important, dealing with consumption is important and making sure we have the right storage capacity is important. Doing the things that Jerry was describing is very innovative and great. In a drought situation, Jerry, sometimes it is more difficult because raw water can be in a shortage as well. We need to take a holistic view of what we need to do for resilience. Water transfer is part of that picture, but it is not the whole one.

Q159 Chair: Going back to the leaks, what interests me is that you did not seem to altogether know how much water is leaking out. When your water is pumped from your purification plants you must know how much water you pump out of there, and then you can take away the amount that you supply to customers and what goes through their meters. It sounds to me that you are all very flippant about, "We do not quite know what the leakage is". Surely you know the amount you pump out and you know how much goes into people's homes, and so therefore the rest must be leakage. I am simplifying it but I still think you are playing a little bit fast and loose with us on this one.

Steve Robertson: I beg to differ on that. I agree with your premise, but the problem is that we do not have meters everywhere. One of the things that I have discovered about the water industry that is very interesting to me is that there is an extremely complicated calculation that goes into exactly what the leakage figure is.

Q160 Chair: Surely for those houses that do not have meters you would do an average consumption, so you should therefore still be able to get to a relatively accurate figure. Answering the direct question, do you know how much water you pump out of your plants?

Mel Karam: Yes.

Steve Robertson: Yes.

Q161 Chair: You know that. Those who have meters you can calculate exactly and those that have not you can average. Surely if you take those two together you should have leakage.

Steve Robertson: It is a pretty well established process. It was established in 2004, was it not?

Chair: Yes, but you were trying to tell us earlier on that you did not really know.

Mel Karam: I think it was Jerry. If you remember, I challenged that very vociferously. We do know. It is not exactly by every drop.



HOUSE OF COMMONS

Chair: So you are going to fix it.

Mel Karam: Yes, the estimation process is there and it works. We know exactly how much water comes in, how much goes to the customers and how much is leakage. Just talking about leakage, from my personal perspective, it is absolutely the thing the industry needs to focus on, has been focusing on but needs to focus on even more, ahead of even connectivity and transfers. Transfers do happen currently. We transfer water between ourselves and Wessex Water, but demand management, reducing water loss and reducing water consumption is the thing that we should be focusing on.

Q162 **Chair:** You did not want meters just now. There is nothing better at stopping people using water than having a meter, is there? You have to join up the dots.

Mel Karam: Absolutely. As I said before, answering Kerry McCarthy's question, we are increasing the level of metering. At Bristol Water, for example, we are going from 45% metered properties back in 2015 to 66% by 2020 and 75% by 2025. We are achieving that by educating the public to want meters, so that they recognise the value of water rather than compulsorily telling them, "You will have a meter". In my view, that is a better way of doing it.

Q163 **Dr Johnson:** We were on transferring water. Predominantly in the UK it is more likely to be wetter on the west and drier on the east. You represent a water company from the south-east. What are you doing in your company to look at preparation for a drought?

Steve Robertson: There is a number of things. If you are talking about infrastructure, going over old ground, there are two things. First of all, there is storage. Storage is an integral part of this. We need to have more storage in the south of the country. It is not about Thames Water, by the way; it is the whole of the south-east. We need a place where we can capture all the rain that falls in the winter time so that it is available for us when we need it when it gets hot, so storage is part of it.

Despite the challenges, we are also looking quite carefully at a water transfer scheme with United Utilities and Severn Trent, which would take water from the lower part of the Severn, bring it across the country and deposit it into the Thames. We would use the Thames as a big water pipe.

Q164 **Chair:** You have plenty of water and we have none over in our part. Is that the way it works?

Steve Robertson: As I have said, it is surprisingly often that we have simultaneous droughts. Right now that is happening.

Q165 **Dr Johnson:** I have one final question, which is not related to water transfer. How quickly do you fix leaks, and is there a standard by which you should fix them? For example, if I ring up and say, "My water meter



HOUSE OF COMMONS

is leaking. That is your responsibility. I cannot do anything about it", how quickly would it be fixed and how quickly does it have to be fixed? Is there a standard?

Mel Karam: There is no industry standard and also the response depends on the severity of the leak, the size of the leak and where it is. If it is a mains burst in the high street, we treat it as an emergency and we try to get to it as quickly as possible.

Q166 **Dr Johnson:** I was thinking specifically of a domestic meter, as an example. That is something that is affecting one customers, is it not?

Mel Karam: In domestic, it is typically a 24-hour response if it is on a network. It all depends on where it is.

Dr Bryan: 24 hours.

Steve Robertson: We are not as fast as that. We might respond in 24 hours but, in general, it will take a day or two to get it fixed.

Chair: You are going to try to speed that up a bit, are you?

Steve Robertson: Yes.

John Reynolds: We work across the country and we do find that leaks get fixed once they get reported. The problem is that you have to wait for someone to notice it, and that is the delay.

Dr Johnson: It took over a year for mine. That is why I asked.

Chair: Very often when you get your bill in and it is a massive amount, you realise there is a leak.

Q167 **Dr Johnson:** You are saying that when you identify a leak you will fix it very quickly, within 24 hours.

John Reynolds: Once they are identified, they are responded to quickly pretty much across the country. The problem is getting people to look at the source of information, the best of which is a meter, a bit more often.

Q168 **Dr Johnson:** The advice I was given is that where it is a big thing in the middle of the town centre, people can see water gushing and they are going to complain about it, they get it fixed quickly, whereas if it is a single consumer's meter and it is only affecting one customer and the leak on the scale of the whole company is small, there is no prioritisation for that. You are saying that is not the case.

John Reynolds: Our experience is that across the country leaks are prioritised and it does not matter if it is a relatively small one; they will still be fixed quickly.

Steve Robertson: I should answer directly: if there is a customer-side leak, which is a small leak—

Dr Johnson: I am not talking about a customer-side leak. I am talking



HOUSE OF COMMONS

about a leak that is your responsibility, so you will fix it straightaway, but there is no compulsion on you to do so.

- Q169 **Julian Sturdy:** I would like to touch, first, on water abstraction. Is the voluntary approach taken by Defra in its water abstraction plan likely to be sufficient or should we go further?

Steve Robertson: It is an interesting point. There are a few lessons to be learnt from some of the developments that happened in waste water over the years. The critical thing is to make sure that we are working really closely together. The degree to which you can move quickly, even in a compulsory environment, is limited, especially with issues with abstraction. You need to work together.

What is most important around it is to take a long-term view. Because if you think about the impact, if you say, "We are going to change the licensing structure and reduce abstraction", in effect the water still has to be found from somewhere, so it has to be done together. If we just take abstraction down without having alternative supplies available, we end up with issues around supply. The most important thing is that we need to be very joined up. Having a clear direction of travel and a long-term view about where abstraction is going is a critical part of dealing with it effectively.

The other thing I would say is that, increasingly, taking a broader catchment management view is important as well.

- Q170 **Julian Sturdy:** The Environment Agency is going to do that, though, are they not, in the new water regulatory framework?

Steve Robertson: Yes. If we want to keep the rivers healthy, it is not just about abstraction; it is also about all the other things that happen around about the watercourse in terms of chemicals, overdevelopment, et cetera.

- Q171 **Julian Sturdy:** I will let everyone have a go at this, but just to follow up on that, do you think there is sufficient attention to agricultural supply when you, as water companies, are looking at demand in your planning process?

Mel Karam: The answer is probably not. As you probably know, in terms of water use for drinking water in houses, only roughly about 50% of all abstraction licences available are available for water supply. The rest of them are in various forms and guises. Agriculture is one of them, as is power generation, et cetera. If there was one area, coming back to competition and market opening, that I personally think would really benefit from opening up and making it available to a better market environment, it is abstraction.

- Q172 **Julian Sturdy:** When you talk about opening it up to the market element, are you saying that people should be able to bid for the abstraction?



Mel Karam: Trade, yes, for abstraction that is not currently being used.

Q173 **Julian Sturdy:** I can see that resulting only in one thing: you, as water companies, will be able to trump all the other abstractors because you have the financial clout to do so. We would have no agricultural abstraction, very little industrial abstraction, and when you come to have your tea tonight you will be thinking, "Gosh, there is a lot less on my plate".

Mel Karam: I disagree with that. The market will start putting a better price on the value of water and makes the public more aware of how precious water is and how they should be using it. I am not saying that should be done in isolation. It should be done as part of the whole policy approach to better education of the public, better demand management and better focus on water efficiency. In terms of being part of the solution, we are talking about long-term resilience of the water supply; part of it is having a better market forces approach in the abstraction area. That is partly the way we have been thinking about in the past. I personally would like to see some examples of that happening in practice.

Q174 **Chair:** The point Julian is making is that if there is a shortage of water, you are going to be able to get it first, are you not? Farmers are not going to be able to get it because, if it is a case of the crops dying or people not getting water, then you are going to get the water. Why should you not have more resilience as well?

Dr Bryan: Can I make an observation on that point? As a latecomer to the party, we had no abstraction rights bequeathed to us, and they are very difficult to get. By and large, when we need drinking water, we have to buy it from the wholesaler. The marginal cost of the water to us is very high, say a £1 per cubic meter, much higher than the marginal cost would be to Bristol or Thames for pumping an extra cubic meter through their system. That does two things for us.

First of all, it emphasises the importance of leakage control because that is expensive water that is leaking. Our leakage levels would typically be 4%. They are new systems. They should be good but the challenge is to maintain that level.

The other thing is that where we find waste water, which is a natural consequence of supplying households, we need to make sure we get the best value for that. When we have sub-systems in new developments that we are adopting, we need to treat that not just as a way of getting rid of troublesome rainwater, but as a potential resource that we can harvest to supply back to customers so that we do not have to pay the wholesalers quite so much for expensive potable water. It is that change of view.

Q175 **Julian Sturdy:** You might be talking about much more winter abstraction in storage.



HOUSE OF COMMONS

Dr Bryan: Yes, and I would love to work more with the farming community, for example.

Julian Sturdy: I am not just talking about the farming community. I am talking about the water industry.

Dr Bryan: Farmers, as landowners, could perform a very useful task in being paid to take winter storage that would otherwise create flood risks for developments and then give that water back either for their own irrigation needs or for non-potable use within that community.

Q176 **Chair:** You would be prepared to pay for that, would you?

Dr Bryan: Absolutely, because it would be cheaper to pay a farmer a lot more than he currently gets than pay a wholesaler.

Julian Sturdy: That is a very interesting point.

Chair: Yes, it is a very interesting point.

Q177 **Julian Sturdy:** Across the board, how many pollution incidents were your companies responsible for over the last year?

Dr Bryan: Zero.

Mel Karam: We are a water-only company, so—

Chair: It looks like Thames Water is in the frame for this one.

Julian Sturdy: I know, Steve, you have had some issues over that.

Steve Robertson: The last year was 303, which is about a 50% reduction since the incidents that we were recently in court for.

Q178 **Chair:** Did the fines hurt, or do you just pass them off as collateral damage?

Steve Robertson: The fines hurt but that was not the primary issue. The issue is about our reputation, our relationship with our customers, our relationship with our investors and the damage that it does. It is interesting because the events that provoked that fine happened quite a few years ago. Most of the improvements since those events happened long before the fine was imposed, so the business had got the message before the court case.

It certainly was quite a shock to the system. The shock was not the fine. The shock was the publicity, exposure and generally having our feet held to the fire. The response inside the company was, "Yes, we can understand why that has happened". There was nobody inside my business who felt comfortable, complacent or okay about that at all, including myself doing my BBC interview on the steps of Aylesbury Crown Court.

Dr Bryan: I would just like to make a quick observation because, arguably, dealing with new communities and new housing makes the job



easier. Our sewerage systems are all separate so we have no such thing as a combined sewer overflow. Therefore, a lot of those pollution incidents are a hangover from overloaded Victorian-design, even if they are modern-built, systems that take both foul water and rain water. They never should have done. That is what we are left with. We have to move away from that as quickly as possible, and yet we are seeing more and more new developments feeding into old-style combined systems, so the problem of CSO pollution is going to increase rather than reduce.

Steve Robertson: I would agree with that.

Q179 **Julian Sturdy:** I agree as well. It is a big problem we are seeing in the planning process, where you get developments and you have to separate it but you separate clean and foul, but suddenly it is separated and then runs into a combine sewer. It does not make sense.

Dr Bryan: It is ridiculous, particularly in flood-prone areas like your own constituency. There are always answers. SuDS can provide us with toolkits to better manage a lot of these problems, but as an industry we have been reluctant to embrace them. It is changing. We have always been willing to adopt SuDS and make better use of them as a source of water, which I do not think anyone else does. It is a problem.

Q180 **Julian Sturdy:** Do you think the water companies are consulted enough within the planning system, because I do not think you are a statutory consultee within the planning system, are you? Do you think that you should be and do you think that the planning system should listen to your industry more?

Steve Robertson: Yes, I think we should. We definitely should be a statutory consultee in the planning process. I agree with the point about separation. We are doing a lot more with SuDS now. Once they are in it is also about making sure they are maintained and continue to be effective as well. We should be right at the start of the planning process and have a voice.

Dr Bryan: I agree with Steve, but one of the problems is that there is supposed to be competition for this new development market. There is supposed to be, but the reality is that the monopoly incumbent has privileged access to that. If we go to Ofwat and say, "We would like the opportunity to serve this new development far more sustainably, far cheaper, with far better customer service", Ofwat will take typically nine months to make up its mind about whether we are fit and proper to undertake that, even though our track record goes back unblemished to 1999. That is a huge disadvantage.

Julian Sturdy: The planning process would have moved on.

Dr Bryan: You had evidence from the Home Builders Federation to that effect. By the time we get to influence the outcome, the outcome is already decided. It is very difficult then to retrofit fundamentally more sustainable solutions into a framework that has already been decided.



Q181 **Julian Sturdy:** If I asked you all, within your own companies, what is the one biggest challenge you are facing today, what would that be—leakage, pollution, storage?

Dr Bryan: Anti-competitive market access, with the playing field very heavily tilted against us.

Mel Karam: I would say customer perception, understanding the value of water, and working with customers to educate them on demand management a lot more than we currently do. Our future water availability and keeping water in the environment relies heavily on customers, consumers and communities really understanding the value of water and working with the water companies to make sure we have a better, more resilient future.

Steve Robertson: It is very simple: long-term resilience.

John Reynolds: Tidying up historic data.

Julian Sturdy: It is interesting that they are all different.

Chair: They are all very good answers. Gentlemen, thank you very much for a very good session. We were quite firm with you but you gave us good answers as evidence to our inquiry, and hopefully it will help us to put together a good report. Thank you, gentlemen, very much.