

# Network governance in a changing world: what's happening in water?

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## Ground clearing – some useful definitions

What is the problem that network governance needs to solve?

Changes in water:

- greater use of markets
- greater attention to legitimacy

Network governance:

- broader, deeper, better assured
- changing roles

Conclusion

## Some useful definitions

- **Governance:**
  - the process by which decisions are made and implemented...
  - ... which matters because the right decisions need to be made...
  - ... and (be seen to be) made in the right way
- **Networks:**
  - 'Things' that facilitate connectivity
  - 'Pipes and wires'...
  - ... but more than that
- **A changing world:**
  - Population change – changing demography
  - Rising expectations – service, the environment, legitimacy
  - Climate change
  - A persistent affordability constraint

## Not only ...

A process for making and implementing decisions...

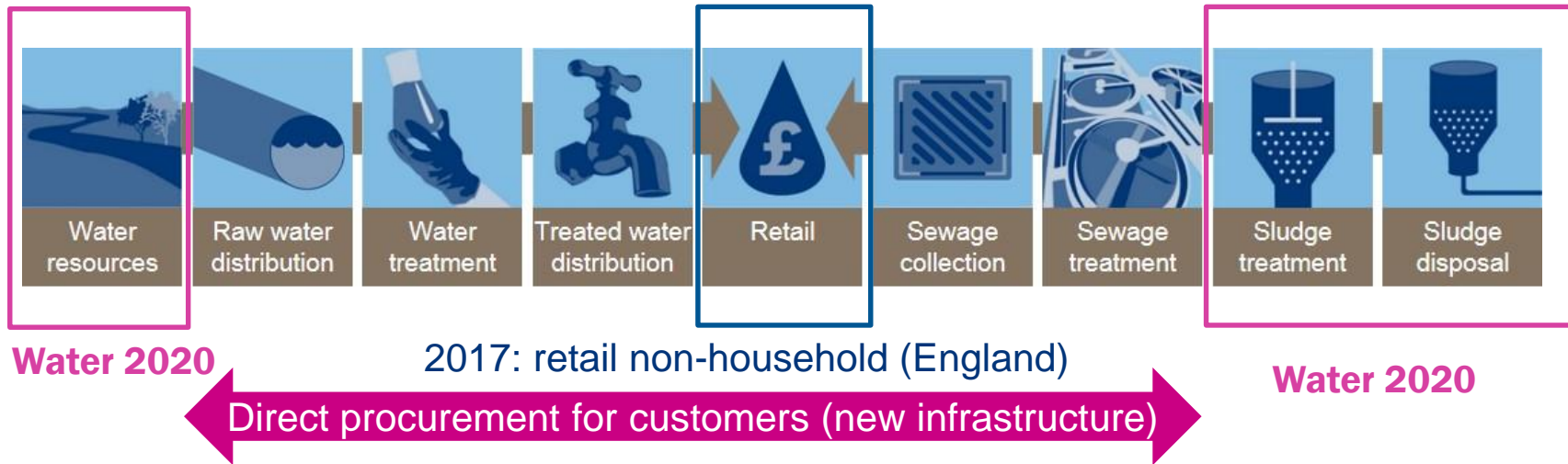
... on **system balancing** in relation to the 'pipes and wires', **allocation of capacity** on the network, determining where, when and how **new capacity** needs to be built ...

## ...but also...

- on the **outcomes** that customers and society want to see, now and over the long term
- that inspires **trust and confidence** and gives legitimacy
- that looks beyond 'traditional' networks across **broader systems**
- and that enables **better use of scarce resources** and **innovation**

The world of network governance is changing, and becoming more complex

# Changes in water: greater use of markets



## Water resources

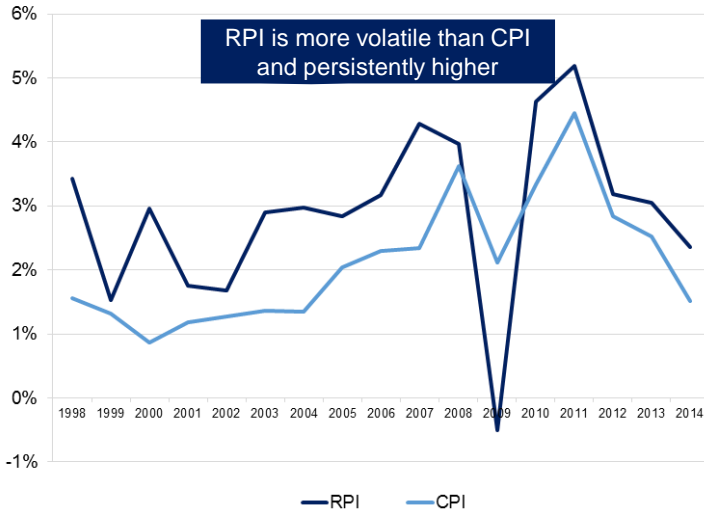
- Focus on new resources as most benefits from wider consideration of options for resources across company boundaries to promote efficiency and resilience.
- Trading is below its optimal level, and taking steps to mitigate identified barriers to this could result in benefits of up to £1bn for customers
- We will also enable third party resource providers to contract with retailers as provided for in Water Act 2014

## Sludge

- Enable better and more effective optimisation
- Greater participation from firms operating in wider waste markets
- OFT/Ofwat study identified significant benefits from development of markets for sludge processing/transformation to gas and fertiliser

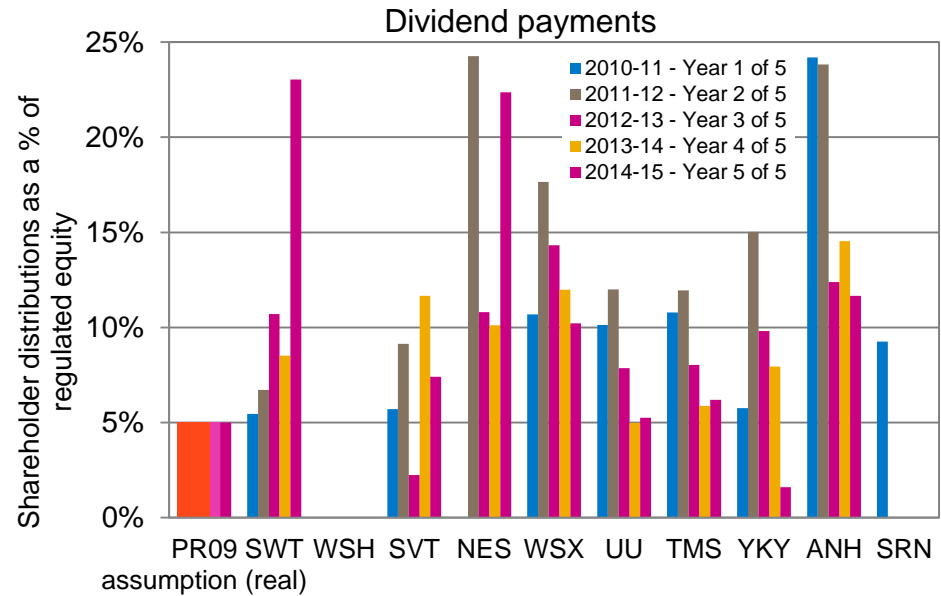
Direct procurement for customers: tendering new infrastructure, benefits include competition to provide finance as well as services and revealing information about the market price of capital

## RPI vs. CPI (1998-2014)



## MPs call for more transparency

The Independent



Excludes any dividends made to the holding company to fund interest receivable but includes special dividends

	Was decided/done by?	On the basis of?	Now decided/done by?	On the basis of?
What outcomes?	Companies, but very implicitly	'Common sense', some use of willingness to pay surveys	Companies Government (where society wants outcomes beyond the privately delivered)	Customer engagement in regulatory process, wider data on customer preferences, market information, Government policy process
How delivered?	Companies, with schemes 'approved by' Ofwat	5 yearly business plans, consultants' reports, Ofwat expert judgement	Companies	5 yearly business plans followed by constant assessment of options and market
Who delivers?	Companies, contracting through supply chain	Tendering process	Companies, supply chain, catchment actors, alternative service providers	Information on price, cost, and value, marketplaces, tendering processes
How assured?	Ofwat	Price review process	Company boards Ofwat Wider stakeholders	Price review process, independent audit, transparent reporting

## **Companies:**

- More visible 'system operator' role
- Managing more complex sets of interactions
- Greater onus on their responsibilities
- More provision of assurance

## **Government:**

- Greater transparency of outcomes society wants
- Involved in more complex sets of interactions

## **Regulator:**

- Provision of information
- Challenge and scrutiny
- Receiving assurance
- Providing assurance

## **Wider stakeholders (customers, customer groups, NGOs, investors):**

- Greater participation
- Holding to account



This changing world and changing sector are making network governance more complex

To have a good chance of delivering the **outcomes** that customers and society want to see, now and over the long term, and inspiring **trust and confidence...**

... it needs to look **broader** than traditional 'pipes and wires'...

... and **deeper** into the information and processes for decision making ...

... focus more **assurance** ..

... and itself **enable** different ways of doing things ...

These changes are happening now...

... but will create the need for it to **evolution.**