



## Outcomes – Water 2020 stakeholder workshop

Ofwat offices, Birmingham

14 June 2016

## Agenda

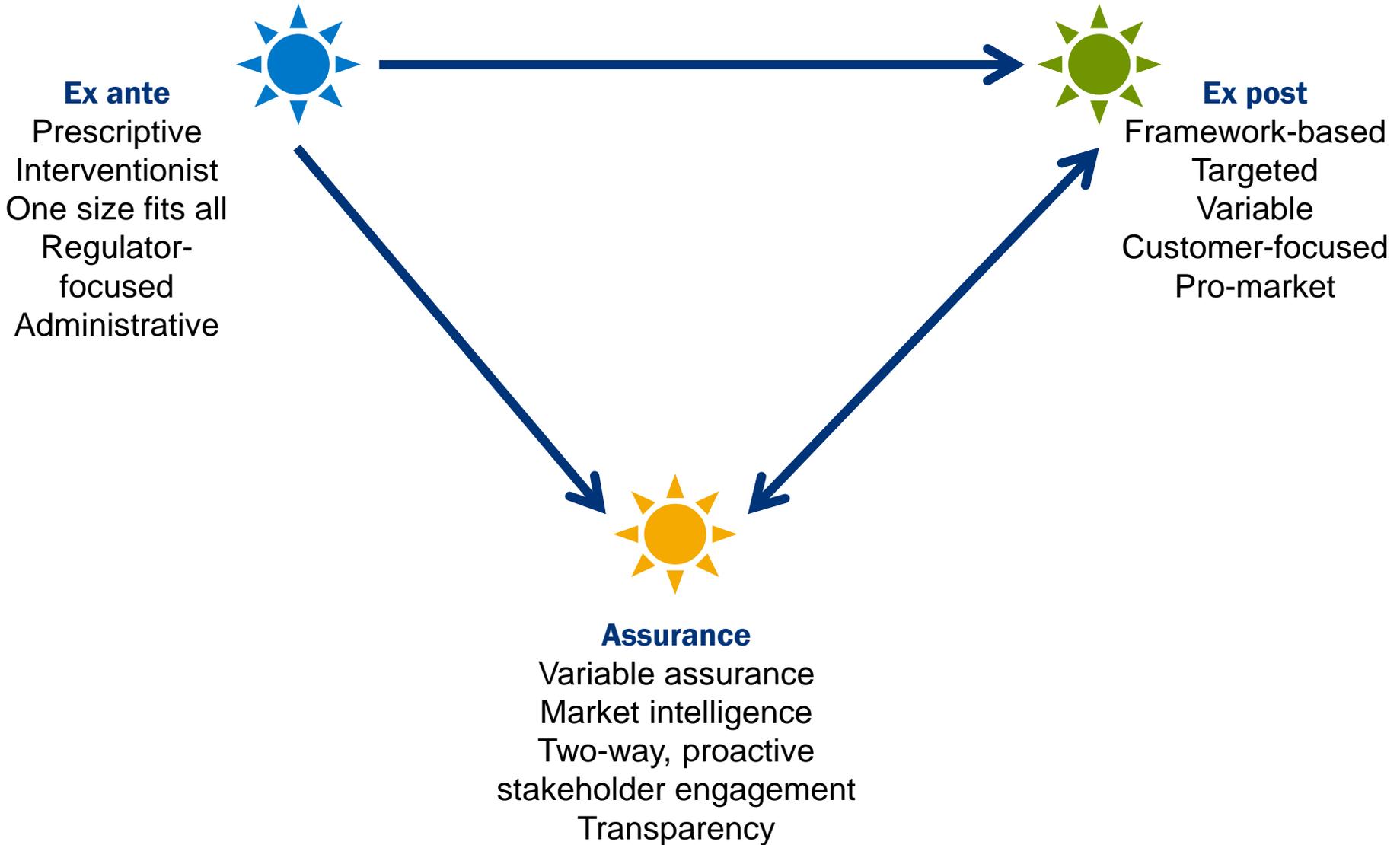
Tuesday 14 June 2016  
 City Centre Tower, Birmingham  
 10.30 am to 3 pm

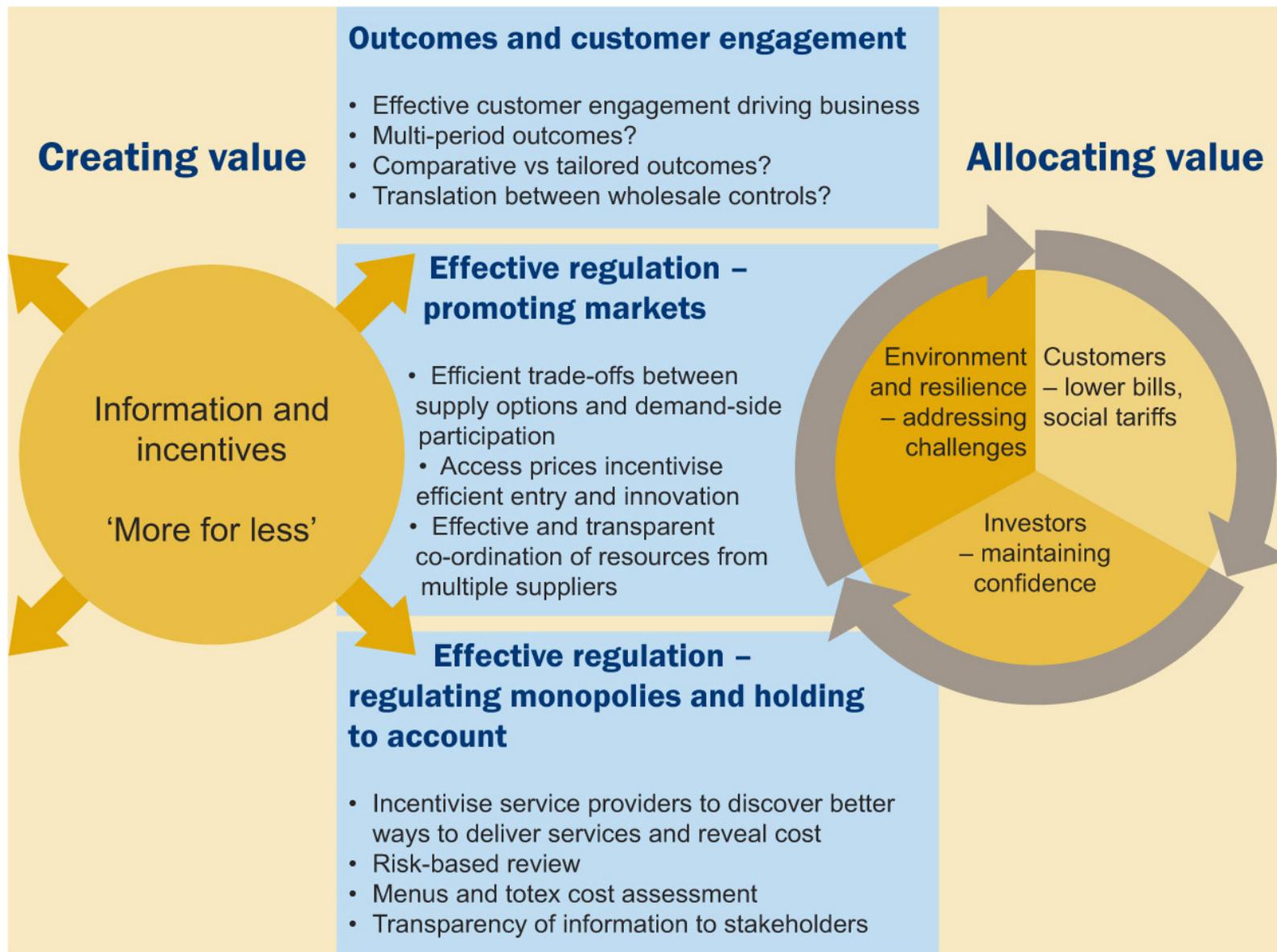
Outcomes workshop			
<b>Item</b>	10.00 am	Arrival – refreshments	
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<b>2</b>	10.45 am	Comparative information	Georgina Mills, Ofwat and Neil Dhot, Water UK
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<b>7</b>	1.30 pm	Asset health	Jon Ashley, Ofwat
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<b>9</b>	2.30 pm	Reflections on the day	Steve Hobbs, CCWater Teresa Perchard, CCG chair for Affinity Water
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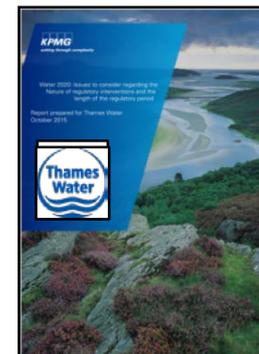
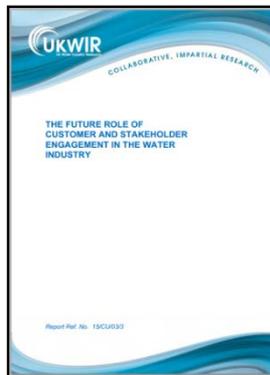
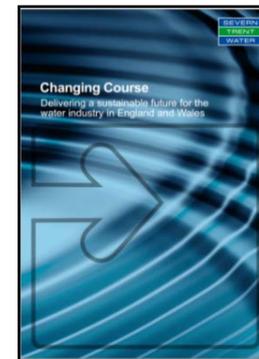
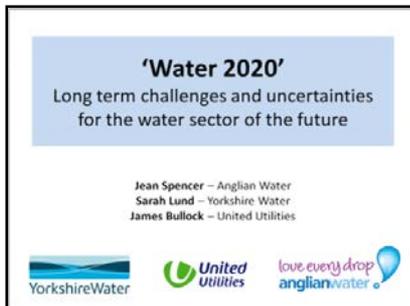
## Introduction to Water 2020 and aims of the day

David Black

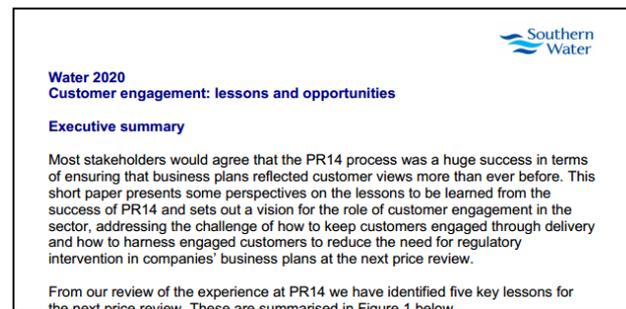
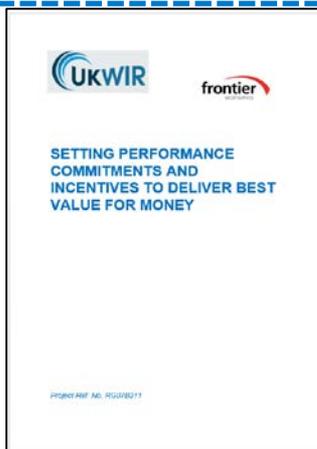
Senior Director, Water 2020







## In particular:



## Regulatory framework December 2015

In-period ODIs  
(principle)

Long-term commitments  
(principle)

Submitting PC definitions  
ahead of business plans

## Our regulatory approach May 2016

Long-term commitments  
(approach)

## Collaborative working on licence modifications July-Sept 2016

In-period ODIs  
(approach)

## Outcomes consultation November 2016

Comparative information

Common performance  
commitments

Comparative  
assessments

Resilience, including  
asset health

## Methodology consultation June/July 2017

Calculating ODI rewards  
/ penalties

RORE range for ODIs

Aggregate cap and  
collar

Setting dead bands,  
caps and collars

Method for comparative  
assessments

Overview of RBR tests

SIM

To test some early thinking on outcomes, and in particular the use of:

- comparative information
- common performance commitments
- comparative assessments
- and asset health

To give stakeholders the opportunity to provide initial feedback on our early thinking

To allow stakeholders to provide further views and evidence, following the workshop, to inform the development of options for our November consultation

## Comparative information

Georgina Mills

Director, Outcomes and Customer Engagement, Ofwat

Neil Dhot

Head of Corporate Affairs, Water UK

Ofwat



Reflecting lessons learned from PR14, we expect companies to be transparent with their customers and other stakeholders about their relative levels of performance by using comparative information, with definitions that are consistent across the industry, and welcome the lead taken by the industry in developing a sector strategic dashboard

Improve transparency and better frame conversations on future levels of service

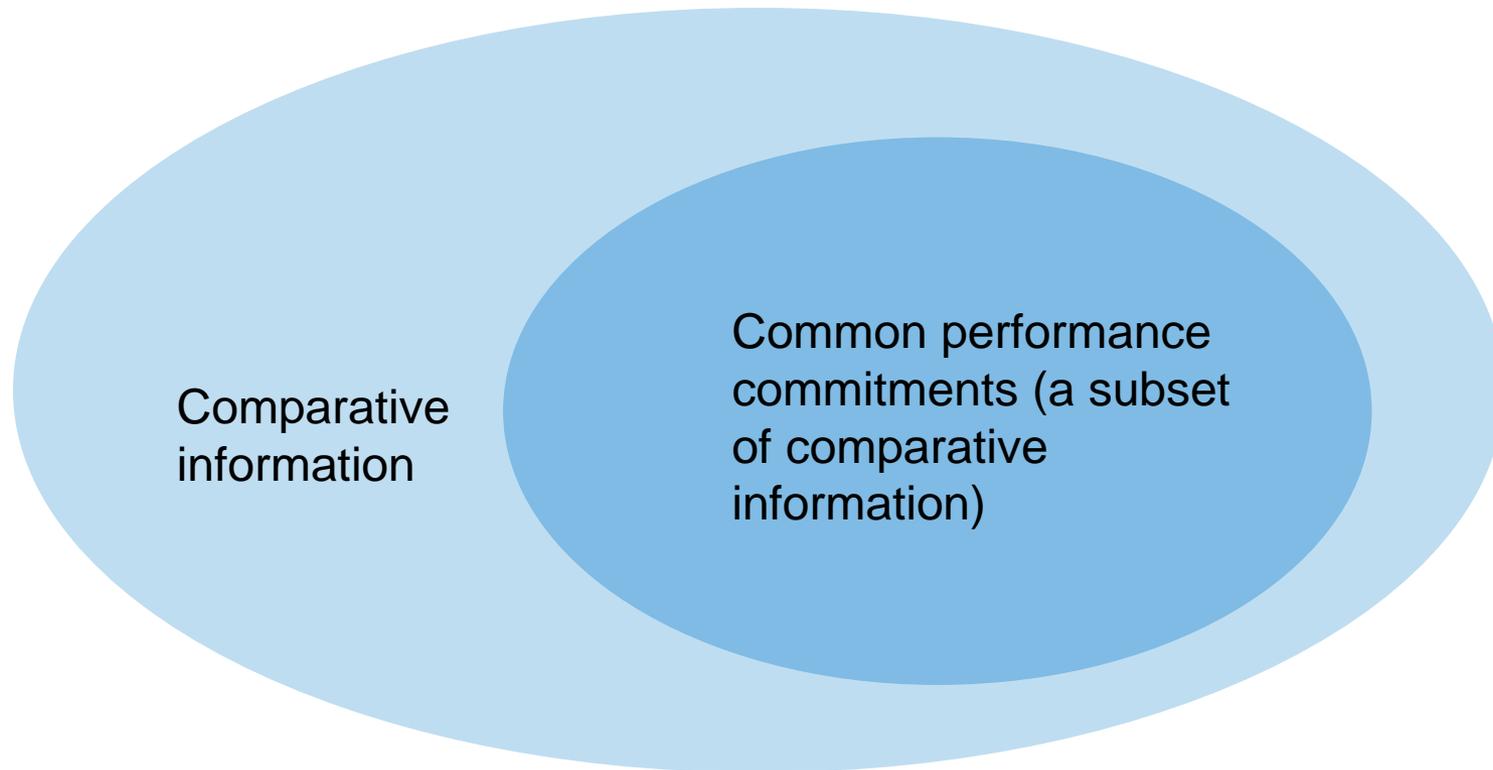
Inform, educate and empower customers, CCGs and other stakeholders

Benefits of comparative information

Provide CCGs with the information they need to robustly challenge companies

Better outcomes for customers – more stretching commitments and incentives that genuinely reflect customers' needs

In some cases there may be legitimate differences between companies, which companies will need to appropriately explain to their customers and other stakeholders. This in itself will improve transparency and empower customers and other stakeholders



For clarity, we are not intending that all the comparative information measures will be common PCs or benchmarked at PR19, only a subset and we will consult on our proposals. (Common PCs will be discussed in the next session)

Our November consultation will complement, not duplicate other work on comparative information

Ofwat's work  
on  
comparative  
information for  
PR19

DWI's data  
collection

Water sector  
strategic  
dashboard

CCWater's  
data collection

Environment  
Agency's data  
collection

# About the water sector strategic dashboard

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## Key principles:

- a strategic overview of the sector, focusing on what really matters to customers and society
- an inclusive, collaborative sector-wide project, with an inclusive steering group involved at each step – scoping, selection of delivery partner, collectively agreeing information to be included
- led and funded by the industry, delivered by a credible, independent third party
- robust, reliable and trusted data that has been through the expected checks and challenges, is clearly sourced and which allows comparisons to be made between companies
- allowing the data to speak for itself, without spin or editorialising, providing resolutely neutral, objective data
- interactive and visually appealing, enabling stakeholders to extract information and use it as they wish
- customer focused and customer friendly

# A customer-led approach

Involve ‘*informed household customers*’ to co-create something that they find of value and can trust

Qualitative research sessions held with two customer groups:

- Unconstrained brainstorm of what they would like from a dashboard
- Sorting and ranking of sector’s own views/ideas

Three key findings:

- Much interest in the composition and safety of drinking water
- A want to understand the fairness of what they are paying for
- A desire for information about the sector and not just data; for example, “*how does water arrive at my tap?*”



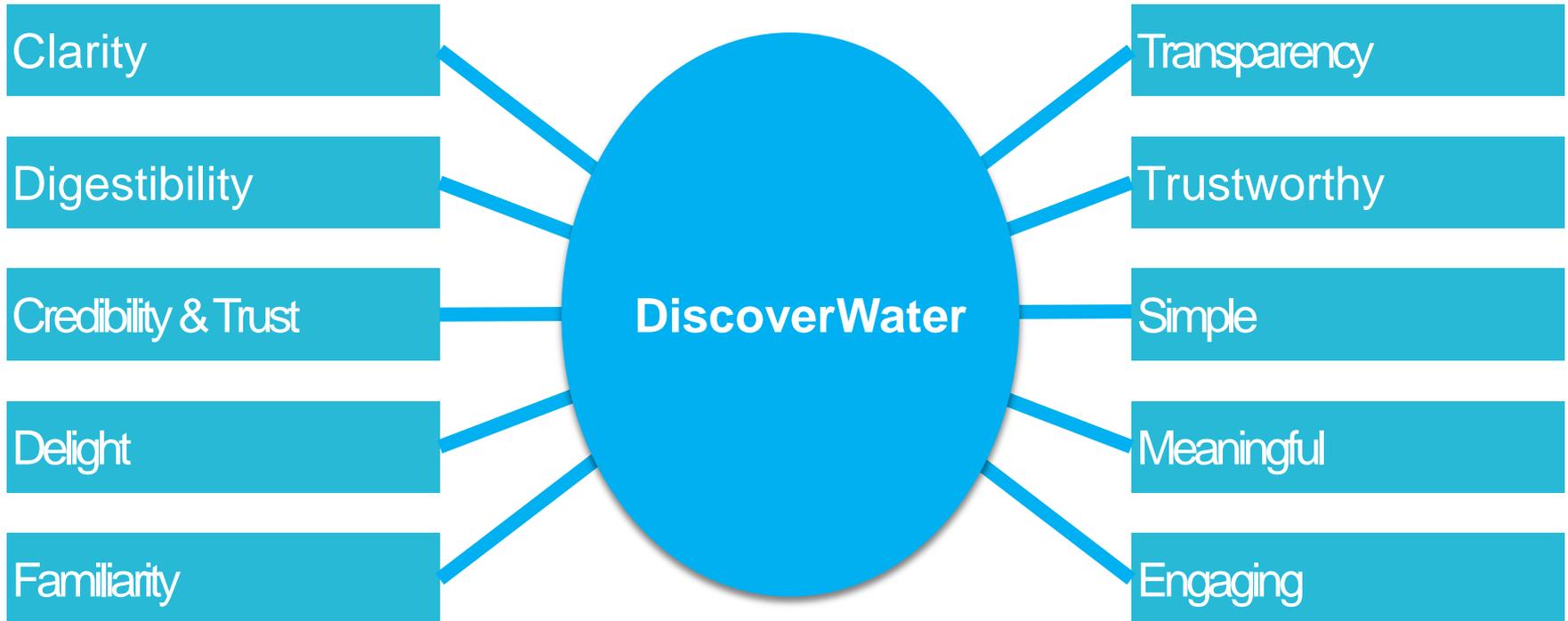
# Design excellence

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Design principles

Dashboard branding

Brand values



# Developing the Dashboard – two phases

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## Phase 1

- Launch by 31 July 2016
- Industry-level data (2015/16 data where possible)
- Published data from company or regulatory sources

## Phase 2

- By 1 December 2016
- Company level data and comparisons where appropriate

## Themes and metrics:

- Themes based on feedback from customers and proposals from the Steering Group
- No fixed numbers of metrics - but the dashboard will be strategic
- Delivery partner currently reviewing proposed themes and metrics
- Broad alignment so far between customers and Steering Group partners

To provide input to the strategic dashboard project, we used this methodology:

## 1. UKWIR benchmarking project

UKWIR identified 118 potential measures that could be shared with stakeholders and used to benchmark performance. We applied a subset of the UKWIR selection criteria to produce a customer-focused short list of measures

## 2. Common PR14 company measures

We reviewed the 527 measures from the database of company performance commitments and identified those used by at least 8 WaSC/WoCs (for water) or 5 WaSCs at PR14 (for wastewater)

## 3. Industry stakeholders' priority measures

We compared measures from 1 and 2 with metrics routinely reported by the DWI, CCWater, Environment Agency and historically reported by Ofwat. CCG Chairs provided initial views at the workshop on 11 April 2016

### Provisional list of comparative information

1. Water quality compliance
2. Water quality contacts
3. Supply interruptions
4. Internal sewer flooding
5. Pollution incidents
6. SIM
7. Environmental compliance (numeric)
8. Water efficiency (PCC)
9. Leakage
10. Greenhouse gases
11. External sewer flooding
12. Mains bursts
13. Customer satisfaction
14. Value for money
15. River water improvements
16. Environmental obligations

# Methodology used to develop Ofwat's input for the strategic dashboard (2)

Potential comparative information measure	UKWIR list	Frequent PC in PR14	DWI measure <sup>1</sup>	EA measure <sup>2</sup>	CCW measure <sup>3</sup>	Ofwat KPI's 2010-15	Ofwat DG indicators	CCG Chairs <sup>4</sup>	PR19 CI short list*
Sewer flooding – internal	Y	Y	N	Y	Y	Y	Y		
Water quality compliance	Y	Y	Y	N	Y	N	N		
Water quality contacts	Y	Y	Y	N	Y	N	N		
Supply Interruptions	Y	Y	N	N	Y	Y	Y		
Pollution incidents	Y	Y	N	Y	N	Y	N		
Service Incentive Mechanism	Y	Y	N	N	Y	Y	N		
Environmental compliance	Y	Y	N	Y	N	Y	N		
Consumption	Y	Y	N	Y	Y	N	N	Y	
Leakage	Y	Y	N	N	Y	Y	N		
GHG emissions	Y	Y	N	N	N	Y	N		
Sewer flooding – external	Y	Y	N	N	Y	N	N		
Mains bursts	Y	Y	N	N	N	N	N		
Customer satisfaction	N	Y	N	N	N	N	N	Y	
Value for money	N	Y	N	N	N	N	N	Y	
River water improvements	N	Y	N	Y	N	N	N		
Env. measures complete	N	Y	N	Y	N	N	N		
Security of supply	N	N	N	Y	N	Y	N		
Properties on meters	N	N	N	N	Y	N	Y		
Properties with low pressure	N	N	N	N	N	N	Y		
Satisfactory sludge disposal	N	N	N	Y	N	Y	N		
Sewer blockages	Y	N	N	N	N	N	N		
Gearing	N	N	N	N	N	Y	N		

\*Measures that have two or more Ys, and at least one in either the UKWIR column or common company PR14 PC column

1. The DWI is developing a new water quality measure to sit alongside mean zonal compliance
2. The EA is currently consulting on a wider set of company performance measures
3. CCWater opened a consultation on publishing information collected from water companies in late May
4. CCG Chairs provided initial views on information that would be most helpful on 11 April

# Ofwat's input - draft definitions (1)

	Potential comparative information measure	Source of definition	Short version definition	Unit
1	Water quality compliance	DWI measure	The mean zonal percentage compliance from the regulatory sampling programme, based on current regulation and standards	Percentage
2	Water quality contacts	DWI measure	The total number of complaints about discolouration, taste and odour per year	Number per 1,000 population
3	Supply Interruptions	Ofwat KPI	Number of minutes lost due to water supply interruptions for three hours or longer, per property served	Minutes per total properties served
4	Sewer flooding – Internal	Ofwat KPI	Number of incidents of internal sewer flooding for properties that have flooded within the last ten years per 1,000 properties	Number of incidents per 1,000 properties
5	Pollution incidents	EA measure / Ofwat KPI	The total number of pollution incidents (categories 1 to 3) in a calendar year emanating from a discharge or escape of a contaminant from a sewerage company asset	Category 1-3 incidents per 10,000 km of sewer
6	SIM**	Ofwat measure	As defined in 'Service incentive mechanism (SIM) for 2015 onwards – conclusions', Ofwat, April 2014	Score
7	Environmental compliance	EA measure / Ofwat KPI	Performance of sewerage assets treating and disposing of sewage in line with the discharge permit conditions imposed on sewage treatment works	Percentage
8	Consumption	EA WRMP	Per property (household) consumption in litres/household/day (measured and unmeasured included)	Litres/household/day

\*\* We are considering whether to retain, reform or replace the SIM at PR19.

	Potential comparative information measure	Source of definition	Short version definition	Unit
9	Leakage	Ofwat KPI/EA WRMP	The sum of distribution losses and supply pipe losses in megalitres per day (MI/d)	Megalitres per day (MI/day)
10	Greenhouse gas emissions	Ofwat KPI	Measure of the annual operational greenhouse gas emissions of the regulated business	Kilo tonnes of carbon dioxide equivalent (ktCO <sub>2</sub> e)
11	Sewer flooding – external	Ofwat KPI (but for external)	Number of incidents of external sewer flooding for properties that have flooded within the last ten years	Number of incidents per 1,000 properties
12	Mains bursts	June return	The number of water main bursts per year per 1,000 km of main	Number per 1,000 km of main
13	Customer satisfaction	CCWater measure	Percentage of customers satisfied with their overall service	Percentage
14	Value for money	CCWater measure	Percentage of customers considering their service value for money	Percentage
15	River water improvements	Company PCs	Km of river length with improved status as a result of water company measures	km
16	Environmental measures completed	EA measure	Percentage of environmental improvement measures completed (based on National Environment Programme)	Percentage

Is resilience sufficiently captured?

This is an opportunity for stakeholders to:

comment / share views / ask questions on the material presented so far today; and

input directly to the sector strategic dashboard process

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# Common performance commitments and the role of comparative assessments

Jon Ashley

Associate Director, Outcomes and customer engagement

## Common performance commitments

Common performance commitments are the small number of performance commitments (with ODIs) that we would expect all companies to include in their business plans

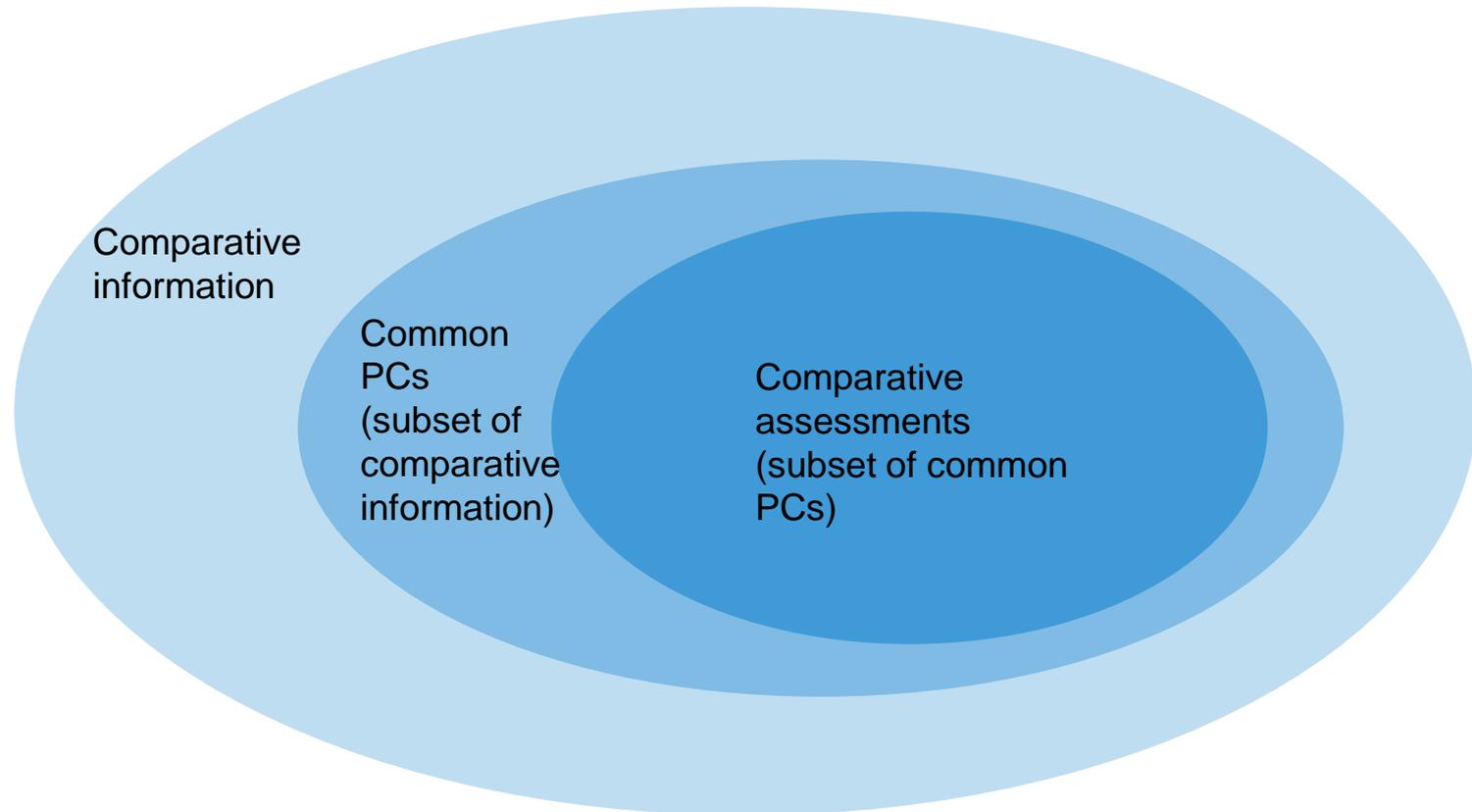
At PR14 the common PCs were effectively SIM, leakage, supply interruptions, water quality compliance, water quality contacts, pollution incidents and internal sewer flooding

## Comparative assessment

Comparative assessments are the application of standard targets for companies' performance commitments based on a comparison of companies' performance

At the PR14 we applied a comparative assessment to 5 measures: supply interruptions, water quality compliance, water quality contacts, pollution incidents and internal sewer flooding

Our default assumption is that the PR19 common measures would be a subset of the list of comparative information and that any comparative assessments would be applied to a subset of the common PCs



## Common performance commitments

### Customers

to ensure that those issues which matter most to customers are covered in all companies' performance commitments

### Companies

to have clarity over those performance commitments which Ofwat considers companies must include in their business plans

### Regulators

to ensure that those issues which matter most to customers are covered in all companies' performance commitments

## Comparative assessment

### Customers

to facilitate challenge of companies' proposed performance commitments and the levels of performance that attract rewards

### Companies

to ensure fairness across companies so that companies incur penalties and earn rewards for comparable levels of performance

### Regulators

to ensure performance commitments are appropriate and that rewards are only allowed for genuinely stretching performance

Relatively small number to ensure companies have ownership of their business plans

Of particular importance to customers or the environment

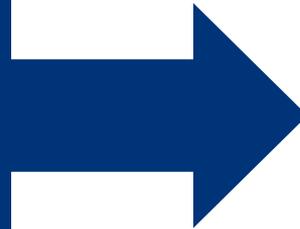
Likely to be proposed by most companies on the basis of customer engagement

Good quality, comparable data exist for the measure

What other principles should we consider?

## Provisional list of comparative information

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## Common performance commitments (effectively) at PR14:

1. Leakage
2. SIM
3. Water quality compliance
4. Water quality contacts
5. Water supply interruptions
6. Internal sewer flooding
7. Pollution incidents

## PR14

We carried out the comparative assessments ahead of draft determinations

We selected five measures to which the comparative assessments applied

We had to adjust the assessments for companies using different measures

There was limited use of comparative information in customer engagement

We applied an historical upper quartile challenge

## PR19

We will carry out the comparative assessments during the risk-based review

We will consult on which measures any comparative assessments apply to

We plan to use measures with consistent definitions

There will be more use of comparative information in customer engagement

We will consult on the nature of any comparative challenges to be applied

Type of assessment

How it could be applied

What to apply it to

Upper quartile

Historical

Individual measures

Upper quintile

Forecast

Basket of measures

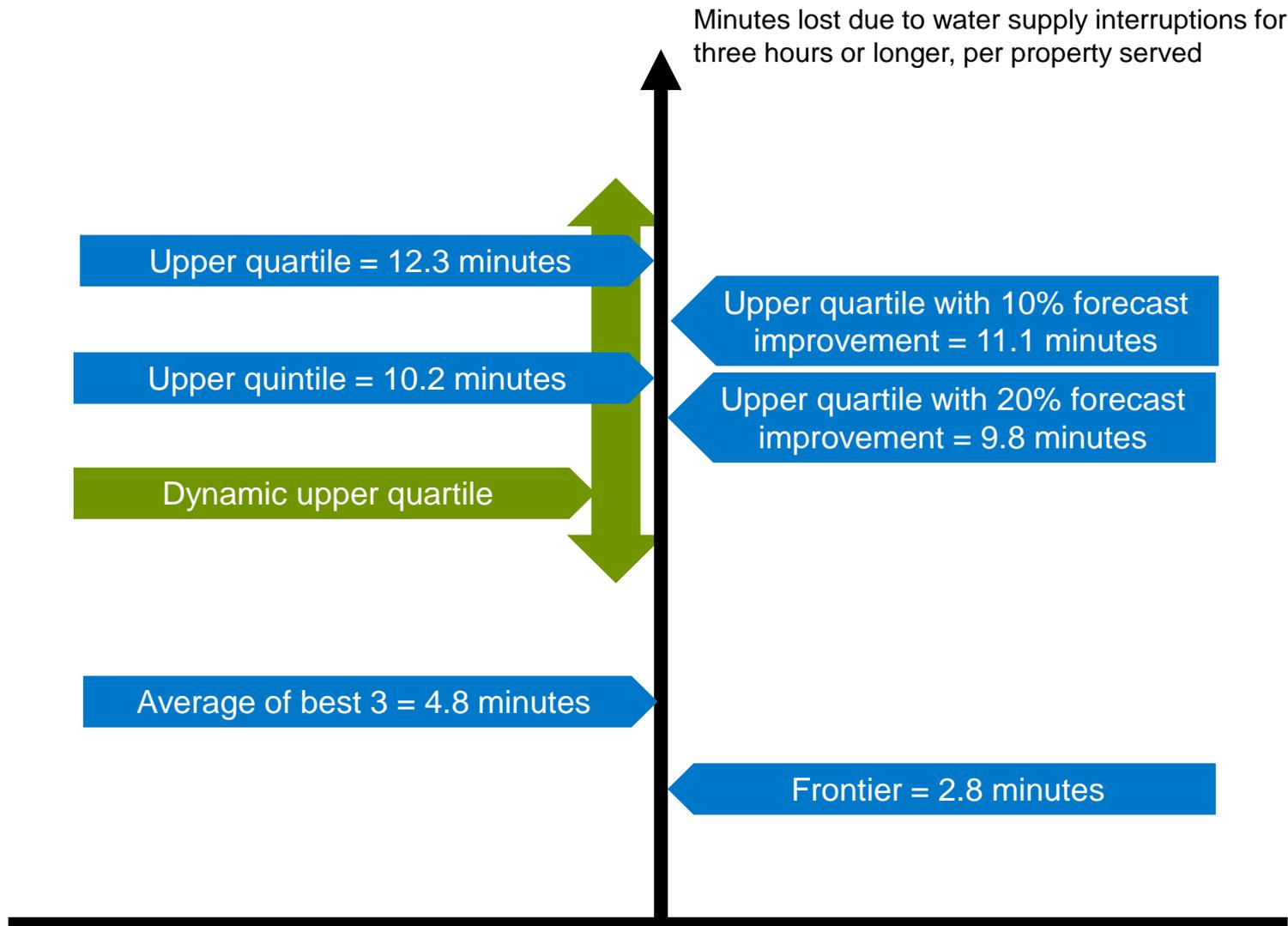
Average of best three performers

Dynamic (pure)

Frontier

Dynamic (ratchet)

What other options should we consider?



The PR14 comparative assessments covered some aspects of PCs and ODIs. They could be extended to others

PR14 covered\*:

Performance commitments

Penalty deadbands

Reward deadbands

Comparative assessments could extend to:

Penalty collar

Reward cap

Reward rate

Penalty rate

\*There were some exceptions. For example we applied a comparative assessment to leakage penalty collars as well as deadbands

## Break out session 1

1. What principles should we apply to select the common performance commitments?
2. What role should comparative assessments play at PR19?
3. What are the relative merits of the different approaches to comparative assessments discussed?

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Asset health

Jon Ashley

Associate Director, Outcomes and Customer Engagement

## From a customer perspective...

To see evidence and be assured that the company is operating, managing and maintaining its assets appropriately for the benefit of current and future customers

To protect customers from other price control incentives unintentionally causing companies to neglect their asset health

## From a regulator perspective...

To ensure companies are incentivised to deliver resilient services for the benefit of future customers

To counter the risk that our totex cost-saving incentives might result in companies over-using their assets at the expense of their long run health

To counter the risk that companies focus solely on customer-facing measures, to the detriment of future customers

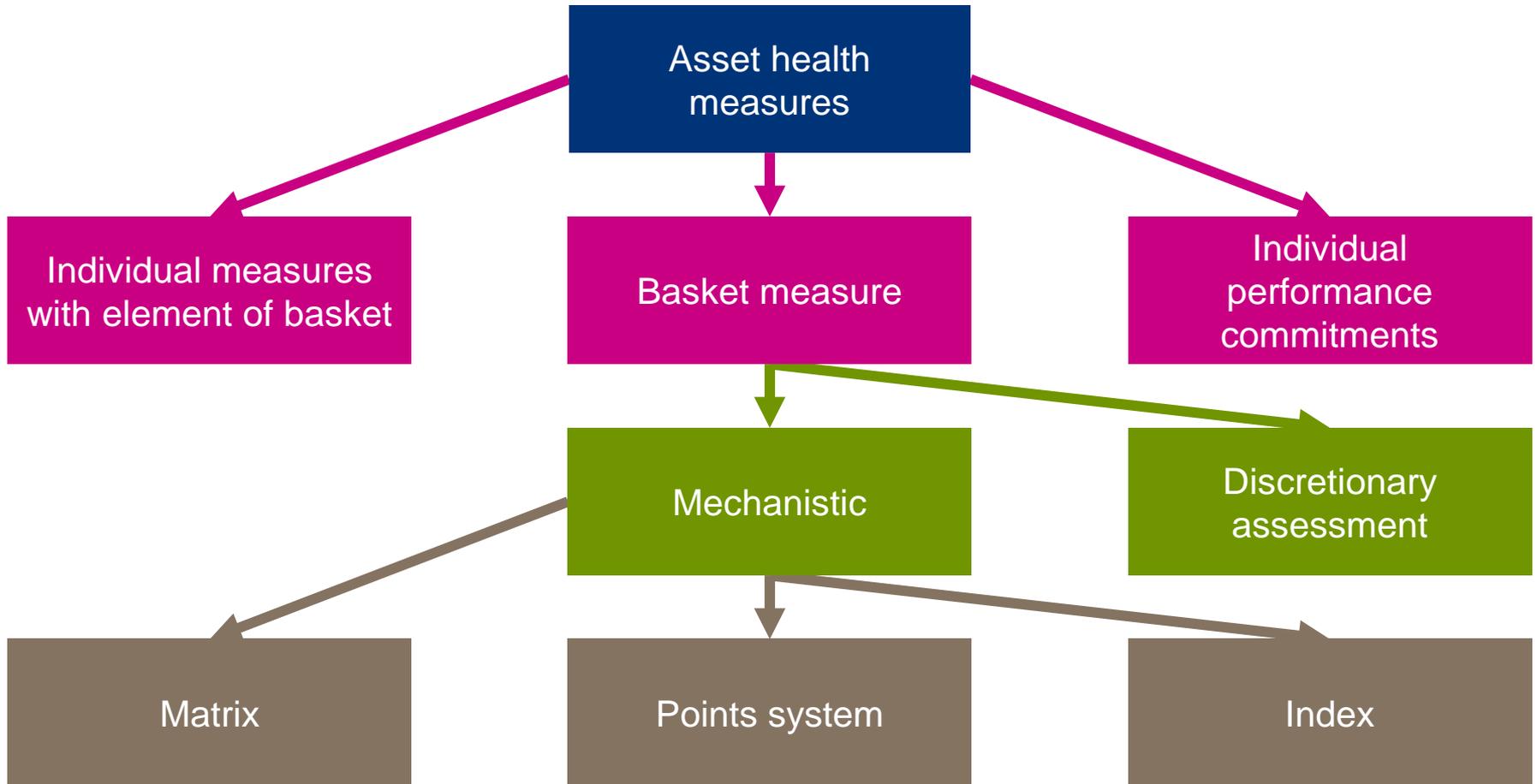
## From a company perspective...

To demonstrate the long-term and sustainable stewardship of its assets to its stakeholders

To identify potential risks to service delivery and take action where required

To incentivise it to balance its expenditure against more short-term, customer-facing measures

At PR14 we moved away from standardising how companies should measure and report asset health (PR09 'serviceability') to letting companies propose how to deal with it as part of their suite of PCs. This resulted in a wide variety of approaches



There was a lot of innovation in approaches to asset health at PR14

Most companies introduced an automatic approach to their asset health penalties, which is more transparent for customers

Some companies gave more visibility to their approach to asset health

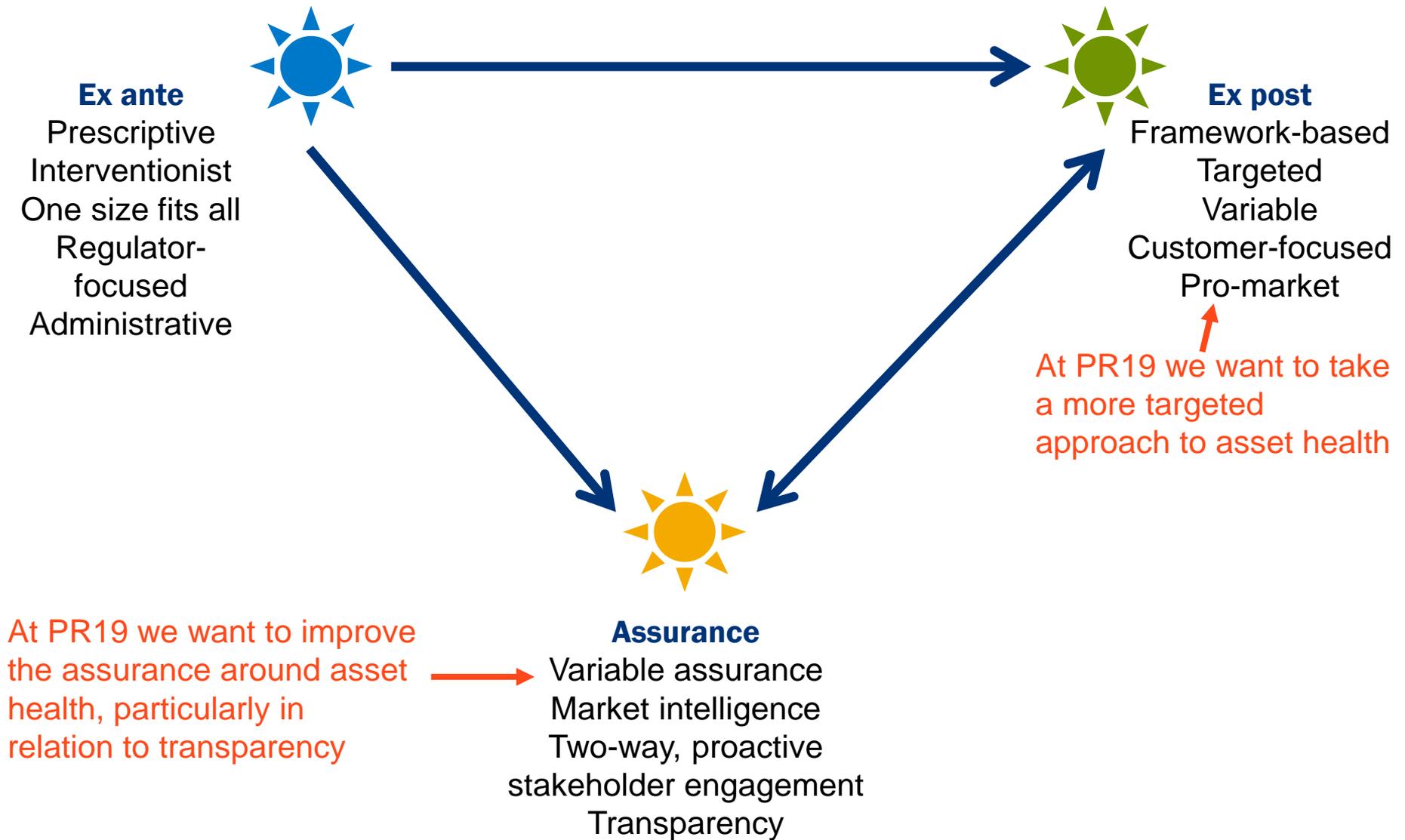
It took time to obtain full information about how the asset health mechanisms worked – we had to follow up with 11 companies in the Reconciliation Rulebook after PR14

It was unclear to us how deeply customers and CCGs looked at the detail of asset health mechanisms

We did not capture information on the 155 asset health sub-measures through the business plan tables

In some cases we did not have information on the sub-measure reference levels and control limits and the justification for them until late in the process

There was considerable variation in the size of penalties relative to totex or RORE for companies' asset health measures



## **Option 1 – No asset-health specific changes from PR14**

We could adopt the PR14 approach to asset health again. However, there would be some changes due to other developments in policy for example long-term performance commitments and submitting definitions early.

## **Option 2 – PR14 with more transparency**

We could adopt the PR14 approach again, but require more customer and CCG scrutiny of the asset health details, more information from companies and appropriate business plan tables.

## **Option 3 – PR14 with common principles**

We could introduce some principles which all asset health measures have to abide by such as: clarity on the overall approach to asset health, the sub-measures, reference levels, aggregation rules, mitigations and the size of asset health penalties relative to RORE and totex.

## **Option 4 – More standardisation than PR14**

We could introduce some degree of standardisation into asset health measures. For example, we could develop a set of sub-measures companies must choose from or provide some guidance on the appropriate size of asset health penalties.

## **Option 5 – Full standardisation**

We could require all companies to have asset health basket measures, using a standard set of sub-measures and a standard method for aggregating performance on the sub-measures.

Options 3, 4 and 5 include the additional transparency described in Option 2

## Break out session 2

1. What are your views on the merits of the PR14 approach to asset health?
2. What are your views on the options for asset health at PR19?

## Reflections on the day

1. Steven Hobbs, CCWater
2. Teresa Perchard, CCG chair for Affinity Water

Next steps

David Black

Senior Director, Water 2020

ofwat

	2016						2017				2018				2019				2020				
	June	Jul	Aug	Sept	Oct	Nov	Dec	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Charging and accounting separation</b>		Publish wholesale charges scheme		◆ Publish rules	◆ Publish charging rules for new connections		◆ RAGs consultation																
<b>Outcomes and customer engagement</b>					◆ Outcomes consultation			◆ Methodology consultation (June/July 2017)															
<b>Design</b>					◆ Consultation workshops	◆		◆ Methodology consultation (June/July 2017)															
<b>Licensing</b>		◆ Companies to confirm support for package of changes 6 July		Detailed work to develop licence mods				◆ Licence implementation							BP submission 3 Sept		Enhanced companies				Final determinations		
<b>Implementation</b>										PR19 methodology	◆			◆		RBR results Jan	◆	◆ Draft determinations	◆				
<b>Business retail</b>		Business retail		◆ DDs		Business retail	◆ FDs																
	June	Jul	Aug	Sept	Oct	Nov	Dec	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

20 July 2016

Responses due to consultation question on long-term commitments

July to September 2016

Collaborative working on licence modifications, including in-period ODIs.  
(Formal consultation by 31 October)

November 2016

Consultation on outcomes

June / July 2017

Methodology consultation

November / December 2017

Methodology Statement