

Outcomes Consultation
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31 January 2017

Dear Sir / Madam

Consultation on the outcomes framework for PR19

Thank you for inviting Yorkshire Water to contribute to the consultation on proposals to develop the outcomes framework further for PR19.

Yorkshire Water support Ofwats objectives to make outcomes better reflect customer preferences at the 2019 price review.

We remain committed to delivering outcomes that meet the needs of our customers, future customers, and the environment, as evidenced by engagement with customers and our Customer Forum.

Our full response is appended to this letter below.

We look forward to the detailed methodology consultation in July 2017

Should you have any queries regarding any elements of our response, please contact myself or my colleague Colin Fraser at email address: colin.fraser@yorkshirewater.co.uk

Yours sincerely,



Wendy Kimpton
Head of Regulation

Enc.

Yorkshire Water Services Response to the Consultation on the Outcomes Framework for PR19

Yorkshire Water Services (YWS) have provided the following feedback in regards to the consultation on the outcomes framework for PR19, issued by Ofwat on 29th November 2016.

We support Ofwats objectives to make outcomes better reflect customer preferences at the 2019 price review (PR19) aligned to the vision of customers and wider society having trust and confidence in services we provide.

We remain committed to delivering outcomes that meet the needs of customers, future customers, and the environment, through active and ongoing engagement with customers and our Customer Forum.

We are focusing our plans on:

Working with our customers and stakeholders

- ensuring our performance commitments are more stretching to deliver improved service levels for customers and protect the environment
- work to make outcome delivery incentives (ODIs) more powerful and balanced between risk and reward
- work to better reflect resilience of service in outcomes
- make our performance commitments more transparent to customers and stakeholders.

We continue to actively engage in progress being made to make comparative and straightforward information available to customers, including the roll out of the Discover Water dashboard, the use of cross sector customer satisfaction surveys, and the work on convergence of key performance measures through Water UK. We believe the sector has progress and we support the focus on improving further the role of comparative information in the proposals.

Please find our responses to the specific questions asked in the consultation below.

Q1 - What is your view on the use of improved information, including comparative performance information, to make performance commitments more stretching?

- 1.1 We support making improved information, including comparative information, available to customers, customer challenge groups (CCGs) and other stakeholders. We agree this can help raise the awareness and expectations of customers in respect of the levels of service that want, enabling them to challenge companies to set stretching performance commitments.
- 1.2 Customers must be able to have confidence in the consistency and reliability of information provided to them by their water company about the performance of all other companies. Therefore the comparative measures used need to be truly comparable with well specified definitions that:
 - can be uniformly applied by companies, and
 - are easy to understand for our customers, CCGs and stakeholders.

The work led by Water UK to develop the Discover Water dashboard and their ongoing work towards developing consistent definitions for some key measures is helping provide reliable future information sources for customers.

- 1.3 Providing the comparative information on its own may not be enough for customers to understand the relative performance of companies. Companies may wish to set the reported measures in context to their historic levels of efficiency and customer bills, and where they have distinctive performance affecting characteristics to their water resources, networks or asset infrastructure. In setting this context, it may be useful for each company to prepare an explanation of its historic performance that it is willing to share with customers outside its area of appointment.
- 1.4 We would welcome the assessment of how a company uses and provides information to customers and stakeholders to be incorporated within Ofwats risk based review process at PR19.

Q2 - What is your view on the common performance commitments we are suggesting for PR19?

- 2.1 We can identify there are several key areas of service performance that are important to customers and are already widely reflected in many companies performance commitments, including our own. We therefore support the development of a set of mandatory common performance commitments that have standard defined measurements for use in companies outcomes frameworks for PR19.
- 2.2 Our views are:
- proposed ten common performance commitments are a suitable mix of key areas that are important to customers and the environment.
 - companies should determine with their customers if, and where, they would utilise in-period ODIs.
 - our commentary on the measures for the commitment areas is detailed below (see 2.5).
 - it may not be appropriate to have common reward and penalty levels fixed to the common performance commitments universally if customers do not support this.

Proposed common performance commitments

- 2.3 As these mandatory common performance commitments would operate throughout the AMP it is vital that they represent the areas of performance that are most important to customers and the environment.
- 2.4 We believe Ofwats proposed ten common performance commitments are a suitable mix of key areas in regards to both the service customers receive and protecting the environment. We do not believe it necessary to add other areas or measures to the proposed list of common performance commitments.
- 2.5 Outlined in the **Table A**. over the page is our feedback on the proposed common performance commitment measures. In the final column is the YWS view on each of the proposed common performance commitments.

The use of in-period ODIs

- 2.6 In conjunction with developing a relevant set of common performance commitments, it is important to consider what type of incentive and penalty structure will be appropriate for each of the commitment areas, based on customers support and preferences.
- 2.7 Ofwat will enable through licence modifications the use of in-period ODIs by companies allowing the closer alignment of a financial incentive or penalty to when the associated performance was delivered. As there is potential for impacts on customer's bills within the AMP against in-period ODIs, we believe it is best left to companies to determine if, and where, they would utilise in-period ODIs, following engagement with customers and their CCG.

- 2.8 We believe it would not be appropriate to have common reward and penalty levels fixed to the common performance commitments universally if it is not supported by customers, given the level of services customers with to pay for can differ between companies and regions.
- 2.9 The value of reputational incentives upon companies and their management teams should be considered, where customer engagement supports this approach. Please see our response to Q7 for further comments.

Table A. Review of proposed common performance commitments

	Proposed common PC for PR19	Ofwats reasons why it should be a common PC at PR19	YWS view on the proposed common PC
1	Future customer experience measure	Customer service is integral to the full breadth of services which water and wastewater companies provide. On both the wholesale and retail side, it affects all customers who interact in some way with companies. Strong stakeholder support.	We are supportive of a common customer experience commitment measure, or package of measures (see our response under Q5).
2	Water quality	Water safety and quality are a top customer priority. We will work with the DWI and the sector to identify the best available measure of water quality for PR19.	We agree it is necessary to maintain a common PC for water quality. We believe a measure of total % compliance with regulatory water quality samples could be a good alternative commitment measure to mean zonal compliance.
3	Supply interruptions	Customers view long interruptions to supply as one of the worst failures in service. Supply interruptions are an indicator of the resilience of the water network, in particular how well a company can recover from an incident.	We agree it is necessary to maintain a common PC for supply interruptions. We support industry work underway to develop a common definition for this commitment measure for use by all companies.
4a	Distribution input	Measures trends in water demand and indicates the effectiveness of all water demand activities such as those for water efficiency and leakage. Total water demand is a measure of resilience of the sector.	We do not believe distribution input is a reliable indicator of leakage and/or resilience performance. Genuine customer demand can change materially year on year due to significant weather events or periods, transient populations (such as major events drawing in large temporary populations)
4b	Leakage	Leakage is a significant issue for customers. Leakage is an indicator of the resilience of the water network	We agree it is necessary to maintain a common PC for leakage. We support industry work underway to develop a common definition for this commitment measure for use by all companies.

4c	Per capita consumption	Per capita consumption is a direct measure of customer demand. It is an indicator of resilience and the success of measures to reduce or limit demand	As we have more reliable data on the number of households in the region compared to population figures, we would prefer a measure of per domestic connection consumption or per household consumption.
5	Abstraction incentive mechanism (might only apply to a subset of companies)	Reducing abstraction from environmentally sensitive abstraction sites is a priority for some water sector stakeholders	It should be recognised that the combination of the EA RSA programme and Abstraction incentive mechanism (AIM) provide a very comprehensive review of the sustainability of abstractions. A zero or low number of AIM sites should be considered a positive point because it indicates that environmental sustainability issues have been addressed and as such AIM reporting will require a company narrative to explain how numbers should be interpreted.
6	Internal sewer flooding (applies to sewerage companies only)	Internal sewer flooding is one of the most distressing service failures for customers and reducing it is a customer priority. It is an indicator of sewerage network resilience.	We agree it is necessary to maintain a common PC for internal sewer flooding. We support industry work underway to develop a common definition for this commitment measure for use by all companies.
7	Pollution incidents	Pollution incidents are an indicator of sewerage network resilience. Reducing pollution incidents is important for customers and several key stakeholders. Pollution incidents are one of the best existing indicators of environmental impacts.	We are supportive of a common pollution incidents measure that is normalised for length of the sewer network. We would also welcome disaggregation of incidents by the defined Categories 1, 2, and 3.
8	Water mains bursts (asset health water)	The resilience of the water network is a priority for UK and Welsh governments and many of our stakeholders. The underlying health of water network assets is needed to deliver water services for current and future customers.	We are supportive of a common mains bursts commitment measure that is normalised for length of the mains network.

9	Sewer collapses (asset health wastewater)	<p>The resilience of the wastewater network is a priority for UK and Welsh governments and many of our stakeholders.</p> <p>The underlying health of wastewater network assets is needed to deliver wastewater services for current and future customers.</p>	<p>We are supportive of a common sewer collapses commitment measure that is normalised for length of the sewer network.</p>
10	Possible new common measure(s) of resilience	<p>There is strong support from the UK and Welsh governments, the Resilience Task and Finish group, companies, CCG chairs and other stakeholders for going beyond business-as-usual measures of resilience and develop a new measure(s).</p>	<p>We would welcome a consistent new commitment measure, or set of measures, for resilience with the definition common the sector (see our response under Q8).</p>

Q3 - What is your view on how we might apply comparative assessments at PR19?

3.1 In summary:

- companies should determine their own stretching targets through discussion and challenge with their customers and CCG informed by comparative information.
- we would like to offer an alternative approach to setting stretching common commitment levels.
- it is critical that comparative assessments are based on applying consistent definitions to performance commitment measures to ensure trust and confidence is maintained.
- we believe a dynamic commitment level approach does not provide the required stability or transparency for customers over the AMP.
- we support multi-year averages, and consider the use of glidepaths to remain relevant for PR19.

Stretching common commitment levels

- 3.2 Aside from the customer experience measure, companies should determine their own stretching targets in discussion through discussion and challenge with their customers and CCG informed by comparative information. However we note if necessary Ofwat may wish to set stretching common commitment levels for six of the proposed common performance commitments based on a comparative assessment approach.
- 3.3 Of the six proposed common performance commitments (water quality compliance, supply interruptions, internal sewer flooding, pollution incidents, water mains bursts and sewer collapses) consideration may be required within a comparative assessment to strategies applied by companies over previous AMPs to meet the needs of their customers identified local priorities, and willingness to pay.
- 3.4 It is critical that comparative assessments are based on applying consistent definitions to performance commitment measures. We are supporting the convergence work being coordinated through Water UK on the convergence of measures for supply interruptions, internal sewer flooding and leakage.
- 3.5 There is limited time to develop and agree standard definitions for all ten of the common performance commitments before Ofwat carry out the risk based reviews; we note that for the new common measure (or measures) for resilience there is a risk that the earliest definition developed under existing industry activity in this area may not be the most appropriate for a common performance commitment and a related ODI. Please refer to our response to Q8.

Setting common commitment levels based on comparative assessments

- 3.6 Subject to 3.2 above, in regards to the selection of comparative assessment types for setting any proposed common commitment levels; we propose an alternative to those outlined in the consultation.
- 3.7 Stretching commitment levels could be set as a proportional improvement applied to a company's historical and future forecast performance data (which could be based on company commitment levels achieved to date and pledged for the remainder of AMP6, normalised for scale and consistency with new commitment measure specifications).

In order to recognise the performance of companies below upper quartile, the applied % improvement could be tapered to encourage those companies to improve the most to meet an incentive threshold.

- 3.8 We do not believe setting commitment levels on a dynamic basis is suitable and has a number of drawbacks, as highlighted in the consultation. In setting target levels and their profile across the AMP we believe stability and transparency is of value to customers and CCGs as it provides clarity of the expected improvements set against their understanding of rewards for outperformance.
- 3.9 In setting the proposed common commitment levels we agree the use of multi-year averages smooth out impacts on the data of achieved performance of extreme weather events and one-off incidents. This approach may be relevant to some of the measures, but where a company proposes to use an in-period ODI, this may restrict that measure to annual data only.
- 3.10 We consider the basket approach may have some merit, but note it could be complex to deliver and may be less transparent to customers. It has the effect of offsetting commitment levels across the common performance commitments, with the potential for companies to have quite different commitment levels from each other.
- 3.11 We believe the setting the reward and penalty rates that apply to the common performance commitments should be within the scope of the companies following engagement with customers and stakeholders and challenge from the CCG. Companies can then be incentivised in alignment to their customer's willingness to pay, which may differ significantly from region to region.
- 3.12 We consider the use of glidepaths to remain relevant for PR19. The setting of stretching targets by companies, or by Ofwat, based on comparative assessment benchmarks could still justify the application of glidepaths. Where the new commitment level is significantly higher than the companies commitment levels at the end of AMP6 it may require further investments and time to produce the necessary performance improvements. The application of glidepaths could be considered on a case by case and measure by measure basis.
- 3.13 We consider the scope for company specific factors to be limited and support the application of the three stage test approach, as used at PR14, to specific factors submitted in company business plans.

Q4 – To what extent do you agree with our proposed approach to leakage performance commitments for PR19?

- 4.1 We agree with the improvements proposed by Ofwat in the main, including that companies should take into account their long-term expectations of the future value of water, scope of water trading, and resilience of supplies when considering their leakage commitment levels consistent with their water resources management plan.
- 4.2 Our views on the potential common performance commitment:
- companies should develop stretching performance commitments on leakage through customer engagement. The common performance commitment for leakage should not carry a common commitment level unless supported by customers.
 - we prefer a leakage performance commitment measure based on a per capita or per household consumption measure.
 - we are exploring demand management led measures as a cost effective approach to water resource management.
 - companies can propose other leakage improvement related measures within bespoke performance commitments.

A common leakage performance commitment

- 4.3 We welcome Ofwats recognition of the Water UK group that is working on an agreed definition for leakage. We support the statement in table 3.2 of the consultation that a common commitment level for leakage might not be appropriate due to the different water resource situations faced by companies.
- 4.4 With regards to the three potential common measures proposed, we prefer a per capita or per household consumption measure, and we offer the following comments:

Distribution input: We would have concerns about the introduction of a performance measure that is largely beyond our control. Distribution Input is made up of a multitude of components and can vary significantly from year to year depending on weather, the economy (particularly shifts in non-household demand), population growth and changes in household demographics. Therefore we do not consider that Distribution Input is the best measure to be incorporated into the common performance commitment set.

Leakage: To date our customers have supported a year on year reduction in leakage with relevant investment and resource. Our current approach, which results in a reducing the Sustainable Economic Level of Leakage (SELL) AMP on AMP meets that expectation and recognises increasing efficiency.

Any drive to reduce leakage below the prevailing SELL would require customer support.

Per capita consumption: We have some ability to influence per capita consumption (PCC) and we are exploring demand management led measures as a costs effective approach to water resource management.

We would welcome consideration of different ways of calculating PCC, to aid customer understanding of the metric. Currently PCC is calculated based on a calculated 'dry year' figure; we would welcome an industry-wide move towards using actual annual PCC. Alternatively, it may be appropriate to consider measuring per household consumption (PHC) as this removes one element of uncertainty in the current calculation, specifically average household occupancy rates.

- 4.5 For a leakage performance commitment we believe a commitment based on three year averages is most appropriate as this could help smooth some of the affects seen within AMPs around severe or very mild winters.

Q5 - What factors should we take into account in our guidance on setting performance levels for bespoke performance commitments at PR19?

- 5.1 We agree that bespoke performance commitments remain important. Bespoke commitments can be very diverse between companies, as seen in AMP6, as they reflect customers priorities.
- 5.2 Bespoke commitments agreed with customers could ensure protection of the environment.
- 5.3 In relation to promoting new approaches to customer engagement in support of setting bespoke performance commitments and the commitment levels, we agree that a range of customer engagement techniques and wider evidence base should enable companies to set more stretching performance commitment levels.
- 5.4 For bespoke performance commitments it may be possible to make them specific to price controls.

Q6 - What is your view on our development of a new customer experience measure for PR19?

- 6.1 The questions and issues discussed below under Q6 are in the context of customer service specifically (as is the current SIM).

The scope of the future experience measure; which outcomes should be targeted; the appropriate level of measurement

- 6.2 We agree with the view that customer satisfaction is a key driver for improving service but also believe that other metrics could be incorporated. We support the use of trust as a measure as this has proven to drive improvements to customer service and can also be a key internal measure for the voice of the employee. There are other measures which we believe may have positive influences, such as customer effort. We have seen from the existing qualitative surveys that customers who have to make more personal effort to have their issues resolved have in general received a lesser standard of service and this is reflected in the satisfaction scores.

We agree with the view that loyalty, value for money and fairness are not as effective measures for service performance as there could be many external factors that influence views that are not directly impacted by the service they received.

- 6.3 We believe that a mixed approach to measurement is best as it delivers a higher level of insight. The current method allows us to measure performance of a variety of drivers but is limited to high level measures such as resolution and complaints. We (and other companies) have replicated the quarterly survey with additional questions to gather more insight to allow us to identify areas of success and improvement

The mixed approach would ensure that we continued to receive the quality of insight but we also believe that multiple channels of feedback, each with appropriate numbers of questions could be used and weighted to form a composite score.

Views on the wholesale retail focus and split

- 6.4 As with the current survey, we believe it is important that the customer is made aware of which contact is being referred to, as we have found issues with customers responding about historic incidents that do not necessarily reflect the service they were receiving at the time. We agree with the current method of weighting operational and billing contacts evenly. While operational contacts are less than 25% of our contacts, the impact on customers can be significantly greater than that of a billing contact. We believe that service metrics are equally appropriate for both the wholesale and retail contacts.

Cross-industry comparisons in future measures

- 6.5 We already use the UK CSI survey as a guide to our cross-sector standing and our progress. We support comparative publications and recognise the value in cross-industry comparisons. However, as there are fundamental differences between the industries within existing surveys

of this kind we do not believe there should be financial incentives or penalties attached to cross-industry comparative results.

- 6.6 We are interested to understand which service metrics will be covered and the partner organisation that will be selected to operate cross-industry comparisons.

Targeted end-user customers for a future measure

- 6.7 While we are aware that it is only a relatively small proportion of customers that are actually surveyed within the existing SIM approach, we do not support extending the coverage to include customers who have not had a direct contact with the company in the recent past. Targeting expenditure where it matters most should be the priority and reflects what customers tell us in our research. The costs associated with improving general perception of service are different to costs of and service recovery.

Adopting a more multi-channel approach to identifying and gathering the voice of the customer

- 6.8 A multi-channel approach is our preferred method of gaining insight. Not only would this allow us to gather more insight from more customers, it could also be more timely, cost less and allow us to reach a more varied cross section of customers. Using alternative methods to capture and measure service would be more appropriate to how customers are most likely to engage based on their personal circumstances, age, gender, socio economic status. The use of SMS texts and web surveys is a relatively low cost approach to gathering insight and would allow an increased sample size at a low cost. We would welcome an increase in both the number and frequency of surveys to ensure they more accurately reflect the service levels offered. This will remove any seasonality impacts and better track differences in individual processes rather than the average service for all contacts.

Quantitative component in a future measure

- 6.9 We believe that the qualitative element should have the greater weighting because it is based on customer views and agree with the previous move to a 75:25 weighting. Should quantitative measures remain we support a move to include all mediums of complaint in the same category of measure regardless of whether it is written, telephone, email etc. This better reflects customer choice and does not encourage companies to re-direct contacts to chase a better score.

Focus on consumer vulnerability

- 6.10 Customer in vulnerable circumstances should have access to the same services and ensuring they do not receive a lower level of service is important. The way this is measured needs to be carefully considered, particularly in light of the transient nature of vulnerability. Attempting to accommodate this need within the SIM could limit the opportunities to use multi-medium surveys. Because of this we support separate avenues to gauge performance in this area and would like to work with Ofwat to develop ideas in this area.

Ensuring provision of excellent customer service extends to the wider set of wholesalers customers

6.11 We believe that we should be delivering consistently high levels of service that meet our customers' requirements regardless of their reason for contact with their water company. We would welcome discussions with Ofwat about how the provision of excellent customer service by companies to their other customer groups could be measured and evaluated. Any new measures and surveys should not be blended into those applied to the household (or domestic) customer base.

Q7 - What is your view on the options for increasing the power of reputational and financial ODIs at PR19?

7.1 our views on proposals and options to make ODIs more powerful:

- we support enhancing reputational impact of ODIs through improved reporting and transparency, including the provision of comparative information.
- we agree that financial ODIs should only be linked to RCV in specific limited circumstances.
- we believe it appropriate to widen the aggregate cap and collar, or remove it altogether, where the level of rewards and penalties for financial ODIs have been developed by companies through engagement and challenge with customers.
- financial ODIs must be suitably balanced between reward and penalty to encourage companies to develop ambitious plans and stretch for outperformance.

Reputational impact of ODIs

7.2 We welcome enhancing further the positive affect of reputational impacts of performance commitments and ODIs, whether that is tied to the achievement of financial incentives or penalties or not. We support the work already underway to provide more information to customers and stakeholders both on company specific performance achieved and comparative information via such channels as the Discover Water dashboard, and Ofwats publication of companies performance to commitments later this year.

More powerful financial ODIs

7.3 We welcome a review of the mechanisms that support the PR14 ODI framework in response to Ofwats objectives to make ODIs more powerful.

7.4 We support bringing the financial reward or penalty for over or under performance against commitment levels closer in time to the service performance that generated them. There is also a greater potential for inter-generational imbalance where the reward costs are levied via RCV adjustments on future customers who did not benefit from the improved service within AMP7.

7.5 There may be a need to retain the ability for a company to set an ODI based on making RCV adjustments, and it should be for the company to assess this and demonstrate clearly to its customers, the CCG and Ofwat why that approach is most appropriate.

7.6 If companies can continue to develop their ODI reward and penalty levels with engagement and challenge from customers based on what they want and what they want to pay for, the risk of excessive aggregate rewards and penalties is very low.

- 7.7 We support the broadening of customer engagement tools and techniques including research and experiments, and the wider use of information collected from day to day customer contacts, to validate test results from stated preference willingness to pay.
- 7.8 In relation to the bottom up penalty formula as used in PR14, and any new approaches to develop a maximum penalty and reward range and allocation across the financial ODIs, we would welcome further discussion prior to the guidance and methodology is produced by Ofwat.
- 7.9 The proposal to adopt ten common performance commitments, some with commitment levels based on comparative assessments, will incentivise companies to improve their service delivery through achieved performance driving both financial and reputational levers.

However, as discussed under question 2, the setting of relevant reward and penalty rates for all the measures, including those with common commitment levels, needs to be within the scope of the companies to determine through their allocation approach and through customer engagement, challenge and willingness to pay preferences. We believe setting uniform levels of ODI rewards and penalties does not recognise the different values and priorities placed on service areas by customers region by region, and may impact the legitimacy of the ODI framework.

- 7.10 We agree that companies should review the proportion of financial ODIs across their performance commitments for PR19 in order to link more of their return to out-performance.
- 7.11 We note Ofwat has previously consulted on the variable cost of equity through a menu based approach, and we provided commentary of the potential advantages and disadvantages at that time, as we understood them to be. We agree with the principle of seeking to reward companies for building more ambition and risk into their business plans, in order to improve outcomes for customers and would like to engage on this subject further.
- 7.12 If the menu based approach is to be adopted, further clarity on the levels of return and the different grades should be provided as early as possible to provide sufficient time for companies to assess the options available and discuss these with their customers and CCG. We would expect to be involved in any decision making process that could result in the cost of equity being calculated in a different way from the current regulatory precedent of using the CAPM model.
- 7.13 In regards to the concept of 'gated' ODIs we see that when targeted to a limited set of closely related performance commitments there may be value in using the 'gated' ODI approach. We believe that it can be a useful feature to incentivise a company to achieve stretching performance across complementary measures. If overused or made overly complex it risks limiting the incentive effect of financial ODIs on companies to deliver the service quality their customers want.

Q8 - What is your view on our proposals for better reflecting resilience within the outcomes framework?

- 8.1 We support better reflecting resilience in outcomes and we consider it important to express this as resilience of the services provided.
- 8.2 Our views on the proposals for better reflecting resilience within outcomes:
- We welcome development of agreed resilience planning principles, and commentary laid out below.
 - we agree with the proposed option to develop common resilience measures and provide the opportunity for companies to augment these with bespoke performance commitments that aim to deliver improved resilience of service.
 - we agree companies, in consultation with customers and other stakeholders, should set appropriate commitment target levels for common resilience measures.

Resilience planning principles

- 8.3 We welcome and support the proposal for an agreed set of resilience planning principles and concur with those listed in the consultation document.
- 8.4 Please find below our suggestions and additions for those principles:

8.4.1 Principle 2 – Customer engagement

Company's resilience risk assessments should be informed by engagement with their customers.

Customers should include both current and future customers, the environment and wider stakeholders such as Lead Local Flood Authorities and NGOs.

8.4.2 Principle 4 – Broad consideration of intervention options

Company's resilience risk assessment should consider a set of mitigation actions and interventions that consider all of the components or resilience including response and recovery. Companies should consider collaborative, innovative and long term solutions.

Add – include all four elements of the Cabinet Office model for infrastructure resilience: redundancy, reliability, resistance, and response & recovery

8.4.3 Principle 5 – Cost effective solutions

Company's resilience risk assessment should consider the most cost effective solutions....

Add – cost effective and environmentally acceptable/sustainable

8.4.4 Principle 6 – Outcomes and customer focussed approach

Company's resilience risk assessments should inform resilience outcomes and the associated stretching performance commitments based on future risks and customer preferences.

Resilience metrics or measures

- 8.5 We support the development of common resilience measures, recognising that this is a new area of reporting which should be given adequate time and support to agree, evolve and mature.
- 8.6 We believe that it may not be appropriate to set a universal commitment level or have a single resilience measure across the industry because:
- a) there are regional variations in risks and customer preferences,
 - b) resilience is dynamic and context specific, and
 - c) each company is starting from a different baseline because of points a) and b).
- 8.7 We think that alongside any agreed common performance commitment with associated measures, companies should be allowed choose from a basket of resilience measures and/or set their own bespoke measures in consultation with their customers. This will allow companies to choose measures based on their own customer preferences, reflecting regional variances in risk and customer priorities.
- 8.8 Suggested approaches could include:
- a) further convergence towards the definition of some common resilience performance measures.
 - b) continuing to allow companies, in consultation with customers and other stakeholders, to set appropriate commitment target levels for each of the common measures.
 - c) allow companies, in consultation with customers and other stakeholders, to set additional, bespoke measures.
- 8.9 We have some thoughts on specific measures which we will share through the various workshops and working groups such as 21st Century Drainage, WWRAG etc. In particular we feel measures should be outcome-based rather than output based. For example, measuring the number of water treatment works (WTW) at risk of flooding does not measure impact on service and, further, could drive sub-optimal investment. In some locations it could be better to ensure that customers' supplies can be maintained by providing access to resilient secondary supplies from another WTW rather than constructing flood defences.
- 8.10 We currently communicate to customers and other stakeholders our resilience in terms of climate and extreme weather risks. These include annual section 18 reports under Flood and Water Management Act, 3-5 yearly reports under the Adaptation Reporting Direction from the

Climate Change Act, and the annual Environmental Performance Assessment for the EA. In order to engender engagement and transparency it will be important to align reporting in order not to confuse customers with similar measures that have different specifications for the same area.

Q9 - What is your view on the options and our preferred approach to asset health outcomes?

- 9.1 We support better reflecting resilience in outcomes and we consider it important to express this as resilience of the services provided.
- 9.2 Our views on the preferred approach to asset health:
- we support the inclusion of asset health related measures in the suite of common performance commitments and the provision of comparative information to customer and stakeholders.
 - we believe companies should develop commitment levels, and reward and penalty rates, for the two common asset health measure proposed in consultation with their customers.
- 9.3 We agree that asset health is a key area of network and service resilience and that companies are best placed to provide more information to customers and stakeholders about their approach to asset health and which of their performance commitments and incentives relate to asset health.
- 9.4 We support a focus to ensure asset health related mechanism are easy to understand and are well explained to our customers and the CCG and to Ofwat, including how rewards and penalties relate to revenue. This includes the draft asset health performance commitment reporting requirements outlined in the consultation
- 9.5 Asset health related performance commitments are a good indicator of resilience in the long term. Alongside the proposed common performance commitments for water mains bursts and sewer collapses, we would support a level of partial standardisation for bespoke asset health performance commitments and sub measures, as described in Option 1 of the proposals.
- 9.6 We are supportive of applying standardised approaches for truly comparable measures. However we would wish to continue to have companies set the commitment levels and incentive and penalty rates based on customer engagement. Companies historic assets stocks vary considerably, generating a disparity in the level of resources and investment required for companies should they have to meet common targets, for example:
- a) Differing historic council design standards before privatisation
 - b) Geographic and topographic differences causing different stresses on asset stock.
 - c) Significant variations in historic investment levels on the inherited asset stock
- 9.7 By resisting a move to full standardisation of measures Ofwat will enable companies to reflect their engagement with customers and local stakeholders and provide flexibility for companies to be innovative and include non-infrastructure assets into their performance commitment framework, which are equally important for driving service and resilience.

- 9.8 We believe rewards for stretching outperformance on asset health related performance commitments may be appropriate to rebalance the ODI mechanism. However, it will be important in respect of impacts on customers that the effect on customer service impacts of improving asset health is rewarded and not the cause. There is a risk that financial penalties/rewards for asset health commitments result in a doubling up effect against the corresponding service ODIs (for example mains pipe bursts and supply interruptions)
- 9.9 We suggest that an assessment of these indicators should be taken as an average over three years rather than 'in-year' as fluctuations can be significant and performance can be impacted by other factors, for example; a drive to outperform stretching leakage targets increases reported mains bursts in that period.

Q10 - To what extent do you agree with our proposals for making performance commitments more transparent for customers?

- 10.1 We welcome the four principles laid out by Ofwat to help companies make their performance commitments (and any sub-measures) easier to understand by their customers and other stakeholders. These are all practical principles to uphold when defining performance commitments and providing information to customers, CCGs and others.
- 10.2 As a way to further improve transparency we support the approach that companies should explain in their business plans how they will disseminate performance information during the price control period to ensure it is visible, and remains visible, to customers, CCGs and other stakeholders. Furthermore we agree that the Discover Water dashboard is a useful tool to aid customer engagement.
- 10.3 We welcome the proposals on when it is appropriate to develop and use scheme specific performance commitments and ODIs. We agree that where possible there is a preference for delivering the recovery of totex through increases penalties in related outcomes focussed ODIs, where the customers had foregone benefits in the event of material delay or non-delivery.
- 10.4 We agree with the criteria outlined that can be used to assess whether a scheme specific performance commitment is appropriate. We also support the process outlined including the need to engage with customers and the CCG on any proposed scheme specific performance commitments.