

City briefing slide pack

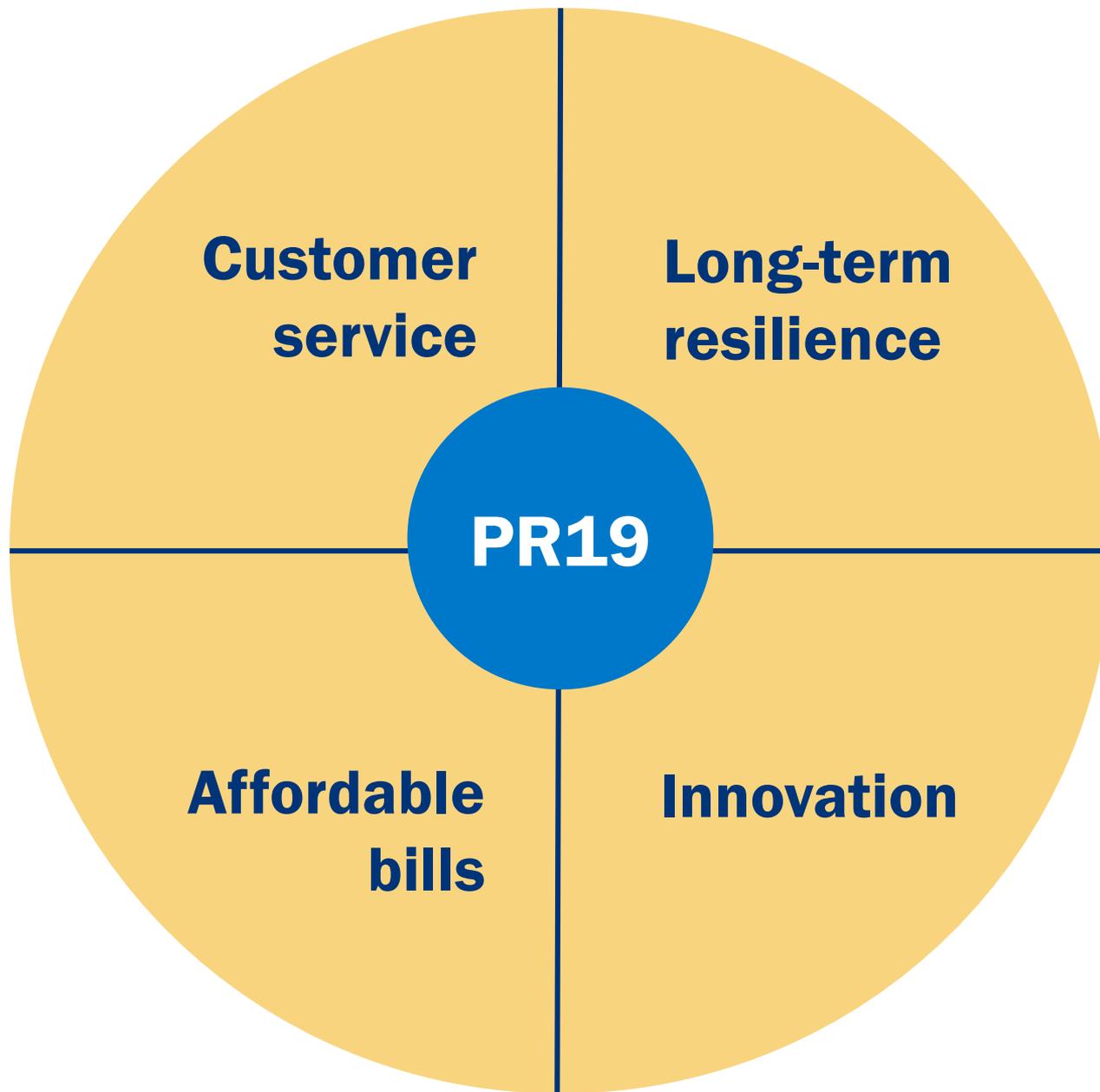
Ofwat

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ofwat

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Business plans

A **high quality** business plan will mean we are confident that customers will get a good deal from it, with little or no intervention from us.

An **ambitious** business plan will push boundaries in ways that are important to customers

An **innovative** plan will show capability and readiness to innovate

We will categorise business plans into the following four categories:

significant scrutiny: fall well short and major interventions required

slow tracked: material interventions in some areas required

fast tracked: high quality but not ambitious

Exceptional: high quality, ambitious and innovative

“Exceptional” is a high bar, and it’s possible no companies will reach it

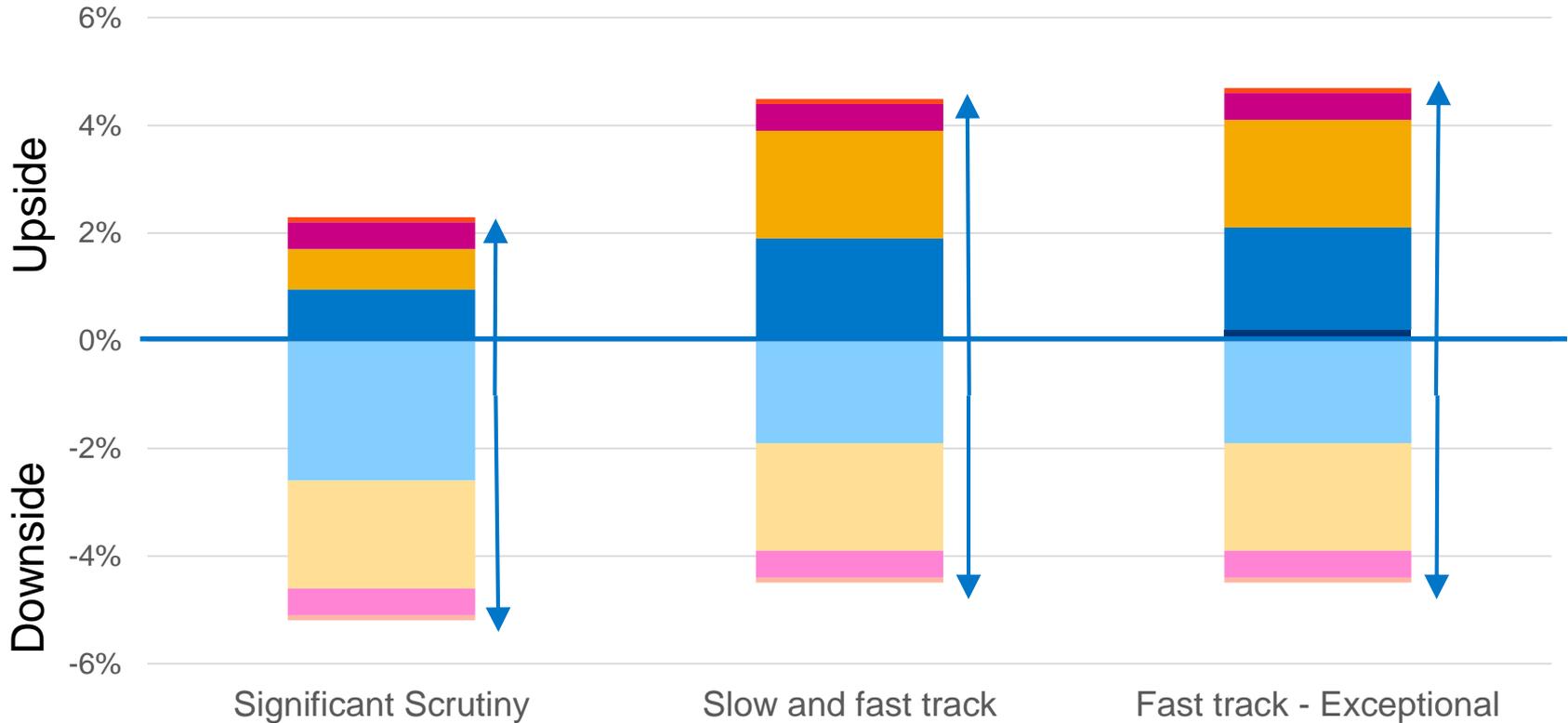
Exceptional companies will get:

- a financial reward equivalent to a +0.2% RoRE reward
- an early draft determination in March/April 2019
- a reputation as exceptional compared to their peers
- little or no intervention from us

Fast-tracked companies will get:

- an early draft determination in March 2019
- little or no intervention from us

Illustrative notional RoRE range



- Upside Ambition reward
- Upside ODI
- Upside Totex
- Upside C-Mex and D-Mex
- Upside ODIs
- Upside Financing
- Downside Totex
- Downside ODI
- Downside ODI
- Downside ODI
- Downside C-Mex and D-Mex
- Downside Financing

Customers engagement on outcomes, assurance on engagement provided by CCGs.

14 common performance commitments covering customer service, asset health and resilience.

We expect companies to set **stretching** performance commitments.

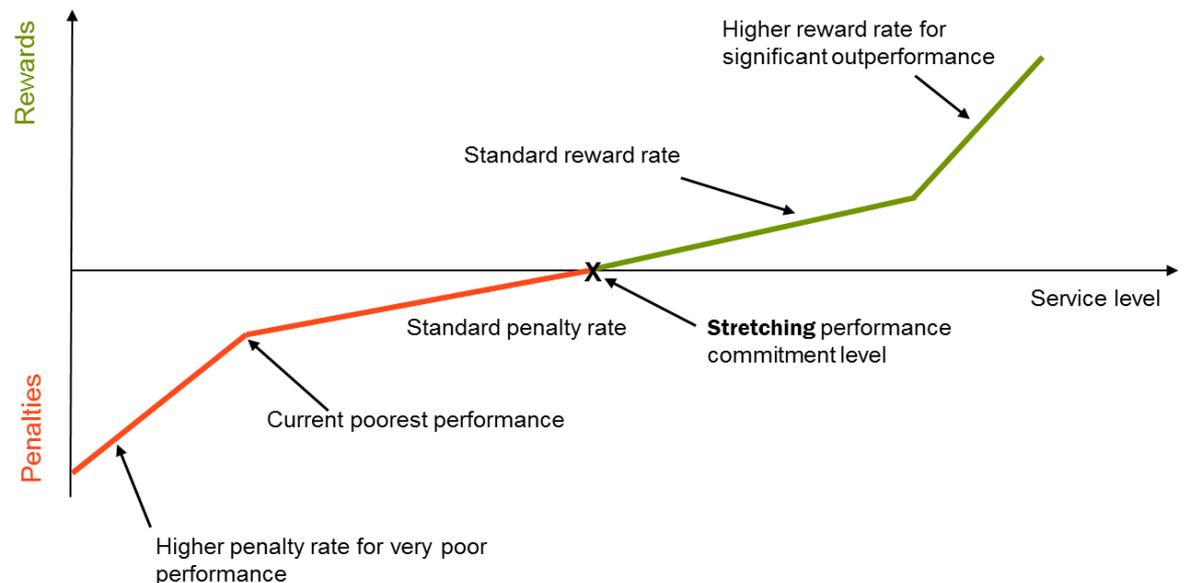
More **in-period ODIs**

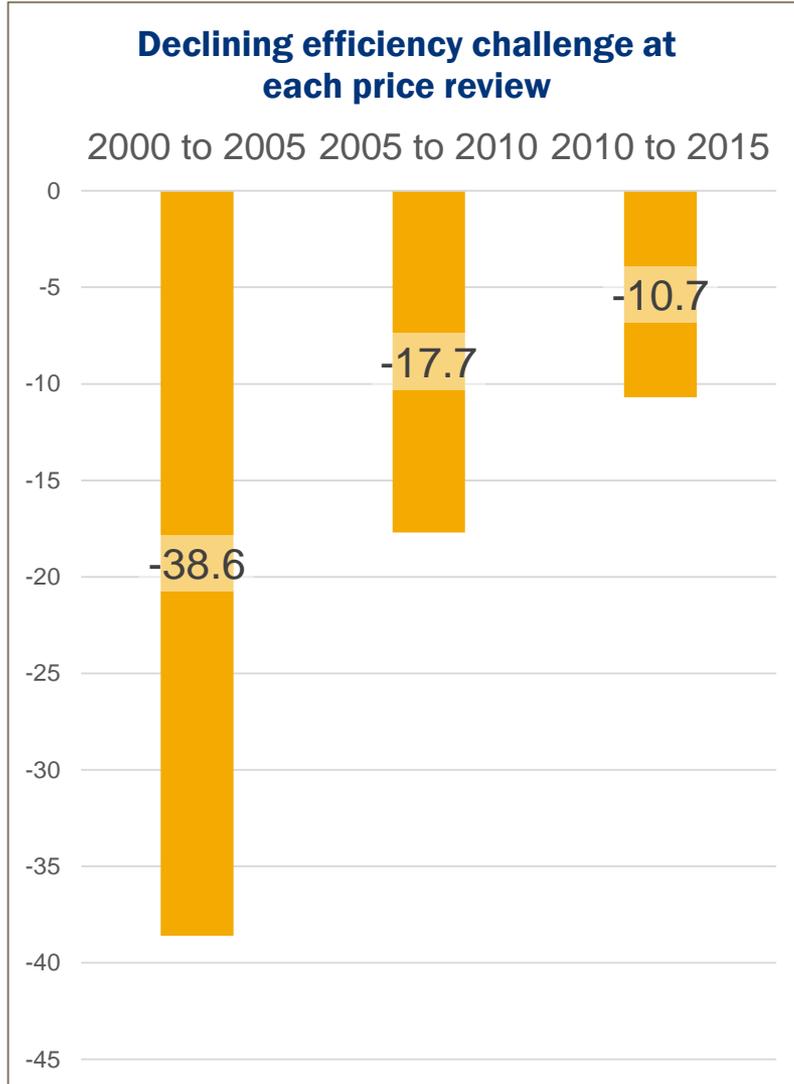
More revenue linked to service: Removal of aggregate cap on ODIs and proposing **indicative range of ± 1 to 3% of RORE**

New customer experience measures including a cross-sector challenge.

Enhanced rewards and penalties for frontier-shifting performance (see diagram).

Illustration of proposed enhanced reward and penalty curves at PR19





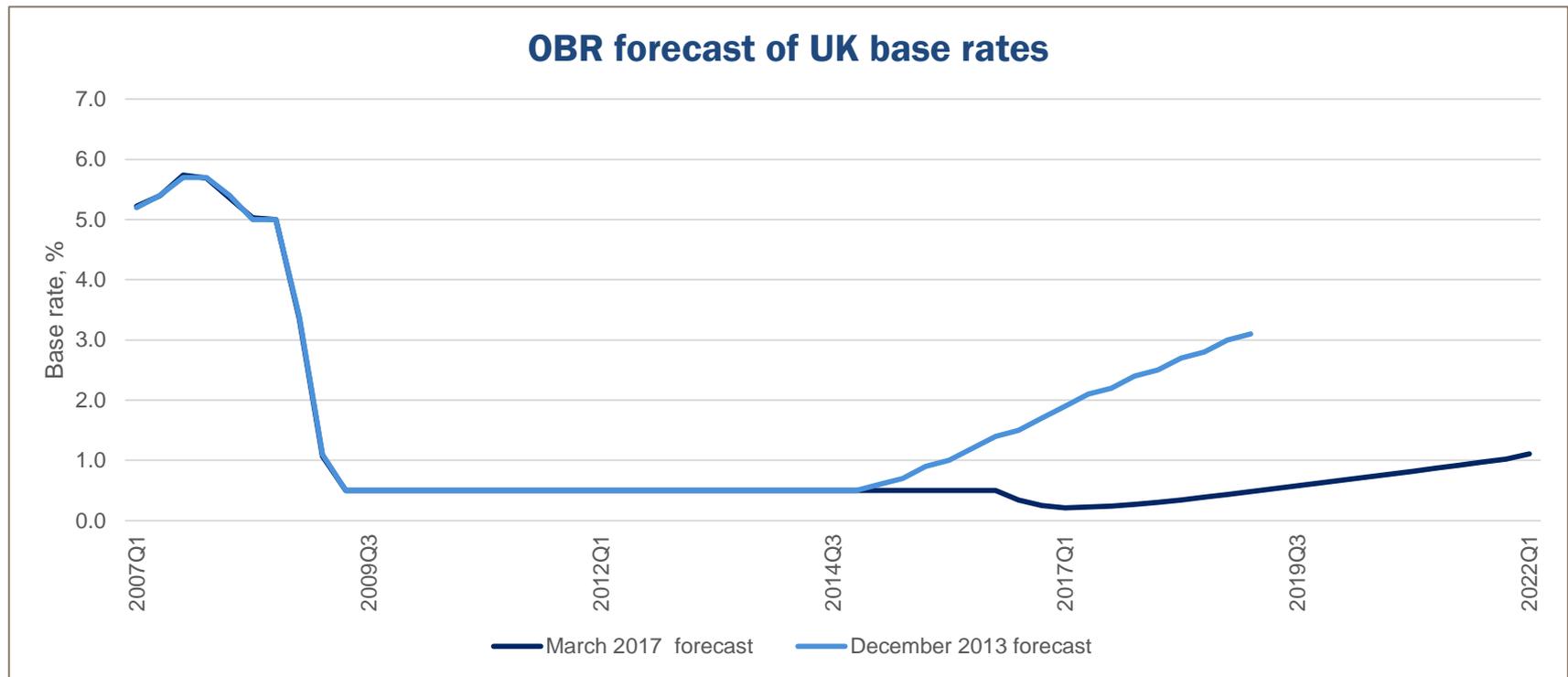
Strong expectation of **step up in efficiency** for PR19, sharing efficiency benefits of totex and outcomes framework with customers.

Challenging efficiency baselines, which will incorporate forward looking dynamic efficiency as well as catch-up efficiency.

A new **cost sharing incentive** to reward efficient business plans and penalise inefficient business plans. No menus.

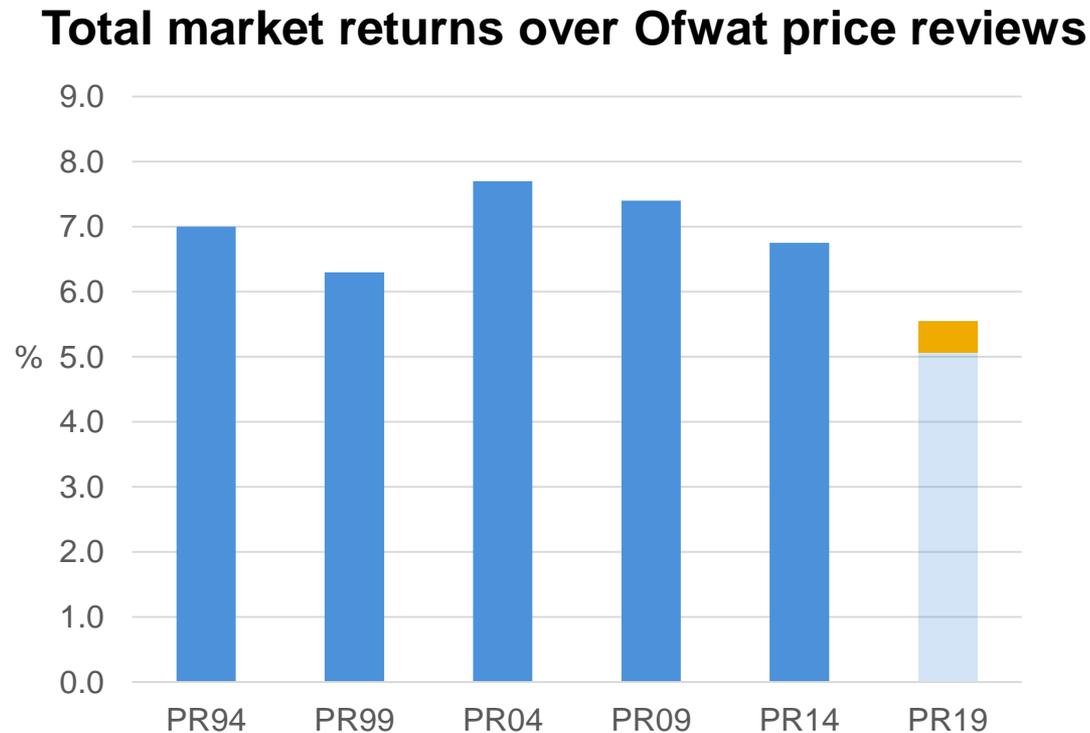
Symmetrical special factor adjustments to cost baselines.

On **retail controls**, an econometric approach to benchmark companies' costs and set efficient baselines, with no glide path and take account of cross sector comparators.



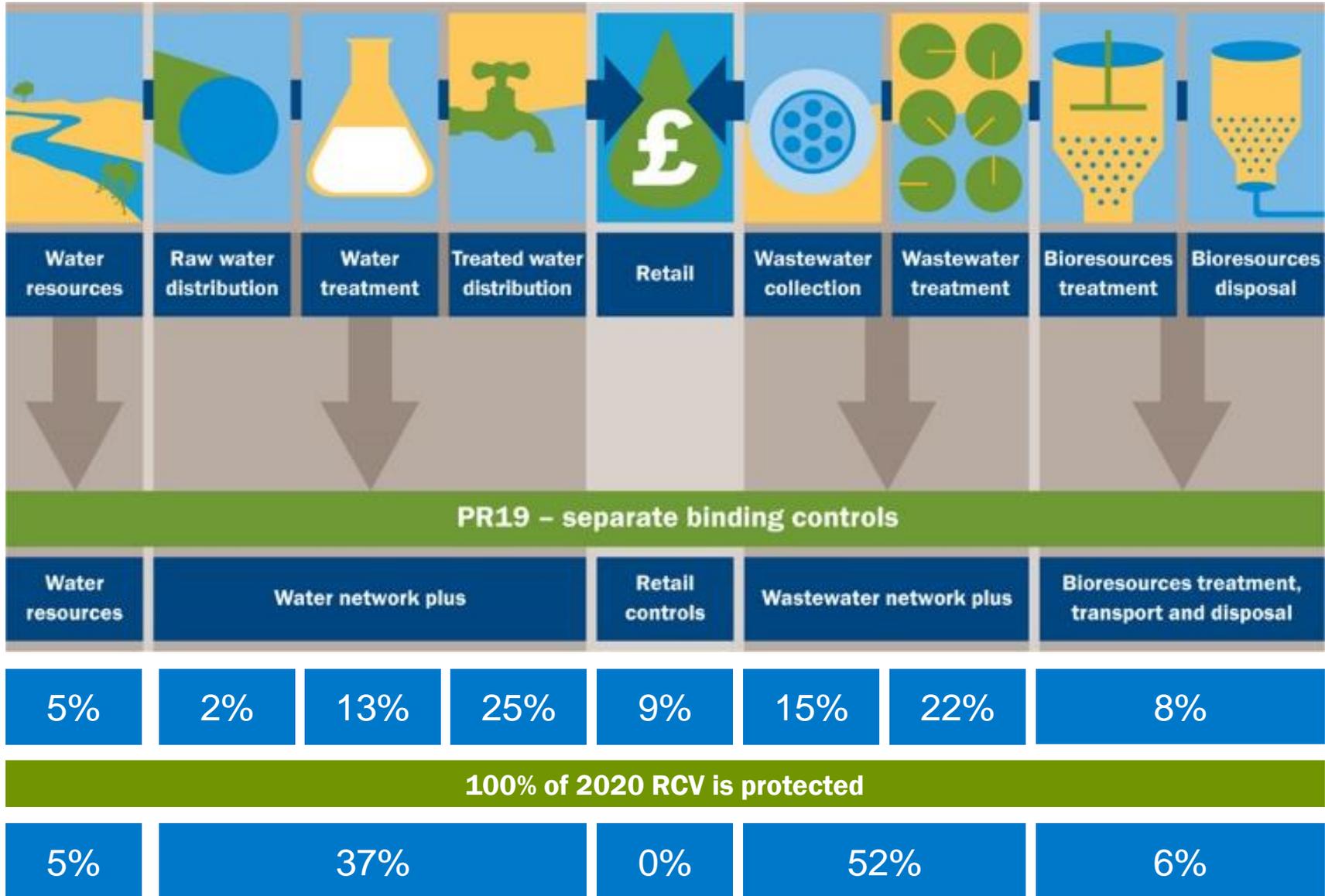
Source: Ofwat analysis of Office of Budget Responsibility data

Based on current market and forward looking evidence suggests that the total market return, in nominal terms of 8.0% to 8.5% or 5.1% to 5.5% in real RPI terms.



This is lower than previous reviews but the variation is in line with changes over previous reviews

Using markets to deliver better outcomes for customers and the environment



Q and A with Jonson, Cathryn, David,
Aileen and John