
Background briefing note from Ofwat for meeting on 25 January 2018

Issue

We want customers to have trust and confidence in companies' performance commitments. This includes that companies report their performance on a consistent basis with the commitments they made to their customers at a price review. However, companies improve their data capture and measurement systems over time. We want to discuss how customer confidence in performance reporting and allowing companies to improve their performance measurement can best be reconciled to the benefit of customers.

Principles

There are some principles we should bear in mind when considering the options for reconciling:

- (i) customers having confidence in performance reporting; and
 - (ii) allowing companies to improve measurement.
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1. Company performance commitments should be clear, unambiguous, complete and concise (from page 56 of Ofwat's [methodology statement for PR19](#)).
 2. Companies should commit to keeping the definitions of their performance commitments unchanged during 2020-25 and to follow our procedures for any changes (from page 56 of Ofwat's [methodology statement for PR19](#)).
 3. Companies should commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment (from page 56 of Ofwat's [methodology statement for PR19](#)).

We might also want to consider a fourth draft principle:

4. Companies should improve their measurement of performance so that it more accurately reflects the issue covered by the performance commitment.

Relevant background

Ofwat currently has guidance on [changes to outcomes in the 2014 price review company-specific appendices \(Information Notice IN 16/07 May 2016\)](#), which sets out the limited cases where changes can be made to performance commitments and the procedures companies need to follow when applying for a change.

The sector's work on consistent definitions has resulted in more detailed definitions for leakage, supply interruptions, internal sewer flooding and external sewer flooding for PR19 than were included in the PR14 final determination company-specific appendices. This might affect the scope for companies to improve their performance measurement during 2020-25.

In the [in-period ODI final determination for 2017](#), on page 47, Ofwat said it would like to "consider the issues raised with the sector as a whole early in 2018" in relation to changing the measurement of leakage performance.

Options

We present some options below, for discussion, on the treatment of performance commitment levels and performance reporting. These are forward-looking options for PR19, but our discussion could inform the reconciliation of the PR14 ODIs at PR19.

Option	Approach to performance commitment levels	Approach to performance reporting
1	Maintain price review performance commitment definitions and levels for five years.	Report performance using the same definition, methodology and data as used at the price review i.e. ignoring any improvements made to reporting performance.
2	Maintain price review performance commitment definitions and levels for five years.	Allow improvements to performance reporting, provided they are not material. Material improvements to performance reporting have to

		wait until the following price review to be implemented.
3	Maintain price review performance commitment definitions and levels for five years.	Allow all improvements to performance reporting. Any material effects on performance are not allowed to affect ODI payments to or from customers.
4	Dual report against: (i) the price review performance commitment definition and levels; and (ii) the performance commitment and corresponding levels consistent with the improved performance reporting.	Dual report performance according to: (i) the price review definition; and (ii) the improved performance reporting.
5	Update the performance commitments and levels each year (where applicable) as part of the in-period ODI determination process so that they are based on the latest improved performance reporting.	Report performance against the improved definition, which should be the same as the performance commitment definition agreed for the year at the preceding year's in-period ODI determination.