Customer Challenge Group (CCG) Chairs meeting

Jon Ashley, Chair

Ofwat, 21 Bloomsbury Street, London
9 August 2017

Agenda

Time	Agenda item	Presenter
10.30	**Welcome and introductions**	**Jon Ashley**
10.35	**Water UK – definition of performance commitments**	**Rob Wesley**
10.55 [with a break at 12pm]	**Water 2020 – Methodology update**	**David Black** **Jon Ashley**
12.45	**Summary discussion of meeting – Clare Evans (Cathryn attending)**	
13.15	**Actions, next meetings, AOB and close**	**Jon Ashley**
13.30	**Lunch**	

Consistent performance information for PR19: leakage, supply interruptions and sewer flooding

Jon Ashley, Ofwat

Rob Wesley, Water UK

Context – common performance commitments at PR19

The PR19 methodology consultation proposes 14 common performance commitments

1. Future customer experience measure	2. Future developer experience measure	3. Water quality compliance	4. Customer water supply interruptions	5. Leakage	6. Per capita consumption	7. Customer property sewer flooding (internal)
8. Wastewater pollution incidents	9. Risk-based resilience metric (water): drought risk	10. Risk-based resilience metric (wastewater): flooding risk	11. Asset health: mains bursts	12. Asset health: unplanned outage	13. Asset health: sewer collapses	14. Asset health: Wastewater asset failure causing pollution

Area of focus

- Customer experience
- Day to day performance
- Future performance/resilience

1 to 6 and 9, 11 and 12 apply to WoCs and WaSCs
7, 8 and 10, 13 and 14 apply to WaSCs only

Focus today on 3 of the 14:
Leakage, Supply interruptions and Sewer flooding

Common performance commitments rely on good-quality data and consistent definitions

Companies, co-ordinated by Water UK and supported by Ofwat, working to improve data consistency

Why is this relevant to CCG chairs?

- Comparative information is an important part of PR19 and a useful tool for CCGs to use when challenging companies on their proposals
- The work we are presenting will enable companies to produce consistent data for leakage, supply interruptions and sewer flooding
- You will receive data in confidence in early September based on the new definitions and we want to explain to you:
  - what this data is;
  - what you should do with it; and
  - how it is relevant for your work

Joint industry / Ofwat / CCWater / EA / NRW approach

- Intention to enhance trust and confidence in reporting
- Focus on three key measures
- Standardising reporting for consistency
  - underlying performance unchanged
- Some changes to company reporting to be expected
  - careful, joined-up communication required

Current definitions	New definitions
Used for **public** reporting (including Discover Water) up to and including 2019-20	Will apply for **public** reporting (including Discover Water) from **2020-21**
Used for PR14 PCs / ODIs	Will **inform** WRMPs, Business Plans and customer engagement at **PR19** and PCs/ODIs from **2020-21**

Progress to date

- Extensive engagement with industry experts
- Detailed definitions for leakage, sewer flooding and supply interruptions agreed by companies, Ofwat, EA, NRW and CCWater
- Subjected to independent review by Atkins, commissioned by UKWIR
- Definitions published as part of PR19 methodology (Appendix 3), with accompanying UKWIR report
- Briefing published by Water UK

Next two months

- Shadow reporting to Ofwat by 31 August of 2016/17 information (unpublished)
- Bedding in new definitions, in parallel to current reporting
- Standard assurance process – but recognition that ‘best endeavours’
- Aim to inform customer engagement and improve comparisons between companies
- Information to be provided **in confidence** in early September to all companies, CCG chairs, CCWater, EA, NRW
- Will include data, Red / Amber / Green assessment of current compliance with detailed reporting requirements, commentary

Challenges – immediate

- Reporting definitions finalised June 2017
- Companies reporting retrospectively for 2016-17
- First year reporting “best endeavours” and will be work in progress
- Changes in company reporting expected
  - but first year won’t give full picture
- Caution required in use of data
  - potential for misleading impressions
- Data not being published
  - contingency plans if becomes public domain

Challenges – up to 2020 and beyond

- Full implementation, especially for leakage, will take several years
- Eventual change in reporting unclear
  - will require careful, joined up communications, especially transition in 2020-21
- Water Resources Management Plans: public consultation early 2018
  - using scenarios to show impact of change in leakage reporting
- PR19: how to engage effectively with customers using shadow data
- PR19: how, and when, to set PCs / ODIs given data uncertainty

Continuing engagement to resolve these challenges

Water 2020 update

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Customer engagement

Key messages on Customer Engagement

We are expecting **a step change in customer engagement at PR19** with companies using a wider range of techniques to address our principles of good customer engagement.

- **Customer engagement will be central to our assessment of company business plans at PR19**, as part of the initial assessment of business plans process.
- Customer engagement will provide essential evidence for company proposals in their business plans such as their performance commitments to customers and their proposals for special adjustments to their costs.
- We held an event and published our 'Tapped In' report on **customer participation** in March 2017. We expect companies to show they have taken its themes into account.
- We propose to **meet companies during 2018 to understand their approaches to customer engagement.** This will help us to better understand company approaches to customer engagement during PR19.

You said…	We did…
On 12 April you asked for the methodology consultation to be clear on the role of CCGs	We made customer engagement the first substantive chapter of the consultation. • We set out the role of CCGs (page 26) which has not changed since the Customer engagement policy statement. • There are a small number of additions to CCGs role which Gurpreet emailed you on 11 July.

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Affordability

Key messages on Affordability

- PR19 means companies delivering bills that are **affordable for all, now and in the future.**
- We expect companies to find better ways to identify and support customers who are, or are at risk of, struggling to pay their bills.
- We expect companies to provide value for money bills and challenge themselves to push the **efficiency** frontier to provide **scope for price reductions** if this is what customers want.
- We want companies to do more to **reduce bad debt**, reducing the burden of those who won't pay on those who do.
- Our overall assessment of the affordability of business plans is supported by our **securing cost efficiency, delivering outcomes for customers** and **aligning risk and return tests.** These aim to ensure customers get the highest quality and most resilient services for a given bill level.

You said…	We did…
On 12 April you asked how affordability relates to value for money	In chapter 3 on affordability we set out the three areas of affordability we will be testing at PR19. The first test area is overall affordability. On page 39 we explain that this includes companies providing clear evidence of value for money.

Three areas and proposed principles

1. Overall affordability – bills that provide value for money for all

2. Long-term affordability

3. Affordability for those struggling to pay

Principle 1: Customer engagement – how well is the company engaging with its customers on overall affordability and value for money, in the long term and on assistance for those that struggle to pay?

Principle 2: Customer support – what do customers think of the company's proposals to address affordability? Are bills acceptable to customers? Do customers support the assistance measures for those that struggle to pay?

Principle 3: Effectiveness – how effectively does the company's business plan improve affordability? What are the benefits of the company's measures?

Principle 4: Efficiency – what difference will the company's proposed measures to address affordability make compared to the costs of its interventions? Are the measures the most cost- effective means of support?

Principle 5: Accessibility – what will the company do to ensure that customers who are struggling to pay have easy access to help and support? How effective will that support be?

Assessing how companies will address affordability using qualitative measures

Evidence from companies, the CCG report and from other sources (such as CCWater research or organisations specialising in debt) on:

The company's customer engagement on affordability - how well the company understands the needs in its area for affordable bills and how its proposals address these needs.

Customer support for the company's approach to the three aspects of affordability - on the level of bills and the assistance for those who struggle or are at risk of struggling to pay.

How effective is the company's plan in improving affordability? How well does the company understand the needs in its area for affordable bills and how its proposals address these needs.

The efficiency of the company's approach to addressing the three areas of affordability.

Support available for those at risk of struggling to pay their bills and how proactively companies deploy such support in advance of problems arising.

Assessing how companies will address affordability using metrics

We consider the use of common measures of affordability would provide greater transparency and would allow us to make comparisons, taking into account differences between companies and the quality of the data.

Companies could still provide their own data specific to their customers' affordability issues.

We gave examples of proposed metrics in the draft methodology and set out in the business plan tables the common measures of affordability we propose to collect.

- Customers finding bills acceptable
- Benefits of applying affordability measures (for example, decrease in revenue outstanding)
- Costs of applying affordability measures
- Debt management costs (as % of average bill)
- Customers receiving financial assistance
- Customers receiving non-financial assistance
- Average (mean) bill reduction from financial assistance options

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Vulnerability

Key messages on Vulnerability

Our approach to vulnerability will be an explicit part of the price review for the first time in PR19.

- This builds on our 2016 'Vulnerability focus report', which aimed to stimulate interest in and inform the debate around vulnerability and provided examples of best practice in supporting customers who are in circumstances that make them vulnerable.
- Our **proposed qualitative tests** on vulnerability will ensure we are testing companies **against the three key areas set out in the 2016 Vulnerability focus report**.
- The **bespoke performance commitments** on addressing vulnerability will require all companies to **engage with their customers and CCGs** on their future commitments in relation to vulnerability.
- By asking companies to provide data on common measures, customers and other stakeholders should be able to understand more fully **the nature of vulnerability issues** and the variations between companies, and the sector should have **better information to identify ways of improving approaches** to vulnerability in the future.

You said…	We did…
On 12 April you said that our focus should be on the impact of companies' support for customers in circumstance that make them vulnerable, not on the numbers registered for support.	In chapter 3 we propose qualitative tests in relation to vulnerability which cover companies understanding their customers' needs, working with other organisations and the effectiveness of support. We also are proposing companies report to us on 3 metrics which we invite your views on.

We consulted on two options

Option	Option details	Option rationale
1	a) We will require companies to propose **bespoke performance commitments** in their business plans for addressing vulnerability, after engaging with customers and taking on board challenges from their CCGs. b) We will require companies to report to us publicly against **common measures** for how vulnerability is addressed. We will work with the companies and other stakeholders to develop these, and how they could evolve into common performance commitments in the future.	Option 1 is our preferred option. The bespoke performance commitments will require companies to engage with their customers and CCGs on their future commitments to addressing vulnerability. Only some companies did this at PR14. The common measures will help customers and other stakeholders better understand vulnerability issues, understand variations between companies and provide the sector with better information to identify ways of improving the approach to vulnerability in the future.
2	a) We will require all companies to have a **common performance commitment** for addressing vulnerability, using a common definition. b) We will set a **common level for the performance commitment**, based on a comparative assessment of companies' past and projected performance.	Option 2 is not our preferred option. Although a common performance commitment with a common commitment level would incentivise companies to improve their performance, we do not think the data on how companies address vulnerability is mature enough to make this workable. A common commitment level might also not be suitable because of the transient and individual nature of vulnerability.

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Outcomes

(performance commitments and ODI’s)

Key messages on Outcomes (performance commitments, ODI's and customer experience)

We consider:

- There is significant scope to make performance commitments more **stretching**, so that customers benefit from better service;
- There is significant scope to build on the ODI framework to incentivise companies to deliver **more of what customers want** by better aligning the interests of company management and investors with those of customers.
- There should be greater incentive for companies to go **beyond their service commitments** to customers, and **larger penalties** for those who do not achieve their commitments; and
- Better services can be achieved alongside **keeping bills affordable** for customers, given the scope for efficiency improvements at PR19.
- We consider that the design of our new customer experience measures should encourage companies to **improve customer experiences**.

You said…	We did…
On 11 January and 12 April you asked about customer support for customers paying more for improved service performance i.e. the use of outcome delivery incentive (ODI) rewards.	In Section 4.4 we explain our approach to ODI rewards. • We want a higher proportion of company revenue to be linked to service performance. • We expect companies to develop their ODIs in consultation with customers and obtain customer support for the overall amount of ODIs. • We expect the measures we are proposing will mean that an average company with average performance would expect to incur penalties on its ODI package, rather than rewards.
On 11 January you suggested it would be helpful to know what a good performance commitments and ODI looks like.	In Appendix 2 on outcomes we have proposed six approaches companies should test their proposed performance commitment levels against (pages 42-46). We also provide some guidance on setting ODIs on pages 71-77.
On 12 October and 22 November you raised some concerns over whether in-period ODIs might increase bill volatility.	We propose that companies must set out how they will manage bill volatility in their business plans. If required, we can intervene to ensure companies adopt appropriate bill smoothing (see pages 52, 72, 74, 80).

Performance commitments, the balance of common and bespoke

- We are proposing **14 common PCs** so that customers and stakeholders can **compare stretch** in companies' commitments. There will still be plenty of space for **bespoke PCs** to reflect their customers' particular preferences.
- The common PCs cover the areas most important to customers such as customer experience, day-to-day performance and future performance / resilience metrics.

1. Future customer experience measure
2. Future developer experience measure
3. Water quality compliance
4. Customer water supply interruptions
5. Leakage
6. Per capita consumption
7. Customer property sewer flooding (internal)
8. Wastewater pollution incidents
9. Risk-based resilience metric (water): drought risk
10. Risk-based resilience metric (wastewater): flooding risk
11. Asset health: mains bursts
12. Asset health: unplanned outage
13. Asset health: sewer collapses
14. Asset health: Wastewater asset failure causing pollution

Area of focus

Customer experience | Day to day performance | Future performance/resilience

1 to 6 and 9, 11 and 12 apply to WoCs and WaSCs
7, 8 and 10, 13 and 14 apply to WaSCs only

- There remains plenty of opportunity to propose **bespoke performance commitments**
- Bespoke PCs must cover **vulnerability, price controls, environment, resilience** and **AIM**.

Ensuring stretching performance commitment levels

- Performance commitments should be supported by **long-term projections** to encourage companies to consider long-term ambitions and to help customers and stakeholders engage on longer-term issues.
- Companies must challenge the degree of **stretch** in their performance commitment levels by using all information they have available including **historical** and **comparative** information.

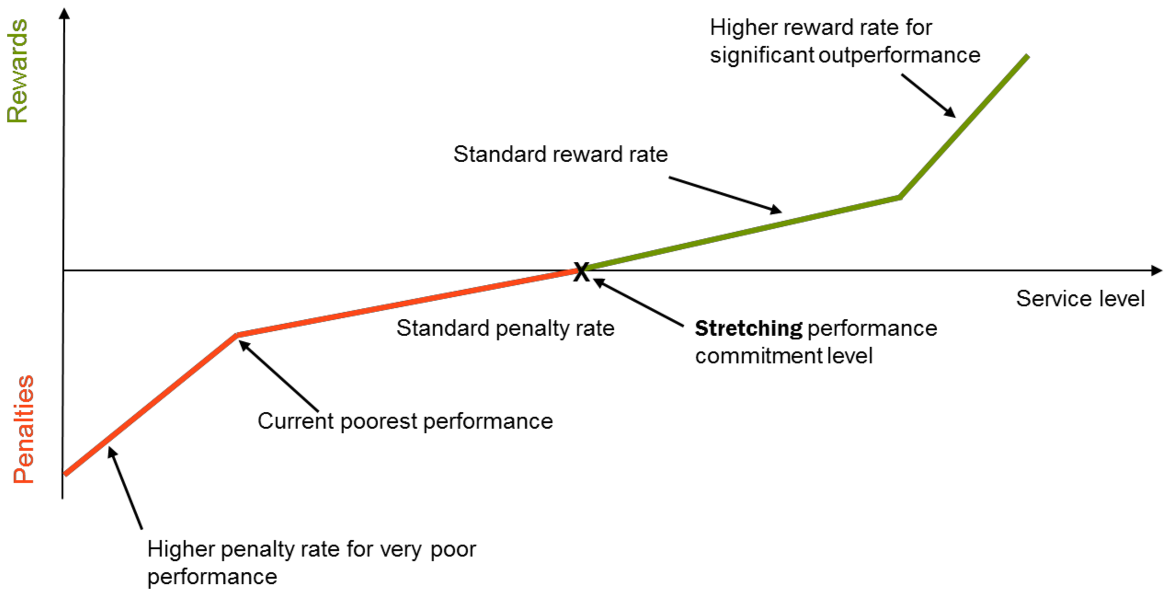
Approaches for setting commitment level
Cost Benefit Analysis (CBA)
Comparative information
Historical information
Minimum improvement
Maximum level attainable
Expert knowledge

- For a number of the common performance commitments, such as supply interruptions and sewer flooding, we expect companies to set their performance commitment levels at least at the **forecast** performance level of the **top quarter** of companies (upper quartile performance) in 2024-25.
- For **leakage**, we propose companies set more stretching performance commitment levels than at PR14. We expect companies to justify their proposals against options including a 15% reduction or forecast upper quartile performance in relation to leakage per property per day and leakage per km of main per day (correction from slide presented at the webinar).

Following our consultation on strengthening ODIs, in November, we propose a package of measures to better align the interests of company management and investors with those of customers:

- We will continue to **increase the impact ODIs have on reputation** by encouraging companies to provide contextual information, for example, such as league tables for performance.
- Companies (and customers) should **experience ODI payments closer in time to when the service that generated the payment was delivered**. As a default companies should have in-period ODIs and have end-of-period ODIs that impact revenue rather than asset base (RCV).
- We will encourage companies to **propose enhanced, higher, rewards for significant performance improvement which moves industry forwards** as part of their ODIs for the common performance commitments. This mimics how a competitive market rewards and spreads innovation. Enhanced rewards should be accompanied by increased penalties for very poor performance.

Illustration of proposed enhanced reward and penalty curves at PR19



Our proposals on ODIs (2)

- We will encourage companies to **strengthen their financial ODIs** by having financial ODIs as a default where customers are supportive.
- We propose not to cap the ODI rewards and penalties a company can receive overall and **to set an indicative range for the overall value of ODIs a company can receive of ±1% to ±3% of RoRE** (the return on regulated equity).

We expect that our proposed measures will mean **an average company with average performance would expect to incur penalties on its ODI package, rather than rewards.** However, companies are able to manage this risk by ensuring they deliver for customers.

We expect companies to assess the impact that their proposed packages of ODIs would have on **customer bills.** Companies should propose how they would smooth any potential bill volatility that may occur during the price control period.

Customer Measure of Experience (C-MeX)

We are consulting on three options for C-MeX, with Option 1 as the preferred option

	Customer service quarterly satisfaction survey via online channels, of contacts based on the handling and resolution of a recent matter or complaint	**Customer experience** quarterly satisfaction survey via phone, of customers who have not contacted their company	**Net promoter score** using monthly data submitted by companies of the net proportion of customers who would recommend their water company	Complaints volumes based on application of updated guidance (includes complaints made via social media)
Option 1	50% weighting	50% weighting	Not applicable	Reputational incentive
Option 2	40% weighting	40% weighting	Not applicable	20% weighting
Option 3	40% weighting	40% weighting	20% weighting	Reputational incentive

All options: Combined into a single C-MeX score benchmarked against UKCSI all-sector threshold

The Developer services Measure of Experience (D-MeX) is a new incentive with financial and reputational components for developer services (new connections) customers.

Our proposal is to base D-MeX on a telephone survey of developer services customers, but we are also considering other options and will develop them with those customers and other stakeholders.

Developer Services Measure of Experience (D-MeX)

We will set up a D-MeX Task and Finish group with Developer services stakeholders to develop and implement a six-monthly customer satisfaction survey

Setting up the new incentive

We will rank companies annually based on the results of the two six-monthly surveys and publish results

Reputational incentive

We will apply **financial rewards and penalties** annually, based on the survey results

Financial incentive

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Risk and reward

Key messages on risk and reward

- **Cost of capital** set on a forward look - market evidence indicates a lower cost of debt and a lower cost of equity for PR19.
- Index the cost of **new debt**. Embedded debt set by reference to the efficient cost – there will be winners and losers
- Companies to provide a **Board statement**, explaining how they have identified risks associated with delivering the plan and how it has assured itself that the risk mitigation and management plans in place are appropriate
- High bar for acceptance of any **risk pass through mechanisms**.
- Increase the proportion of revenue at risk from **service performance** through ODIs
- Sharpen the **cost sharing incentives** to:
    - reward companies who deliver larger efficiency gains for customers
    - inefficient companies will bear a greater proportion of the cost of underperformance
- Index price controls to **CPIH**, so that water bills better reflect the overall rate of inflation faced by customers
- Mechanism to pass through material changes in **tax** to customers

You said…	We did…
On 12 April you asked if companies know the rewards for "exceptional" status in advance.	We explain the financial, procedural and reputational benefits of "exceptional status" on pages 15, 195 and 270 of the consultation. The financial reward is equivalent to 0.2% of the return on regulated equity (RoRE) for 5 years.

Key messages on financeability

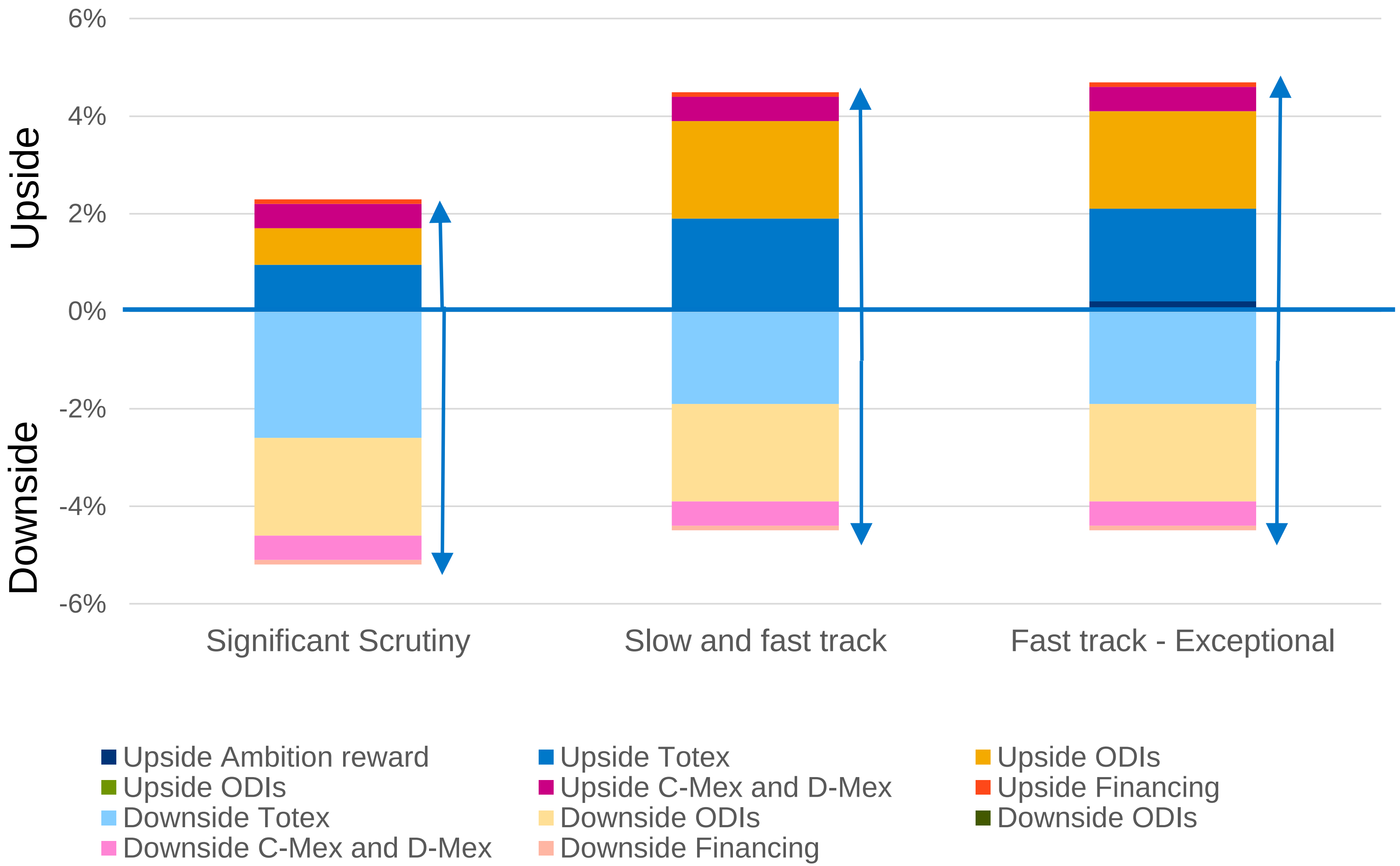
- Each company will need to submit a plan that is **financeable** and provide **Board assurance** that it is financeable on both the notional and actual financial structure.
- Companies will need to provide evidence of **customer support** where they alter bill profiles to address such financeability constraints.

Choice of capital structure and financing remains a matter for companies and their shareholders. Companies should not expect customers to bear the costs of resolving financeability constraints arising from a company's choice of financial structure or inefficient financing strategy.

Summary of proposed approach

Incentives	Summary of our proposal
Initial assessment of business plans	Reward calculated as +0.2% RoRE for exceptional plans.
ODIs	Remove cap ODI rewards and penalties should deliver rewards and penalties within a ±1% to ±3% RoRE. Range includes enhanced rewards and penalties for common performance commitments.
Totex	Asymmetric cost sharing. Tougher incentive rates for companies assessed as significant scrutiny Illustrative RoRE range around ±2.0% based on 10% cost out/underperformance, and around -3% to +1% for companies under significant scrutiny
C-MeX and D-MeX (customer and developer services measure of experience incentives)	C-MeX symmetrical at 12% residential retail revenue D-MeX symmetrical at 5% developer services revenue. Overall impact around ±0.5% RoRE.
Financing	Indexation of the cost of new debt means less scope for outperformance or underperformance on financing costs.

Illustrative notional RoRE range



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Cost assessment

Key messages on cost assessment

- Strong expectation of **step up in efficiency** for PR19, sharing efficiency benefits of totex and outcomes framework with customers.
- **Challenging cost baselines**, which will incorporate catch-up efficiency as well as forward looking dynamic efficiency and evidence from other sectors.
- A new **cost sharing incentive** to reward efficient business plans and penalise inefficient business plans. No menus.
- Benchmark analysis using econometric modelling and a mix of **top-down and granular models**
- For **enhancement expenditure**, use of historical as well as forecast cost information to identify efficiency benchmark. A different approach to funding of **unconfirmed environmental requirements**
- Warranted cost adjustment claims trigger **symmetrical cost adjustments** to cost baselines
- On **retail controls**, an econometric approach to benchmark companies' costs and set efficient baselines, plus take account of cross sector comparators. No indexation to inflation index. No glide path.

You said…	We did…
On 11 January and 12 April you asked about the approach to bad debt at PR19.	We set out our approach to bad debt on pages 182-184 of the consultation. • We expect companies to explain how their approaches will enable them to perform better on bad debt. • We are also proposing a benchmarking model to assess the efficiency of companies' approaches to bad debt.

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Form of controls

Key messages on form of controls

Our approach will protect customers, through better targeted regulation; and create value through wholesale markets where appropriate:

- we will continue to set **wholesale price controls** using a building block approach – which is our traditional approach to regulation
- our aim is to promote a **greater role for markets in water resources and bioresources** services, creating opportunities for companies to look beyond traditional company boundaries and their own in-house solutions to meet the long-term needs of customers.
- we will set **retail price controls** for residential customers of water companies in England and Wales and retail price controls for business customers of Welsh water companies, where there is limited or no competition
- there will be no business retail price control for exited water companies in England.
- we consider that a **three-year price control** may be appropriate for retail activities as this would give us an earlier opportunity to take account of information and lessons from the English competitive business market.

- Wholesale activities account for approximately **90% of totex** and represent all of the **RCV**
- At PR19 we will have **4 separate controls across wholesale activities** (water resources, water network plus, wastewater network plus and bioresources) – up from 2 at PR14
- **Key decisions** on the wholesale controls were made in our May 2016 decision document, following our December 2015 consultation
- Our overall aim is to develop a **targeted, transparent, and predictable** set of controls that we can adapt to changes in services – and changes in our approach to regulation - over time

Figure: Overview of the water and wastewater value chain

Totex	5%	2%	13%	25%		15%	22%	8%

100% of pre-2020 RCV is protected

RCV	5%	37%		52%	6%

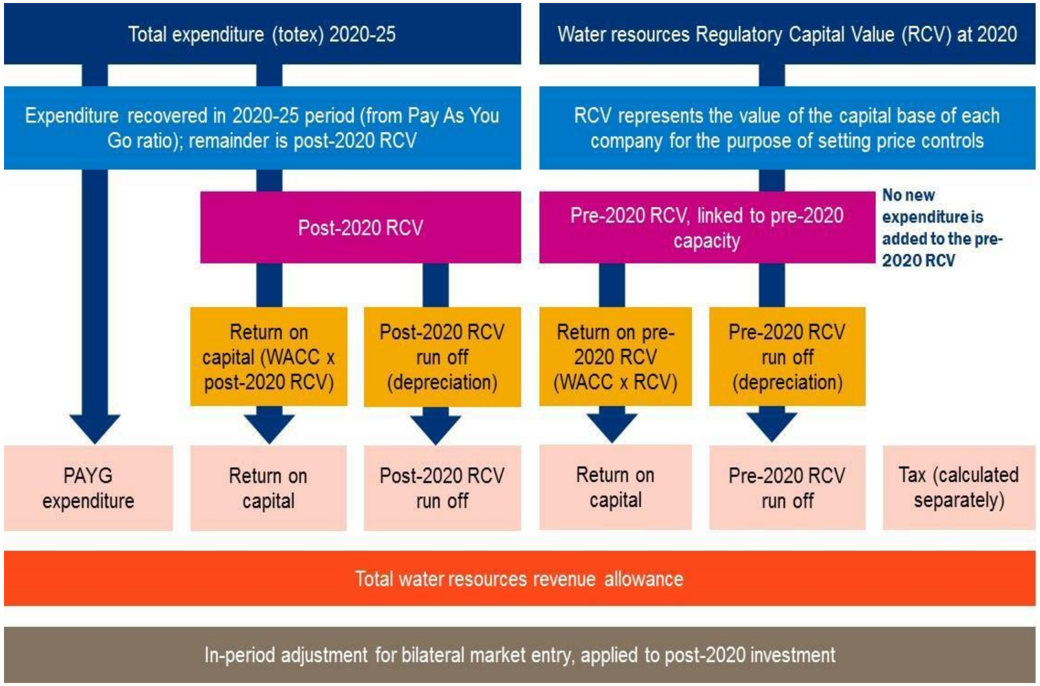
Water resources

- Our proposed form of control is a **total revenue control with an in-period adjustment mechanism** that depends on the scale of bilateral market entry
- It will be set using a **building block** approach which provides a high degree of certainty for revenues
- The in-period adjustment will accommodate the **bilateral market** in England if introduced in 2020-25

Bioresources

- Our proposed form of control is an **average revenue control** based on £/TDS on an NPV approach set on a building block approach
- Companies will bear **volume risk** arising from changes in measured volume of bioresources – as they are best placed to manage this risk
- To protect customers, there will be a **forecasting accuracy incentive** based on the variation between actual and business plan forecast volumes over 2020-25
- There will also be an **in-period revenue correction mechanism** to correct for under- or over-recovery in average revenues

Figure: The building blocks of the water resources control



Network plus water and wastewater

- Network plus water and wastewater activities represent the **majority of the wholesale value chain**
- They will continue to be regulated as **monopolies** during 2020-25
- The form of control will be a **total revenue control**, in line with approach taken at PR14 for the wholesale controls and set it in licence
- We will protect past, efficiently-incurred investments included in the RCV, up to 31 March 2020

What is direct procurement for customers (DPC)?

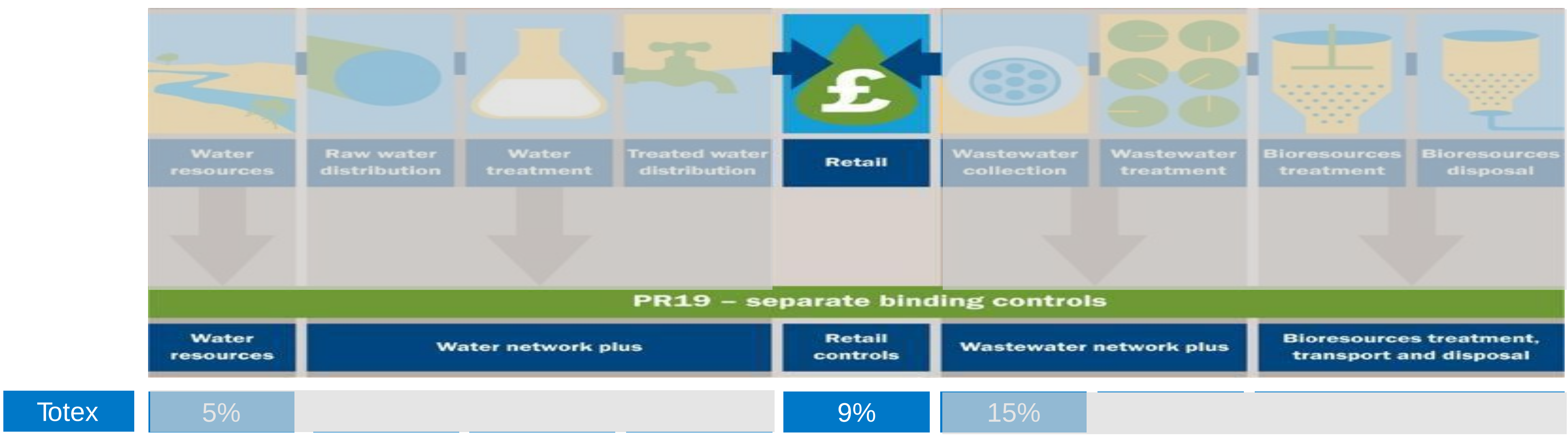
DPC involves arrangement where an English or Welsh water company tenders for services and infrastructure on behalf of customers. Our initial view is these projects will be discrete, large-scale enhancement projects with whole-life totex of over £100m. We envisage customer benefits through competitive pressure to reduce costs for the largest/most expensive new assets across capex, opex and financing, as well as innovation and the frontier for our and companies' view of efficient costs.

Our methodology details our thinking on:

- projects in scope
- initial assessment of business plans
- type of DPC tender model
- procurement process
- commercial model
- regulatory arrangements and treatment of costs

- In PR14 we introduced separate price controls for residential and business retail activities for the first time
- Price controls are an important tool to enable Ofwat to protect customers by setting a strong efficiency challenge and stretching service level obligations for companies
- PR19 we will set retail price controls for residential customers of water companies in England and Wales and retail price controls for business customers of Welsh water companies, where there is limited or no competition
- PR19 will consider what **type of price protection** should apply for business retail activities for English water companies, where an appointed company has not exited the market
- In PR14, we set business retail price controls for a two-year period. We set new price controls through the PR16 process that would apply for three years, starting on 1 April 2017. We set residential retail controls for a five-year period. PR19 will consider the **appropriate duration for business and residential controls**

Figure: Overview of the water and wastewater value chain



PR19 proposed approach and duration of retail form of control

Residential retail –approach

- Residential retail customers do not have access to competition in England or Wales. We propose to keep setting price
  controls for the residential retail activities of English and Welsh water companies to protect the interests of customers.
- In PR19 we will examine differences in retail costs by customer type. If there are differences in retail costs by customer type, we propose to continue to use a weighted average revenue control so that these differences can continue to be reflected in revenue allowances, as in PR14.
- If there are no differences in retail costs across customers type, we propose to set an average revenue control.

Business retail - approach

- There will be no business retail price control for exited water companies in England.
- We are considering what type of price protection should apply for business retail activities for English water companies, where an appointed company has not exited the market. If we did set price controls for these companies, we would use the same approach as used in the 2016 price review (PR16).
- We will set an average revenue price control for business retail activities for Welsh companies. This control will be for all sewerage services and for water supplies less than 50 megalitres a year.
- We are continuing to consider whether to set price controls for business retail activities for Welsh water companies in relation to water supplies of at least 50 megalitres of water a year. If required we will set an average revenue price control based on a gross margin cap.

Residential retail and Business retail - duration

- We consider that a three-year price control may be appropriate for retail activities as this would give us an earlier opportunity to take account of information and lessons from the English competitive business market.

Overview of PR19

Overview of PR19 – Initial Assessment of Plans

We want **companies to produce high quality, ambitious and innovative** business plans, pushing forward the performance of the industry as a whole and stretching the boundaries for delivery and efficiency.

- Our initial assessment of business plans will allow us to test the quality of the plan, the level of ambition and innovation, and the extent to which it requires intervention from us to protect customers.
- The initial assessment builds on and goes beyond the risk based
- review approach used in PR14.
- In PR19, we want companies to **really stretch themselves and deliver a step change**.
- We will use this assessment to give all companies **strong incentives** to produce **high quality business plans** that are **right first time**, and to demonstrate that their plans will benefit customers, the environment and wider society.

You said…	We did…
On 12 April you asked how the initial assessment of business plan (IAP) tests would be weighted.	We set out the approach to the IAP in chapter 14 and appendix 14. We explain there will be nine test areas and give examples of what we are looking for in a high quality and ambitious / innovative plan.

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

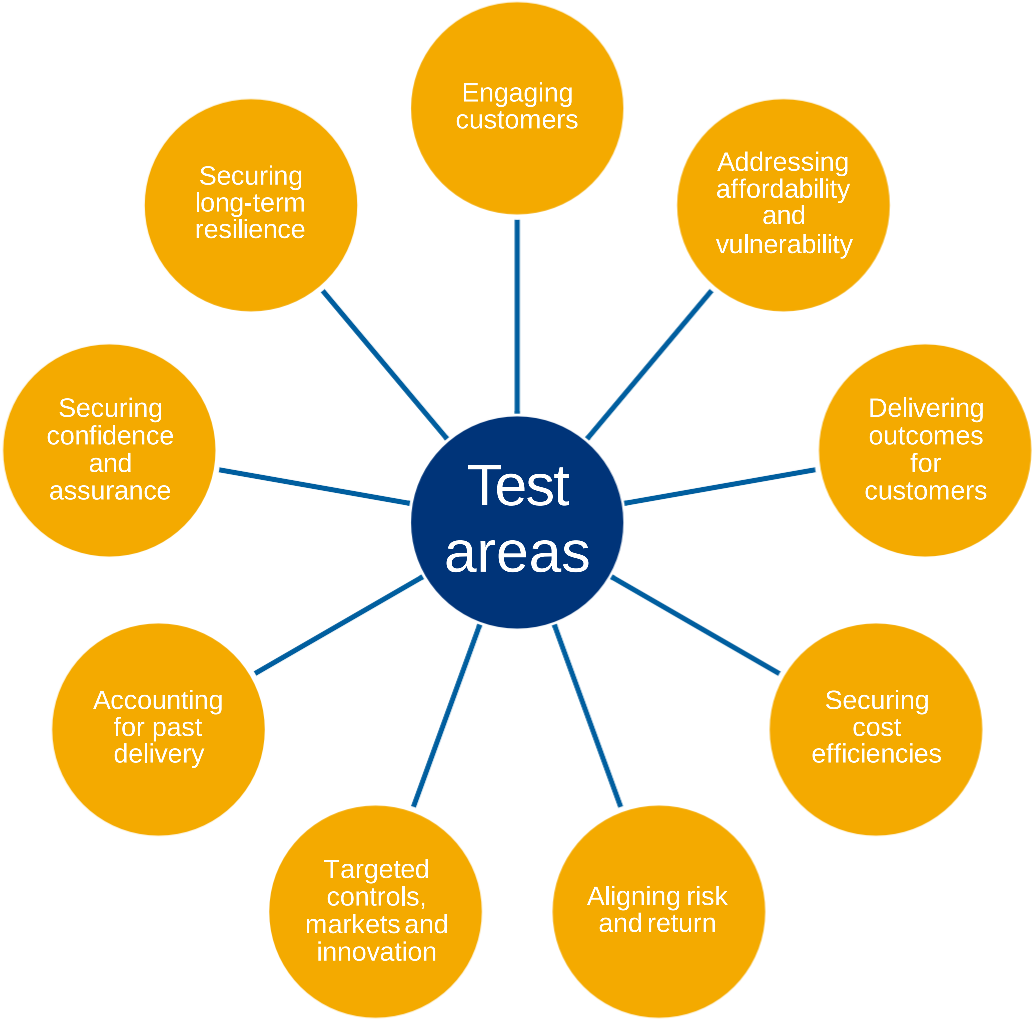
Exceptional companies will get:

- 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

We propose to use **nine test areas**



We propose to use **four categories**, which will **reflect the quality, ambition and innovation** of the plan.

Significant scrutiny	Slow-track	Fast-track	Exceptional
Well short of required quality – material intervention required across the plan	Material interventions are required in some areas to protect the interests of customers	High quality, but not ambitious and innovative enough to attain exceptional status	High quality with significant ambition and innovation

Quality, ambition and innovation →

Main incentives for the initial assessment of business plans

We want to give companies clear **financial, procedural and reputational** incentives to produce high-quality business plans for their customers.

Category	Reputational incentives	Procedural incentives	Financial incentives	
		Draft determination	Financial reward	Cost sharing rates
Exceptional	Published performance relative to peers + communication opportunities	Early (March/ April 2019)	Allowance calculated as +0.2% return on regulatory equity (RoRE)	Standard
Fast track	Published performance relative to peers	Early (March/ April 2019)	None	Standard
Slow track	Published performance relative to peers	July 2019	None	Standard
Significant scrutiny	Published performance relative to peers	July 2019	None. Potential cap on outcome delivery incentive (ODI) rewards	Reduced

2017	
11 July	PR19 draft methodology consultation published
July-August	Continued engagement through consultation period
30 August	PR19 draft methodology consultation closes
Mid December	Final PR19 methodology published
2018	
3 September	Companies submit business plans to Ofwat
2019	
January	Initial assessment of business plans published
March/April	Draft determinations (exceptional and fast track plans)
April	Companies submit revisions to business plans (significant scrutiny and slow track)
July	Draft determinations (Slow track and significant scrutiny)
December	Final determinations published

Summary of Meeting with Cathryn

Actions, next meeting, AOB and close

Jon Ashley

Next Meeting – November 2017
Exact date tbc

Are there any comments on the note of the 12 April 2017 meeting?

Any other business?

Future CCG Chairs meeting dates:

10th January 2018	**14th March 2018**	**9th May 2018**	**11th July 2018**