

Ofwat / Water UK workshop on performance commitments and performance reporting

5 January 2018
 London, Conrad London St James Hotel
 10.00 – 13.00

Attendees

Jon Ashley	Ofwat	Rob Wesley	Water UK
Agnieszka Scott	Ofwat	Justine Dade	Ofwat
Mark Abbott	United Utilities	Jo Campbell	SES Water
Tim Charlesworth	Affinity Water	Dennis Dellow	Northumbrian Water
Martin Doherty	South West Water	Steve Giddings	Thames Water
Matt Greenfield	Wessex Water	Dan Haire	South Staffs Water
Caroline Harris	Natural Resources Wales	David Hinton	South East Water
Louise Jackson	Dwr Cymru	David Jacobs	Anglian Water
Nicola James	Dwr Cymru	Andrew Lobley	South Staffs Water
James Mackenzie	CCWater	Steve Morley	Portsmouth Water
Andrew Oakes	Thames Water	David Price	South East Water
Mike Pocock	Affinity Water	Matt Pursall	Severn Trent Water
Alex Smethurst	Bristol Water	Jim Strange	Northumbrian Water
Paul Taylor	Severn Trent Water	Gareth Thomas	Anglian Water
Frank Van Der Kleij	Bristol Water	Angela Wallis	Environment Agency
Liv Walton	Yorkshire Water		

The issue

On 25 January 2018 Ofwat and Water UK held a joint workshop exploring the issue of how we reconcile:

- customers having confidence in performance reporting and,

- allowing companies to improve measurement over time, including moving to consistent definitions for the common performance commitments.

The issue is of interest as Ofwat plans for the Initial Assessment of Business Plans (IAP) from 3 September, in relation to: reconciling PR14 performance commitments and ODIs; and assessing companies' forward-looking PR19 performance commitments, ODIs and plans for reporting on them. The issue also matters because we all have an interest in achieving a smooth transition to the consistent reporting and guidance for the common performance commitments and achieving the best approach for customers.

Introduction by Ofwat

Jon Ashley (Ofwat) explained that it is important that customers have trust and confidence in the outcomes framework. The PR19 methodology makes some very clear statements in this regard such as:

“We expect companies to commit to keeping the definitions of their performance commitments unchanged during 2020-25 and to follow our procedures for any unavoidable changes. We expect companies to commit to their customers, that their ODI payments will only relate to real performance changes, and not definitional, methodological or data changes.” (Page 42, [Appendix 2 of the methodology consultation](#))

Ofwat also recognised that companies improve their data capture and measurement systems over time. Improving the data has several advantages for customers, companies and regulators such as: leading to a better measure of the issue under consideration so that customers and companies have a more accurate view; providing more accurate information with which companies can target their actions to improve service to their customers; and allowing for the implementation of more consistent data between companies.

Ofwat reiterated its support for the work that companies working together, co-ordinated by Water UK, and working with UKWIR, carried out to agree consistent reporting and definitions for leakage, supply interruptions, internal sewer flooding and external sewer flooding. Ofwat and Water UK are currently taking forward a joint project to further improve the consistency of the definitions and reporting of these four metrics as well as per capita consumption, mains bursts, unplanned outage and sewer collapses.

The principles that informed the discussion

We used three principles from the PR19 methodology statement and two draft principles suggested by Ofwat for the discussion:

Principles that informed the discussion
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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](#)).

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.

A fifth draft principle added after circulating the background note ahead of the workshop:

5. Companies should move towards the consistent reporting guidance and definitions as quickly as possible.

Main points made in the discussion

Ofwat proposed five options (see appendix to this note) to prompt discussion at the workshop. The main points made in the discussion were:

1. There was no consensus about which option was best with each option having its advantages and disadvantages. However, attendees made several suggestions to tweak the various options. The amended options all tended to move towards an approach where the performance commitment definitions are fixed for five years, but with a process where companies can propose changes to them when this was essential.
2. We can make a distinction between data changes and definition / methodology changes. Attendees felt that keeping the definition / methodology constant was reasonably straightforward, but that not using the best quality data available for reporting was more problematic.
3. Attendees considered an option was that they could use a metric based on the best-quality, up-to-date data internally (i.e. not published, but available to Ofwat if required) alongside publicly reporting on the price review performance commitment. This would lead to a difference between the two metrics (possibly increasing over time) which would then have to be reflected in the new performance commitment at the following price review. This raised a challenge about how to explain any significant step changes in metrics to customers at the following price review.

4. Attendees were not supportive of reporting two versions of the same performance commitment publicly (Option 4). Similarly they were not supportive of using one version of a metric (the most up-to-date) for reporting performance and another version (the price review version) for reconciling ODIs (Option 3). Some attendees also thought that changing the definitions each year as part of the in-period ODI reconciliation process (Option 5) was too burdensome. Others thought this might work because not all companies would want to change all their performance commitments each year. However, we would also need to take into account the time lag in the in-period ODI process, whereby in-period ODIs are reconciled 8½ months after the reporting year has finished.
5. We discussed what would happen if a company proposed a change to the definition of one of the common performance commitments. Attendees did not think a company should be allowed to change a definition of a common performance commitment unilaterally. This suggested there might need to be a centrally-run process for any proposed changes to definitions of common performance commitments.
6. We might want changes by companies to comply with the consistent reporting guidance and consistent definitions to be considered pre-agreed changes that companies should implement as soon as they can.
7. Attendees recognised that using percentage changes for some of their performance commitments would make it easier to retain the performance commitment and ensure the ODIs relate to actual service improvements, while allowing the underlying data to change as it moves to full compliance with the consistent data reporting. However, there were still difficulties as absolute values are needed for Water Resource Management Plans (WRMPs) for metrics such as leakage and per capita consumption.
8. Some attendees explained that data improvements can reveal better performance, because prior to the better measurement a company was making conservative assumptions about its performance so it is hard to separate reporting improvements from performance improvements in some cases. Some attendees commented that you cannot stop data improvements as it is good business practice to improve monitoring of networks. There was also some discussion about what the theoretically right approach might be versus the approach that will be understood and accepted by customers.
9. We discussed companies using their discretion to voluntarily reduce their ODI claims in certain circumstances for reasons of customer legitimacy. A company had already done this on two occasions for the in-period ODI determinations. Attendees felt that companies might find it appropriate not to claim an ODI outperformance payment in full for a particular performance commitment in some

circumstances, but that it would be more difficult for a company to voluntarily take an ODI outperformance penalty.

10. Some attendees commented that limiting changes to performance commitments too much might cause companies to avoid proposing innovative bespoke performance commitments if they knew there was no way they could adapt them as they learned from experience.

11. Taking all the feedback together the favoured approach seemed to consist of:

- a. Performance commitments remaining unchanged for 5 years as the default;
- b. A change process where companies can ask to make changes to their performance commitments, with special requirements for any changes proposed to the common performance commitments;
- c. Changes to implement the consistent reporting guidance and reporting definitions should be considered as pre-agreed; and
- d. Companies report their price review performance commitment definition publicly, but can use a metric based on the best-quality, up-to-date data internally (i.e. not published, but available to Ofwat if required). This could be the case, for example, where a company had improved its measurement of leakage, which has led to a reduction in leakage that reflects better data quality, not an actual reduction in leakage.

Some attendees asked questions about the approach companies should take to calculating a forecast upper quartile for their performance commitments at PR19. Ofwat has addressed these questions through its query response process and has published the answers on its website.

Next steps

Water UK and Ofwat thanked the attendees for their contributions. Ofwat stated that it would reflect on the learning from this workshop to inform its approach to assessing companies' forward-looking performance commitments and ODIs at PR19, reconciling the PR14 performance commitments and ODIs at PR19 and whether it should make any changes to its existing [Information Notice on changes to outcomes](#).

Appendix – the five options we considered at the workshop

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.