

December 2019

PR19 final determinations

Bristol Water – Delivering outcomes for customers additional information appendix

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Leakage

1 Introduction

This performance commitment measures leakage on the company's network. Baseline total leakage is calculated as a three year average of annual values in megalitres per day (Ml/d); however, the performance commitment level in each year is expressed as a percentage reduction from the actual 2019-20 three year average value.

2 Our draft determinations

In its April 2019 plan, the company proposed a percentage reduction of 15% on a three-year average basis for its leakage performance commitment levels. This was aligned to the company's Water Resources Management Plan (WRMP) targets. We accepted its proposed performance commitment levels at draft determination.

The company was assessed to be forecast upper quartile in both normalised leakage metrics and we allowed £2.4m enhancement funding for leakage reduction to achieve 3.7 Ml/d reduction (on an annual basis). This was not the full amount the company requested. This allowance was calculated based on the volume of the leakage reduction above the enhancement funding threshold (see '[PR19 draft determinations: Securing cost efficiency technical appendix](#)' for more information).

We set an outcome delivery incentive underperformance payment rate (called a 'tier 1' rate) to recover the enhancement funding if the company failed to meet the performance levels for which it was granted the money. The rate was set at -£0.510m per Ml/d (NB. it was mistakenly entered as -£3.117m in the draft determination documentation which was subsequently corrected). The 'tier 1' rate was set to operate in the final three years of the 2020-25 period only, and in a performance zone between a level of 6.6% leakage reduction and the performance commitment level (set at more stretching levels). This was because we consider the enhancement funding was to allow the company to move from a 6.6% leakage reduction to the performance commitment level.

We also set an overall underperformance collar at a level 5% above the 2019/20 baseline leakage level. For performance levels worse than the 'tier 1' zone, down to

the collar, we set a ‘tier 2’ underperformance rate of -£0.191m per MI/day. The underperformance rate was set at the lower bound of our reasonable range.

We also set an outperformance payment rate of £0.163m per MI/d per day for leakage performance better than the performance commitment level. We set an outperformance cap to restrict outperformance to the upper threshold of likely performance estimated by the company (the P90 where performance is only expected to be greater in 10% of the time). We do this to protect customers from unexpected high outperformance payments. The cap for 2024-25 was 15.6% leakage reduction and outperformance payments would not increase for reductions in leakage beyond this.

3 Stakeholder representations

In the company’s response to the draft determination, it proposes to retain the 15.1% performance commitment level of stretch from 2019-20 to 2024-25, but revises its 2019-20 forecast baseline from 43.0 to 41.1 MI/d. The company states that the revision of the 2019-20 baseline is due to 2017-19 actual leakage performance now being based on a revised estimation methodology with more robust assumptions.

Subsequently, in a response to query BRL-FD-PD-001, the company provides further details of the volumetric leakage reductions for each year. On a three-year average basis, this results in a leakage reduction of 21.2% from 2019-20 (41.1 MI/d to 32.4 MI/d in 2024-25).

The company states that it accepts our ‘tier 2’ underperformance and outperformance rates, but proposes a new ‘tier 1’ underperformance rate to reflect its view of leakage enhancement costs and correcting the draft determination error in the rate. In addition, the company proposes an increased outperformance cap to reflect what it says is its leading performance in the industry.

4 Our assessment and reasons

At final determination we allow the full £4.8m cost claim the company proposed, which allows a reduction of 6.5 Mld in line with its WRMP requirements (see ‘PR19 final determinations: Bristol Water - Cost efficiency additional information appendix’ for further information related to the enhancement funding).

We consider the company's performance commitment levels to be appropriately stretching using our assessment criteria (see 'PR19 final determinations: Delivering outcomes for customers policy appendix' for more information). However, we revise our draft determination decision on performance commitment levels to ensure that they are fully aligned to the funding to WRMP level that the company receives. On a three-year average this results in a reduction of 21.2% from 2019-20 to 2024-25 to align with the company's profile based on its latest forecast data for its 2019-20 leakage level from its September 2019 query response.

In addition, we recalculate the company's 'tier 1' ODI rate and the performance levels it operates between to reflect changes to our approach to funding. For consistency with other good performing companies receiving leakage enhancement funding, we amend the performance zone within which funding would be recovered in the event of poor performance. We recover the funding proportionately under the 'tier 1' ODI rate and this operates between the performance commitment level and its 2019-20 three year average performance. So if current performance is maintained with no improvement, we will recover the entire amount (adjusted for cost sharing). For worse performance than its 2019-20 three year average performance the 'tier 2' underperformance rate is triggered.

We increase the estimates of P90 performance as they did not reflect the innovative techniques and frontier-leading levels of service that Bristol Water says it is offering to its customers. We set the outperformance caps at these higher levels, with a cap at 29.4% by 2024-25.

5 Our final decision

We set the performance commitment levels to the following values: 2020-21= 6.1%; 2021-22= 11.4%; 2022-23= 15.8%; 2023-24= 19.0%; 2024-25= 21.2% (unit = percentage reduction from 2019-20 baseline using 3 year average).

We change the 'tier 1' underperformance rate to -£0.064m/Mld. The rate will apply between the company's performance commitment level each year and a performance level of 0% reduction from the 2019-20 baseline.

We set the outperformance cap to the following levels: 2020-21 = 14.8%; 2021-22 = 18.5%; 2022-23 = 22.1%; 2023-24 = 25.8%; 2024-25 = 29.4% (units: percentage reduction from 2019-20 baseline using 3 year average).

We retain the draft determination ‘tier 2’ underperformance rate, underperformance collar, and outperformance rate.

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