



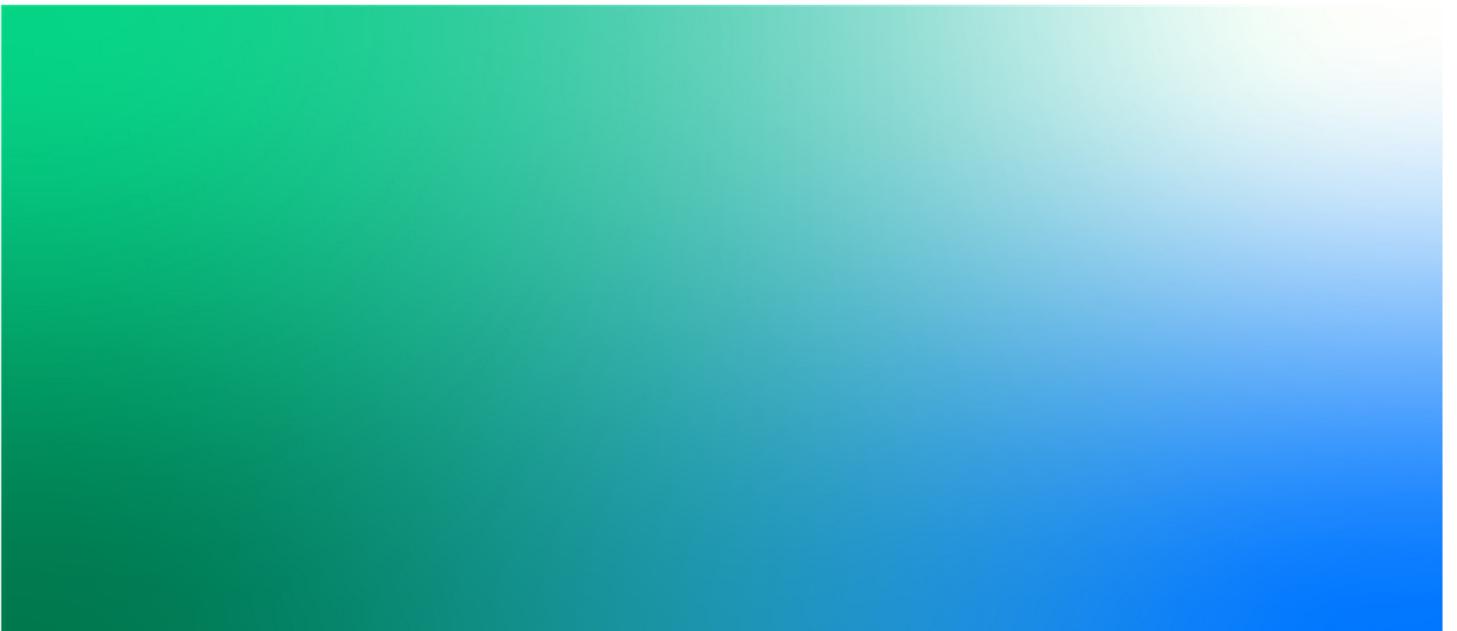
Review of Water UK Service Levels for PR19 D-MeX Incentive

Review of NAV metrics

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8 July 2020

Water Services Regulation Authority (Ofwat)



Review of Water UK Service Levels for PR19 D-MeX Incentive

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1. Introduction

Ofwat appointed Jacobs in August 2019 to provide recommendations on which of the current Developer Services Level of Service performance metrics published by Water UK should be used in combination to form the basis of the quantitative component of the Developer Services Measure of Experience (D-MeX) which operates as a new performance commitment in the 2019 price review (PR19).

The broad scope of the project was to:

- Assess the clarity of definitions of the Water UK set of metrics (as at August 2019);
- Identify which metrics are most important for customers and how they align with customers' priorities;
- Comment on the activities required of the water companies that underlie each of the metrics and the level of complexity or difficulty with which these activities can be undertaken; and
- Consider whether the performance metrics are overall sufficiently stretching.

One element of the review was to advise on the suitability of the proposed metrics for services provided to New Appointments and Variations (NAV) that were being developed in draft format and had not yet been finalised by Water UK at the time. NAVs are small water companies that typically apply to Ofwat to be appointed to serve new development sites. They normally require provision of developer services to them from larger incumbents.

Jacobs' final report (21 November 2019) was published by Ofwat as part of its documents that formed the PR19 final determinations for water companies in December 2019. It is available on Ofwat's website:

<https://www.ofwat.gov.uk/publication/jacobs-review-of-water-uk-service-levels-for-pr19-d-mex-incentive/>

The NAV metrics have since been agreed, finalised and issued by Water UK as version 1 dated 19 February 2020. As a result, Ofwat requested an additional piece of work in May 2020 to carry out a review of the final NAV metrics to:

- Map the 13 final NAV metrics to the service process to provide advice on which metrics represent key steps in the process;
- Identify which metrics are acknowledgments and which metrics relate to service delivery; and
- Update, as necessary, the review of the final NAV metrics following a similar approach used in the previous work.

This report provides our conclusions on the above scope and forms an Addendum to Jacobs' report dated 21 November 2019.

2. NAV metrics (version 1, 19 February 2020)

Our review of Version 1 of the NAV metrics, issued by Water UK on 19 February 2020, confirms three new metrics have been incorporated into the original ten making a total of 13. There have been changes to the definition and or the target period for 5 of the original 10 draft metrics. The principal changes between the draft and final metrics are set out below. We have identified those that are metrics for acknowledgements or service delivery.

Metric	Original Draft metric	Title	Changes between draft and final versions	Acknowledgment or Service delivery
WN1.1	N/A – WN1.1 is a new NAV metric	% of confirmations issued to the applicant within target period	New metric for NAVs, broadly equivalent to Developer Services metric W1.1. Relates to the site status and whether it is available.	Service delivery
WN2.1	NAV1 (W)	% of written acknowledgements of a bulk water supply application issued within target period	No changes.	Acknowledgement
SN2.1	NAV6 (S)	% of written acknowledgements of a bulk discharge application issued within target period	No changes.	Acknowledgement
WN2.2	NAV2 (W)	% Bulk supply offer letters issued to the applicant within target period	<p>Previously referred to “agreement issued to the NAV”, now refers to “offer issued to the NAV”.</p> <p>The written terms required in the offer from the incumbent have been revised with improved clarity.</p> <p>The target of 20 calendar days has been increased to 28 calendar days.</p>	Service delivery

Metric	Original Draft metric	Title	Changes between draft and final versions	Acknowledgment or Service delivery
SN2.2	NAV7 (S)	% Bulk discharge offer letters issued to the applicant within target period	<p>Previously referred to "agreement issued to the NAV", now refers to "offer issued to the NAV".</p> <p>The written terms required in the offer from the incumbent have been revised with improved clarity.</p> <p>The target of 20 calendar days has been increased to 28 calendar days.</p>	Service delivery
WN3.1	N/A – this is a new NAV metric	% Bulk water supply agreement signed and issued to the applicant within target period	New metric to issue a bulk water supply agreement after written acceptance of the offer being made (WN2.2 above) providing another step in the process.	Service delivery
SN3.1	N/A – this is a new NAV metric	% Bulk discharge agreement signed and issued to the applicant within target period	New metric to issue a bulk discharge agreement after written acceptance of the offer being made (SN2.2 above) providing another step in the process.	Service delivery
WN3.2	NAV3 (W)	% of written acknowledgements of receipt issued within target period	No changes.	Acknowledgement
SN3.2	NAV9 (S)	% of written acknowledgements of receipt issued within target period	No changes.	Acknowledgement

Metric	Original Draft metric	Title	Changes between draft and final versions	Acknowledgment or Service delivery
WN4.1	NAV4 (W)	% of main laying schemes constructed and commissioned within the target period	No changes.	Service delivery
SN4.1	NAV8 (S)	% of main laying schemes constructed and commissioned within the target period	No changes in definitions. Target changed from 90 calendar days to 180 calendar days.	Service delivery
WN4.2	NAV5 (W)	% of testing supplies provided within target period	No changes in definitions. Target changed from 21 calendar days to 28 calendar days.	Service delivery
WN4.3	NAV15 (W)	% of permanent supplies made available within the target period	Minor change in definition to require <u>written confirmation</u> from the NAV of satisfactory pressure and bacteriological testing of the NAV mains. No requirement for written confirmation in the draft metric.	Service delivery

Table 1 - principal changes between the draft and final NAV metrics

3. Mapping

We have mapped the NAV metrics in the process flow chart below.

Mapping of metrics to delivery process

	Point of Connection	Acknowledgement	Quotation	Acknowledgement	Construction	Certificates/Vetting	Type of development
Water	W1.1	W5.1	W6.1 & W7.1		W8.1 & W18.1		Typical developer site -mains
		W2.1	W3.1		W4.1		Typical developer site -conns
	(W1.1) & W20.1 & W21.1	W19.1 & W22.1	W23.1 & W24.1 W30.1	W25.1	W26.1 & W27.1	W28.1, W29.1	Self Lay
		W2.1	W3.1		W4.1		Individual site
	W16.1	W17.1 & W17.2					Diversion
Sewer	S1.1	S2.1	S3.1		S4.1	S5.1, S6.1, S7.1	Requisition, Adoption, Conn
		S8.1 & S9.1					S106 connection
		S8.1 & S9.1					Individual site
NAV	WN1.1	WN2.1	WN2.2, WN3.1	WN3.2	WN4.1		NAV Water -mains
	WN1.1 (applies to Sewerage	SN2.1	SN2.2, SN3.1	SN3.2	SN4.1		NAV Water - testing
							NAV Sewer

The three new metrics have been mapped to Point of Connection (WN1.1) and Quotations (WN3.1 and SN3.1).

4. Review of the final NAV metrics

4.1 Overview

The principal changes between the draft and final NAV metrics are highlighted above in Table 1. We note the following changes:

1. Three new metrics:

WN1.1 – this is a key step in the process for a NAV to apply to Ofwat to be appointed to serve the site.

WN3.1 and SN3.1 – these define the requirement for an agreement for a bulk water supply or bulk discharge to be issued within 28 days of the NAV's acceptance of the incumbent's offer. Following changes in definitions to WN2.2 and SN2.2 to refer to the offer being made to the NAV (previously these related to issuing of the agreement), we consider the new metrics WN3.1 and SN3.1 allow for greater definition of the stages in the process such that the offer stage is better defined as a key step than metrics WN2.2 and SN2.2.

2. Separation of 'Offer' and 'Agreement'

As above, the definitions of WN2.2 and SN2.2 have been revised to refer to issuing the bulk supply and bulk discharge offer to the NAV. The draft metrics referred to 'agreement' and did not account for the key step of providing an offer to a NAV. The offer stage is now clearly defined and the agreement stage has its own performance target in the two new metrics WN3.1 and SN3.1.

3. Target timescales

Five NAV metrics have amended targets for the activities to be completed within. We have compared these timescales with equivalent metrics in the Developer Services metrics (August 2019) and confirm that they align to each other. The exception is WN2.2 (28 days) which has four comparable Developer Services metrics, three of which align to the 28 days.

We note that the target timescale for SN4.1 (draft metric NAV8 (S)) has been changed to 180 days. The draft metric had a target of 90 days. The equivalent Developer Services metric (S4.1) has a target of 180 days. The target timescales for these two equivalent metrics are now aligned. Our engagement work in the original review (November 2019) highlighted that customers value realistic targets, hence we anticipate this change has been made to reflect what is realistic for the activity to be carried out.

4.2 Recommended NAV metrics for inclusion in D-MeX

We recommend the following NAV metrics are included in D-Mex. We discuss below their importance, complexity, clarity and stretch as we did for the Developer Services metrics in our November 2019 report.

WN1.1 – Percentage of confirmations issued to the applicant within target period

WN2.2 – Percentage of bulk supply offer letters issued to the applicant within the target period

SN2.2 - Percentage of bulk discharge offer letters issued to the applicant within the target period

WN4.1 – Percentage of main laying schemes constructed and commissioned within the target period

SN4.1 - Percentage of main laying schemes constructed and commissioned within the target period

WN4.2 – Percentage of testing supplies provided within the target period

WN4.3 – Percentage of permanent supplies made available within the target period

4.2.1 Importance

As supported by our findings for the November 2019 work, we consider the NAV metrics relating to Point of Connection, Quotations and Construction represent the key stages in the process of service delivery by the incumbent to enable the NAV to progress.

We note that metric WN1.1, to provide a written confirmation of the site status within 21 days commencing on the day after receipt of the enquiry, is new. The process is that when a NAV applies to Ofwat to be appointed to serve a site, the site must meet one of three criteria (the site is unserved by an existing water company, the existing water company agrees to transfer the site to the NAV ("consent") or a large user chooses to be served by the NAV). For the unserved criterion, the incumbent company must confirm the site is unconnected to its existing infrastructure to enable the NAV to apply to serve the site. The requirements of WN1.1 also apply to sewerage applications. We consider this is a key step at the beginning of the process and therefore of key importance to NAV customers.

As described above, the definitions of WN2.2 and SN2.2 have been revised to refer to issuing the bulk supply and bulk discharge offer to the NAV. We consider this is a sensible change and the offer stage is likely to be of greater importance to a NAV customer than the agreement.

4.2.2 Complexity

Our review of the Water UK metrics for PR19 established that companies do not consider any of the metrics to be disproportionately complex for reporting. Therefore, we concluded this is not an important consideration in selecting which metrics to include in D-MeX. Instead, we concluded the underlying complexity of service delivery was a more important consideration.

Water companies were of the opinion that focus should be placed on the importance of the end to end process across the differing customer types, regardless of delivery complexity. We noted that this view was consistent with what developer services customers said in their responses to the questions of what aspects of service are most important to them.

We are of the opinion that the NAV metrics we have recommended for inclusion in D-MeX are those which represent key stages of the end to end process.

4.2.3 Clarity

Our review of the final NAV metrics confirms the definitions are sufficiently described. Greater clarity of the information the incumbent must provide as part of the written terms has been provided in WN2.2 and SN2.2. We consider this to be an improvement on the draft metrics.

4.2.4 Stretch

Current data published by Water UK (to March 2020) does not include the new NAV metrics. These will be reported on for the first time during the 2020-25 period. We noted in our November 2019 report that overall, we considered the set of metrics to provide sufficient stretch at that point in time.

We also concluded that when context is considered i.e. the metrics are relatively new, the definitions have been evolving, the data set is not consistent and the data is not subject to third party assurance, we considered that a period of stability to establish a level playing field for reporting and confidence in consistency of reporting is important before changes to stretch are considered.

The final NAV metrics appear to be appropriately challenging and the overall balance between the Developer Services metrics and the NAV metrics would seem suitable, so as not to undermine the overall stretch of the metrics, particularly where target timescales have been aligned for similar activities.

The NAV metrics we recommend are not included in D-MeX are:

WN2.1, SN2.1, WN3.2, SN2.3,	These are metrics regarding sending an acknowledgement of an application or stage within 5 days. Whilst acknowledgements are part of the process, they are not critical to delivery of the service.
WN3.1, SN3.1	These are new metrics and relate to issuing the bulk supply or discharge agreement within 28 days after written acceptance of the bulk service offer. We consider achieving the offer stage (WN2.2 and SN2.2) is of greater importance to the NAV, because the subsequent agreement is more akin to an administrative activity whereas the offer being made is a fundamental step in the process.

Table 2 – NAV metrics excluded from D-MeX

5. Conclusion: NAV metrics for inclusion in D-MeX

Our November 2019 report recommended six of the draft NAV metrics to be included in the quantitative component of D-MeX. Following our review of the final NAV metrics, we have updated our recommendation to include seven of the final NAV metrics. In summary, the changes we recommend are:

- inclusion of the new metric WN1.1 which represents a key initial stage to confirm availability of a supply site for a NAV to take over. This activity wasn't formalised through the draft metrics.
- retention of revised metrics WN2.2 and SN2.2 which now define the offer.
- retention of the unchanged metric WN4.1.
- retention of metrics SN4.1 and WN4.2 which have an amended target period.
- retention of revised metric WN4.3 which now requires written confirmation from the NAV of satisfactory pressure and bacteriological testing of the NAV mains.

Table 3 below summarises our proposed changes:

Original recommended metric to be included in our November 2019 report:	Replace with:
N/A	WN1.1 - Percentage of confirmations issued to the applicant within the target period. This is a new metric about the site status which also applies to sewerage. It is a fundamental step to confirm the supply site is available for a NAV.
NAV1 (W)	Remove (ie do not substitute with an equivalent) because this is an Acknowledgement metric. Whilst acknowledgements are part of the process, they are not critical to delivery of the service.
NAV2 (W)	WN2.2 - Percentage of bulk supply offer letters issued to the applicant within the target period.

Original recommended metric to be included in our November 2019 report:	Replace with:
NAV7 (S)	SN2.2 - Percentage of bulk discharge offer letters issued to the applicant within the target period
NAV4 (W)	WN4.1 - Percentage of main laying schemes constructed and commissioned within the target period
NAV8 (S)	SN4.1 - Percentage of main laying schemes constructed and commissioned within the target period
NAV5 (W)	WN4.2 – Percentage of testing supplies provided within the target period
NAV15 (W)	WN4.3 – Percentage of permanent supplies made available within the target period
NAV6 (S)	Remove (i.e. do not substitute with an equivalent) because this is an Acknowledgement metric. Whilst acknowledgements are part of the process, they are not critical to delivery of the service.

Table 3 – changes to recommendations made in November 2019 (based on draft NAV metrics at the time)

We recommend the metrics in the chart below are included in D-MeX. For ease, we have included the Developer Services metrics we recommended in our November 2019 report, with the NAV metrics updated following this review of the final NAV metrics.

Metrics for inclusion							
	Point of Connection	Acknowledgement	Quotation	Acknowledgement	Construction	Certificates/Vetting	Type of development
Water	W1.1		W6.1 & W7.1		W8.1 & W18.1		Typical developer site -mains
	(W1.1) & W20.1 & W21.1		W23.1 & W24.1 W30.1		W26.1 & W27.1		Typical developer site -conns Self Lay
			W3.1		W4.1		Individual site
			W17.1 & W17.2				Diversion
Sewer	S1.1		S3.1		S4.1	S7.1	Requisition, Adoption, Conn S106 connection
							Individual site
NAV	WN1.1		WN2.2		WN4.1, WN4.3 WN4.2		NAV Water -mains NAV Water - testing
	WN1.1 (applies to sewerage as well)		SN2.2		SN4.1		NAV Sewer

For completeness, Tables 4, 5 and 6 below list each metric identifier and title for Developer Services metrics and NAVs which we recommend are included in the quantitative assessment for D-MeX.

Metric ID (Developer Services Water)	Metric title
W1.1	Pre-development enquiry – reports issued within target
W3.1	s45 quotations - within target
W4.1	s45 service pipe connections - within target
W6.1	Mains design <500 plots - quotations within target
W7.1	Mains design >500 plots - quotations within target
W8.1	Mains construction within target
W17.1	Mains diversions (without constraints) - quotations within target
W17.2	Mains diversions (with constraints) - quotations within target
W18.1	Mains diversions - construction/commissioning within target
W20.1	Self-lay Point of Connection report < 500 plots etc - reports issued within target
W21.1	Self-lay Point of Connection reports >500 plots etc - reports issued within target
W23.1	Self-lay design and terms request <500 plots etc - quotations within target
W24.1	Self-lay design and terms request >500 plots etc - quotations within target
W26.1	Self-lay water for pressure/bacteriological testing - provided within target
W27.1	Self-lay permanent water supply - provided within target
W30.1	Self-lay plot references and costing details - issued within target

Table 4 – Developer Services (water) metric identifiers and titles recommended for inclusion in the quantitative assessment for D-MeX.

Metric ID (Developer Services Sewerage)	Metric title
S1.1	Pre-development enquiry – reports issued within target
S3.1	Sewer requisition design – offers issued within target

Metric ID (Developer Services Sewerage)	Metric title
S4.1	Sewer requisition – constructed and commissioned within agreed extension
S7.1	Adoption legal agreement – draft agreements issued within target

Table 5 – Developer Services (sewerage) metric identifiers and titles recommended for inclusion in the quantitative assessment for D-MeX.

Metric ID (NAV)	Metric title
WN1.1	Percentage of confirmations issued to the applicant within target period
WN2.2	Percentage of bulk supply offer letters issued to the applicant within the target period
WN4.1	Percentage of main laying schemes constructed and commissioned within the target period
WN4.2	Percentage of testing supplies provided within the target period
WN4.3	Percentage of permanent supplies made available within the target period
SN4.1	Percentage of main laying schemes constructed and commissioned within the target period
SN2.2	Percentage of bulk discharge offer letters issued to the applicant within the target period

Table 6 – NAV metric identifiers and titles recommended for inclusion in the quantitative assessment for D-MeX.