



BRISTOL
WATER

Bristol Water's response to Ofwat's Draft determination of Bristol Water's in- period outcome delivery incentives for 2020-21

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1. Background

On 5th October 2021 Ofwat published its draft determination of Bristol Water's in-period outcome delivery incentives for 2020-21. We are content with the draft determination with the exception of the in-period ODI for mains repairs.

In Ofwat's draft determination there was an increase in Bristol Water's underperformance payments in relation to our mains repairs performance commitment by £0.164m.

Ofwat stated that this was because "the company confirmed, in response to our query BRL_APR_IP_005, that it has not included repairs on repairs to the main within its reported performance in its APR. Bristol Water's reported performance was based on a misinterpretation of its mains repairs (PR19AFW_W-D4) performance commitment definition. The definition incorporates our reporting guidance on mains repairs, which is clear that repairs on repairs to the main should be included in the reported performance. Our intervention increases the company's underperformance payment for this performance commitment from £0.068m to £0.232m."

In our view, the draft determination is inconsistent with the performance commitment definition. Although we recognise that on reflection it is subject to interpretation, we retain our view that we were correct to exclude 28 repair activities that were not further repair work on the main, but were adjustments to the fitting of the ancillary clamp that had previously been used to repair the main, e.g. bolt tightening. In these cases there were no secondary burst that caused customer supply interruption risks, merely proactive leakage monitoring that identified that clamp bolts needed tightening (the clamp being an ancillary used to repair the main previously). This activity fundamentally is not indicative of a worsening of the condition of the main following repair, and therefore an indication of the mains asset health. In these cases, further tightening of collars or bolts is required, as the repair crews are working in extreme conditions trying to fit a repair collar / clamp onto the leaking main and carrying out this work sometimes under positive pressure to minimise impact on supply interruptions and Water Quality risks. This will occasionally result in the retightening of bolts at a later stage. The definition does not refer to whether additional excavation is required in order to tighten bolts on ancillary clamps.



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“Once the main is recharged, and customers are back in supply, then if there is a new incident it is counted as a separate repair. If there is a secondary burst not at the point at where the repair took place during the recharge, then it should be captured as a separate reported burst.”

To clarify, in our response to Ofwat's query BRL_APR_IP_005 we explained why there was a total of 28 “repairs on repairs” (to use Ofwat's language) excluded from our reported performance, which, equated to 4.1 mains repairs per 1000km. We also said that if our Mains Repairs common PC included repairs on existing repairs to the main then our performance for 2020/21 would be 154.2 Mains Repairs per 1000km (not 150.1 as reported in our Annual Performance Report). But we also explained why we had excluded these repairs for 2020/21:

- In the repairs reporting guidance it states: “Any work that is not undertaken on the main e.g. solely on a ferrule, hydrant or valve and clamps associated with these ancillaries, which does not involve a repair on the main shall be excluded. Clamps used to repair the main shall be included”.¹
- For the repairs in question, our view was that the mains did not require a second repair, or a clamp being used to repair the main; these activities related to, for example, tightening bolts on a previous repair.

We have followed our method statement that has been assessed as compliant with the methodology. In answering the query we had not anticipated that “repairs on repairs” would be interpreted more widely than us confirming the excluded items were not second repairs to the main itself rather than adjustments to the ancillary clamp, and therefore we believe according to the precise wording of the definition, were correctly excluded items. We recognise that Ofwat may consider that tightening bolts on a clamp is included because this is a clamp used to repair the main – however we believe this does not reflect the wording and intention of the rest of the definition – the condition of the main is not being repaired, and there is not a secondary burst, where the activity is tightening bolts on a clamp.

We would ask Ofwat to consider the very narrow and clear circumstances before making the final in-period ODI determination, and consider whether tightening bolts on a clamp reflects a second repair to the main when it is not associated with a burst or supply interruption in the way we have described above.

We discussed this matter with Turner & Townsend, our technical assurers, who had considered the approach as part of their original assurance activities. They

¹ [Reporting guidance – Mains repairs per 1,000km](#)



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considered that the guidance is currently open to interpretation, because of the nature of this activity. We therefore flag up this issue for your consideration and will then follow the clarification for future reporting.

2. Resubmission

This resubmission relates to our mains repairs performance and associated ODI. If Ofwat decide on reflection that our interpretation was reasonable given the mains repair definition and the activity concerned, the impact is as shown in the table below

Submission of mains repairs performance commitment	Total number of repairs	Repairs per 1,000km of mains	Outcome delivery incentive (ODI) £m
Annual Performance Report 2020/21	1,036	150.1	-0.068
Ofwat's Draft determination of Bristol Water's in-period outcome delivery incentives for 2020-21	1,064	154.2	-0.232

Applying this revised figure to the in-period adjustment calculations produced a K for Water Network+ of 1.56% compared to the 1.31% stated in the draft determination.

We include with our response updated in period determination files that correlate with this response:

1. ODI performance model incorporating proposed revised Mains Repairs figure
2. In-period adjustment model incorporating proposed revised ODI penalty

3. Inflation rate assumption



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We note in the draft determination that the calculations of K factors within the in-period adjustment model require a forecast of the November CPI(H) inflation figure to be applied to 22/23 revenue allowances. Ofwat has used a forecast of 2.97%, which may be below the actual level when the CPI(H) figure is published. We used a slightly higher forecast of 3.2% based on CPI forecasts for Q4 2021 collated and published by the Treasury² in August in our indicative tariff calculations, with the trend suggesting the outturn figure may be even higher – the Bank of England suggests CPI may rise to up to 4%³ in Q4 2021. If a higher inflation figure is used this results in higher Ks than shown in the draft determination models. It may be helpful for Ofwat to clarify the inflation assumption used in the final decision, and how any difference is adjusted (which we think is through the eventual RFI model).

²

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1013260/Forecast_August_2021.pdf

³ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/august/monetary-policy-report-august-2021.pdf>