

Outcomes Working Group

September 2021



Agenda: 16 September

Aim: To understand if there is a consensus on what the common performance commitments should be in future price reviews. To decide on actions required to progress.

- 10:00 Introductions and background
- 10:05 Presentation on selecting performance commitments and direct service to customers - Ofwat
- 10.15 Breakout session 1: Direct service to customers
- 10.30 Presentation on Outcomes – South West Water
- 10.40 Presentation on Biodiversity – Wessex Water
- 10:50 Breakout session 2: Biodiversity
- 11:05 Presentation on Environmental compliance and river/bathing water quality – Wessex Water
- 11:15 Breakout session 3: Environmental compliance and river/bathing water quality
- 11.30 Feedback and discussion from all breakout sessions
- 11.55 Conclusions
- 12:00 Close



Draft Agenda: 14 October

Aim: To understand if there is a consensus on what the common performance commitments should be in future price reviews. To decide on actions required to progress.

- 10:00 Introductions and background
- 10.05 Discussion on progress from 16 September meeting
- 10:25 Presentation: Carbon (note will follow meeting on XX)
- 10.35 Breakout session 1: Carbon
- 10.50 Presentations on Abstraction/leakage/demand
- 11:10 Breakout session 2: Abstraction
- 11:30 Feedback and discussion from all breakout sessions
- 11.55 Conclusions and look ahead
- 12:00 Close



Consultation responses

Heard	Qualification from some	Dissent to this view
Almost all actively support focusing PCs on enduring outcomes to customers.		
Most agree that the overall number of PCs should reduce and that common PCs could replace multiple similar bespoke PCs.	<p>...need to have bespoke PCs where they cover company specific issues.</p> <p>...companies concerned whether they have control over some PCs.</p>	Importance of companies owning customer relationship means we should not have common PCs.
Of those that addressed it, most agree that performance commitments should be financial and none strongly against.	...not covered (positively or negatively) in many responses...	
Most agree with renaming scheme specific PCs as price control deliverables (PCDs)	<p>...need to be set in an outcomes way as possible.</p> <p>...need to focus on material outputs.</p> <p>...need more detail.</p>	
Most companies have concerns over one or more of the PR19 asset health PCs	...its important for Boards to be focused on asset health issues and so PCs can be useful.	

Responses on specific PCs

While we did not for specific responses on PCs, a number of stakeholders provided their thoughts. We have collated views where responses referred to specific common PCs. Please note that responses were not necessarily intended to be comprehensive. The absence of support for a specific PC does not necessarily mean this is representative of views.

This only includes responses where views were focused on specific common PCs. For instance, Sustainability First suggested we set broad common long term outcomes and bespoke approaches to short term delivery. Tideway raised the importance of bespoke PCs for large scale infrastructure.

Performance Commitment	Positive	Some concerns	Negative
CMEX	3		1
DMEX	1		
Affordability	1		
CRI	4		
Water quality contacts	2		
ERI	1		
Average water supply interruptions	4		
Pressure	2		
Sustainable abstraction	1		
Distribution input	5		
Leakage	1	2	3
PCC		1	3
Water efficiency	1		
Non-household incentives	4		
Sewer flooding	5		
Carbon	5		
Pollution incidents	4		1
WWTW compliance	2		
Bioresources	1		
Storm overflows	2		
Bathing Waters			1
River quality	2		
Biodiversity	2		
Value	3		



Criteria

Drawing from Creating Tomorrow, Together and the responses we have had we are considering the following criteria.

Does it measure an important outcome of enduring interest to customers?

- Companies will have more confidence to invest for the long term, if they have greater regulatory **certainty over the long term**. Outcomes should be **stable** from one price control to the next, reflecting **enduring interests of customers**, although exact metrics may change.

Does it require and is it suitable for financial incentives?

- In some cases, a financial incentive may be limited in what it can achieve. This can be because it is hard to capture an outcome in a metric or set an appropriate expected level. We also need to consider the control and/or influence companies have over affecting metrics. **A metric must be able to be used to drive company behaviour in the right direction.**
- Not all important outcomes require financial incentives. These may not be required where: limited additional funding is required to improve; there are other financial impacts; or high reputational pressure is sufficient to provide incentives.

What would it add to the coverage of the overall package?

- PCs that add little to the overall **"coverage"** by the package of long term outcomes may not justify the additional resource by companies and Ofwat. The high number of PCs per company could dilute companies focus. The coverage of the package also needs to be balanced for both water and wastewater customers.

Can it be used to communicate with customers?

- The intent of PCs should be **clear to customers**, even if the metric is complicated. For example, CMEX is a relatively complex PC that few stakeholders understand how to calculate. But it (and SIM before it) provides clear information on the performance of water companies.



Customer PCs – discussion so far

January

- Internal Sewer Flooding
- External Sewer Flooding
- Potential for consequence data to combine these.

February

- Water supply interruptions
- [While pressure is important the numbers that have low pressure are small and so a common performance commitment is not necessary. This could be addressed by bespoke PCs if an issue for particular companies]

March

- Metrics should be reported in the same way for different regulators and any differences should be by design and for clear reasons.

We have not discussed customer satisfaction PCs such as C-MEX and D-MEX. We only have one year of “live” data, and it is too early to consider if changes are necessary. These do not need historical data to determine levels. We will explore the potential need for changes in the draft methodology next year.

Environmental PCs

Drivers for change	Potential new common performance commitments
Net zero embedded and operational carbon emissions in 2050;	Operational Carbon Embedded Carbon
Biodiversity requirements in Environment Bill	Biodiversity
Increasing the number of rivers with good ecological status from 14% currently to 75% of water bodies in England 'as soon as is practicable' and significant pressure to reduce frequency, volume and harm from storm overflows;	Storm Overflows PCs based on actual measurement



Thoughts on emerging PC package

We have provided some draft thoughts to stimulate debate on the potential package. It does not necessarily represent the views of Ofwat of what the common PCs should be.

Potential performance commitments	Annual Reporting
Water supply interruptions	
Internal AND External sewer flooding incidents (possibly combined using consequence data)	
CRI PLUS possibly Water quality contacts AND/OR ERI	
	Affordability/Vulnerability
	Water pressure
Biodiversity	
[Pollution incidents AND Treatment Works Compliance AND Storm overflows] AND/OR EPA	
Possibly Bathing water quality AND/OR River water quality	
[Leakage and PCC] OR Distribution Input AND/OR possibly Sustainable Abstraction	
Operational Carbon PLUS possibly Embedded Carbon	
Possible PC on monetarising wider environmental benefits	
<p>Satisfaction metrics such as CMEX and DMEX to be considered as part of draft methodology. Asset health and operational resilience metrics to be considered after customer and environment PCs, when we would be able to consider findings of UKWIRs Future Assets project.</p>	

Dark blue text – propose to use existing definition such as that used at PR19



Criteria and customer PCs

- Do you agree with the criteria? Yes/Mostly/No
- Which of the proposed customer common PCs do you agree with?
- Are there any that should not be common PCs?
- Are there any other PCs we should consider?

Proposed customer common PCs

Water supply interruptions

Internal **AND** External sewer flooding incidents

CRI **PLUS** possibly Water quality contacts **AND/OR** ERI

Discussion on CMEX at a later date



The background features a large, solid orange semi-circle on the left side. To the right, there are several overlapping light blue circles of varying sizes, creating a layered, abstract effect against a white background.

South West Water

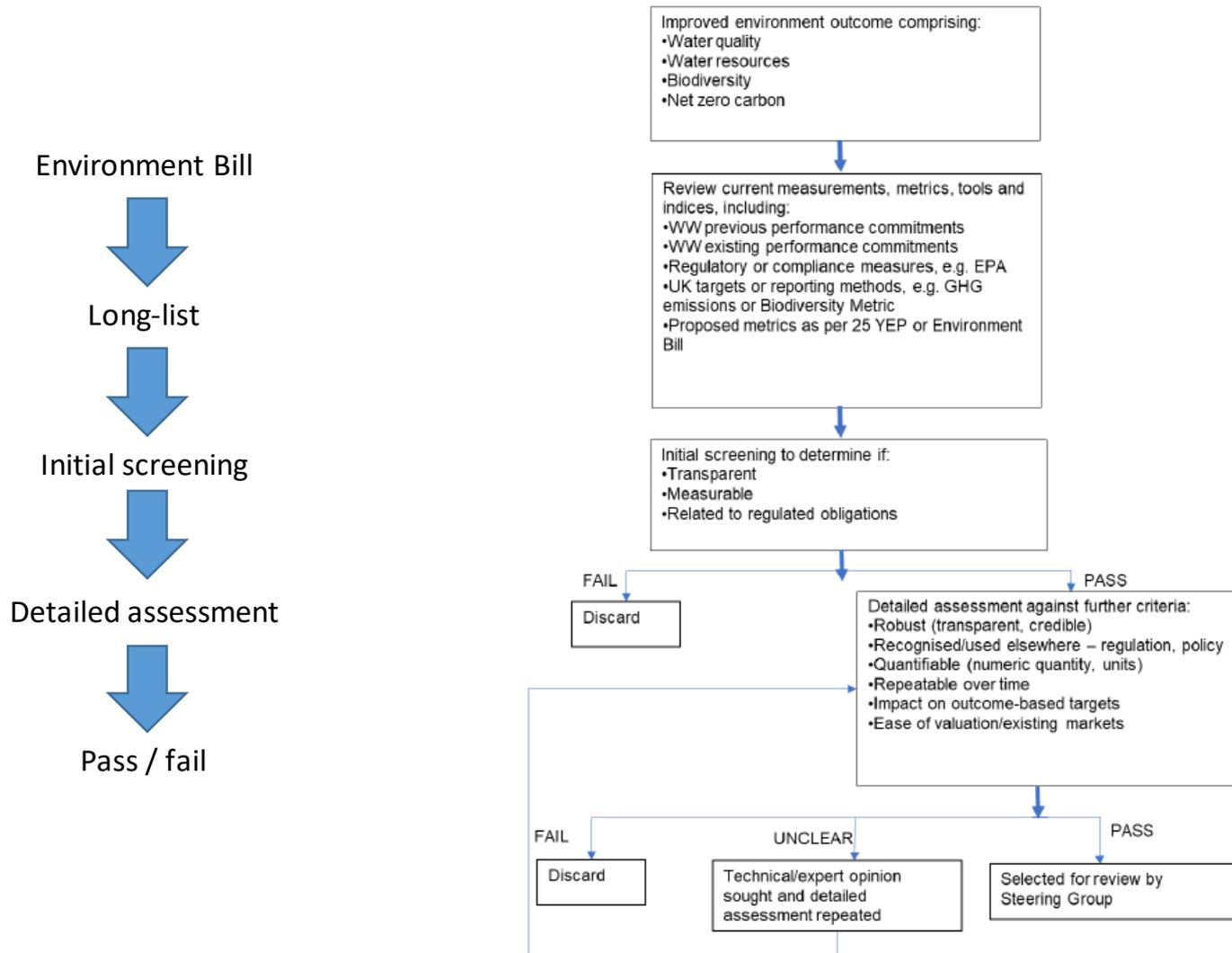
Biodiversity

Wessex Water

YTL GROUP



What is a good outcome?



How we arrived at a metric

- Started at “Improved environment” / “natural capital”
 - But, too broad and allows trade-offs
 - So, environment bill – water quality, water abstraction, carbon, biodiversity
- Then, look for a metric that is:
 - Transparent,
 - Measurable and verifiable,
 - Controllable,
 - Understandable,
 - Traceable

Defra already has a metric

- Defra biodiversity metric (note, 3.0 published in July)

Natural England has been working with Government and other stakeholders [...]. Biodiversity metric 2.0 can be used to calculate a biodiversity baseline and to forecast biodiversity losses and gains (on-site or off-site) resulting from development or land management changes.

The new Biodiversity Metric 3.0 will be the metric that underpins the Environment Bill's provisions for mandatory biodiversity net gain in England.

Source: Natural England

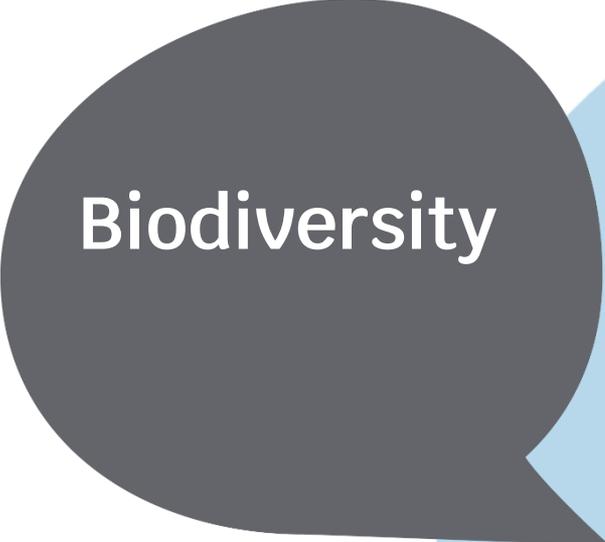
- Desk-based assessment possible with GIS import
 - Site-based assessment currently required by trained ecologist to accurately calculate biodiversity units
 - Some uncertainty exists
 - The more we do, the more information discovery we'll get
- Measured in indicative biodiversity units / hectare

Downloads available for this record

File	Uploaded
Biodiversity Metric 3.0 - Calculation Tool, XLSM, 3.9 MB	2021/07/09
Biodiversity Metric 3.0 - Calculation Tool (Macro Free), XLSX, 3.9 MB	2021/07/09
Biodiversity Metric 3.0 - habitat condition assessment sheets with instructions, XLSX, 236.3 KB	2021/07/07
Summary of Changes from Biodiversity Metric 2.0 to Metric 3.0, PDF, 202.7 KB	2021/07/07
Biodiversity Metric 3.0 - User Guide, PDF, 2.5 MB	2021/07/07
Biodiversity Metric 3.0 - Technical Supplement, PDF, 3.0 MB	2021/07/07
Biodiversity Metric 3.0 - Short User Guide, PDF, 1.1 MB	2021/07/06
Biodiversity Metric 3.0 GIS Data Standard, XLSX, 127.8 KB	2021/07/06
Biodiversity Metric 3.0 GIS Import Tool - Beta Test, XLSB, 4.6 MB	2021/07/06
Biodiversity Metric 3.0 QGIS Template and GIS Import Tool Guidance - Beta Test, PDF, 2.6 MB	2021/07/06
Biodiversity Metric 3.0 QGIS Template - Beta Test, ZIP, 634.9 KB	2021/07/06

We have baseline data and can set targets using the models

- At Wessex, we have detailed assessments of all our landholding
 - Can assess model accuracy against outturn results
- The models allow “profit/loss” calculations towards a target
 - Can understand impact on the baseline of options
- Options appraisal can be carried out against all targets holistically
 - i.e. what is the most efficient way to deliver all customer and environmental outcomes using our set of potential interventions?



Biodiversity

- 
- Do you support a common PC?
 - What steps would be needed to progress
 - What is the immediate next step(s)?



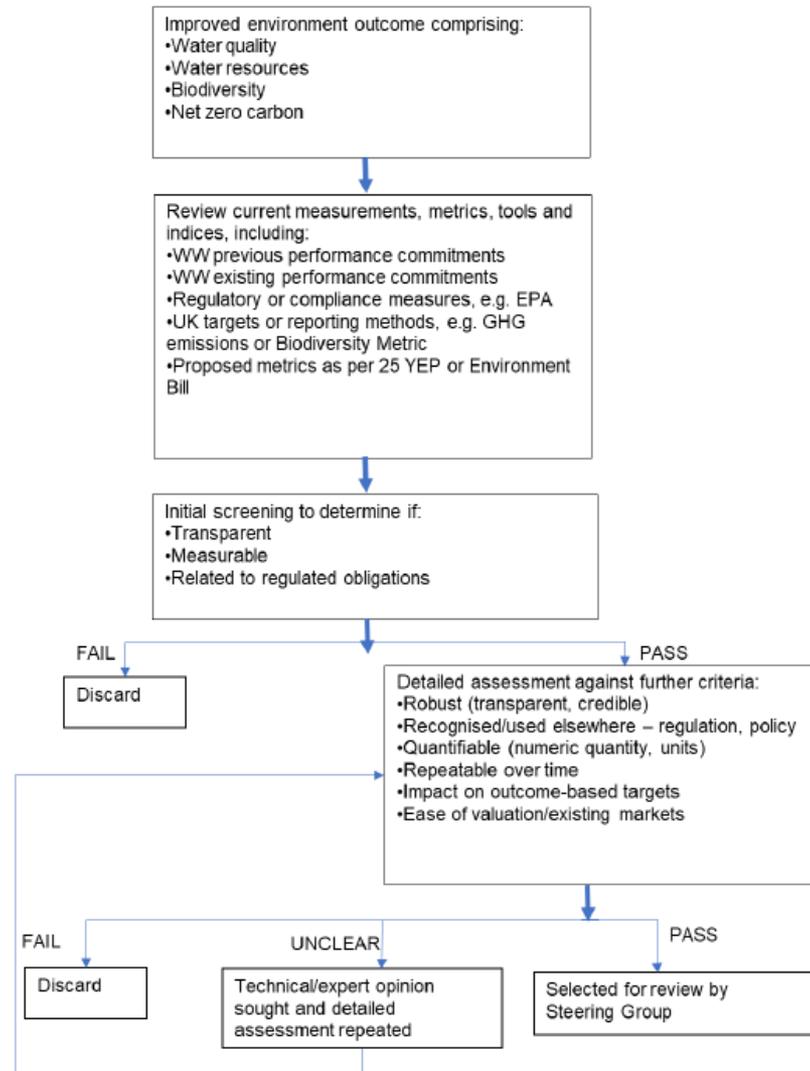
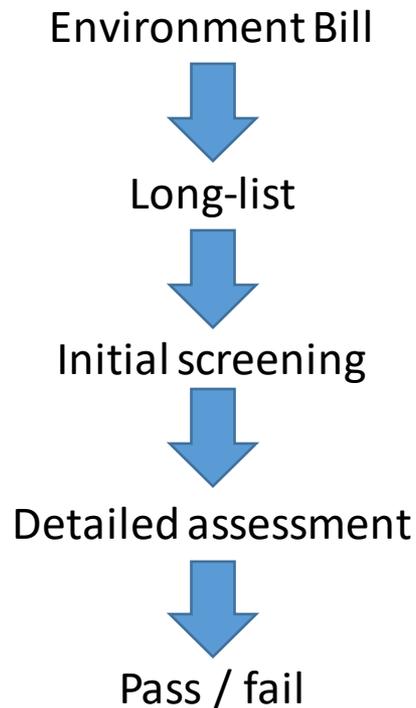
Water quality outcome

Wessex Water

YTL GROUP

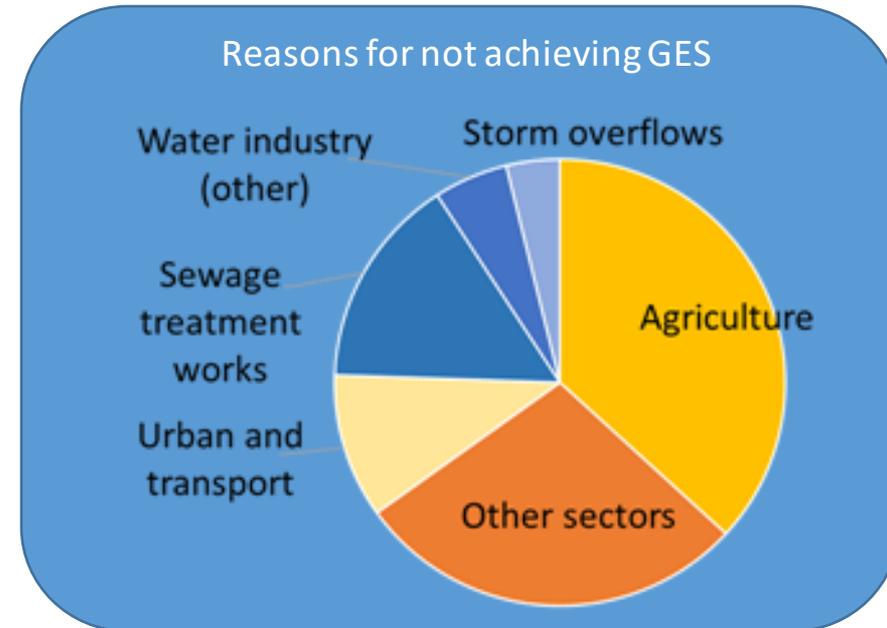


What is a good environmental outcome?



How we arrived at the outcome and metrics

- Started at “Improved environment” / “natural capital”
 - But, too broad and allows trade-offs
 - So, environment bill – water quality, water abstraction, carbon, biodiversity
- So, GES – but 83 parameters and not controllable or apportionable
 - e.g., PFAS, mercury
 - Reasons for not achieving GES mostly not water sector
 - Target 75% GES, current 13% (new parameters added)



P and N are the appropriate sub-outcomes

- So, P and N (sub-outcomes, rather than outputs):
 - Transparent,
 - Measurable and verifiable,
 - Controllable,
 - Understandable,
 - Traceable,
 - Directly required (necessary) to meet the highest-level outcome (as opposed to leakage, which is not necessary to meet the outcome of sustainable abstraction)

Does this work and what are the risks?

- Commonly measured as concentration (mg/l) in final effluent and converted to load in a catchment (tonnes)
- Can use modelling (SAGIS) to determine relative contributions in the catchment (source apportionment)
- Reducing load at treatment works using asset solutions is well trodden
- Load using C&NBS is also well evidenced but with wider uncertainty (around efficacy and immediacy of outcome)
- Measurement should be on solutions delivered (rather than, for example, at the end of the river)
 - Ensures we account for actions taken by water companies

So what next?

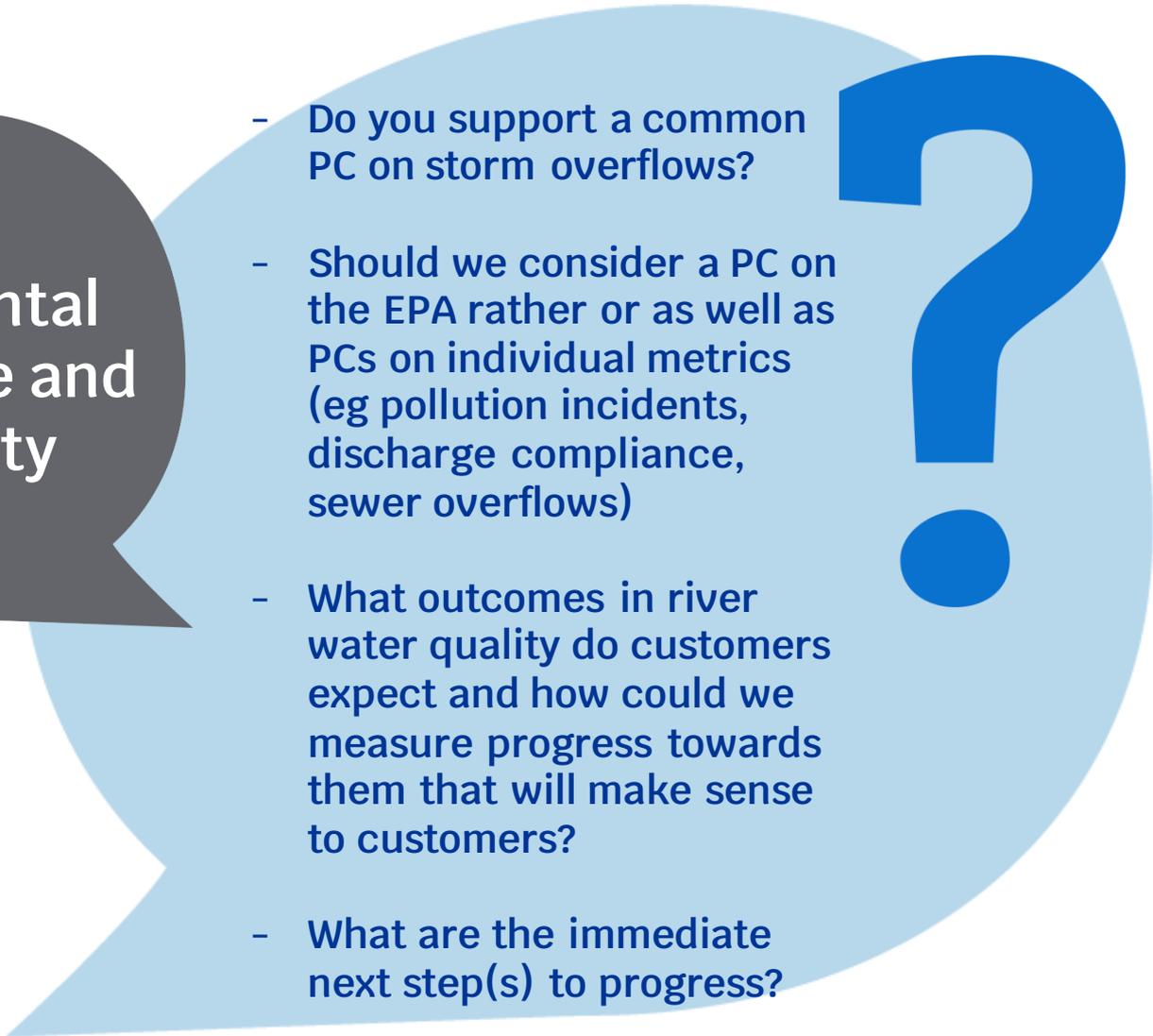
- The uncertainty around C&NBS efficacy will reduce in line with the speed at which more is rolled out
- Uncertainty is acknowledged and acceptable
 - It is two-sided uncertainty
 - Revise the estimates as we discover more information

Key points

1. Outcome based regulation must include water quality (rather than being a set of statutory outputs)
2. As WINEP suggests, align outcomes and targets to 25YEP / Environment Bill
3. Ensure outcomes are controllable, traceable, etc.
4. Stop before you get to outputs or we risk perverse incentives
5. Set targets at a catchment scale
6. Get the incentives right (cost, performance, risk/return)



Environmental Compliance and water quality

- 
- Do you support a common PC on storm overflows?
 - Should we consider a PC on the EPA rather or as well as PCs on individual metrics (eg pollution incidents, discharge compliance, sewer overflows)
 - What outcomes in river water quality do customers expect and how could we measure progress towards them that will make sense to customers?
 - What are the immediate next step(s) to progress?



Look ahead

We suggest the following draft dates and subjects, although this is subject to change.

16 September	Customer and Environment common PCs (part 1)
14 October	Customer and Environment common PCs (part 2)
November	ODIs
December	TBC
January	ODIs
February	Measuring outcome risk – options
March	Caps and collars