

# Outcomes Working Group – Asset health PCs

May 2021



# Context

There are a number of ongoing projects considering issues related to the agenda we are discussing today including

- Ofwat's Asset Management Maturity Assessment
- UKWIRs Future Assets

The main objective of the session is to assess if there are any clear and obvious changes or developments to asset health metrics and put in place any actions we need to pursue that are not already in train.



# Outcomes Working Group

- Outcome of the session is to identify potential changes common definitions to have time to consider further and start to report on an informal basis.
- Decisions on whether there should be changes at PR24 will be subject to further discussion and consultation, taking full account of the respective SPS of the Welsh Government and Defra.

10:00 Introductions

10:10 Breakout session 1:

What role should the outcomes framework play in securing that companies have a strong focus on asset health and operational resilience?

10.30 Feedback

10:40 Breakout session 2:

How can we improve asset health metrics?


11.20 Feedback

11.40 Conclusions and actions

11.50 Look ahead

12:00 Close





What role should the outcomes framework play in securing that companies have a strong focus on asset health and operational resilience?

# Why should Ofwat focus on asset health and operational resilience?

Securing resilient water and wastewater services is a key aspect of our strategic goals to transform companies' performance, and ensure companies can meet the long-term challenges the sector faces. Resilience is also central to all of our duties, a priority in the strategic policy statements of both UK and Welsh Governments as well as being central to how water companies fulfil their statutory obligations.

There are potentially different, although sometimes overlapping, reasons that we might focus on asset health and operational resilience.

- To secure that companies' general duties (S37, S94) to "maintain" assets are carried out.
- To secure that companies' assets are able to provide day to day service for customers and the environment.
- To secure that assets are being maintained as part of managing low probability, high consequence risks.
- To secure that there is not a detriment to future customers from higher bills and/or worse service.



# Potential tools

There are a range of tools that we could use in isolation or combination to secure appropriate levels of asset health and operational resilience. Some are:

- Internal requirements on companies (eg, Board sign off, plans, internal monitoring)
- Companies reporting metrics publically
- Companies reporting near hits (either to regulators or publically)
- Setting defined expectations in advance (Could be on process and/or targets)
- Incentives set ex ante (financial or reputational) (cf PR14 and PR19). Could be directly focused on asset health metrics or expect asset health will be maintained as a consequence of broader incentives.
- Understanding how companies are managing assets and sharing good practice
- Ex post assessment of companies
- Incentives that are set ex post (financial or reputational) (cf elements of PR09)
- Enforcement action

**In combination with other tools we consider that the Outcomes framework plays an important role.**



## Breakout discussion 1

Do you have any comments on the four reasons given of why Ofwat needs to have a focus on asset health and operational resilience?

What role should the outcomes framework play in securing that companies have a strong focus on asset health and operational resilience?





# Improving asset health metrics



# Metrics

We can attempt to record information on asset health and operational resilience in different ways as has been shown by the metrics shared in response to question 3.1 of the Asset Management Maturity Assessment Questionnaire:

- Number of asset failures
- Consequence of asset failures
- Granular information on asset failure (asset type/cause of failure)
- Near hits (near misses)
- Condition/age of assets
- Modelled risk
- Activity (inspection, maintenance, renewal or replacement)
- Combinations of the above

**Some metrics may be suitable for incentives, others may only be suitable to inform monitoring of asset health and/or operational resilience**



How could the asset health metrics be improved?

For each of the four asset health performance commitments:

- Treatment Works Compliance
- Sewer Collapses
- Unplanned outage
- Mains repairs

What is the **harm or potential harm** to customers or the environment from **performing poorly** against the metric?

Is there any **potential harm** to customers or the environment from a company **improving “too much”** against the metric, other than the costs of carrying out “too much” maintenance/asset replacement/operational response?

Are there any **improvements** to the PR19 definition or **alternative metrics** that could be used that could better mitigate the potential harm to customers?



## Look ahead

We consider that the Outcomes Working Group has been a useful forum and propose it should continue. We suggest potential draft dates and subjects, although these may change.

<b>24 June</b>	Discussion on May publication
<b>15 July</b>	Environmental metrics
<b>September</b>	Package of common PCs
<b>October</b>	TBC
<b>November</b>	ODIs and innovation
<b>December</b>	TBC
<b>January</b>	Setting ODI rates
<b>February</b>	Measuring outcome risk – options
<b>March</b>	Caps and collars