

Outcomes Working Group on drinking water quality and the environment

Overlap in metrics used by regulators

- The main benefit of regulators having overlaps in the metrics that they use is that they can increase incentives on important areas through both increased financial incentive and scrutiny. In addition, it could lead to having a single version of the truth.
- Challenges and opportunities relate to how regulators work together:
 - Should consider the outcomes for customers we are trying to achieve when selecting PCs and be willing to change metrics as our understanding develops.
 - Make sure definitions are exactly aligned as small differences lead to different numbers that cause confusion.
 - Potential for double jeopardy and need to consider this in setting incentives to avoid it, considering where regulatory incentives and statutory penalties potentially overlap and where these are complimentary.
 - Join up on language, one regulator might praise improvement in a metric, and another might term it a failure because of a small miss. Larger risk where metric is for 100% compliance.
 - Need to work to align timetables on reporting metrics.
 - PCs are inflexible and so it is important to only include metrics that other regulators do not intend to substantially change within the price review period.

Evolving incentives to deliver multiple benefits

- Should be an evolution and will take time to get it right.
- Need to be able to discuss risks and consider flexibility and a tolerance for failure in order to innovate.
- Most systems are set up for single agencies and need to evolve to allow multiple agency models.
- What should be done within the water company regulated business? There needs to be a clear line of sight from what customers want companies to deliver as part of their statutory duties, to how CBA is conducted and how incentives are specified.

- Should focus on outcomes not outputs.
- Agreement we need better metrics to incentivise natural and possibly social capital improvements.
- Metrics are difficult to specify, including that benefits may accrue over time.
- Should metrics attempt to measure absolute levels across companies or differences made by projects?

Actions

- To keep under review how regulators can best work together in setting PCs and ODIs in the run up to PR24.
- There was a consensus of the need to develop further metrics to measure natural and possibly social capital improvements, which we will consider at a future working group.