

Summary of Outcomes Working Group – PR24 and beyond: Creating tomorrow, together

What outcomes require financial incentives for all companies for the foreseeable future?

- Generally welcome splitting outcomes/PCs by theme.
- We are not starting from a blank piece of paper, have a good start and general agreement on the core aspects
- Current 15 PCs provides good coverage. DWI suggested that ERI could be included as well as CRI.
- Most work is required on Environmental and Asset Health/Operational Resilience factors.
- Further opportunities to simplify the framework suggested e.g., to merge leakage and PCC, remove compliance measures like CRI, remove conflict between mains repairs and leakage.
- It should be built around long-term government aims.
- There are likely to be some competing views in some areas.

Would it help to distinguish between PCs that monitor outcomes and PCDs that monitor outputs?

- Most considered that this was a helpful step, although some thought a further category risked complication. Some expressed a view that these could still have an outcomes focus, specifying what the investment should achieve rather than technology.
- We need to consider how these are structured, including if there are factors outside company control that need to be accounted for.
- Could PCDs be multi period and how would that work?
- We should learn lessons from Ofgem in terms of how these are set.
- Is the name right? – companies should not be compelled to deliver if it turns out new information means that a PCD is no longer the right thing.

Would providing our views on comparable aspects of companies' plans, in advance of business plan submission, streamline the price review process?

- Yes, the avoidance of companies second guesses will help to streamline the process.
- Need to consider interactions between PCs (Leakage, mains repairs, PCC and metering)
- Consider that some aspects such as metering need a clear long-term strategy.
- Some consider that ODI rates should be symmetrical.

- Helpful to have indicative views as long as these do not become entrenched and that companies can make adjustment claims.
- Need to avoid providing overall benchmarks that are for a perfect company and not realistic for any company.
- Need this information before Board signs off on plans.
- Clarity on costs is important as well as clarity on PCLs.

What clarity could Ofwat provide over the long-term regulatory framework that would have most impact on companies making investment decisions that are best value in the long term?

- General welcome of any clarity that can be provided.
- View that it would be helpful to have a long-term vision for the sector.
- As with previous question, views should be indicative and open to change, and customers should not be shut out of the process.
- One company disagreed with the suggestion that some ODIs could be contingent on future performance and suggested that it would be better for this to be dealt with by underperformance payments on the performance at the time as opposed to affecting out performance payments for earlier performance.

Timetable - what do we need to do on outcomes by when to reach PR24?

- Information on initial PCLs would ideally be a year before business plan submission and would be counterproductive if a couple of months before business plan submission. Some expected business plans to be largely settled by 2023. Publishing information alongside the final methodology was suggested.
- Other views noted the need to balance providing “good” initial views with providing certainty earlier.
- Interactions with any national research will be key.
- Also need to plan in “pauses” to allow conversations with CCG type bodies where these exist
- Guidance for bespoke PCs will be needed to be flexible and not straight jacket companies. Less clear when this should be as it will need to follow decisions on the package of common PCs. Also, a potential interaction between guidance on PCDs and bespoke PCs.
- View that early submission is potentially helpful but should not be mandatory.
- Need to look at timings with WRMPs so that expectations in WRMPs and BPs are aligned
- Need to build in opportunities for dialogue between companies and Ofwat on methodology and long-term strategies.
- Any targeted challenges should be made clear as soon as possible
- Shadow reporting should be put in place for any revised reporting.