Thursday 13 January 2022
10.00 am to 12.00 am

Summary of discussion at January 2022 Outcomes Working Group

Options to determine ODI rates with no direct customer evidence

- Most stakeholders considered that where possible marginal benefits should be used to calculate outcome delivery incentive (ODI) rates. Some stakeholders said it was possible to make links between asset health and customer-facing performance commitments (PCs) as an estimate of marginal benefits. There is evidence that customers value good asset health. One stakeholder suggested developing a common methodology across industry to understand the impact of an asset health incident on customer-facing metrics.
- Others considered that there can be difficulties in estimating marginal benefits for asset health and so other approaches would be required.
- Some stakeholders were attracted by the simplicity of a top-down approach. Some noted that decisions on the incentive range would lead to further divergences between companies in terms of unit rates, if the performance range that incentive rates applied to differed between companies. In addition, if the top-down approach relied on allocating Return on Regulatory Equity (RoRE), it would lead to companies with larger RCVs having greater incentives. Some considered that potential divergences in unit rates for these reasons was a negative consequence of the top-down approach. Others considered it appropriate if it led to all companies facing a similar level of financial risk. A further point made was that whichever approach is selected there is still a need to understand what risks companies face. Some considered a customer survey to understand how customers would allocate incentives could be useful whether a top-down approach was used or not.
- Approaches based on costs received less support, although some still consider that this might be useful. A number of stakeholders considered it was important to collect information on costs regardless, so that the cost/service link could be understood. The main issues raised with collecting marginal cost information were that there is unlikely to be a clear one-to-one relationship between cost and benefits. There can be different benefits from any action and a number of possible actions with very different cost profiles to deliver some benefits. It is therefore not clear how consistent information could be collected, although some consider it is important to try to do this.
- Further views included that the different approaches could be used together and were not exclusive and that we may need to be pragmatic such as, if there is already a unit rate that appears to be driving appropriate action in companies it may be appropriate to continue using the same rate, especially if it is difficult to use any of the above approaches to calculate a new rate.
- The meeting also considered that there may be other approaches for asset health than PCs/ODIs and suggestions included defining PCDs such as the length of mains replacements, developing a risk metric such as Ofgem has done and continuing to shine a light on asset management including identifying good practice such as Ofwat's asset management maturity assessment (AMMA).

These options were not discussed in detail, and none necessarily have wide support as alternatives to PCs/ODIs, in particular Ofgem's risk metric was not considered appropriate by some.