

PR24 draft methodology webinar: Business plan incentives – questions and answers

13 July 2022

1. Will the assessment of quality relate to business plans only eg will factors outside of the business plans not be considered?

The minimum expectations for the quality assessment are specified in our draft methodology. We have specified in our methodology the factors outside of the forward-looking plan we propose to take into consideration. For example, we will take account of past performance when we assess cost and service levels, and consider whether proposals are credible.

2. Will customer support be necessary as part of the ambition assessment?

Our methodology specifies where we expect to see customer support. For example, in our cost assessment that feeds into our ambition assessment, we will be looking at how customer research supports proposals, which means this consideration is inherent.

3. Could companies with an otherwise ambitious plan not pass the quality assessment due to not accepting Ofwat's estimates on WACC, cost assessment, performance commitments or ODI rates?

Some of the minimum expectations in our draft methodology expect companies to use the assumptions we will specify, ie in relation to the allowed return and outcome delivery incentive rates. Different views will need to be justified by compelling evidence, by which we mean there will be a very high bar.

4. Can Ofwat provide further guidance in relation to its requirement for two business plan submissions in relation to the single social tariff. For example, what should these plans contain/look like so that we can judge if we are submitting quality plans. For example, there is very little information on the tariff design at the moment. And in the version with no single social tariff, do we therefore need to redo all our support tariff designs and research just in case?

This is a good question and one we will need to come back to, as policy work led by Defra and Welsh Government on a single social tariff develops, potentially in the final methodology that is due by the end of the year.

5. Could you clarify how credibility is considered as part of ambition and how that links to the non-assessed APD, for example in relation to gateway tests?

Our assessment of quality will not include past delivery. But this will be an inherent part of our assessment under ambition for cost-service stretch.

6. Will you be allocating any weighting to the different elements of the quality assessment and ambition assessment? eg costs vs performance commitments etc?

We will be carrying out the quality assessment in the round to encourage companies to push themselves to meet our minimum expectations. In order for their proposals on enhancing affordability to be recognised, companies must propose stretching service levels and at an efficient cost.

7. How will base cost allowances for company plans deemed high quality be protected? For example, will companies get what they ask for and/or be exempt from catch-up?

Our intention is that the draft determination base cost allowance would be the minimum companies should expect in their final determination. Consequently, we do believe that companies assessed as outstanding will be exempt from an extra cost challenge in the final determination compared to draft determination.

8. Will you be defining what the boundaries between the categorisations are with respect to service / costs (ie gap between company and Ofwat views)?

No, this would undermine our objective for companies to provide their most ambitious plan. However, we have been clear about our expectations of quality through our minimum expectations and the categorisation companies will receive if they fail to meet these in the round.

9. Could you elaborate on your expectations for how companies should communicate the outcome of your assessment to stakeholders?

We would like companies to make the BPI classification easily accessible. So we are requesting that they put that on things like APRs and websites to the extent that they are able to. The methodology doesn't comment on whether there would be any consequences for not doing so. We have yet to consider what we will do if companies do not communicate it to our satisfaction.

10. Would companies classed as Standard on the BPI tests be required to resubmit all or specific parts of their plan? If so, what would be the timeline for resubmission?

We have condensed our process into two stages – draft and final – and eliminated an initial submission for BPIs assessment. We are yet to consider the process for resubmission between draft and final, but as our straplines associated with each plan suggest changes required of the plan will be proportionate to our assessment of its quality or ambition.

11. How long will companies be expected to communicate their BPI assessment on their APRs and/or website?

At least until PR24 final determinations. And they might wish to declare it for longer if they have done particularly well.

12. Consolidating 3 stages into 2 (removing IAP) could potentially create lots of opportunities for misunderstanding, that might be resolved through dialogue and debate – are there plans to do more of this instead?

We have yet to confirm our engagement strategy. But there is more time between draft and final determination for PR24 than PR19, some of which could be spent doing the engagement you describe.

13. In the PR24 assessment criteria, the ambition of the long-term delivery strategy (LTDS) is not being considered. Will the ambition of long-term strategy be considered in comparison to other companies, or will they be assessed solely on quality?

LTDS will only be assessed for quality, not ambition.

Postscript: Our ambition assessment focuses on companies' proposals for 2025–30. The scope of our PR24 ambition assessment is limited to costs, outcome delivery and customer affordability and acceptability. Costs, outcome delivery and customer affordability and acceptability are expected to be impacted and informed by long-term delivery strategies.

14. Will you be sharing responses to questions with all companies?

Yes, our answers to clarifying questions will be published on our website.