

## Appendix A

### Welsh Water feedback to Ofwat on PR24 Common Performance Commitments - measures and definitions

7 September 2022

Common Performance Commitment	General feedback on measure	Feedback on definition
CSO spills	<p>As noted in our main response:</p> <p>As discussed at the PR24 Forum, and as noted by Ofwat in the consultation documents, this measure is not appropriate in Wales, where the focus of the Better River Quality Taskforce is on reducing the overall harm from spills, rather than reducing the absolute number. This means that companies should target investment on assets that are causing most harm, rather simply targeting those that spill most frequently. Efforts are also directed at all the causes of poor river water quality, not just storm overflows. We will be already working with Ofwat, NRW and other stakeholders to propose an alternative measure that appropriately incentivises progress in line with the approach being followed.</p>	N/A
River water quality	<p>As noted in our main response:</p> <p>This measure is appropriate to the policy context in England, where the UK government has consulted on a statutory target for water companies to reduce phosphorous loadings. Ofwat acknowledges in Appendix 6 that the policy context is different in Wales, and is right that the Welsh Government also wants to see improvements in river water quality. However we believe this is best achieved by looking at a wider range of elements that contribute to river water quality and the impacts on the environment, rather than focusing solely on phosphorous (P) removal. We have a current (PR19) measure on 'kilometres of river improved' which monitors the implementation of measures set out in the NEP and WINEP to make contributions within company control to improvements</p>	N/A

	<p>in river health and aesthetics. We would propose to retain this as the the common River Water Quality measure for 'Welsh' companies. We would welcome a discussion on this at the PR24 Forum.</p> <p>Should the option of a P reduction measure be favoured instead, notwithstanding the above, it should reflect the company's "Fair Share" level of removal of P achieved from all interventions, based on the modelling of SAC rivers in Wales, and in line with the proposed policy for the Habitats Review of Permits that NRW plans to carry out in the coming months. Our understanding is that NRW are not minded to follow the EA's "non Uniform" revised policy in which water companies would have to remove 80% of P discharges compared to a 2020 baseline. Our proposal would provide a target for load removed expressed against the element of environmental need DCWW is expected to deliver, under a 'Wales collaborative approach', and would be in line with our legal obligations. It would also allow us to pursue partnership approaches to establish the most beneficial approaches to reducing nutrients.</p>	
Bathing water quality	<p>We note that under any of the three options proposed, no distinction is made between poor bathing water quality caused by water company assets, and situations where third parties (principally septic tanks, agricultural run off and misconnections) are the cause of poor bathing water quality. This could incentivise companies to pay those who have control over these causes to take mitigating actions. While this would likely represent better 'value' than having to invest to make further improvements in water company assets to improve the quality of discharges from wastewater treatment works, for example, care would need to be taken to ensure it did not create perverse incentives for third parties.</p> <p>We have excellent bathing water quality at around 80% of designated bathing waters. Further improvements are likely to be very expensive , and may not represent good value. Where further improvements are required, these will be covered by the NEP. We are accountable for the</p>	N/A

	<p>benefits delivered by historic investment through compliance with the related permits. We are not convinced therefore that a measure to incentivise improvements in bathing water quality is necessary. That said, should Ofwat in any case wish to implement this measure, we set out our views on the different options for a measure under QA6.8 below.</p>	
<p>Pollution incidents and serious pollution incidents</p>	<p>We support a measure focused on reducing pollution but we are concerned that the normalising denominator (per 1,000km of sewers) is too simplistic and does not reflect the fact that the number of other wastewater assets such as sewerage pumping stations and treatment works also increases the number of pollutions. Using only length of sewer as the denominator skews the performance across companies and is not an accurate reflection of ‘true performance’. Since a common performance level is to be applied, with financial rewards and penalties, this matters. In addition, under the current approach, some companies are having to achieve better than average ‘true’ or ‘actual underlying’ performance on pollutions in order to be in line with the rest of the industry, while other companies are given an artificially ‘easy time’, and can deliver worse actual underlying performance. This is clearly not in the best interest of the environment. All companies should be judged on the best available ‘level playing field’.</p> <p>At PR19 we made the case for a different approach which takes account of the number of other assets, not just the length of sewers, as well as providing further evidence to support our case. The document can be found online <a href="#">here</a> – from page 23 onwards. Ofwat rejected our case, saying that the normalisation per km of sewer was what is used for the EPA by EA and NRW. While that is true, the EPA is not using the comparative measure for the same purpose as Ofwat. The common PC measure is used for comparing company performance specifically on pollution incidents, and uses it to apply financial rewards and penalties. On this basis, in our view, the measure should be fit for purpose, and our proposed alternative is a better measure for the purposes of comparing</p>	<p>N/A</p>

	and incentivising company performance. We would urge Ofwat to look again at this.	
External sewer flooding	<p>As noted in our main response, we are content with having a common measure here, but do not agree that all companies should be expected to achieve the same performance commitment level from base expenditure, for the following reasons:</p> <ul style="list-style-type: none"> <li>- There are no exclusions proposed in the measure for severe weather. Severe weather has a very significant impact on external sewer flooding. And severe weather occurs to a varying degree across companies. While this is also true for internal sewer flooding, the impact of internal sewer flooding is more serious for customers, and therefore there are cost beneficial investments that companies can and have made to mitigate the impact of hydraulic overload on internal sewer flooding. For external sewer flooding the impact is a great deal lower (in many cases customers are not directly affected at all), and the cost-benefit of investment that would be needed to reduce incidents further is negative. Companies have not therefore made the historic investments that would be have been needed to address the impacts of severe weather and achieve the same level of performance.</li> <li>- As a secondary point, companies take very different approaches to verifying external flooding incidents. Some companies only count incidents that are reported. Others will go and check neighbouring properties etc and count those as well. If there is to be a common performance commitment, Ofwat should ensure that all companies are reporting on the same basis in this and every other regard.</li> </ul>	<p>Please can clarity be provided around whether sewer flooding in car parks should be included or excluded from this measure.</p> <p>In Appendix 7 on page 58 section 2.9.1 it states: <i>“In the case of a flooding event affecting a multiple use area in the same ownership, such as an industrial park, retail park, hospital site, university site etc., it shall be counted as one incident. This includes sections of car parking (possibly termed overflow carparks) that are separated from the main carpark or a facility by a road.”</i></p> <p>However, on page 59 in section 2.9.3 specific exclusions it states: <i>“The following areas shall be excluded from the reported numbers:</i></p> <ul style="list-style-type: none"> <li>• ‘public’ open space; agricultural land; car parks including overflow carparks.”</li> </ul>
Biodiversity	We are in favour of having a measure on biodiversity. The details of the definition are yet to be finalised, but we note that the measurement	We have the following further observations on the definition:

	<p>tool, the Biodiversity 3.1 tool, is not likely to be applicable in Wales. We therefore will need a separately defined measure for Wales, using the appropriate assessment tool, which we understand is under consideration by NRW. The target, too, will need to take into account differences in legislation and policy approaches in Wales.</p>	<ul style="list-style-type: none"> <li>• In Appendix 6 on page 37 section 4.1.1 it states ‘measured by relevant experienced person with qualifications’. Could additional clarity be provided, for instance does this refer to external consultants or independent internal resource with the appropriate qualifications?</li> <li>• In Appendix 7 on page 62 section 3.1.1 we ask for additional clarity be provided on ‘<i>other land where habitat is improved</i>’. In addition, please could Ofwat explain the purpose of recording and reporting area, hedgerow and river separately, as this may result in duplication, potentially with two or more reports for one site.</li> </ul>
<p>Operational GHG emissions (water/ wastewater)</p>	<p>As noted in our main response: We support the introduction of a common measure to track companies’ progress in delivering reductions in operational GHG emissions, in the absence of a suitable and reliable measure at this stage to cover embedded emissions.</p> <p>Regarding the normalisation of the metrics, Ofwat proposes to use distribution input (for water), and volume of wastewater treated (for wastewater). We do not believe it is appropriate to normalise the tonnes of emissions using the volume of water distributed (for water) or treated (for wastewater). This is because the volume of emissions is only partially related to the water volume – the majority of emissions are a ‘baseload’. Normalising emissions based on water volume will complicate the comparisons across companies when there are (growing) variations in rainfall and other weather factors across the companies.</p> <p>What matters is the absolute reduction in GHG emissions, and only this absolute reduction will support the ‘Journey to Zero’. Our preference</p>	<p><b>Definition of ‘operational’</b> As noted in our main response we support the introduction of a common measure to track companies progress in delivering reductions in operational GHG emissions, in the absence of a suitable and reliable measure at this stage to cover embedded emissions. The terms ‘operational’ and ‘embedded’ are not however clearly enough defined to serve as a basis for the measures, and further detail will need to be included in the definition.</p> <p>We would suggest that for operational emissions, all Scope 1 and Scope 2 emissions are included, plus a subset of the Scope 3 emissions. This subset could be defined with reference to the CAW sub-categories, or (our preference) the Greenhouse Gas Protocol (GHGP) scope 3 sub-categories. For</p>

	<p>would therefore to report on a percentage reduction in operational GHG emissions against a suitable base year. This approach would align with externally recognised accreditation standards (such as the Carbon Trust and Science Based Target Initiative). We would propose to use 2019-20 as the base year. The importance of being able to compare and share performance transparently with external stakeholders and demonstrate alignment with the objectives set out in legislation is acknowledged in Appendix 7.</p> <p>This solution would work equally for water and wastewater companies, and therefore there may not be a need to have separate measures or targets for water and wastewater. The relevant metric for water and sewerage companies will be the total reduction in greenhouse gas emissions, so it would be sub-optimal to set separate targets for water and wastewater for WASCs.</p> <p><b>Market-based reporting</b></p> <p>The draft methodology does not clearly state if it will allow market based reporting in the performance commitment. It refers in the document to the consultation response from some companies that are not in favour of this, as it discourages the companies to reduce energy consumption and instead just switching to renewable energy sources. We are of the opinion that this is a simplistic view of the challenges that water companies are facing to reach net zero in a way that is cost effective for customers.</p> <p>Welsh Water’s net zero strategy uses the carbon mitigation hierarchy to drive and prioritise the appropriate decarbonisation steps (avoid, reduce, substitute, offset). The threshold for moving to the next level of the hierarchy should be driven by the marginal abatement cost of the reduction measure. If this exceeds an acceptable level, measures lower than in the hierarchy should be permitted to provide best value reductions.</p>	<p>the GHG protocol , the relevant sub-categories are sub-categories 3, 4, 5, 6, and 9.</p>
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	<p>There are limits to the reduction in energy use that can be accomplished without a complete redesign of current water infrastructure, which would not be possible in the necessary timescales set by government by applying a pure location-based approach. Water companies can play a key role in stimulating the increase of renewable energy generation in the UK. Credible market-based decarbonisation solutions that demonstrate additionality, can provide better value for money for our customers and drive a quicker transition. The credibility of the market-based solution is closely linked to whether the measures increases the renewable energy generation capacity. This is not only applicable to electricity generation, but also biomethane, biohydrogen and other sustainable fuels.</p> <p>Appendix 7 does state that companies should use a location-based and market-based approach for reporting scope 2 emissions associated with electricity imported from the grid, which is positive. However it does not provide clarity on how the export of biomethane to the grid should be dealt with in a market based approach (which offsets scope 1 emissions when the Renewable Gas Guarantees or Origin (RGGOs) are retained by the company). If a water company sells the biomethane and transfers the RGGOs it cannot claim the associated carbon credit associated with the export, to offset scope 1 emissions, in a market-based reporting approach. So a market-based reporting approach should be included and should cover the entire reporting scope, not only scope 2 emissions.</p>	
Business demand	<p>We support this measure but we note that not all elements of the definition are applicable to companies in Wales. For example Appendix 7 on page 111 section 3.5.2 refers to deriving measured business demand from the central market operating system (CMOS). This only applies to a small number of business customers in Wales who are 'in the market'. We will need to look in detail about how the definition may need to be adjusted in order to be fully applicable in Wales.</p>	N/A

Mains repairs	We remain concerned that having a Performance Commitments on mains repairs could disincentivise companies to reduce leakage. We welcome Ofwat’s acknowledgement of this issue in Appendix 6, on page 63, and agree that this issue should be looked at carefully, particularly in light of the additional data since PR19, to ensure incentives and targets are appropriately calibrated for PR24.	N/A
Unplanned outages		We agree with the change from the existing PR19 definition in the removal of the exclusion related to changes in raw water quality beyond the normal water quality operating bands. We agree that these circumstances have nothing to do with asset health, and that therefore the exclusion is appropriate.
C-MeX	<p>We welcome the continuation of C-Mex with only minor changes.</p> <p>On the proposal to remove the check and challenge process, we disagree with the proposal. The check and challenge process provides a valuable opportunity to ensure interviews are carried out and recorded correctly and accurately. Our challenges alone were upheld seven times last year (47% of the time). We would also note that the process should be extended to cover online survey responses, as all companies have indicated a significant number of inaccurate scores as a result of customer mis-types. These mistakes distort performance, and would undermine the legitimacy of C-Mex in the eyes of companies if the challenge process was removed.</p> <p>As at PR19, we strongly disagree with the requirement to be in the upper quartile of the UKCSI index in order to be eligible for enhanced C-Mex rewards. As set out in detail in our previous submissions on this topic, it is not appropriate to compare utility companies in general, and water companies in particular, with private sector product and service</p>	We note that Ofwat are to consider whether C-MeX could be adapted to better incentivise treatment of vulnerable customers as well as increasing incentives for worst served customers. We would not support this. We believe that providing good customer service to customers in general, and meeting the needs of vulnerable and worse served customers, are related but separate issues, and are best addressed through different mechanisms. It would not be feasible to adapt C-Mex to incentivise companies to provide better service to vulnerable and worse served customers without distorting or undermining the main purpose of C-Mex. Service to vulnerable customers in particular is multi-faceted and therefore hard to capture in a single measure.

	<p>providers, when it comes to customer service scores. Customers do not generally choose their water companies, and have no choice as to whether to use the service or not. In addition, contact with water companies most often comes when things go wrong, which skews perceptions to the downside. No water company has so far met this threshold. Given this, the requirement to be in the upper quartile on UKCSI is too high – this weakens the intended incentive of the enhanced rewards as well as exacerbating asymmetry in the ODI framework.</p>	
D-MeX	<p>We support the use and continuation of a D-Mex measure. As noted in our main response:</p> <p>At PR19 we made representations to Ofwat that while we welcomed the introduction of the D-Mex measure, companies in Wales are uniquely disadvantaged owing to the different legislative and regulatory framework in Wales, which negatively biases customer responses to questionnaires on the service provided by water companies in Wales. Issues such as compulsory fire sprinklers, sewer adoption standards and sustainable drainage, mean that developers in Wales face higher costs and more burdensome processes compared to England. We have strong evidence that these difficulties wrongly but inevitably ‘contaminate’ their views of the water company and the service that the company is providing to developers. We provide this evidence as Appendix B. This means that we are not on a level playing field when it comes to D-Mex with companies in England. This is a problem, as it is a comparative measure, with significant penalties for those who score in the lower half of companies across England and Wales. It also means that the rewards for us are effectively out of reach, despite providing what we believe are objectively very high service standards to customers. We would welcome the opportunity for dialogue with Ofwat on options to address this point.</p>	<p>We have detailed comments on the measure as follows:</p> <ul style="list-style-type: none"> <li>• Since D-MeX was implemented, there have been a number of requests by companies to restate quantitative performance data via the WaterUK system. This has resulted in quantitative scores (and overall D-MeX scores) changing which then impact other companies’ performance and outcomes. The quantitative reporting also directly affects the data used for the qualitative surveys with the potential for the qualitative and overall D-MeX score to be impacted. Prior to D-MeX being introduced, WaterUK commissioned an independent industry wide audit of compliance with the Developer Services Levels of Service (which are now substantially the D-MeX quantitative metrics) to identify any shortcomings of the definitions and how they were being applied by companies. The audit made recommendations about which definitions required improvement, and identified differences between companies approaches so that going forward consistency could be achieved. Given these issues</li> </ul>

		<p>continue to persist it may be appropriate for a similar audit to be conducted by Ofwat to ensure approaches across the industry are consistent so that D-MeX outcomes accurately represent companies' performance.</p> <ul style="list-style-type: none"> <li>• Within Appendix 7 – Performance commitment definitions – page 29 section 2.2.2 Qualitative and Quantitative metrics <ul style="list-style-type: none"> <li>○ W6.1 – The wording has changed from &lt; 500 plots to 500 plots. Is this correct?</li> </ul> </li> <li>• Within Appendix 7 – Performance commitment definitions – page 29 section 2.2.2 Qualitative &amp; Quantitative metrics the following are omitted from the Qualitative metrics. Is this correct? <ul style="list-style-type: none"> <li>○ W7.1- Mains design &gt;500 plots – quotations within target;</li> <li>○ W20.1 – Self lay Point of Connection report &lt;500 plots;</li> <li>○ W21.1 – Self lay Point of Connection report &gt;500 plots;</li> <li>○ W23.1 – Self lay design and terms request 500 plots;</li> <li>○ W26.1 – Self lay water for pressure/bacteriological testing;</li> <li>○ W27.1 – Self lay permanent water supply; and</li> <li>○ W30.1 – Self lay plot references and costing details.</li> </ul> </li> <li>• For additional clarity and consistency can Ofwat/ the Agent provide quarterly reports providing the volumes of transactions</li> </ul>
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		submitted for each company to enhance transparency?
Business customer experience in Wales	<p>We value our existing (bespoke) Performance Commitment, Business customer satisfaction, and would like to see this continue. As mentioned in a recent call on this topic with Ofwat, we would be interested in defining a common measure that would work for both companies in Wales.</p> <p>The current measure is based on a survey of all business customers selected at random. This makes it rather a crude measure, as a small minority of respondents have direct experience of customer service from the company. We believe that a more meaningful measure, that would better incentivise the companies to provide better customer service to business customers, would be to base the measure on a 50/50 split between responses from the generality of customers, and from customers who have had direct contact with the company. This would be similar to the approach taken for C-Mex.</p> <p>We look forward to further dialogue with Ofwat to develop this proposal alongside Hafren Dyfrdwy.</p>	N/A