



Business demand

Purpose: This performance commitment is designed to incentivise the company to promote the water efficiency of business customers.

Benefits: The benefits of reduced business demand are to improve the long-term water resources supply-demand balance and reduce the need for water abstraction.

Version control

Version	Date of issue	Performance commitment changes
0.1	22 December 2022	Broadened to include use of company data for non-household premises in Wales. Changes to definition from draft methodology identified in red text.
0.2	17 May 2023	Removal of red text. Removal of specific requirements to check void property numbers. Clarified that this performance commitment relates to potable water and excludes water provided to other water companies.

Performance commitment definition and parameters

1.1 Detailed definition of performance measure

The percentage reduction of three year average business demand¹ in Ml/d from the 2019–20 baseline. Three-year average values are calculated from annual average values for the reporting year and two preceding years expressed in Ml/d.

The measure uses post MLE (maximum likelihood estimation) data.²

Any differences with reports made to the Environment Agency or Natural Resources Wales in the Annual Review of Water Resources Management Plans shall be quantified and clearly explained.

The company shall provide commentary in its Annual Performance Report submission if there are any differences in its 2019–20 baseline three-year average business demand expressed in Ml/d in comparison with its business plan. Reasons for any differences shall be clearly explained and their volumetric impacts on the baseline quantified.

Outcome delivery incentives will be applied on a Ml/d basis. The performance commitment levels expressed as a percentage reduction will be applied to 2019–20 baseline. The difference between this value to one decimal place and actual three year average leakage will be used to calculate outcome delivery incentives.

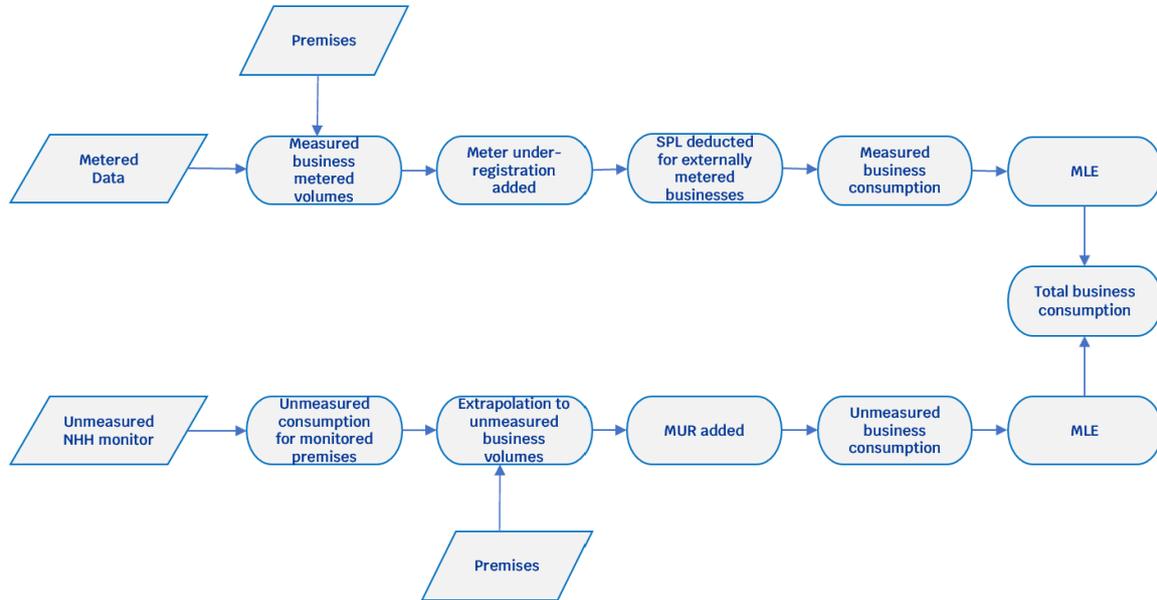
We expect the company to demonstrate it has explored options to deliver water efficiency in collaboration with retailers or other third parties in its annual performance report. Where it does not do this it will not be eligible for outperformance payments.

¹ 'Business demand' means consumption at non-household ('business') premises; 'business customers' (also referred to as 'non-household customers') include businesses, charities and public sector organisations.

² MLE is a technique used in the estimation of leakage and is described under the definition for reporting the leakage performance commitment for PR24.

1.2 Additional detail on measurement units

Figure 1 – Flow diagram



Relevant premises

Measured business premises are needed to derive measured business metered volumes from the company billing system. Unmeasured business premises are used in the unmeasured business demand monitor calculations and for extrapolation to company area. The company is expected to:

- ensure its classification of premises as either household or non-household is consistent with our guidance on establishing the principal use of premises;³ and
- update property data at least annually.

Measured business demand

The volume of measured potable business demand includes water used by each measured business including meter under-registration but excluding supply pipe leakage.

³ See Eligibility guidance on whether business customers in England and Wales are eligible to switch their retailer, Ofwat, July 2022. To establish the principal use of premises served by the supply system of a company whose area is mainly in England, see Part A: Guidance for England, section 2.3; to establish the principal use of premises served by the supply system of a company whose area is mainly in Wales, see Part B: Guidance for Wales, section 3.4.

For externally metered businesses an allowance for supply pipe leakage shall be deducted from the metered volumes.

The company must undertake a process of accruing demand at year end to account for meter reading frequency cycles. The company shall justify its approach to accruals and estimated reads and receive external assurance that its accruals are appropriate. Water must always be recognised, any demand relating to the previous year which has not been reported must either be restated in relation to that year or included in the reported demand for the next reporting year.

The company is expected to derive measured business demand using the following criteria:

- for premises served by systems mainly in England, the Central Market Operating System (CMOS) metered data; for premises served mainly by systems in Wales, metered data from water companies' own systems, including actual reads and estimated reads;
- the company shall ensure that supply pipe losses are deducted for externally metered premises consistent with the company's own current assessment of supply pipe losses, which is updated annually;
- the company can adjust metered data for leakage allowances applied to individual customers where a rebate has been applied to a customer's bill; and
- the company shall apply meter under-registration consistent with its own estimates, which it updates annually.

Meter under and over-registration (MUR)

Any measurement is subject to an element of error. Some meters may under-read (under registration) and some over-read (over registration).

There is potential for both meter under and over registration to impact on estimates for measured consumption and the water balance.

Dependant on technology and the flow through the meter, there may be no bias (to either under or over read). Any adjustment applied to any meter readings shall therefore be supported by sufficient evidence which shall be published to accompany the company's annual performance report. Any such adjustment to meter readings shall be reviewed annually.

Meter accuracy can be checked either by in situ verification or calibration or by removing meters for off-site testing in an accredited test rig.

In situ checks can either be:

- calibration – using the manufacturer's specific recommendations for checking that the meter functions in accordance with their specification; or
- verification against a second reference meter (transfer standard) – which will be installed for a short period in line with the meter to be checked.

For all in-situ checks the company shall follow the Abstraction Metering Good Practice Manual 2016 published by the Environment Agency.

For revenue meters checks are often undertaken on a representative sample of the meters removed as part of the company's routine meter replacement programme and then extrapolated.

The company will make any adjustment to the sum of meter readings used in the water balance calculation consistently each year.

The company shall provide compelling evidence to support any calibration or verification of greater than +/-3%. Any meter check which results in an adjustment greater than 5% shall prompt the company to further investigate and to install a more accurate metering solution as soon as is reasonably practicable.

The company shall set out its approach to stopped meters and demonstrate that there is no double counting between stopped meters in consumption from billing data and MUR.

Unmeasured business demand

Unmeasured non-household consumption of potable water shall be derived from a study of the consumption of measured non-households of similar categories and applying a recognised statistical approach.

The company shall report unmeasured non-household consumption using the following criteria:

- where the reported volume is less than 2% of total non-household demand, data from a per property consumption study shall be refreshed every five years; and
- where reported volumes are greater than 2% of non-household demand, data from a property study shall be refreshed every two years.

The information and assumptions made for leakage, per capita consumption and business demand PCs must be consistent and be based on the same water balance

calculations. If any information is restated for one of the PCs, the others must also be restated if there is any impact on them.

1.3 Specific exclusions

Supply pipe leakage (SPL) and plumbing losses

This performance commitment measures potable water only therefore all other water types are excluded. Water delivered to other water companies, including new appointees, is excluded.

Supply pipe leakage shall be excluded from demand data. For measured businesses which are externally metered supply pipe leakage allowances shall be deducted from the metered data.

The company shall use its own estimates of supply pipe leakage and must set out its approach to deriving these estimates and how it excludes supply pipe leakage from metered business demand calculation. This is also linked to estimates of plumbing losses. A robust methodology to determining this is required.

The company is expected to:

- take account of supply pipe leakage in the estimation of both measured business demand and unmeasured business demand;
- use its own estimates of supply pipe leakage which are annually updated; and
- demonstrate how these estimates have been derived.

1.4 Reporting and assurance

The company will also report business demand as a three year average in Mega litres per day (Ml/d) to one decimal place, corresponding to the percentage reduction reported.

The business demand performance commitment shall be broken down into its constituent elements for assessment of compliance for reporting purposes. The compliance checklist identifies the elements in average business demand to be considered. This shall be consistent with the relevant elements in the water delivered components of the water balance for the leakage performance commitment.

The company shall ensure that its outcome delivery incentive payments only relate to real performance changes and not definitional, methodological or data changes in performance commitments.

Compliance checklist

The company shall complete the checklist below and report to Ofwat if any element is not green. Where an element is not green, we may intervene to protect customers and ensure that the company does not benefit from insufficient data quality. See Annex 1 for assessment rules for each element.

Table 1 Compliance checklist for business demand

	Component / Element	Component R/A/G	Element R/A/G	Reason for any non-compliant component	Confidence grade
1	Business premises estimates				
1a	Definition of household/ non-household premises consistent with Ofwat's eligibility guidance.				
1b	Property figures annually updated				
2	Measured business demand				
2a	Metered data is derived from source				
2b	If leakage allowances are applied the process and evidence for this is clearly set out.				
2c	Average SPL deductions for externally metered business demand using company own data updated annually.				
2d	Company own estimate of MUR for revenue meters which is updated annually. Evidence of MUR available and is compelling for MUR above 3%.				
2e	Meter replacement consistent with own replacement programme.				
3	Unmeasured business demand				
3a	Company has used a study of the consumption of measured non-households of similar categories and applying a recognised statistical approach				

	Component / Element	Component R/A/G	Element R/A/G	Reason for any non-compliant component	Confidence grade
3b	Where unmeasured business reported volume is less than 2% of total business demand, data from a per property consumption study is refreshed every five years. Where unmeasured business reported volumes are greater than 2% of business demand, data from a property study is refreshed every two years.				
4	The information and assumptions made for leakage, per capita consumption and business demand PCs is consistent and be based on the same water balance calculations.				

Table 2 Definition parameters

Parameters	
Measurement unit and decimal places	Percentage reduction from 2019-20 baseline, reported to one decimal place. The volumetric levels resulting from the application of the percentage reduction in megalitres per day (MI/d) reported to one decimal place.
Measurement timing	Reporting year
Incentive form	Revenue
Incentive type	Outperformance and underperformance payments
Timing of underperformance and outperformance payments	In-period
Price control allocation	50% Water resources 50% Water network plus
Frequency of reporting	Annual
Any other relevant information	Performance commitment levels are set as percentage reduction from 2019-20 baseline. Incentive payments relate to performance changes expressed in Mega litres/day (MI/d).

Parameters	
Links to relevant external documents	N/A

Annex 1 Compliance Checklist

This annex sets out the criteria on which to report checklists where specified in the performance commitment definition.

Compliance for elements is reported against:

R	Not compliant with the guidance and having a material impact on reporting
A	Not compliant with the guidance and having no material impact on reporting
G	Fully compliant with the guidance

An overall RAG to be assigned for each component based on the following rules:

Compliance for overall components is reported against:

R	There are one or more red elements in the component, or the combined effect of amber elements is considered to produce a material impact.
A	Half or more of the elements in the component are amber and the combined effect of the amber elements is considered not to produce a material impact
G	More than half of the elements in the component are green

For each component on the checklist, and for the overall performance measure, the company will report a confidence grade. Confidence grades provide a reasoned basis for the company to qualify the reliability and accuracy of the data.

The company shall employ a quality assured approach in the methodology used to assign confidence grades, particularly if sampling techniques are in place. The confidence grade combines elements of reliability and accuracy, for example:

A2 – Data based on sound records etc. (A, highly reliable) and estimated to be within +/- 5% (accuracy band 2) Reliability and accuracy bands are shown in the tables below.

Reliability Band	Description
A	Sound textual records, procedures, investigations or analysis properly documented and recognised as the best method of assessment.
B	As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation.
C	Extrapolation from limited sample for which Grade A or B data is available.

D	Unconfirmed verbal reports, cursory inspections or analysis.
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Accuracy band	Accuracy to or within +/-	But outside +/-
1	1%	-
2	5%	1%
3	10%	5%
4	25%	10%
5	50%	25%
6	100%	50%
X	Accuracy outside +/- 100 %, small numbers or otherwise incompatible (see table below)	

Certain reliability and accuracy band combinations are considered to be incompatible, and these are blocked out in the table below.

Compatible confidence grades				
Accuracy band	Reliability band			
	A	B	C	D
1	A1			
2	A2	B2	C2	
3	A3	B3	C3	D3
4	A4	B4	C4	D4
5			C5	D5
6				D6
X	AX	BX	CX	DX