

Summary of discussion at December 2022 Outcomes Working Group

PC Mapping – General Update

- The session started with Ofwat providing a general update on the PC mapping work. A customer survey was commissioned which will produce customer valuations for 26 service failures. The valuations will be used to derive marginal benefits for the performance commitments (PCs). The service failures don't align exactly to the PC definitions so Ofwat is undertaking an exercise to map the valuations to the PCs.
- The group noted the challenging timeline for this work with some of the estimated marginal benefits only being shared in May. Companies were concerned this would not give them enough time to incorporate them into their business plans.
- Ofwat noted that the mapping discussed in this meeting is the high-level conceptual mapping and needs to be tested with the actual valuations once they are available. This will test the sensitivity of the assumptions and compare outcomes to PR19 figures and other external sources. The outputs of the research have been delayed – the results are now expected by the end of 2022.
- The group were keen to understand whether Ofwat would be using company-specific or national figures across all of the areas discussed. Ofwat explained that it is minded to use national valuations unless there is significant reason to move away from these e.g. statistically significant differences combined with a 'real world' rationale.
- Ofwat clarified that even if we use national valuations and national level historic data to identify the appropriate weightings, the normalisation of the PCs means that companies could have different ODI rates.

Customer facing PC Mapping (Breakout group 1)

In this breakout group the proposed mappings were discussed for internal and external sewer flooding, customer contacts, interruptions and demand.

- There were no significant comments on the proposed mapping for internal and external sewer flooding or interruptions.
- On customer contacts the group questioned the assumption around the duration of incidents that lead to contacts, suggesting that most incidents are significantly less than 24 hrs long. A member also flagged the updated letter from the DWI about the recording of customer contacts which needs to be considered.
- The group had some concerns about the proposed demand mapping, finding it complicated and not intuitive. There were concerns that the historic data used to weight the valuations reflected an unprecedented period of drought and would not be representative of the future. There were also concerns that the data Ofwat has requested is about average demand, but restrictions are driven by peak demand.

- Some members also considered that the link between drought permits and low flow was not strong and it was not an appropriate proxy.

Environmental PC Mapping (Breakout group 2)

In this group the proposed mappings were discussed for pollution incidents, serious pollution incidents, bathing water and storm overflows.

- The group discussed how "nearby" and "elsewhere" were going to be defined for the environmental PCs. They were concerned that using the same distances for rural and urban areas does not fully reflect the distances that customers in urban areas need to travel to visit amenities compared to rural areas. Not adjusting for this may overvalue impacts in urban areas.

Other PC Mapping

In this section Ofwat provided an update on some of the more complex PC mappings: CRI, river water quality, discharge permit compliance and asset health measures.

- A member of the group said that for some companies high CRI scores are not necessarily driven by do not drink or boil water notices (which the current mapping proposes). Ofwat said it needed to develop a method for all companies but if it didn't take account of specific company circumstances companies could make a case in their business plans.
- It was clarified that discharge permit compliance will apply to water only companies and that the mapping is being developed to reflect that.
- Members of the group offered to help provide expert opinion where this was being used, particularly on the river water quality measures.
- For the river water quality PCs, the group said it was important to take account of rivers which are impacted by multiple companies.
- Ofwat provided an update on the initial mapping for Asset Health PCs and said there may be a need for a further data request. Following the meeting members were given an opportunity to provide their thoughts on asset health PC mapping via email.
- There was a request by the group to consider the impact of burst rising mains on the sewer collapse measure.
- A member of the group was concerned that providing marginal benefit values for asset health PCs may would affect other PC values through possible double counting adjustment options. Ofwat acknowledged this risk and stated that they would communicate the approach taken for adjusting for asset health as early as possible.

Next steps

- Members highlighted the importance of getting marginal benefits as early as possible to enable them to inform the development of their business plans.
- It was agreed that there was value in this group being involved as the PC mapping work progresses. Ofwat agreed to set up more sessions for early 2023.