

Summary of discussion at January 2023 Outcomes Working Group

Research approach

- Ofwat provided a recap of the research undertaken and why it has taken a different approach to PR19.
- A company noted that the approach taken made the mapping of valuations to PCs more complex, but Ofwat noted that this was a consequence of making the questions tangible and meaningful to consumers.
- The NHH valuations appear less robust than the HH valuations. Ofwat stated that it was important to include the views of NHH in the analysis and the difference in reliability of results is being considered in the mapping.
- Ofwat clarified that the research outputs, including modelling code, had already been shared with companies.

Demand PC Mapping

Ofwat explained that it had some concerns with the data used in the mapping of the demand PCs. Some companies were unable to provide the data requested and it is not clear if all the submitted data had been developed on a consistent basis. Ofwat presented four options for proceeding which broadly fell into two categories - finding an average from the existing data or applying a “top down” approach. The group split into two to discuss the pros and cons of the options.

- There was some support for a top-down approach, and some support for using one of the averaging approaches.
- Members felt that it was difficult to make a final judgment on the best options without seeing the results produced by each of the approaches.
- The group supported taking an approach that reflected the customer valuations. However, some members did note that there is a less direct relationship between the service failures and the PCs for demand so maybe this is less of an issue than for some other Pcs.

Asset Health Mapping PCs

Ofwat thanked the group for its inputs on the Asset Health PC Mapping and presented some options it had developed which built on the responses companies sent following the December meeting. Ofwat said its preference was to move away from an inferred benefits approach due to the risk of inconsistency in approach across companies, the time and burden to obtain relevant data and the relevance of a link to customer facing PCs. Instead it proposed to take a top-down approach to deriving asset health rates. The group split into two to discuss the pros and cons of the options considered.

- There was broad agreement in both groups that the inferred benefits approach was not pragmatic at this stage. There was support for a top-down approach.
- Some stakeholders thought that the inferred benefits approach wouldn't yield appropriate rates for asset health PCs in any case. The attempt to capture the effect on customers is already captured in other PCs and does not necessarily incentivise improvements in asset health.
- Both groups had questions about how a top-down approach would work in practice, and how Ofwat would determine appropriate rates.
- One group suggested that Ofwat could also consider basing a rate off an average of PR19 rates.
- Companies were keen to impress the importance of getting indicative rates as soon as possible and recognised that a top-down approach could produce rates more quickly than an inferred benefit approach that relied upon a data request from industry.

Next steps and timeline

- Ofwat flagged that it would review the timeline for asset health marginal benefits if it adopts a top-down approach to see if marginal benefits can be shared any earlier than May. Members highlighted again the importance of getting marginal benefits as early as possible so welcomed Ofwat looking at this.
- The next session on Feb 28th is booked. Ofwat agreed to set up a further session in March.