

Summary of discussion at February 2023 Outcomes Working Group

Batch One results

Ofwat set out the changes to the batching and the updated timeline. And then presented the calculations and high-level results for each of the Batch one PCs.

Sewer flooding (internal and external)

- Some members were concerned that rates were significantly lower than at PR19. Ofwat agreed that they were lower than PR19 but a different approach had been used this time, and the range at PR19 was very large.
- A member noted that as the NHH valuations are much higher than the HH valuations, the rates are very sensitive to the NHH values. They asked whether the NHH values were relevant and should be included, particularly whether the compensation question in the survey gives enough certainty. Ofwat stated that it is important that we take account of the views of NHH customers, and the compensation failures were chosen to be relevant to both HH and NHH customers.

Contacts

- Some members were concerned that the rates seemed higher than at PR24. Ofwat stated that it had carried out cross checks, but the approach used this time is different to the variety of approaches used at PR19. At PR19 some companies appeared to use incident valuations to calculate the ODI rates for contacts without converting incidents to contacts which could explain some of the difference.
- Members wanted clarity on how the incident per contact ratio had been calculated. Ofwat clarified this was done at an England & Wales level. Some members felt this could legitimately differ across companies so a company specific ratio may be more appropriate.

Interruptions

- Members didn't have specific comments on the calculation or range of rates.

Bathing water

- Ofwat clarified that visitor numbers had been extracted from OrVal (a publicly available dataset)
- Members asked if Ofwat had considered using company specific valuations. Ofwat explained that it has assumed that visitors to bathing waters can come from anywhere in the country so has used the England & Wales valuation. But companies could make a case for using company specific valuations in their business plans.

A member said it was important to consider the rates in the round and not just focus on specific ups and downs.

River Water Quality PCs

- In breakout groups we discussed options for mapping the river water quality and discharge permit compliance PCs. Both of these measures are linked to the service failure valuations on river water quality, so Ofwat is considering them together to avoid double counting.
- The group felt it would be beneficial to have technical experts involved in future discussions to help develop the relationship between river water not being high quality and the PCs.
- One member asked about WoCs and made the point that data is not available for water treatment works in the same way as they are for sewerage treatment works.
- One member said that it is difficult to have these discussions without examples and data and a sense of their impact on estimates.
- The group was not aware of additional data that we could make use of.
- One group felt the assumptions being made mean that the link to the valuations is quite weak and wanted to seek expert opinion on whether it was still valid.

Bespoke PC submissions

- Ofwat set out the timetable for submitting bespoke PCs.
- Members asked whether they could propose bespoke PCs in their business plans if they hadn't submitted them in April 2023. Ofwat stated that this would mean the company would have lost the opportunity to get feedback on its proposal and there would be a risk this could impact on the QAA score, so it didn't expect companies to do this.
- Ofwat clarified that it was reviewing PR19 bespoke PCs to see if it thinks any should be implemented for specific companies and would pick those up with the relevant companies on a one-to-one basis.

Next steps and timeline

- Members wanted clarity of the status of the batch 1 rates being shared at the meeting. Some companies were concerned that there wasn't a formal opportunity to challenge the rates Ofwat shared.
- Ofwat explained that these were the indicative marginal benefit rates that companies should use to inform their business plans. As part of our quality and ambition assessment, to meet our minimum expectations, companies must use these marginal benefit rates or provide compelling evidence for any alternatives. Companies also have the opportunity in their business plans to identify the appropriate benefit sharing factor to apply to each of these marginal benefit rates to turn it into an ODI rate.
- Ofwat agreed to set up a meeting with EA and NRW to discuss river water quality mapping in more detail.
- Ofwat asked companies to share any further reflections on the Batch 1 rates by Friday 10th March.
- Ofwat agreed to set up further outcomes working group sessions as the work progresses on Batches 2 and 3.