

# Price Control Deliverables Workshop for PR24

**Draft for discussion**

Cost Assessment Team  
May 2023

**ofwat**

## Format of session

Time (85 minutes)	Item
5 minutes	Welcome and Introduction
5 minutes	Objectives of today's session
30 minutes	Overview of PR24 final methodology and potential further guidance
30 minutes	Break-out sessions
20 minutes	Summary of feedback and next steps



## Objectives of today's workshop

In our Final Methodology we set out **high-level principles** that we expect companies to follow in the design of price control deliverables (PCDs). We also stated that we would provide further guidance on PCDs. We also know that companies have asked for additional guidance on PCDs.

We want all companies to submit robust PCD proposals in their business plans. Therefore we propose to issue some **further guidance** to companies.

The aim of the session is to discuss our emerging thoughts on potential further guidance on PCD design. This builds on the work that we have done on the **green economic recovery** and **accelerated investment delivery** (although PCDs have not yet been finalised for accelerated schemes).

We are keen for **feedback from companies** to help us develop the additional guidance. We would like to thank companies for their continued engagement in this area.

We intend to issue **additional guidance** in due course to help companies in submitting PCD proposals in their business plans. We expect to continue to refine our approach as we go through the price review.



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# Overview of our final methodology

## PR24 Final Methodology

In our PR24 Final Methodology we set out our expectation for companies to use **price control deliverables (PCDs)** as a tool to protect customers from under- or non-delivery of funded enhancements. PCDs aim to encourage on time delivery by returning money to customers where companies fail to deliver the funded improvements on time.

Companies should propose PCDs in their business plans where **performance commitments** are not expected to provide this level of protection for material enhancements.

Our Final Methodology sets out the **high-level principles** that we expect companies to follow in designing PCDs (see next slide).

The review of PCD proposals will be part of our **quality and ambition assessment (QAA)**. This will assess the question of whether the plan sets out the benefits of the company's proposal in performance commitments and price control deliverables.



## High-level principles for PCD design

We expect PCDs to be proposed by companies based on the principles below

### PCD Coverage

#### 1. Benefits of the investment not linked to or fully protected by performance commitments (PCs)

Companies should use PCDs where performance commitments are not expected to provide adequate protection to customers

#### 2. PCDs should be used to protect customers for material enhancement investments

Similar activities of work (including across enhancement lines) should be combined to ensure full protection and reduce duplication

### PCD design

#### 3. Outcomes over outputs/inputs

Where the outcomes cannot be easily observed or measured or where investment impacts multiple outcomes, companies should set PCDs at an output level

#### 4. Level of aggregation PCDs could be set at a scheme, programme or benefit level

Companies should set PCDs at the highest level possible to retain flexibility over the benefits to deliver using the most efficient solutions



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**Potential further guidance**

## PCD coverage

### Materiality test

We expect companies to identify expenditure areas where PCDs will be required by applying materiality threshold to each enhancement expenditure category or combination of categories where these categories address similar problem and share similar deliverables that can be aggregated up (see example below).

### Materiality threshold

- As a minimum we expect PCDs where investment represents 0.5% of the company's totex. Companies should go further to protect customer interests.
- Companies should also consider additional PCDs where there is likely to be no/limited oversight of project delivery from other regulators (EA/NRW/DWI)

### Example of aggregation across enhancement lines

Supply-demand balance
Supply-side improvements delivering benefits in 2025-2030; SDB capex
Supply-side improvements delivering benefits in 2025-2030; SDB opex
Supply-side improvements delivering benefits in 2025-2030; SDB totex
Demand-side improvements delivering benefits in 2025-2030 (excl leakage and metering); SDB capex
Demand-side improvements delivering benefits in 2025-2030 (excl leakage and metering); SDB opex
Demand-side improvements delivering benefits in 2025-2030 (excl leakage and metering); SDB totex
Leakage improvements delivering benefits in 2025-2030; SDB capex
Leakage improvements delivering benefits in 2025-2030; SDB opex
Leakage improvements delivering benefits in 2025-2030; SDB totex
Internal interconnectors delivering benefits in 2025-2030; SDB capex
Internal interconnectors delivering benefits in 2025-2030; SDB opex
Internal interconnectors delivering benefits in 2025-2030; SDB totex
Supply demand balance improvements delivering benefits starting from 2031; SDB capex
Supply demand balance improvements delivering benefits starting from 2031; SDB opex
Supply demand balance improvements delivering benefits starting from 2031; SDB totex
Total supply demand expenditure; SDB totex

Water supply schemes delivering WAFU (MI/d) benefits





## Structure of PCDs

Drawing on our green economic recovery and accelerated infrastructure delivery work (although PCDs have not yet been finalised) we expect companies to provide the following minimum information:

- **Description of deliverable** – this will outline what the deliverable is and any relevant information about the scheme/solution being used where relevant.
- **The outputs or outcomes** to be measured and tracked– companies should identify the outcomes or outputs that they are being funded to deliver. Companies should explain how these outcomes or outputs will be measured, tracked and reported.
- **Conditions on allowance** – companies should set out the conditions on the allowances. This should include the amount of outcome or output that company needs to deliver, the timings for delivery (where deliverables by year should be set out in a separate table), and other conditions on the allowance such as sharing of learning.
- **Assurances** – this should outline the assurances that the company will provide to show that the conditions of the PCD have been met (including where this requires inputs from other regulators). We expect companies to provide independent third-party assurance with a duty of care to Ofwat. The company should set out the date by which these assurances will be provided to Ofwat.
- **PCD payment rate** – companies should provide the proposed payment rate that will apply to the units of output or outcome that are not delivered by the end of the control period. Companies should specify the rate that will apply to each output or outcome identified as deliverable.
- **Impact on performance relating performance commitments (PCs)** – where relevant, company should set out the likely incremental impact of the identified deliverables on AMP8 and AMP9 performance relating to PCs.

## Example of PCDs – Supply-side improvements to supply-demand balance

The example is purely illustrative only

### Scheme delivery expectations

<b>Description</b>	Supply-side improvements and internal interconnectors to deliver water to meet the supply-demand balance
<b>Output measurement and reporting</b>	<p>Company should deliver the water available for use (WAFU) benefits to the supply-demand balance of the relevant water resource zone (WRZ) in line with the profile in the final WRMP24 and funded at PR24. These are set out in the table below.</p> <p>Delivery of WAFU will be reported and monitored through the existing APR process and be consistent with WRMP annual review process.</p>
<b>Assurance</b>	Independent third-party assessment and assurance of completed milestones and forecast of likely outturn position at 31 March 2030.
<b>Conditions on scheme</b>	Company should deliver the outcome of the WRMP24 (ie level of resilience) for 2025-30 as funded by PR24.
<b>PCD payment rate</b>	<p>WRZ 1: £2m per Ml/d</p> <p>WRZ 2: £2m per Ml/d</p>

### Price control deliverables

Deliverable	Unit	Forecast deliverables									
		2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Delivery of WAFU to meet SDB in WRZ 1 (cum.)	Ml/d				15.00	35.00	50.00	65.00	75.00	80.00	85.00
Delivery of WAFU to meet SDB in WRZ 2 (cum.)	Ml/d				5.00	15.00	20.00	25.00	25.00	25.00	25.00



## Example of PCDs – Smart metering

The example is purely illustrative only

### Scheme delivery expectations

<b>Description</b>	Installation of 230,000 advanced monitoring infrastructure (AMI) meters – capable of recording and transmitting data at least once every 24 hours to measure supplies of water to premises. This involves new AMI meter installations and replacement of existing meters with new AMI meters.
<b>Output measurement and reporting</b>	Company should deliver the number and type of meters in line with the profile in the final WRMP24 and funded at PR24. Delivery of meters will be reported and monitored through the existing APR process.
<b>Assurance</b>	Independent assessment and assurance of completed milestones and forecast of likely outturn position at end of March 2030.
<b>Conditions on scheme</b>	Company should deliver meters funded at PR19 and Acceleration Process by 31 March 2025. Funding will be made available for meters installed above baseline level. Company should engage and collaborate with other water companies, meter suppliers and other stakeholders across the sector to agree on common standards relating to the data collected from smart meters to ensure data interoperability across the sector by 31 March 2030.

### Price control deliverable example

Deliverable	Unit	Forecast deliverables				
		2025-26	2026-27	2027-28	2028-29	2029-30
PR29 delivery AMI meter installations (cum.)	Nr.	40,000	80,000	120,000	160,000	200,000
PR29 delivery AMI for AMR upgrades (annual)	Nr.	1,000	2,000	3,000	4,000	5,000
PR29 delivery AMI for basic upgrades (annual)	Nr.	5,000	10,000	15,000	20,000	25,000

### Impact on PCC and Leakage

Performance commitment	Unit	Forecast benefits									
		2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Per capita consumption reduction	l/h/d (cum.)	0.3	1.0	1.8	2.6	3.4	3.8	3.8	3.8	3.8	3.8
Leakage reduction	MI/d (cum.)	0.4	1.4	2.5	3.6	4.7	5.3	5.3	5.3	5.3	5.3



## Deliverables

### Outcomes over outputs

Ideally PCDs would track outcomes rather than outputs as outcomes is what customers ultimately care about.

There are a few issues with this though:

- Outcomes are not always easy to measure or verify
- Outcomes may be delivered beyond the control period
- Enhancement may impact multiple outcomes

### Deliverables should be easy to measure and verify

We want deliverables that are transparent and clear to everyone and which measurement is not subject to controversy/subjectivity.

### Deliverables should protect customers from non-delivery

The outcome or output that is being funded should be clear at the outset and not subject to change. Permits and notices may be easy to track and verify but can be subject to change within the period. Although these changes may be aligned with what companies promised to deliver as part of the price control this may not always happen.

### Deliverables should allow flexibility where appropriate

Although we want highest aggregation possible across schemes to allow companies the flexibility to use most efficient solutions – this is only appropriate where unit costs and unit benefits are similar across schemes.



## Deliverables for key areas of expenditure (current thinking)

	Outputs	PC/ODI Outcome	PCD deliverable
<b>Water supply schemes</b>	Reservoir, interconnectors	Water supply interruptions?	Water available for use (WAFU) per WRZ
<b>Leakage</b>	Active leakage control, pressure management	Leakage reduction	Leakage reduction (Ml/d) mains renewals if material
<b>Metering</b>	Meters	Leakage reduction Per capita consumption (PPC)	Number of meters by type and technology
<b>Nutrients removal</b>	Treatment works improvements	River water quality	<ul style="list-style-type: none"> <li>Consent level achieved for population equivalent</li> <li>Consent (N or P) at scheme /catchment level for NN schemes</li> </ul>
<b>Storm overflows</b>	Volume of storage	Average number of spills across all overflows	Spills per individual overflow

# PCD payments

## Final methodology

“PCDs should set out the associated under delivery payments. **Customers should not lose out** if improvements are not delivered. If companies fail to deliver improvements then the PCD payments, together with any related ODI underperformance payments and cost sharing arrangements, should return to customers more than the allowed cost of the enhancement, and should reflect any foregone benefits. PCDs should be spread across 2025–30 to reflect expected improvements within the 2025–30 period as well as at the end of the period. ”

## Non-delivery and partial delivery

PCD payment rates will set out how much customers will receive where companies fail to deliver all or some of the funded improvements. Where companies deliver the funded improvement only partially, the PCD payment will only reflect the funding corresponding to the portion of the improvement that was not delivered.

## Interaction with ODIs

We expect ODIs to be on top of PCD payments in most instances. This should ensure that customers receive more than the costs of delivering the improvement where companies fail to meet PCD. Where there is no or little impact of non- or under-delivery on ODIs, companies should propose how PCD payments will return more than costs (and reflect foregone benefits) where PCD is not met. PCD payment should be such that company is made worse off from non- or under-delivery. Companies should set out the assumption on costs and benefits used to inform payment rate level.

## Interaction with cost sharing

Companies should not reflect cost sharing in their proposed PCD rates. We will adjust PCD payment rate to account for cost sharing in draft determinations.

## Accounting for the value of time

In addition to cost sharing reconciliation, we will apply time value adjustments to PCD payments to account for the value of time. Where company fails to meet PCD we will apply a time value adjustment to PCD payment to reflect the time gap between when the company receives the allowance and when the money is returned to customers.



## Other issues

### Profiling

We expect PCD deliverables to reflect profile of spend. This means that we expect deliverables to be spread across the control period. Companies should work with the EA/NRW to ensure that the proposed profile of deliverables is consistent with permit compliance.

### End of period reconciliation

Although PCDs will set out profile of delivery across period they will be reconciled until the end of the control period.

### In period changes

We don't expect PCDs to change within the period. We expect companies to manage delivery risks within the 5-year period.



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**Break-out sessions**



## Questions for discussion

Please discuss :

1. the areas of expenditure which are likely to require PCDs
2. the type and level of aggregation of potential deliverables for key areas of expenditure
3. the type and level of aggregation of potential deliverables in other areas of expenditure

### Breakout group 1

Name	Organisation
Kai Stuart	HDD
Kay Orsi	SVE
Geoffrey Randall	NES
Simon Tyrrell	SES
Everardo Quezada	Ofwat
Rosey Barker	Ofwat
James Cope	EA

### Breakout group 2

Name	Organisation
Jamie Jones	PRT
Thomas Bridgewater	AFW
Arun Pontin	ANH
Neil Wilson	WSX
Simon Harrow	Ofwat
Tim Griffiths	Ofwat
Elinor Smith	EA

### Breakout group 3

Name	Organisation
Annie Sconce	UU
Alex Smethurst	BRL
Iain Mcguffog	SWB
Daniel Haire	SSC
Tom Boichot	Ofwat
Daniel Mitchell	Ofwat
Harry Armstrong	Ofwat



## Summary of enhancement categories and likely scale of investment at PR24

Water enhancement area	Likely scale of PR24 investment	Wastewater enhancement area	Likely scale of PR24 investment
WINEP/NEP – Biodiversity	Medium	WINEP/NEP – Flow monitoring	Medium
WINEP/NEP – Eels/fish		WINEP/NEP – Continuous river water quality monitoring	High
WINEP/NEP – Invasive Non Native		WINEP/NEP – MCERTs monitoring	Medium/High
WINEP/NEP – Drinking Water Protected Areas	Medium	WINEP/NEP – Increase flow to full treatment	Medium
WINEP/NEP – Water Framework Directive	High	WINEP/NEP – Storm overflows	High
WINEP/NEP – 25 year environment plan	Medium	WINEP/NEP – Chemical removal	High
WINEP/NEP – Investigations		WINEP/NEP – Nutrients	High
SDB – Supply side improvements	High	WINEP/NEP – Sanitary parameters	Medium
SDB – Demand side improvements	Medium	WINEP/NEP – Microbiological treatment	Medium/High
SDB – Leakage improvements	High	WINEP/NEP – Septic tank replacements	Medium
SDB – Interconnectors	High	WINEP/NEP – Fish outfall screens	
SDB – Metering	High	WINEP/NEP – 25 year environmental plan	Medium
Improvements to taste, odour and colour	Medium	WINEP/NEP – Investigations	
Addressing raw water deterioration	High	WINEP/NEP – Sludge storage and treatment	High
Lead pipe replacement	Medium	WINEP/NEP – Other	
Resilience	Medium/High	Other – First time sewerage	
Security – SEMD and Cyber	Medium	Other – Odour	
Net Zero	Medium/High	Other – Resilience	
		Other – Security – SEMD and Cyber	
		Other – Net Zero	High



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■ High   
 ■ Medium/High   
 ■ Medium

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## Summary of feedback and next steps

## Summary of feedback

Feedback points from break-out sessions



## Next steps

### Next steps

- Companies can provide written feedback by Friday 2<sup>nd</sup> June 2023.
- We intend to publish further guidance in due course.

