

Meeting summary

Thursday 25 May 2023
14:30 – 16:00

PR24 price control deliverables workshop

Attendees

Affinity Water	Thomas Bridgewater
Anglian Water	Peter Duell
Bristol Water	Alex Smethurst
Hafren Dyfrdwy	Kai Stuart
Northumbrian Water	Geoffrey Randall
Portsmouth Water	Jamie Jones
SES Water	Simon Tyrrell
Severn Trent Water	Kay Orsi
South Staffs Water	Daniel Haire
South West Water	Iain McGuffog
United Utilities	Annie Sconce
Wessex Water	Neil Wilson
Environment Agency	James Cope, Elinor Smith
Natural Resources Wales	Mark Charlesworth
Ofwat	Tim Griffiths, Everardo Quezada, Simon Harrow, Tom Boichot, Daniel Mitchell, Rosey Barker, Jasmine Choi

Introduction

Ofwat provided a brief welcome and introduction to the session. It explained that the purpose of the workshop was to share emerging thoughts on potential further guidance on how companies should use and design price control deliverables (PCDs) at PR24.

The further guidance builds on the high-level principles set out in PR24 Final Methodology as well as on the work done for green economic recovery and accelerated investment delivery (although PCDs have not yet been finalised for accelerated schemes).

Ofwat thanked companies for their continued engagement in this area and welcomed further feedback during and after the session (with a request for any written feedback to be submitted by the deadline of Friday 2 June 2023). Companies also welcomed the engagement and the further guidance on Ofwat's approach in this area.

Ofwat advised that it intends to issue additional guidance in due course to help companies in submitting PCD proposals in their business plans and that it expects to continue to refine its approach as it goes through the price review process.

Ofwat then went on to present the content covered in the information pack "Price Control Deliverables Workshop for PR24". This information pack was circulated to all attendees ahead of the session (and is being published alongside this summary).

Summary of group discussions

Incentive structure

Points made included:

Some companies stated that if a company would pay penalty if it's slightly delayed in delivering PCD they would also want to be rewarded if it delivers early. Some concerns that they could lose the whole value of their investment if they were late in delivery. Ofwat responded that if company delivers funded outcome/output by end of control period only time value adjustments would apply. Companies said that they would welcome further clarity on how this would operate, for example through a worked example.

As PCDs were meant to be consistent with outcomes/outputs funded by customers through the price control, Ofwat explained that it was important that price control deliverables were set for the period, with no in period changes. Some companies mentioned the risk that companies may end up delivering an investment that is no longer needed or delivering the wrong solution if in period changes were not allowed. There was recognition that the risk of delivering wrong solution was more relevant for output focussed PCDs rather than outcome focussed PCDs.

Materiality test

Points made included:

Ofwat explained that it expects companies to apply a materiality threshold of 0.5% of totex and that this should be applied to the totex of each enhancement category or combination of enhancement categories where appropriate. It also stated that it expects companies to go beyond this threshold and consider additional PCDs where there is likely to be no/limited oversight of project delivery from other regulators (EA/NRW/DWI).

Request for guidance on how the 0.5% materiality threshold should be applied – whether this should be applied to full totex or relevant area of spend (e.g. wastewater) totex.

There was also a question about how ODIs should be reflected in materiality test. There was recognition that ODI valuations are not yet finalised. Some companies suggested that ODI impacts should be considered alongside the materiality test to determine whether PCDs will be needed for a particular area of spend.

PCD payments

Points made included:

There was a discussion about how PCDs interact with performance commitments and whether the PCD payment rate should be set at unit cost minus ODI rate. Ofwat explained that companies are expected to be worse off if the activity or benefits are not delivered (ie PCD not met), and so in general Ofwat did not expect ODI payments to be netted off from the PCD payments.

Level of aggregation of PCDs

Points made included:

Ofwat explained that, provided customers are protected, it supports companies setting PCDs at the highest level of aggregation possible so that companies retain flexibility over how the benefits are delivered. It also said that where unit costs vary significantly across schemes more granular PCDs may be appropriate.

There was some discussion about the right balance between flexibility, customer protection and complexity. The higher the aggregation of deliverables across schemes, the more flexibility companies will have over how to deliver benefits, and the less onerous the tracking of these benefits will be. However greater aggregation could allow the avoidance of delivering commitments in higher cost areas.

Ofwat explained that the number of PCDs should be kept to a minimum. However, this does not prevent several specific outcomes being set within a PCD - eg the unit rate of meeting a requirement might be different at different locations. Ofwat explained that where feasible it would be preferable to specify outcomes at a high level, however customers need to be protected so that they get the improvements that they paid for.

Specific areas of spend

Points made included:

There was some discussion about whether PCDs should apply to investigations. It was also discussed that although spend in investigations may not be material in AMP8 it may have material implications for spend in future AMPs.

On storm overflows, there was discussion on how PCD design should avoid driving grey infrastructure and enable flexibility while protecting customers. There was a suggestion that the use of equivalent storage as a deliverable could provide this flexibility but question on whether this is appropriate where unit costs between green and grey infrastructure diverge.

Ofwat closed the meeting by thanking the attendees for their input.