

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
11 Westferry Circus, Canary Wharf, London E14 4HD

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By email

31 May 2023

Dear Regulatory Directors

## **Reflections on initial assessment of bespoke performance commitments**

Thank you to everyone who has engaged with us on bespoke performance commitments, either through feedback on our methodology or by making proposals for your company.

In carrying out our assessment of bespoke performance commitments, we have a number of reflections overall that are wider than bespoke performance commitments, which companies should seek to address in their business plans submitted in October 2023.

We assessed each bespoke performance commitment proposal against the list of criteria that we set out in our [PR24 Final methodology, Appendix 7](#). We will be providing individual feedback to companies about our assessment of their proposals against these criteria by 9 June 2023. Our review highlighted the following themes:

- outcomes focus;
- overlap with other performance commitments;
- customer research; and
- greenhouse gas emissions.

### **Outcomes focus**

Bespoke performance commitments should be focused on outcomes rather than outputs. When reviewing the bespoke performance commitment proposals, it was disappointing that many measured outputs rather than outcomes.

Outputs focus on tracking the delivery of activities by water companies. Our concern is that a focus on outputs by companies reduces their incentives for innovation, including programmes of work that focus on long-term changes. This is because it encourages companies to deliver to target but offers no incentive to go beyond it. Conversely, we consider that by focusing on the outcomes companies have greater flexibility to deliver more for customers and the environment over time. It also protects customers if an output does not deliver the expected benefit.

We encourage companies to consider if they can adapt the bespoke performance commitments to more directly measure the outcomes that customers and society value.

## **Overlap with other performance commitments**

We were clear within the PR24 final methodology that bespoke performance commitment proposals should not overlap with either the common performance commitments or other bespoke performance commitments.

We consider that many of the measures proposed by companies as bespoke performance commitments overlap with the environmental common performance commitments we have introduced for PR24. We cannot support these proposals because they provide limited benefits, if any, over and above the common performance commitments.

## **Customer research**

In the final methodology we said that bespoke performance commitment proposals should include any evidence of the additional benefits to customers and the environment. One source might be research showing customer support for the measure. While some companies did submit such evidence, it was generally difficult to give it any weight in the overall assessment. Some key reasons for this were:

- insufficient details of research were provided to understand sufficiently the research design. We would have needed to know more about stimulus materials, topic guides and questionnaires;
- mismatch between companies' statements about customer views and the findings in the research reports that were provided;
- no clear link between summary of information about customers views and large repository of customer research (tens of items); and
- no evidence was provided that demonstrated effective challenge and assurance of the research.

Good evidence of customer support for a company's proposals in their business plans will contribute favourably towards its overall assessment. Companies are reminded that our expectations for the standards that should be achieved for customer engagement evidence are set out in '[PR24 and beyond: Customer engagement policy – a position paper](#)' (Ofwat, February 2022).

## **Greenhouse gas emissions**

We recognise the uncertainties that exist in relation to the measurement and reporting of greenhouse gas emissions. However, for the UK and Welsh governments' net zero emissions

targets to be achieved, all companies need to reduce their embedded greenhouse gas emissions.

While we welcome the bespoke performance commitment proposals in this area, we want to see the sector make greater and more rapid progress. Therefore, we strongly encourage more companies to come forward with bespoke PCs focused on incentivising reductions in embedded GHG emissions. In doing so, we encourage companies to develop targeted approaches that are linked to external verification and accreditation standards.

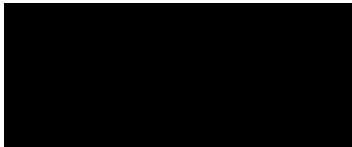
### **Next steps**

The reflections that we identify here are echoed in the individual company feedback we are providing to companies on their proposals. These letters are being finalised and we expect to send them to companies by 9 June 2023.

Where we consider that measures are suitable for development as potential bespoke performance commitments we will provide additional, more detailed, feedback in July 2023, in readiness for the preparation of business plan submissions.

We would like to thank the sector for their engagement so far and look forward to receiving business plans in October 2023.

Yours sincerely,



**Thea Hutchinson**  
**Director, PR24 Outcomes**