

Draft determination of Severn Trent Water's in-period outcome delivery incentives for 2022-23

Severn Trent response

October 2023

Overview of our response

We welcome the opportunity to respond to Ofwat's consultation on the draft determination of our in-period outcome delivery incentives (ODIs) for 2022-23. While we welcome that Ofwat has accepted nearly all of our ODI calculations, we do not agree with the intervention in relation to supply interruptions.

Response to the intervention on the supply interruptions ODI

Please find below our response to the draft determination intervention on our supply interruptions ODI.

Fair comparisons with targets and with other companies

We understand Ofwat's stated policy is that ODI outperformance payments should relate to real changes in performance rather than to definitional, methodological or data changes in the performance commitment (PC). We agree with this approach. It is right that performance and targets should be set using a common approach because this enables a like-for-like comparison. If different measurement would have led to a different target being set at the PR19 Final Determination, then there are two ways of dealing with this problem:

- A change to the target, such that it is consistent with the new basis of measurement; or
- Continuing with the previous basis of measurement for the duration of the control period, even if this is less accurate.

The position with supply interruptions is different, because Ofwat set the same target for all companies at PR19 for the 2020-25 period, by reference to the best performing companies in the industry. This means that Severn Trent's previous approach to reporting had no influence on the way that the Performance Commitment Level (PCL) was set at PR19. As a result we consider:

- Our change would bring our actual performance measurement closer to the definition of the PC. If we had reported on this basis at the end of AMP6, we would have had a better starting position but the PCL would not have changed.
- The approach we've adopted represents an improvement in the calculation. It follows that our performance has been better than reported so far in AMP7. But we are not seeking a downward revision to the calculated ODI underperformance payments for 2020-21 and 2021-22 because we recognise we did not raise the issue at the time.
- If Ofwat requires us to continue reporting on the old basis for the duration of AMP7 it could effectively be setting Severn Trent a tougher target for supply interruptions than other companies in the sector. This is because the approach we are now adopting is closer to the Ofwat definition of the PC (measuring pressure in the main rather than at ground level).

Open and transparent reporting

When we have made changes to our approach to reporting for any measure, we have been transparent and not asked to claim any outperformance payments where we did not think these

were warranted. For example, during our engagement with Ofwat at PR19, we highlighted an inconsistency between the way that Ofwat had defined the PC for persistent low pressure and the reporting requirement. We drew attention to this again when reporting on our performance for 2020-21. Due to us highlighting this issue, Ofwat decided to amend the definition of this PC and we accepted this change even though the amendment was made after the PR19 Final Determinations. As a result of this change, our outperformance payments in 2020-21 were reduced by £2.3m, and there will be a similar impact in every year of AMP7.

For supply interruptions, we have also been open and transparent about reporting issues and improvements in our methodology. Our Annual Performance Report (APR) therefore disclosed that we had carried out height analysis to demonstrate when the network had reached an appropriate level of pressure that would allow us to stop or remove temporary supply arrangements. The change required us to include an assessment of mains depth so that we could assess how much pressure we would need to restore supplies to a property.

Responses to the specific challenges in Ofwat's in-period ODI draft determination

Other companies in the sector adjust their performance for mains depth in this way

It has been difficult for us to obtain a comprehensive view of industry practice within the timeframe of this consultation; Ofwat would be able to obtain a fuller picture more quickly than we could. As we set out in our query response, we consider our current approach to be the best practice approach and not something that ought to be discouraged.

Adopting our current approach allows us to more accurately measure when customers' supplies are back on. This results in the following benefits for customers:

- We can remove temporary supplies more quickly, reducing the risk of water discolouration for customers.
- We can clear sites and road blockages more quickly, which reduces disruption to customers.
- We can save costs, with customers receiving a share of these through the totex efficiency incentives.

Our previous reporting approach meant we inaccurately recorded customers as being off supply when their supply had been restored.

Application of adjustment to both the start and stop time for interruptions

We have complied with the requirement – following the reporting guidance – that the starting time for interruptions should be measured from the time at which the property does not receive at least 3m of pressure in the main (or sooner if notified by the customer). The change we have made is simply a better assessment of the time at which properties have their supply restored using the same measure of pressure. This has been done using an assessment of the mains depth, which affects the point at which properties will receive the relevant level of pressure.

In our approach, the same assessment of depth has been used for both the start and stop times. It is worth noting that taking this into account for the starting point will also tend to shorten the duration of interruptions, because the pressure in the main will always be higher than the pressure at ground

level. However, the effect on the starting point will be much more limited, because the loss of pressure during an interruption event is likely to be very rapid (for example, due to a burst), whereas the restoration of pressure is more gradual as supplies are restored and water takes time to circulate through the network. In addition, some start times are determined by the point at which customers contact us to indicate that there is an interruption to supply, so the start time is not based on network modelling. For the avoidance of doubt, the difference of 34 seconds stated in our query response is the full impact of the change in approach.

Compliance with reporting requirements in previous years

We have complied with the reporting requirements in previous years:

- Our start point began at the time when there was insufficient pressure (or earlier if notified by a customer).
- Our end point began at the time when we assessed that there was sufficient pressure.

The only change has been the way in which we assess whether properties are receiving sufficient pressure for their performance to be considered as restored. Ofwat asks why we did not report this way in previous years. This is because we had not considered the effect of mains depth before and carried out this assessment to improve the measurement of the PC and its alignment with Ofwat's PC definition for supply interruptions.

Change in performance not related to real operational improvement

It is true that the change in performance compared to 2021-22 is partly due to a change in measurement. If we were calculating a percentage change compared to the previous year that would be slightly distorted by this change in methodology. However, this would only be important if our target was set relative to the previous year and this is not the case. In essence we have overstated the duration of supply interruptions in the first two years of AMP7 and we have borne the consequences of doing so with higher underperformance payments.

We could re-state the two previous years so that the movement represented a real change in performance but there would be limited value in doing so: we are not asking Ofwat to revise the ODI underperformance payments we have incurred for the last two years. We are only asking that we should be allowed to report using the improved methodology going forwards.

Conclusion

We consider that Ofwat should not intervene on our supply interruptions ODI because we have moved to an approach that is more accurate and more aligned with the PC definition. Our approach leads to benefits for customers by allowing us to remove temporary supplies at the right time, clear works more quickly and share cost savings with customers.