

## PR19 Customer Challenge Group

**Meeting number:** 5

**Meeting Date:** 10<sup>th</sup> January 2018

**Paper No:** 8

**Agenda No:** 10

**Title:** PR19 Final Methodology highlights

**Author:** Oliver Martin

**Printing:** This document does contain graphs or pictures and therefore does require you to print in colour. If you need a printout please let Nikki know.

<b>What is this paper about:</b>	Overview of PR19 Final Methodology published by Ofwat in December 2017.
<b>What is the context of this paper:</b>	Ofwat issued their Final Methodology in December. This paper summarises the key headlines from the methodology.
<b>What is the relevance of this paper:</b>	Note – this paper was also issued to SEW Board providing a high level overview of the methodology.
<b>Action needed from the CCG:</b>	Paper is for information only.

# PR19 final methodology overview



# Headlines

## Business plan assessment

- 4 categories of plan – exceptional, fast track, slow track, significant scrutiny
- Exceptional = 0.2% - 0.35% of RORE (0.2% at draft methodology)
  - For SEW this equates to c£4.5m - £7.9m over 5 years
- Fast track = 0.1% (0% at draft methodology)
  - For SEW this equates to c£2.2m over 5 years
- Significant scrutiny = higher potential downside and potential for no rewards on bespoke performance commitments
- New business plan assessment test on board assurance - “that their plan enables customers’ trust and confidence through transparency and engagement on issues such as its corporate and financial structures”
- 2018 Company Monitoring Framework (CMF) assessment will be published alongside business plan assessment
- Will take into consideration track record of performance under CMF
- Starting assumption is all plans require significant scrutiny until shown otherwise

# Headlines

## Outcomes

- Upper quartile challenge for supply interruptions in each year of PR19 rather than the 2024/45 UQ from year 1
- Requirement to achieve at least 15% reduction in leakage and forward-looking upper quartile performance on leakage per property per day
- Confirmation of 14 common performance commitments (PCs)
- New bespoke Performance Commitment required for gap sites (not on billing system) and void properties
- PCs require 10 year projection in addition to next five years

## Innovation

- Remains a key theme for PR19
- Includes “developing and implementing new ways of working, changing the culture and focus of companies and the ways they work with their supply chain and wider stakeholders”

# Headlines

## Customer engagement

- Ofwat customer engagement principles re-stated and will be a central part of business plan assessment
- Companies also required to engage with business retailers as part of their customer engagement
- Expectation that companies take into account themes of customer participation
  - Futures – customer participation to improve the current and future sustainability of water services
  - Action – customer behaviour change, including saving water and helping to reduce sewer blockages
  - Community – community ownership of particular aspects of water as an essential resource
  - Experience – increasing customers' control of water in their home and of the service experience
- Companies required to make better use of data and work with others to share data to drive better outcomes for customers

# Headlines

## Vulnerability and affordability

- Common metrics, qualitative and quantitative evidence to be assessed to make assessments 'in the round'

## Financials

- 2.4% cost of capital in RPI terms (3.7% at PR14), transition to CPIH confirmed
- Companies need to take into account customer views of profile of bills over time to support PAYG and RCV run-off rates

## Cost efficiency

- Cost sharing rates stated in methodology - flat underperformance sharing rate of 50% for companies who submit low cost plans which then overrun on costs ('anti-gaming provision')
- Expectation that there is significant scope to improve efficiency and companies required to set out proposed efficiency gains relative to the 2015-20 position
- Econometric models to be developed for retail costs as opposed to average cost to serve
- Efficient cost baseline will be assumed from the start of the period with no glide paths

# Headlines

## Price controls

- Household retail control will be for 5 years (3 years stated in draft methodology)

## Direct Procurement for customers

- Trigger for review £100m whole life totex
- Ofwat not mandating which tender model should be used – ‘early’ or ‘late’
- Companies cannot award a DPC contact to an associated company

## Business plan submission

- 200 page limit to main document + Board level executive summary of 5 pages
- Not restricting length of business plan documentation (i.e. appendices)
- Expectation that all appendices and supporting information are published

# Common performance commitments

1. Customer experience measure	2. Developer services experience measure	3. Water quality compliance	4. Customer water supply interruptions	5. Leakage	6. Per capita consumption	7. Customer property sewer flooding (internal)
8. Wastewater pollution incidents	9. Risk of severe restrictions in a drought	10. Risk of sewer flooding in a storm	11. Asset health: mains bursts	12. Asset health: unplanned outage	13. Asset health: sewer collapses	14. Asset health: treatment works compliance (WASCs only)

## Area of focus

 Customer experience     Day to day performance     Future performance/resilience

**1 to 6 and 9, 11 and 12 apply to WoCs and WaSCs**

**7, 8 and 10, 13 and 14 apply to WaSCs only**

Water UK project underway to improve consistency of definitions and reporting, this is a tight time frame process.

# Timetable

2018	
<b>January</b>	Ofwat publishes feedback on company bioresources RCV allocation proposals.
<b>31 January</b>	Companies propose their own allocation of historical RCV for water resources.
<b>January / February</b>	Companies wholly or mainly in England publish their water resources information alongside their draft WRMP.
<b>March</b>	Ofwat releases pilot version of the data capture system. Ofwat publishes report on the external review of the financial model and a revised model (incorporating changes recommended by the review). Companies wholly or mainly in Wales publish their water resources information alongside their draft WRMP.
<b>30 March</b>	Final date for issues and clarifications on the updated business plan tables and financial model
<b>April</b>	Ofwat publishes feedback on company water resources RCV allocation proposals.
<b>3 May</b>	Companies submit: <ul style="list-style-type: none"> <li>• definitions of their performance commitments; and</li> <li>• information on their expected cost adjustment claims.</li> </ul> Publish further revised business plan tables and financial model (if required).
<b>May</b>	Ofwat releases updated version of the data capture system for use with the business plan tables.
<b>by 15 July</b>	Companies submit: <ul style="list-style-type: none"> <li>• Annual performance report;</li> <li>• their populated PR14 reconciliation models; and</li> <li>• their bioresources market activity information (and publish their 2017-18 bioresources market information on their web-sites).</li> </ul>
<b>3 September</b>	Companies submit business plans to Ofwat.
<b>September / October</b>	Companies present their business plans to Ofwat Executive / Board. We expect any presentations to take place between 24 September 2018 and 5 October 2018.
2019	
<b>late January</b>	Ofwat publishes: <ul style="list-style-type: none"> <li>• initial assessment of business plans; and</li> <li>• 2018 company monitoring framework assessment.</li> </ul>
<b>March/April</b>	Ofwat publishes early draft determinations (exceptional and fast track plans).
<b>April</b>	Companies submit revisions to business plans (significant scrutiny and slow track).
<b>July</b>	Ofwat publishes draft determinations (slow track and significant scrutiny).
<b>December</b>	Ofwat publishes final determinations.