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# Appendix

## YKY13\_ Stakeholder responses to Ofwat's PR24 draft methodology



YorkshireWater

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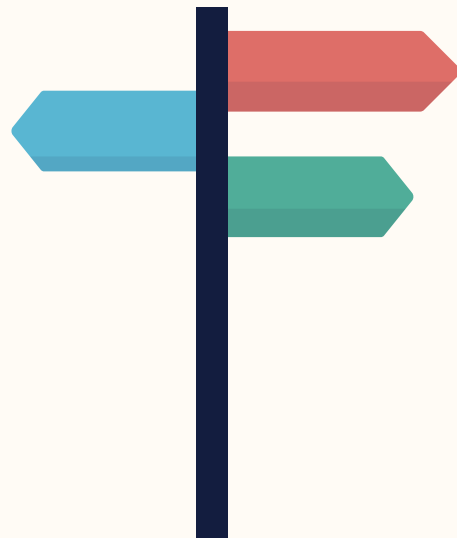
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More detail on this subject can be found in [Chapter 6: Customer and stakeholder engagement](#)



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# 1. Stakeholder responses to Ofwat's PR24 draft methodology

1.1 Yorkshire Leaders Board

1.2 UK Water Retailer Council

September 13, 2022

Dear Sir/Madam,

## **RESPONSE TO OFWAT'S DRAFT PR24 METHODOLOGY**

Please find our collective response to your PR24 Draft Methodology. We would appreciate Ofwat considering the comments made below as part of their overall consultation process.

By way of an introduction the Yorkshire Leaders Board and Yorkshire and Humber Chief Executives group bring together the 22 councils across the Yorkshire and Humber region, along with the two Mayors in South and West Yorkshire, and the combined authorities in those areas.

Since mid-2021 the Yorkshire Leaders Board and Yorkshire Water have been working together to develop a process to allow local authorities to co-create Yorkshire Waters new long-term-strategy and PR24 business plan to ensure that the plans represent the needs of the Yorkshire and Humber region and reflect the priorities of local authorities.

To facilitate this process there have been five regional roundtables so far with representatives nominated by the Yorkshire Leaders Board, including economic development, planning and flood risk management. The roundtables have covered housing and economic growth, Drainage and Wastewater Management Plans, Water Resource Management Plans, storm overflows and the draft PR24 methodology. To date the sessions have identified the following priorities for Yorkshire Waters emerging business plan:

1. To develop a business plan that responds to the diverse needs of the Yorkshire region and recognises the unique challenges and strengths of the County.
2. To ensure that Yorkshire Water supports the economic growth ambitions for the region by delivering investment in network capacity and reduce flood risk to support housing growth and better protect our communities.
3. To ensure that Yorkshire Water continues to provide the investment required to continue the delivery of the Living with Water and Connected by Water flood resilience plans and enable similar partnerships in West and North Yorkshire.
4. To develop a business plan that allows Yorkshire Water to be flexible and agile and able to respond to emerging opportunities to work in partnership with local authorities and align with their business and flood risk management plans.
5. To focus on delivering the long-term investment required to create a more resilient region in the face of the climate and biodiversity emergency.

The sessions also identified where they felt that Ofwat's PR24 draft methodology impacted on the above Yorkshire Leaders Boards priorities:

1. The draft methodology sets and expectation that companies should focus on the long term. This fits in well with the desire from local authorities for Yorkshire Water to deliver long-term investment in resilience.
2. The move towards collaborative customer research across all water companies risks creating a one size fits all approach to assessing business plans, which may not allow Yorkshire Water to take account of the specific needs of the Yorkshire region.
3. There is a risk that the new 'open challenge sessions' proposed by Ofwat become the main forum for stakeholder feedback and that the work done through the Yorkshire Leaders Board is not given sufficient weighting in the assessment of the business plan.
4. The requirement in the draft methodology to include named schemes only in the investment plans would restrict the ability of Yorkshire Water to respond to emerging opportunities for jointly funded schemes or newly arising issues that would benefit customers and provide best value.
5. There were also concerns raised by the Flood Risk Managers in the sessions about the lack of focus on reducing flood risk with no clear outcomes identified. The future impacts of climate change on existing Yorkshire Water assets are a clear concern and it was thought that listing it as a key outcome or core service to combat the effects of climate change should be considered.
6. As one of the largest drainage asset owners in the country water companies need to work closely with other Flood Risk Management Authorities to become more resilient to our changing climate.

We do hope that the comments above are helpful in the formulation of your final methodology for PR24, if you would like to discuss the contents of this letter further or require any further feedback please feel free to contact Paul Maddison, Team Leader at Wakefield Council for Land Drainage & Flood Risk Management at [pmaddison@wakefield.gov.uk](mailto:pmaddison@wakefield.gov.uk), or the Leaders Board secretariat at [yhcouncils@wakefield.gov.uk](mailto:yhcouncils@wakefield.gov.uk).

Warmest regards

The image shows two handwritten signatures in black ink. The first signature on the left is 'Carl Les' and the second signature on the right is 'Stephen Houghton'.

**Cllr Carl Les and Cllr Stephen Houghton**  
**Co-Chairs of the Yorkshire Leaders Board**

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7<sup>th</sup> September 2022

Dear Sir

## UKWRC response to Ofwat Consultation on methodology for PR24.

UKWRC represents retailers active in the English and Welsh Water Retail Market for non-household (NHH) customers. UKWRC has 17 members comprising both large and small and associated companies and new entrant retailers. Together they serve around 98% of non-household properties in the English and Welsh market.

We have therefore approached this response by considering what the PR24 proposals mean for the Retail Market and for NHH customers and the environment. Our overriding view is that PR24 needs to proceed with consideration of and alignment to the Market. If not, the outcomes from PR24 may undermine the development of a sustainable Market, to the detriment of existing and future NHH customers.

Our Vision for the Market, previously shared with Ofwat, identified five Key Focus Areas . Three of these relate directly to Wholesalers' PR24 investment plans i.e.

- ❖ Metering in the NHH Market – and the need for improved availability, quality, consistency and lower cost of consumption data.
- ❖ Wholesaler alignment and incentivisation with the interest of the NHH Market.
- ❖ Water Efficiency in the NHH Market.

These three Key Focus Area were the subject of discussion at the three recent trading party workshops facilitated and chaired by MOSL and formed the main agenda at the subsequent workshop with Ofwat on the 10<sup>th</sup> August.

We address each of these Focus Areas below, before responding to specific questions in the consultation.

### **1. Metering in the NHH Market - the need for improved availability, quality, consistency and lower cost of consumption data.**

Improved data is essential for functioning of the Retail Market and providing service to NHH customers. Poor meter data leads to incorrect consumption data, inability to assess water efficiency interventions and inaccurate billing. The recent CCWater/Ofwat 'Business customer insight survey 2022' found the most frequent reason given by customers for being dissatisfied with their current retailer services was billing issues (65%).

Since wholesalers own the meter asset, PR24 provides the opportunity to address the legacy data issue holding back the market by promoting investment in smart(er) metering. Such programmes should be rolled out in accordance with a set of standardised arrangements and interoperability requirements across wholesalers to ensure that retailers and customers receive a consistent, harmonised service, avoiding the additional frictions and costs of complexity.

We note that Ofwat includes the need for the 'right metering' in their Draft Methodology: *'We consider that water companies have a significant role in water efficiency that includes: providing the right metering.'*

And in the subsequent reference to the outcomes of lower water demand and leakage: *'This provides incentives for companies to not only deliver more metering, but also to ensure that it is the right technology in the right place, as part of a holistic programme of work to deliver the greatest benefits.'*

Ofwat notes that water companies have a significant role in water efficiency that includes providing the right metering. But Ofwat's methodology proposes just to focus on the end outcomes from enhanced metering, i.e. reduced demand. There is no guarantee that this approach alone will incentivise the roll out of more metering to NHH customers and improve the quality and availability of data necessary for operation of the Market, reducing customer complaints, facilitating water efficiency measures and reducing demand.

There is an argument therefore, especially if the three PCs designed to reduce water demand are combined, that a new PC is created to incentivise improving data quality, through the right metering in the NHH market.

Wholesalers could focus solely on their own household customer base, to the detriment of NHH customer and the Market as a whole. We would therefore like to see a separate PC related to provision of good quality, timely and more granular data. This would impose a timeline, and an interoperability standard. It would also still be consistent with Ofwat's commitment to 'outcomes' (good customer experience), without imposing a technology solution, and allow for innovation. We expand on this below in the last bullet point.



The recent trading party workshops provided useful dialogue and understanding between wholesalers and retailers on the issues involved, including:

- ❖ Will the demand reduction PC be sufficient to ensure smart(er), metering investment is put forward by wholesalers and, subject to efficiency considerations, approved by Ofwat? There is a strong case for including the additional benefits, i.e. those that accrue to improve the Market and service to NHH customers, in the business case for smart(er) metering. These are significant but are difficult for wholesalers to quantify. How will Ofwat take these other benefits into account?
- ❖ The reliance on Water Resource Management Plans to identify the need for improved metering neglects the case for those companies not in areas of water stress and would lead to a fragmented approach to smart(er) metering. The other benefits to the Market and to customers, whether NHH or household, are though still achievable.
- ❖ There is a case for a coordinated metering strategy adopted by all wholesalers – with a central PR24 business case developed and agreed outside individual business plans. The data obtained from some Wholesalers' AMI (Advanced Metering Infrastructure) trials was quoted as a 'game changer' for understanding customer usage and identifying continuous flow – likely to be leakage. This data could be used to inform a central business case or support individual ones.
- ❖ At the final workshop with Ofwat it was noted – 'In the absence of national targets for smarter metering it was suggested a problem *statement could be developed*, e.g. *"the market needs better quality consumption data and one of the key routes to get that is smarter metering"*. It was also suggested *"..if companies and Ofwat can agree on the problem statement that there can be a more open conversation on how it can be achieved."*

## 2. Wholesaler alignment and incentivisation with the interest of the NHH Market.

Retailers and their NHH customers are dependent on wholesalers for a range of services including the maintenance of assets (meters), provision and quality of market data and levels of service in carrying out operational activities, including meter installation or replacement. However retailers have little influence over wholesalers in delivering these services since the existing financial and reputational consequences for wholesalers for poor performance (through the Market Performance Framework) are insignificant when compared with the service level incentives for household customers.

In our previous response to 'PR24 and beyond: Performance commitments for future price reviews' we called for both R-MeX and B-MeX to be included as common PCs in the price control. And to ensure equity between household and non-household customers, any financial penalty should be comparable.

We therefore see Ofwat's proposal for a new BR-MeX Performance Commitment for PR24 as a positive move, though we have a number of concerns, pending further development of the proposal. In particular:

- ❖ Ofwat sets out how it proposes to make outperformance and underperformance payments for BR-MeX proportionate to those for C-MeX, based on revenue collected. It would be helpful to have a clearer explanation of how that translates into the +6%/-12% figure for C-MeX, against the +0.5%/-1.0% figure proposed for BR-MeX. And, since Ofwat is considering increasing the overall incentive size for C-MeX – to 'further focus companies on improving their customer service' - there is a risk that the outperformance and underperformance payments will not be

proportionate and the current situation with a lack of equity between household and non-household customers will be perpetuated.

There were several other questions raised at the trading party workshop with Ofwat that we share, including:

- ❖ An effective BR-MeX needs to incentivise wholesalers to not only focus on specific aspects of today's operations and service, but also the more strategic, policy and long-term decisions that would improve the Market and benefit current and future NHH customers. In that respect we note Ofwat's statement in Appendix 6 (3.3) – *'Our market monitoring and Project RISE also indicate that water companies need a stronger focus on understanding the needs and requirements of their business customers and to tailor their wholesale service offerings accordingly. In many cases this relates to qualitative aspects of wholesale service provision, which is also influenced by company culture.'* There therefore needs to be a balance of these complementary measures in the make-up of this new performance commitment.
- ❖ If BR-MeX was funded from only NHH customers, it would require reciprocity, in terms of NHHs ceasing to pay for C-Mex or D-Mex (and potentially other investments/incentives from which they do not benefit). This seems a departure from existing approaches.
- ❖ Will the BR-MeX framework drive the right outcomes? For example, would it drive wholesalers to connect more explicitly with NHH customers? And would it drive differing innovations leading to further variability and complexity in the market?

### 3. Water Efficiency in the NHH Market

At market opening, it was anticipated that competition between retailers would drive the provision of water efficiency support to NHH customers. This hasn't been the case. It is apparent that since market opening, there are neither sufficient incentives on customers to drive behaviour change and demand for water efficiency support from their retailers, nor are there sufficient incentives on retailers and wholesalers to provide it in the absence of customer demand. And even if there was demand, the lack of granularity of consumption data makes it difficult for NHH customers to assess potential benefits of water efficiency interventions or measure the benefit of any such intervention.

To achieve the Defra Demand Target for NHHs of 9% (245 MI/d) by 2037 will require a step change in data quality in the market and potential changes to the regulatory framework.

We therefore endorse the recommendations from the RWG Water Efficiency sub group following release of the Economic Insight report – 'Options for promoting water efficiency in the NHH Market', i.e.

- ❖ The wholesale price control is used to raise the level of funding necessary to allow the industry to take proactive steps towards meeting the Defra target and delivering demand reductions from the NHH sector. It would help raise customer awareness of water efficiency if the funding was ring-fenced and labelled as such.

- ❖ Wholesalers are obliged to work with retailers to deliver in order to avoid undermining the potential for competition in the NHH market, but recognising that if retailers do not engage, there needs to be an option for wholesalers to work directly with NHH customers.
- ❖ PR24 is used to develop and fund a market-wide, consistent strategy for delivering smart(er) metering and the level of consumption data required to support water efficiency (the EI report suggests £22m -£31m / year).
- ❖ The MPF provides additional funding for retailers to provide water efficiency services directly. The MPF should not be the primary mechanism for incentivising or funding water efficiency.

Other concerns we have around Ofwat's proposal and which were discussed at the PR24 workshop include:

- ❖ Defining the Performance Commitment. We believe to be effective and reduce NHH demand it must be meaningful to NHH customers. PCC will not be. Therefore the NHH target should be defined in MI/d.
- ❖ We welcome the proposal to incentivise reductions in NHH demand through PR24. However there is a clear need for collaboration between wholesalers and retailers in the delivery of water efficiency to prevent undermining of retail competition in the Market. Ofwat suggests potentially disallowing outperformance payments if water companies cannot demonstrate they have explored options to deliver NHH water efficiency in collaboration with retailers or other third parties. We would like to see clarity on how 'exploring options' would be measured and what 'good / acceptable' collaboration looks like.
- ❖ The exclusion of large customers using more than 50MI/year. The 1500 customer sites using more than 50MI/year account for around 36% of consumption [861MI/d] in the NHH market. Accepting that these customers could have a significant impact on future demand, increasing or decreasing, it seems counterintuitive to remove the incentive on wholesalers and retailers to support these customers with water efficiency measures. Should a new high-water user, e.g. a data centre or gigafactory be introduced then this could be accounted for or removed in the base consumption figure.

The prerequisite to delivering water efficiency savings is having good quality and timely meter data. However, some NHH properties are still not metered and, according to information from MOSL, most (around 75%) NHH properties are fitted with legacy, i.e. 'dumb' meters. In addition there were, in 2021, around 250,000 'long-unread' meters, some dating from pre-market opening. Other asset related issues that restrict the availability of data include sub-metering and shared supplies.

Without the funding to overcome these significant data quality/availability impediments the ability to progress water efficiency and demand reduction in the NHH market will be constrained. PR24 is the opportunity to address this – as set out in our previous section 'Metering the NHH Market..'

## Responses

We also have the following specific responses to the questions raised in the consultation, based on the above points:

### Ch2 – Regulating through the price review

#### **Q2.1: Do you agree with the challenges facing the sector and the ambitions for PR24 we have identified?**

We agree that you have captured the challenges at a high level. However Ofwat could be more cognisant of the challenge of delivering a fully functioning, competitive NHH Retail Market that works for all current customers and for future customers. Defra has clearly set out its strategic priorities for Ofwat, including using markets to deliver for customers and how promoting competition in markets can drive long-term sustainable investment, providing benefits to customers and supporting government's priorities. This specifically includes the 'business retail market'.

We believe PR24 has a key part to play in addressing current issues identified to ensure a fully functioning competitive Market, reflecting and supporting Government's policy priorities.

### Ch4 - Reflecting an understanding of customers and communities

#### **Q4.1. Do you agree with our approach to making sure that companies' price review submissions and our determinations reflect an understanding of customers', communities' and environmental concerns?**

We agree that companies price review submissions should take account of the needs and priorities of current and future customers and that the diversity of customers and communities' needs, priorities and concerns are understood so that companies business plan proposals target the right outcomes.

Whilst Ofwat includes both residential and business users in its definition of 'customers' which is welcomed, it excludes retailers, who are effectively major customers of the wholesale water companies and because of their role have specific insights on the concerns and needs of business customers and the wider business community. Retailers therefore need to be included in the development of companies' business plans.

Ofwat expands their thinking, suggesting effective partnerships between companies and their customers and communities are also vital to addressing urgent challenges such as driving down water demand and reducing sewer blockages. Retailers need to be included in these partnerships. We set out in the previous text – '3. Water Efficiency in the NHH Market' such an arrangement

## Ch5 – Delivering outcomes for customers

### Performance commitments

#### **Q5.1. Do you agree with our proposed package of common performance commitments? Is water demand best incentivised through separate performance commitments on household and domestic consumption and leakage or through a performance commitment measuring total demand?**

We welcome the inclusion of NHHs in a new performance commitment to reduce water demand. However to be effective it must be meaningful to NHH customers. PCC figures will not be and a combined figure less likely to be.

Combining the three metrics may create a perverse incentive, with water companies focusing more of their efforts to reduce leakage because of reputational drivers, or e.g. because of newer technology making that an easier option than collaborating with others to deliver water efficiency measures to NHH customers.

Therefore the NHH target should be remain separate and be defined in MI/d.

There is an argument, especially if the three PCs designed to reduce water demand are combined, that a new PC is created to incentivise improving data quality, through smart(er) metering in the NHH market.

There is no guarantee that Ofwat's approach to just focus on one or three demand related PCs will incentivise the roll out of more metering to NHH customers and improve the quality and availability of data necessary for operation of the Market, reducing customer complaints, facilitating water efficiency measures and reducing demand. We would therefore like to see a separate PC related to provision of good quality, timely and more granular data. This would impose a timeline, and an interoperability standard. It would also still be consistent with Ofwat's commitment to 'outcomes' (good customer experience), without imposing a technology solution, and allow for innovation.

#### **Q5.4. Do you agree with our proposed approach to the measures of experience performance commitments, including to increase the size of C-MeX?**

Ofwat points out that the aim for this new performance commitment is to *'improve company performance in relation to the wholesale services they provide to retailers and business customers.'*

We welcome Ofwat's intention to further focus companies on improving their customer service. However, any increase in the incentive size for C-MeX, without a re-evaluation of the proposal for BR-MeX will introduce an inequality between household and NHH customers with a potential unintended consequence of diverting wholesalers focus more to household customers than both household and non-households.

## Appendix 6 – Performance Commitments

### Customers receiving excellent service every day

#### **QA6.3. What are your views on our proposal to introduce a single, combined common performance commitment ('BR-MeX') capturing the experience of both end business**

### customers and retailers as intermediate customers?

We welcome the introduction of a business customer measure of experience, BR-MeX, as a common performance commitment for PR24, capturing both experiences of the end NHH customers and retailers as the 'intermediate' customer.

BR-MeX was discussed extensively at the recent trading party PR24 Workshops and we have covered it previously at section '2. Wholesaler alignment and incentivisation with the interest of the NHH Market'.

It would be helpful to have a clearer explanation of how the outperformance and underperformance payments for BR-MeX, i.e. +0.5%/-1.0% figure relate to the +6%/-12% figure for C-MeX. And, as Ofwat is considering increasing the overall incentive size for C-MeX – to '*further focus companies on improving their customer service*' there is a risk that the current situation with a lack of equity between household and non-household customers is perpetuated. Any increase in the incentive size for C-MeX should therefore initiate a re-evaluation of the proposed incentive size for BR-MeX.

We note Ofwat's statement in Appendix 6 (3.3) – '*Our market monitoring and Project RISE also indicate that water companies need a stronger focus on understanding the needs and requirements of their business customers and to tailor their wholesale service offerings accordingly. In many cases this relates to qualitative aspects of wholesale service provision, which is also influenced by company culture.*' We believe if BR-MeX is too transactional based it will exclude qualitative data and only incentivise wholesalers to focus on specific aspects of today's operations and service, rather than company culture and the more strategic, policy and long-term decisions that would improve the Market and benefit current and future NHH customers.

We hope this response provides value in refining the draft methodology for PR24. Whilst there are many challenges competing for funding at this review, we believe PR24 provides a timely and unique opportunity, along with the REC review, to resolve many of the current issues in the Market and make it work as intended and expected by customers.

Yours faithfully



Phillip Mills  
Chair  
UK Water Retailer Council