

UUWR_63

PR24 Draft Determination: UUW Representation

Area of representation: Outcomes - Unplanned Outage

August 2024

This document outlines our representation in response to Ofwat's draft determination related to the Unplanned Outage performance commitment.

Reference to draft determination documents: [PR24-draft-determinations-Delivering-outcomes-for-customers-and-the-environment.pdf](#) Page 66

1. Key points

- **We support Ofwat’s approach to setting the performance commitment level for unplanned outages:** The proposed glidepath to industry median means that UUW has been given a highly stretching, but potentially achievable target. This would not have been the case with an immediate application of an industrywide target, as this would have presented an unachievable target.
- **We support the application of a symmetric outcome delivery incentive rate:** Although the rate appears high compared to AMP7, the application of a symmetric approach means that the potential outcomes are better balanced than a penalty only approach. This will have the impact of better incentivising positive outcomes for customers.
- **We consider that the target remains very stretching for United Utilities given the removal of raw water quality outage exclusions:** As set out in our business plan submission, we consider mitigation of raw water outages using our integrated network to be a legitimate means of managing water quality at the customer tap. However, we recognise that Ofwat's approach provides sufficient scope to make the required operational changes to meet the AMP8 PCL. The target of 2.14% by 2029/30 will represent an improvement of 1.89% over the AMP8 period. This will be stretching but is potentially achievable if a high level of performance is accomplished.

2. UUW's PR24 proposal

In our PR24 proposal, we recommended that the exemptions relating to raw water quality outages remains within the definition of this ODI. We maintain that companies reliant on exposed, upland reservoirs remain disadvantaged in comparison to groundwater reliant companies due to the vulnerable nature of our raw water supply.

PCL: We proposed a PCL based on forecast industry upper quartile using historic data and PR19 PC definition which includes the continuation of raw water quality as an allowable exclusion to the measurement of the PC, increasing year on year.

ODI Rate: We proposed £4.06m per 1% and anticipated symmetrical reward/penalty as this is an Asset Health PC.

Exceptions to methodology;

- Our PCL was conditional on the continuation of the PR19 PC definition re: raw water quality related outages.
- In the event that the proposed change in methodology is not retracted, an uplift in PCLs in-line with the expected impact on performance (2% based on 2 year average, 2.6% based on 3 year average)

Data Query - Subsequent data submitted in response to an Ofwat query (OFW-OQB-UUW-123), clarifying our performance as per the PR24 definition (i.e. refinement of the “2%” in above bullet point).

3. UUW's understanding of the position in the draft determination

Ofwat has rejected our proposal to keep the ODI definition unchanged from AMP7, but has acknowledged the broadened definition represents a “material change”.

We recognise that Ofwat has developed this ODI with some mitigation in-effect for surface water reliant companies including:

- Recognising that target setting for this ODI should be discontinuous from AMP7 targets.
- Setting targets at a glide path to a common industry performance level.
- Setting 2029/30 industry-wide targets at forecast median of 2.14%.

UU PCLs are as below:

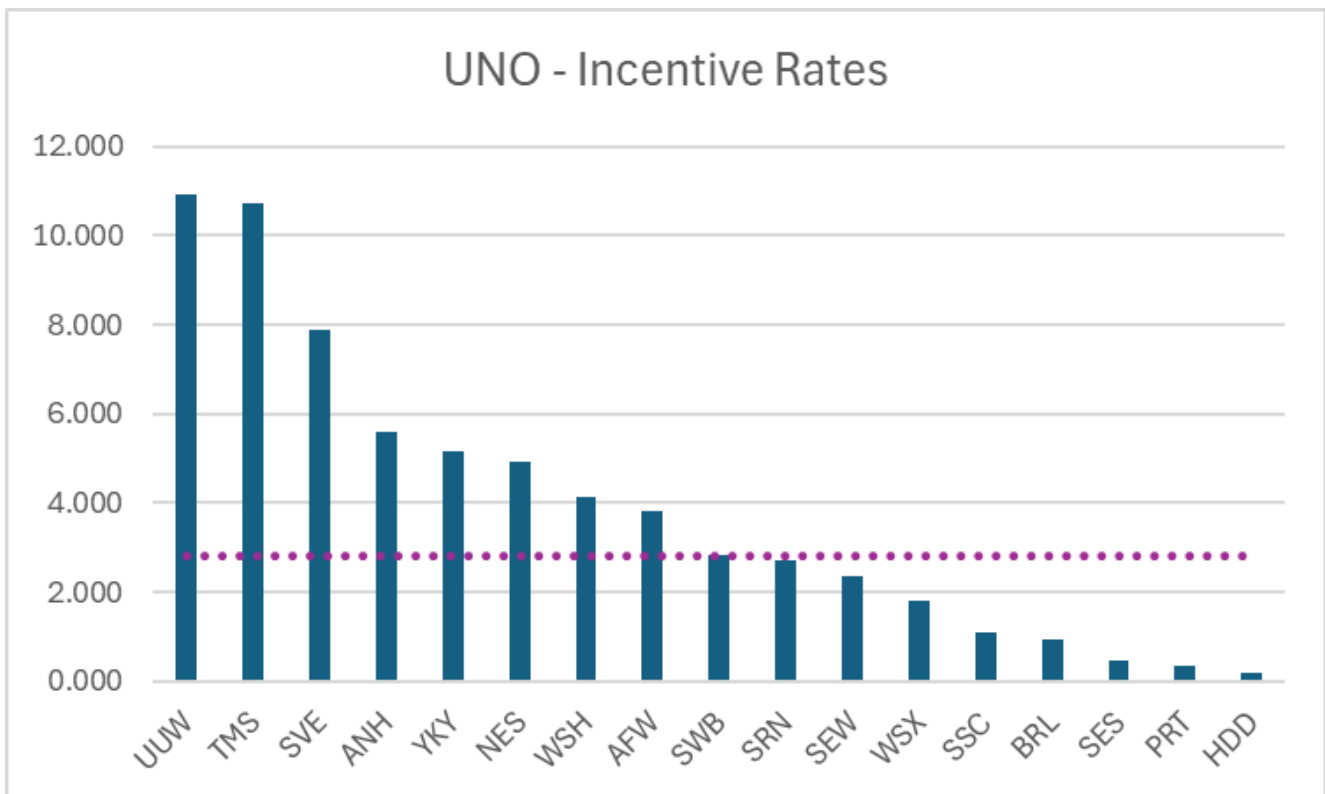
Table 1: AMP8 Unplanned Outage PCLs

Unplanned outage	2025/26	2026/27	2027/28	2028/29	2029/30
Performance Commitment Level	4.03%	3.56%	3.09%	2.62%	2.14%

Source: Ofwat

Ofwat has proposed a significantly increased incentive rate of £10.9m per 1%. This is a four-fold increase from PR19 incentive rates and is amongst the highest in the industry (Figure 1). Additionally, this rate would be symmetrical i.e. will be applicable to outperformance, as well as underperformance. This represents a change from the penalty only format of this ODI, present in AMP7.

Figure 1: UNO Industry Incentive Rates



Source: Ofwat

4. Issues and implications arising from the draft determination

Our position set-out in our draft determination that managing water quality via a combination of raw water outages, and a robustly interconnected network is an appropriate and legitimate strategy to minimise risk of supply for customers. Additionally, we further contend the broadening of the ODI definition, distracts from the intention of incentivising and promoting WTWs asset health.

By increasing the incentive rate and applying it symmetrically for both penalty and reward both the risk and opportunity associated with this ODI is increased.

On balance we recognise that Ofwat have provided reasonable accommodation for the challenges of this ODI- by providing a stretching but achievable PCL, and opportunity for financial reward for outperforming.

5. What Ofwat can do in the final determination to address these issues

Given Ofwat's stated position that raw water quality outages are not a reasonable exclusion, we consider that the approach taken in the draft determination is an appropriate alternative. Specifically, basing PCLs on a glidepath towards industry median, with the inclusion of symmetrical incentive rates, is a reasonable balance.

We therefore consider that the targets proposed by Ofwat are appropriately stretching, and the approach taken in defining this ODI is fair across the industry.

Our view is that the decision to set a common industry AMP8 Year 5 target, with company specific linear profiles is a fair approach. This will enable surface water sourced companies to develop and deliver an appropriate strategy to proactively manage and mitigate the uniquely challenging issues relating to raw water quality outages.

6. Conclusion

We accept Ofwat's DD PCL for this PC. We have therefore populated the relevant OUT business plan data tables with the appropriate inputs in order to replicate the performance level as stated in Ofwat's draft determination document PR24-DD-PCM_Unplanned Outage.

We recognise the decision to re-baseline performance following the broadening in ODI definition, as this represents a material change in measure definition.

We endorse Ofwat's approach to broader industry wide target setting, aligning performance to forecast industry median of 2.14% by 2029-30. We believe the proposed approach of either setting PCLs as a linear profile or uplifting proposed targets to median position is a fair approach to equalise performance levels between companies by the end of AMP8.

Additionally, we recognise that Ofwat's approach to target setting is fair and equitable for all companies, and accounts for different raw water source profiles. As a company primarily supplied from reservoirs with exposed upland catchments, UU will face atypical challenges pertaining to raw water quality. By setting a company specific linear PCL Ofwat has enabled the opportunity to identify and deliver a strategy to proactively manage these challenges, in-line with the revised ODI definition.