

Outcome Delivery Incentives (ODIs)

Background

In late 2011 Ofwat changed the way in which water companies were to develop their business plans for the next price review, PR14, 2015 to 2020. The new methodology was less prescriptive and mechanistic and most importantly was 'outcomes' based. Companies were to engage their customers in the creation of their business plans.

The engagement was conducted via the creation of customer challenge groups and robust customer research, ensuring that customers' wants and needs were reflected in the plans.

Through this engagement with our customers six outcomes were identified.

1. Safe and wholesome water
2. Reliable water supply
3. Provide an excellent customer experience
4. Environmentally sustainable operations
5. A financially sustainable business
6. Engage well with our community and customers

Within each outcome the company set and agreed Performance Commitments (PCs) with Ofwat. Each PC contains an Outcome Delivery Incentive (ODI), which can carry a financial reward or penalty or both. They can also be reputational.

As part of the Final Determination (FD) process the company must make a menu choice. The company is asked by Ofwat to choose from a menu of options for their allowed costs and their share in efficiency performance. The regulatory purpose of this is to enable the company to better manage its risk and incentivise lower costs.

An additional purpose is to allow the company flexibility to determine its level of risk and reward and provide incentives to reveal accurate cost forecasts.

BW has selected a menu choice of 101.2. This means that any rewards and penalties are shared on a ratio of 50.2% and 49.8%. Any reward or penalty BW receives will be slanted towards the benefit of customers.

The financial reward or penalty (the ODI) is applied depending on the company's performance against its PCs. The following PCs, which are linked to some of the outcomes noted above, have financial ODIs on which BW will be monitored and measured from 2015 to 2020.

1. Safe and wholesome water
 - A1 – Customer contacts: taste and appearance. (ODI - penalty only)
 - A2 – WS (WQ) regulation compliance – mean zonal compliance. (ODI - penalty only)

2. Reliable water supply
 - B1 – Reduce leakage. (ODI - reward and penalty)
 - B2 – Large scale interruptions. (ODI - reward and penalty)
 - B3 – Decreasing average interruptions > 3 hours. (ODI - penalty only)
 - B4 – Maintain serviceable assets. (ODI - penalty only)
 - B5 – Metering – continue current strategy. (ODI - penalty only)

3. Provide an excellent customer experience
 - C1 – Repair visible leaks. (ODI - penalty only)
 - Retail A1 – Service Incentive Mechanism (SIM). (ODI - reward and penalty)
 - Retail A2 – New customer relationship management, (CRM), system. (ODI - penalty only)

Summary

In summary BW has developed a set of outcomes, PCs and ODIs through robust research and customer engagement. These have been agreed with Ofwat, the company's independent Customer Challenge Group (CEPF) and have been independently audited and verified.

The company will be monitoring and measuring its performance to ensure it meets its agreed targets. This performance will be independently audited and assured. In addition an independent group is being set up called Customer View. This group will monitor BW's performance against its PCs throughout the period 2015 to 2020, to challenge the company and ensure that its performance remains on track.