Methodology Statement

A method statement is a document that explains in detail the process behind how we prepare and subsequently report business data.

Process being documented	Streetworks collaboration bespoke PC
Submission name	PR24 Business Plan
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Author/s	Thomas Chambers, Stuart Jordan
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History of changes made to this version	

Purpose

The purpose of this PC methodology statement is to define the conditions under which collaborative streetworks interventions are eligible for a reward payment under the AMP8 incentivisation framework.

We have established a committed performance level (CPL) of 20 collaborative projects in total for AMP8. We are aiming to outperform our regulatory target and have profiled a phased delivery of 15 projects per year, measured on a cumulative basis. Projects must satisfy the minimum qualifying criteria or strategic criteria to be eligible for inclusion (as stated below and in the PC definition: 'Annex 1 – Definition – Streetworks Collab PC).

The social value associated with partnerships on projects is now well understood and aligned to the HM Treasury Green book. According to the minimum criteria for what forms an eligible collaborative project, part of which has been taken from the GLA's Collaboration manual, we aim to undertake 75 collaborative schemes during the PR24 period. This would result in an estimated £26.4m[1] of social benefit.

Rewards are assessed on a per project basis upon the successful delivery of the collaborative scheme.

The financial incentive is key to encouraging greater collaboration across other utility, infrastructure and local authority partners. Further detail on the measurement of collaborative projects, the calculation of the committed performance level, and the calculation of the ODI rate are included below.

Regulatory Reporting Requirements

[1] Based on 75 projects with a social value per project of £353k in 2022/23 prices (£305k in 2018/19 prices).

This PC is subject to the same assurance and reporting requirements as the AMP8 common PCs. It must be reported annually as part of the annual performance report.

Performance will be measured and rewards accrued annually on a per project basis. Those projects that do not meet the minimum qualifying criteria may still be eligible for inclusion, subject to Greater London Authority (GLA) review and endorsement against alternative strategic criteria.

Assurance to confirm the projects included in our reported figure satisfy the criteria and that the reward has been applied correctly will form part of the year end process, supported by internal review as well as independent assurance from the GLA.

Other Relevant information

This PC is line with similar incentive mechanisms for London utilities in RIIO-ED2[2] and GD2. The methodology is based on work done by Simetrica Jacobs and the GLA.

Methodology

Approach to measurement of collaborative projects:

This PC applies to water network plus activities delivered in London. London is defined by the London Water Resource Zone (WRZ).

Projects within our AMP8 water network plus programme are eligible for the collaboration incentive, subject to satisfying the minimum qualifying criteria, listed below:

No	Description	Justification
1	Two or more collaborating partners	A minimum of two collaborating partners which may include infrastructure providers, local authorities, or other key stakeholders must be involved in the scheme for it to qualify.
2	Permanent solution	A "permanent solution" is the works in which we intend to collaborate on and receive incentive for are such that offer a permanent solution to a network problem. For example, the replacement of a poorly performing main or a new trunk main which improves the network performance in a poorly performing area. The scheme must represent a permanent solution for that specific street or asset, to ensure that the infrastructure is maintained for the medium to long term. This includes emergency and urgent repair work that delivers an enduring solution collaboratively, recognising that the delivery of emergency work can result in significant and long term disruption, for example in the instance of a burst trunk main.

[2] UKPN-RIIO-ED2-Plan-Ofgem-Updated-INTERACTIVE_Final.pdf, Performance Commitment WS11

		This would not be assured by an independent third party. We undertake in-house assurance of all newly laid assets.
3	Collaboration on work timing and customer communications	Qualitative criteria including collaboration on work timing and customer communication, consistent with the definition of a 'Level Two' collaboration detailed in the Collaboration Manual[3] must be delivered. Specifically, this includes: - Alignment of work timing, for example scheduling of traffic management; and - A joint customer communication plan (letter drop and joint signage at site).
4	2025-2030 delivery period	The scheme must be completed by the end of AMP8. Completion is achieved when a work stop notification is sent to the Highway Authority demonstrating that collaborative element has finished.
5	200m alignment	The collaboration scheme must have 200 metres or more of overlap with the collaborative partner.

Projects will be assessed annually to determine whether they are eligible for inclusion in this PC.

Sources of information used to assess whether a project satisfies the above criteria include:
- APS (asset management system)
- Infrastructure mapping application
- GIS
- GLA Measurement and Evaluation (M&E) tool

A collaborative project may also qualify for inclusion in this performance commitment where it satisfies the strategic importance criteria, defined below (Table 2), which are aligned the GD2 and ED2 criteria. Satisfaction of one or more of these criteria will be assessed independently by the GLA and is consistent with the application of strategic criteria across other sectors. In recognition of the importance of collaborative environmental and sustainability measures such as those that deliver sustainable drainage and improved resilience of our water supply service in London, we have incorporated them in the strategic importance criteria (see table below).

The GLA has validated the proposed strategic importance criteria and confirmed that it will be able to assess schemes and provide monitoring & evaluation support:

No.	Description	Explanation
1	Location of historic bursts	Importance given to areas that have suffered from poor infrastructure in the past and are likely to cause continued disruption without intervention.
2	Planned public realm and/or sustainable urban drainage scheme ('SuDS')	Schemes that are taking place in advance of planned public realm and/or sustainable drainage system scheme
3	Strategic location	
3-A	Air pollution	Particular sensitivity to locations that include schools.

[3] https://www.croydon.gov.uk/sites/default/files/Collaboration-Manual.pdf; page 21, "2. Paced Collaboration."

3-B	Congestion	Considerations around locations that may feature hospitals, fire stations, ambulance stations.
3-C	Network disruption in locations close to transport hubs and stations	Consideration given to sensitivities related to works happening close to transport hubs and stations, and related impacts/disruption.
3-D	Other	Additional relevant examples of strategic locations may be considered.
4	Borough Boundary	Where there is sufficient and relevant proximity to a borough boundary, certain aspects of the collaboration (such as the traffic management) may be more complex or may affect a wider area.
5	Learning	Some schemes may offer opportunities to develop best practice and capture lessons learnt from the specific methodology applied, relevant innovation, or application of a new or advancing technology.

Schemes which we believe satisfy either the Minimum or Strategic Criteria above will be submitted to the GLA through an incentive application form, for third-party assessment.

Approach to establishing committed performance level (CPL)

The collaborative streetworks incentive is a bespoke incentive for the water network plus price control. It incentivises collaboration with other utilities within the Greater London area to reduce disruption to members of the public.

Our CPL is based on the number of collaborative projects delivered historically, their delivery profile, and the water network+ interventions forecast to be delivered in London in AMP8.

During the four years from 2019/20 to 2022/23 Thames Water delivered 16 collaborative projects in London (measured through the GLA M&E tool[4]); an average of c. 4 per year.

Whilst the number of projects committed to has not been tested with customers, customer support for this PC has been collated more broadly[5]. We have also referred to the customer engagement undertaken by SGN in establishing their collaboration PC[6].

Approach to measurement of ODI (reward only)

Outcome/benefit: Reduced community disruption (wellbeing of local residents)[7]

Description of benefit: wellbeing of local residents is higher in a collaborative scenario compared to non-collaborative if the roadwork duration will be shorter.

Unit of valuation: £/household per day of roadwork

[4] GLA Streetworks Monitoring and Evaluation Tool
[5] OUT10_PR24_TechnicalAppendix_v1, Section 2
[6] SGN-RIIO-GD2-Business-Plan.pdf; 6.14.6 Stakeholder and customer support, page 64
[7] Valuation of the impact of works disruptions and supply interruptions using the wellbeing valuation method (webflow.com)

Unit of reward: £/collaborative project delivered

Measurement of wellbeing: monetised improvement in wellbeing per household through a decrease in disruption accessing local amenities (e.g. shops, restaurants, parks, schools, surgeries), noise pollution, the aesthetic aspect of dust not incorporated in the wider pollution benefit, and disruptions to parking areas per day of roadwork.

Unit of measurement: Willingness to pay (WTP) per household per day of roadwork avoided (per roadwork, per day, per household).

Formula:

$$Total\ Benefit = WTP\ value\ to\ avoid\ roadwork\ disruption\ (£1.60)[uprated\ to\ suitable\ time\ period] * Number\ of\ days\ of\ disruption * Number\ of\ households\ within\ 500m\ of\ roadworks$$

Assumptions made in establishing reward rate:

- For the wellbeing valuation, we rely on the values obtained in the SGN (distribution of natural and green gas) roadworks impacts. These values are assumed to be representative of all roadworks in the UK.
- Based on the results of the SGN project, only households within 500m of the roadworks are affected
- A weighting has been applied to distinguish between amenities, captured by the SGN values (for example, greater weight given to a hospital vs. a restaurant).
- WTP per-household within 500m of roadworks to avoid roadwork disruption, where the roadworks occurred at most 30 days previously (all road types) - £1.61 (90% CI: £0.47; £2.74; 2018/19 prices) per incident per household per day in 2019:

Table 6: 90% confidence intervals for wellbeing cost of works disruptions

Measure	Lower bound of confidence interval	Central estimate	Upper bound of confidence interval
Per incident	£16,015	£54,494	£92,973
Per incident per household within 500m	£7.16	£24.37	£41.58
Per incident per day	£1,055	£3,590	£6,125
Per incident per day per household	£0.47	£1.61	£2.74

Source: Simetrica Jacobs; "Valuation of the impact of works disruptions and supply interruptions using the wellbeing valuation method," page 18; 2018/19 prices

- The values reflect the impact of roadwork disruptions on those living nearby.
- While the SGN study does not discuss the mechanisms through which the impact occurs, it suggests the values reflect the impact of reduced access to amenities, noise, dust and disruptions to parking areas.
- We are assuming that this estimation includes the impact of noise pollution as well as the aesthetic aspect of dust not incorporated in the wider pollution benefit which estimates the health impact.
- Finally, the wellbeing impact might overlap with journey time costs for households within a 500m radius of the roadworks.

- The proposed approach to account for this overlap is to subtract the journey time costs of local residents from the total journey time costs.
- The values do not account for the impact on businesses or reflect environmental costs associated with the roadwork (e.g., carbon emissions, air pollution).

Applying the WTP value of £1.61 per incident per day per household to the average collaborative project results in a wellbeing incentive rate of £305k (£353k in 2022/23 prices). This is calculated by multiplying the WTP value by the average time affected by an incident (expressed in years) and the average households within 500m buffer.

For the purposes of this PC we have focused on creating consistency across regulated sectors including GD2 and ED2.To make sure we are fairly and proportionally incentivised to collaborate with other utility and infrastructure partnership, we have applied the incentive rate consistent with SGN of £305k per collaborative project.

The SGN values are comparable in order of magnitude to the per incident values from the Anglian Water roadwork impacts on wellbeing conducted by Simetrica-Jacobs and therefore comparable to Thames Water also. For Thames Water, we have adjusted the reward rate to reflect to Ofwat's Draft Determination proposal. It has applied the 70% marginal benefit sharing factor and divided the maximum number of collaborators (which is three). This gives an ODI rate of £82.3k. We have suggested a second ODI rate if there are only two collaborators. This gives an ODI rate of £123.4k.

On this basis, and net of cost sharing, delivery of the performance commitment will result in a reward of £9.26m across AMP8 in 2022/23 prices.

This PC includes an end of AMP target, with performance measured annually by comparison to an average number of projects delivered each year (4) across the period. This way, there may be room for variation in scheme numbers across financial years, with better-performing years accounting for lower-activity years. Any additional projects are also eligible for a reward, up to the cap defined below.

Ofwat's Draft Determination suggested an end of AMP PCL of 20 across AMP8.

Reward cap

As this is a bespoke PC, it has proposed to set a cap at 0.5% of RORE, which equates to around £110m. This leads to an implicit cap of around 893, if based on the higher ODI rate for two companies collaborating and 2969 schemes with three collaborators. We note this is more than could be reasonably achieved.

Key assumptions

We have applied the following assumptions in arriving at our collaboration PC target and incentive rate:

- CPI-H inflation rates used to uplift £305k reward rate to 2022/23 prices as required in business plan submission
- London boundary is defined by London water resource zone

Sign off

I hereby certify the Method Statement is fit for purpose and that the data is accurate, complete, reliable and consistent to the best of my knowledge.

Name	Role	Date	Signature
Tom Chambers	Information lead	20/08/2024	Tom Chambers
Stuart Jordan	Information verifier		
Alex Nickson	Information owner		

Roles and Responsibilities

The roles and responsibilities are as follows:

1. **Information Lead:** read and understand relevant reporting requirements relating to the submission. Make sure that the Method Statement clearly documents how the data has been prepared, shows evidence of controls and demonstrates that the data prepared is in line with regulatory and internal guidelines.
2. **Information Verifier:** confirm that the Method Statement prepared by the Lead accurately reflects the preparation process and that the data has been prepared in compliance with the Method Statement and relevant guidelines.
3. **Information Owner:** confirm overall ownership of the process and be satisfied that the Lead and Verifier have completed all necessary activities in accordance with the guidance available.

Administration

1. This Method Statement must be signed off prior to submission of the data it is referencing.
2. A copy of this Method statement must be filed with the other submission documents.
3. This Method statement should be reviewed each time it is used to make sure that it remains fit for purpose.