

## Northumbrian Water: Delivering outcomes for customers detailed actions

**Table 1 – Company-wide actions**

Area	Concern	Required Action	Action reference	Date required
Performance Commitment (PC) definition	The company has not provided sufficient evidence to justify discontinuing its PR14 PCs on value for money (R-C1: NWL independent value for money survey; R-C2: Satisfied with value for money of water services; R-C3: Satisfied with value for money of sewerage services - Northumbrian region; and R-C4: Satisfied with value for money of water services - Essex & Suffolk region).	The company should provide sufficient evidence to justify discontinuing its PR14 Value for Money PCs (R-C1: NWL independent value for money survey; R-C2: Satisfied with value for money of water services; R-C3: Satisfied with value for money of sewerage services - Northumbrian region; and R-C4: Satisfied with value for money of water services - Essex & Suffolk region). If sufficient justification for discontinuing the PCs, cannot be provided, the company should continue its PR14 Value for Money PCs.	NES.OC.A1	1 April 2019
PC stretch	No material company-wide issues Individual PC actions are set out in table 2	No company-wide actions. Individual PC actions are set out in table 2	N/A	N/A
Performance reporting	No material company-wide issues Individual PC concerns are set out in table 2	No company-wide actions. Individual PC actions are set out in table 2	N/A	N/A

Area	Concern	Required Action	Action reference	Date required
Outcome Delivery Incentive (ODI) type	No material company-wide issues Individual PC concerns are set out in table 2	No company-wide actions. Individual PC actions are set out in table 2	N/A	N/A
ODI rates	<p>The company sources its incremental benefit values from a single piece of stated preference research, with no evidence of triangulation or cross-checking against other data sources. The company has also not provided sufficient evidence that this research has been undertaken in line with best practice (with no evidence of cognitive testing, pilot testing or a formal validity assessment).</p> <p>The company has provided insufficient evidence to demonstrate the formation of its marginal cost inputs and how these relate to any enhancement expenditure or cost adjustment claims that it proposes.</p>	<p>The company should consider the ODI rates proposed and provide further evidence, either from its own customer base or wider industry studies, to demonstrate that the marginal benefit estimates used are reflective of its customers' preferences and valuations, or conduct further engagement to develop triangulated ODI rates that are based on a broader range of customer evidence.</p> <p>The company should provide further evidence to detail the estimation of forecast efficient marginal costs within its ODI rate calculations, in line with our PR19 Final Methodology. In particular, the company should provide evidence to demonstrate how these marginal cost estimates relate to any cost adjustment claims or enhancement expenditure proposed by the company, if applicable.</p>	NES.OC.A2	1 April 2019
ODI deadbands, caps and collars	See Customer protections section below.	See Customer protections section below.	NES.OC.A3	1 April 2019
Enhanced ODIs	The company proposes outperformance payments equal	The company should provide further evidence to justify the level of the enhanced	NES.OC.A4	1 April 2019

Area	Concern	Required Action	Action reference	Date required
	to five times the standard ODI rate. This implies enhanced ODI rates that exceed the willingness to pay of its own customers.	ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.		
Overall ODI package	<p>The company provides insufficient evidence to explain how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers.</p> <p>The evidence that the company provides did not sufficiently demonstrate that its ODI package is supported by high quality customer engagement and valuations, and limited evidence that it has tested the overall acceptability and affordability of its ODI package with customers.</p>	<p>The company should provide further explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers. In line with our PR19 Final Methodology, the company should provide sufficient evidence to demonstrate how the overall ODI package is built bottom up from high quality customer engagement and valuations.</p> <p>The company should provide further evidence that overall acceptability and affordability of the ODI package has been tested with customers.</p>	NES.OC.A5	1 April 2019
ODI timing	No material company-wide issues Individual PC concerns are set out in table 2	No company-wide actions. Individual PC actions are set out in table 2	N/A	N/A
Asset health ODI package	The company does not demonstrate that it understands and has addressed its asset health past performance challenges, as it does not have an	<p>We set out in table 2 PC level actions to address the concern on sewer collapses.</p> <p>The company should provide a clear list of what it considers to be its asset health PCs, and state its P10 underperformance</p>	NES.OC.A6	1 April 2019

Area	Concern	Required Action	Action reference	Date required
	appropriate ODI on sewer collapses.	payments and P90 outperformance payments for each of its asset health ODIs in £m and as a percentage of RoRE.		
Customer protection	<p>The company does not put forward sufficient customer protections. In particular, we have concerns about the potential for large outperformance payments, which could arise if the company significantly outperforms its PC targets. This could leave customers exposed to large increases in bills.</p> <p>The company does not propose protection for customers in cases of higher than expected outperformance. The company has not provided evidence that it has analysed the tail of its distribution of potential returns; does not propose a cap on any ODIs and has not detailed any bill smoothing mechanisms to protect customers from larger than expected outperformance payments.</p>	<p>The company should apply additional protections through an appropriate outperformance payment sharing mechanism and by implementing caps on individual PCs which could result in material outperformance payments. The payment sharing mechanism and caps to material ODIs should be applied in accordance with guidance provided in the '<b>Technical appendix 1: Delivering outcomes for customers</b>'.</p>	NES.OC.A7	1 April 2019

**Table 2: PC specific actions (for each PC)**

NES	Area	Concern	Required action	Action reference	Date required
PR19NES_COM04 Interruptions to supply greater than three hours	Definition	No concern	None	N/A	N/A
	Stretch	<p><b>Interruptions to supply greater than three hours PC:</b> Our PR19 Final Methodology expectation for the water supply interruptions PC is for all companies to set performance at the upper quartile in each year of the 2020-2025 period. Based on the forecast data provided by companies in the September 2018 business plan submission, the values are: 2020/21 = 00:04:17; 2021/22 = 00:03:58; 2022/23 = 00:03:40; 2023/24 = 00:03:22; 2024/25 = 00:03:00. The company proposes service levels which are less stretching than these.</p>	<p><b>Interruptions to supply greater than three hours PC:</b> For this common PC we expect all companies' service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.</p>	NES.OC.A8	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>Interruptions to supply greater than three hours PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This</p>	<p><b>Interruptions to supply greater than three hours PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in '<b>Technical appendix</b></p>	NES.OC.A9	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.</p>	<p><b>1: Delivering outcomes for customers'</b> and provide sufficient evidence to demonstrate that this variation is consistent with its customers' underlying preferences and priorities for service improvements in supply interruptions.</p> <p>The company should also provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for customers'</b> to allow us to better understand the causes of variation in ODI rates for supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p>		
	Enhanced ODI	<p><b>Interruptions to supply greater than three hours PC:</b> The company is proposing a performance threshold for enhanced ODI payments that is the same for all years in the 2020 to 2025 period such that it may no longer be commensurate with a frontier shifting performance by the end of the 2020-2025 period.</p> <p>The company is proposing enhanced ODI rates which are approximately five times larger than</p>	<p><b>Interruptions to supply greater than three hours PC:</b> The company should reconsider its proposed thresholds levels for enhanced ODI payments towards the end of the 2020-2025 period, having regard to the possibility that the frontier is likely to shift during 2020-25. The company should clearly set out the evidence and rationale for the revised targets.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising</p>	NES.OC.A10	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		its standard ODI rates. This implies an enhanced rate which exceeds the willingness to pay of the company's own customers.	the enhanced rates to be based on a lower multiple applied to the standard incentive rates.		
	Caps, collars, deadbands	<b>Interruptions to supply greater than three hours PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any given year within the 2020-25 period.	<b>Interruptions to supply greater than three hours PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the company should provide sufficient evidence and its rationale for the level of the cap imposed.	NES.OC.A11	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_COM05 Leakage (NW)	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Leakage (NW) PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies'	<b>Leakage (NW) PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in 'Technical appendix 1: Delivering outcomes for customers') and provide sufficient evidence to demonstrate that this variation is consistent with customers'	NES.OC.A12	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>comparative and historical performance, or exogenous factors such as household income or water stress.</p>	<p>underlying preferences and priorities for service improvements in leakage.</p> <p>The company should also provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>' to allow us to better understand the causes of variation in ODI rates for leakage and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p> <p>The company should include the associated water household and distribution input volumes for its Northumbrian operating area to allow us to assess the appropriateness of its proposed ODI rates.</p>		
	<p>Enhanced ODI</p>	<p><b>Leakage (NW) PC:</b> The company does not provide convincing evidence that its proposed enhanced ODI outperformance thresholds are commensurate with a level of performance that would place it at the frontier.</p> <p>The company is proposing enhanced ODI rates which are approximately five times larger than its standard ODI rates. This implies an enhanced rate which exceeds the willingness to pay of the company's own customers.</p>	<p><b>Leakage (NW) PC:</b> The company should review its proposed enhanced ODI thresholds and either make them more challenging or provide sufficient evidence to demonstrate that they are appropriate.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.</p>	<p>NES.OC.A13</p>	<p>1 April 2019</p>

NES	Area	Concern	Required action	Action reference	Date required
	Caps, collars, deadbands	<b>Leakage (NW) PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any given year within the 2020-25 period.	<b>Leakage (NW) PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the company should provide its evidence and rationale for the level of the cap imposed.	NES.OC.A14	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_COM06 Leakage (ESW)	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Leakage (ESW) PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.	<b>Leakage (ESW) PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in 'Technical appendix 1: Delivering outcomes for customers') and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in leakage.  The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for	NES.OC.A15	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
			<p><b>customers'</b> to allow us to better understand the causes of variation in ODI rates for leakage and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p> <p>The company should include the associated water household and distribution input volumes for its Essex and Suffolk operating area to allow us to assess the appropriateness of its proposed ODI rates.</p>		
	Enhanced ODI	<p><b>Leakage (ESW) PC:</b> The company does not provide convincing evidence that its proposed enhanced ODI outperformance thresholds are commensurate with a level of performance that would place it at the frontier. The company also does not provide convincing evidence that the proposed threshold levels for enhanced underperformance payments are adequate to protect customers.</p> <p>The company is proposing enhanced ODI rates which are approximately five times larger than its standard ODI rates. This implies an enhanced rate which exceeds the willingness to pay of the company's own customers.</p>	<p><b>Leakage (ESW) PC:</b> The company should review its proposed enhanced ODI thresholds and either make them more challenging or provide better evidence to demonstrate that they are appropriate.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.</p>	NES.OC.A16	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
	Caps, collars, deadbands	<b>Leakage (ESW) PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any given year within the 2020-25 period.	<b>Leakage (ESW) PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the company should provide its evidence and rationale for the level of the cap imposed.	NES.OC.A17	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_COM07 Per capita consumption (PCC)	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Per capita consumption PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.	<b>Per capita consumption PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in 'Technical appendix 1: Delivering outcomes for customers') and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in per capita consumption.  The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for	NES.OC.A18	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
			<b>customers'</b> to allow us to better understand the causes of variation in ODI rates for per capita consumption and assess the appropriateness of the company's customer valuation evidence supporting its ODI.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_COM08 Internal sewer flooding	Definition	<b>Internal sewer flooding PC:</b> We have identified in the APR18 submission evidence (shadow reporting table 3S) that there are sub-components of some common PCs assessed as 'Amber' or 'Red'. The company does not provide sufficient evidence to demonstrate that plans and timetables are in place to achieve compliance with these measures by 2019/20.	<b>Internal sewer flooding PC:</b> The company should provide details on the actions it will take to comply with the standard definitions of common performance metrics and its timetable for completing them (where there is a sub-component rated Amber or Red in table 3S of the 2018 APR submission).	NES.OC.A19	1 April 2019
	Stretch	<b>Internal sewer flooding PC:</b> Our PR19 Final Methodology expectation for the Internal sewer flooding PC is for all companies to set performance at the upper quartile in each year of the 2020-2025 period. Based on the forecast data provided by companies in the	<b>Internal sewer flooding PC:</b> For this common PC we expect all companies' service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	NES.OC.A20	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>September 2018 business plan submission, the values are: 2020/21 = 1.68; 2021/22 = 1.63; 2022/23 =1.58; 2023/24 = 1.44; 2024/25 =1.34.</p> <p>The company proposes service levels which are less stretching than these.</p>			
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>Internal sewer flooding PC:</b> The company is proposing several sewerage related PCs and has provided insufficient evidence to demonstrate that it has given adequate consideration (and if necessary made adjustments) for potential overlaps between them when setting ODI rates.</p> <p>There is also substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical</p>	<p><b>Internal sewer flooding PC:</b></p> <p>The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Sewer collapses, Pollution incidents, Sewer flooding risk reduction, Sewer blockages, External sewer flooding, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.</p> <p>The company should also explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>')</p>	NES.OC.A21	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>performance, or exogenous factors such as household income.</p>	<p>and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in internal sewer flooding.</p> <p>The company should also provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>' to allow us to better understand the causes of variation in ODI rates for internal sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p>		
	<p>Enhanced ODI</p>	<p><b>Internal sewer flooding PC:</b> The company proposes an enhanced ODI outperformance threshold that may not be commensurate with frontier shifting performance by the end of the 2020-25 period.</p> <p>The company does not provide convincing evidence that its proposed thresholds for enhanced outperformance payments are adequate to protect customers.</p> <p>The company is proposing enhanced ODI rates which are approximately five times larger than its standard ODI rates. This implies an enhanced rate which exceeds</p>	<p><b>Internal sewer flooding PC:</b> The company should review its proposed enhanced ODI thresholds and either make them more challenging or provide better evidence to demonstrate that they are appropriate.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.</p>	<p>NES.OC.A22</p>	<p>1 April 2019</p>

NES	Area	Concern	Required action	Action reference	Date required
		the willingness to pay of the company's own customers.			
	Caps, collars, deadbands	<b>Internal sewer flooding PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any given year within the 2020-25 period.	<b>Internal sewer flooding PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the company should provide its evidence and rationale for the level of the cap imposed.	NES.OC.A23	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_COM10 Risk of severe restrictions in a drought	Definition	<b>Risk of severe restriction in a drought PC:</b> The company provides insufficient evidence that its presented risk is determined appropriately.	<b>Risk of severe restriction in a drought PC:</b> The company should explain its level of stretch and submit the intermediate calculation outputs as shown in the common definition guidance published on our website for the drought resilience metric.	NES.OC.A24	1 April 2019
	Stretch	<b>Risk of Severe Restrictions in Drought PC:</b> The company provides insufficient evidence that its calculations follow appropriate guidance.	<b>Risk of Severe Restrictions in Drought PC:</b> The company should submit the intermediate calculation outputs as shown in the guidance rather than just the resultant average risk.	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_COM11 Risk of sewer flooding in a storm	Definition	<b>Risk of sewer flooding in a storm PC:</b> The company provides insufficient evidence that its presented risk is determined appropriately.	<b>Risk of sewer flooding in a storm PC:</b> The company should adopt the standard definition in full, providing full details of any assumptions in its measurement and reporting methodology, including all the information set out in section 3.6 of Developing and Trialling Wastewater Resilience Metrics, Atkins.	NES.OC.A25	1 April 2019
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
PR19NES_COM03 Water quality compliance (CRI)	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>Water quality compliance PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.</p>	<p><b>Water quality compliance PC:</b> The company should provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>' to allow us to better understand the causes of variation in ODI rates for water quality compliance and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p> <p>The company should explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs.</p>	NES.OC.A26	1 April 2019
	Caps, collars, deadbands	<p><b>Water quality compliance PC:</b> The company proposes a deadband which does not sufficiently protect customers from poor delivery service.</p>	<p><b>Water quality compliance PC:</b> As set out in the methodology we noted a deadband may be appropriate. It is important that the range of underperformance is adequate to provide clear incentives for companies to deliver statutory requirements.</p> <p>The company should set a deadband at 1.50 for 2020-25.</p>	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Timing	No concern	None	N/A	N/A
PR19NES_COM09 Pollution incidents	Definition	No concern	None	N/A	N/A
	Stretch	<p><b>Pollution Incidents PC:</b> Our PR19 methodology expectation for the Pollution Incidents PC is for all companies to set performance at the upper quartile in each year of the 2020-2025 period. Based on the forecast data provided by companies in the September 2018 business plan submission, the values are: 2020/21 = 24.51; 2021/22 = 23.74; 2022/23 = 23.00; 2023/24 = 22.40; 2024/25 = 19.50.</p> <p>The company proposed performance that is beyond these values by 2024-25, so there is no concern, but there is a required action so that all companies have consistent service levels.</p>	<p><b>Pollution Incidents PC:</b> We expect the company's service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.</p>	NES.OC.A27	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>Pollution incidents PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This</p>	<p><b>Pollution incidents PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set</p>	NES.OC.A28	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income.</p>	<p>out in <b>'Technical appendix 1: Delivering outcomes for customers'</b>) and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in pollution incidents.</p> <p>The company should also provide the additional information set out in <b>'Technical appendix 1: Delivering outcomes for customers'</b> to allow us to better understand the causes of variation in ODI rates for pollution incidents and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p> <p>The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer flooding, Sewer collapses, Sewer flooding risk reduction, Sewer blockages, External sewer flooding, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.</p>		
	Enhanced ODI	<p><b>Pollution incidents PC:</b> The company is proposing a performance threshold for</p>	<p><b>Pollution incidents PC:</b> The company should review the thresholds for enhanced outperformance payments and</p>	NES.OC.A29	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>enhanced outperformance payments that is not commensurate with a significant improvement on the frontier.</p> <p>The company does not provide convincing evidence that the proposed threshold for enhanced underperformance payments are adequate to protect customers.</p> <p>The company is proposing enhanced ODI rates which are approximately five times larger than its standard ODI rates. This implies an enhanced rate which exceeds the willingness to pay of the company's own customers.</p>	<p>underperformance payments, and either make them more challenging or provide evidence to demonstrate that they are appropriate.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.</p>		
	Caps, collars, deadbands	<p><b>Pollution incidents PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any given year within the 2020-25 period.</p>	<p><b>Pollution incidents PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the company should provide its evidence and rationale for the level of the cap imposed.</p>	NES.OC.A30	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_COM12 Mains bursts	Definition	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Stretch	No concern	None	N/A	N/A
	ODI type	<p><b>Mains bursts PC:</b> The company proposes an outperformance incentive without demonstrating strong customer support besides stating that it is important to its customers. The company does not provide sufficient evidence that its customers support an outperformance incentive for this particular PC.</p>	<p><b>Mains bursts PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. Alternatively, the company should remove the outperformance payment.</p>	NES.OC.A31	1 April 2019
	ODI rate	<p><b>Mains bursts PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.</p>	<p><b>Mains bursts PC:</b> The company should explain and evidence how its proposed ODI rates for mains bursts are coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure (including leakage and supply interruptions) and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term.</p> <p>The company should also provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>' to allow us to better understand the causes of variation in ODI rates for mains bursts and assess the appropriateness of the</p>	NES.OC.A32	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
			company's customer valuation evidence supporting its ODI.		
	Enhanced ODI	<p><b>Mains bursts PC:</b> The company does not provide convincing evidence that its proposed enhanced ODI outperformance threshold is commensurate with a level of performance that is commensurate with the frontier. The proposed thresholds for enhanced underperformance payments are not expected to correspond to the lower quartile level of performance in 2019-20 and therefore may not be adequate to protect customers.</p> <p>The company is proposing enhanced ODI outperformance incentive rates which are approximately five times larger than its standard ODI rates. This implies an enhanced rate which exceeds the willingness to pay of the company's own customers.</p>	<p><b>Mains bursts PC:</b> The company should review its proposed thresholds for enhanced ODIs, and either make them more challenging or provide evidence to demonstrate that they are appropriate.</p> <p>The company should provide further evidence to justify the level of the enhanced ODI outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.</p>	NES.OC.A33	1 April 2019
	Caps, collars, deadbands	<p><b>Mains bursts PC:</b> The company has not proposed a cap on the enhanced outperformance payments that it can receive in any</p>	<p><b>Mains bursts PC:</b> The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. As part of its response, the</p>	NES.OC.A34	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		given year within the 2020-25 period.	company should provide its evidence and rationale for the level of the cap imposed.		
	Timing	No concern	None	N/A	N/A
PR19NES_COM13 Unplanned outage	Definition	<b>Unplanned outage PC:</b> We identified in the Annual Performance Report 2018 (APR18) submission evidence (shadow reporting table 3S) that there are sub-components assessed as 'Amber' or 'Red'. The company does not provide sufficient evidence to demonstrate that plans and timetables are in place to achieve compliance with these measures by 2019-20.	<b>Unplanned outage PC:</b> The company should provide details on the actions needed to comply with the standard definition of this common performance metric and its timetable for completing them (where there is a sub-component rated Amber or Red in table 3S of the 2018 APR submission).	NES.OC.A35	1 April 2019
	Stretch	<b>Unplanned outage PC:</b> We have concerns that the company's proposed service level is not determined using data consistent with the common definition.	<b>Unplanned outage PC:</b> The company is required to provide fully audited 2018-19 performance data by 15 May 2019. This should take the form of an early Annual Performance Report (APR) submission, but only for Unplanned Outages. Board assured data can be provided with the main APR in July 2019, any changes will be taken into account for the final determination. Based on the latest performance and updated methodologies, the company should resubmit	NES.OC.A36	15 May 2019

NES	Area	Concern	Required action	Action reference	Date required
			<p>2019-20 to 2024-25 forecast data in the 15 May 2019 submission. The company should also report its current and forecast company level peak week production capacity (PWPC) (Ml/d), the unplanned outage (Ml/d) and planned outage (Ml/d) in its commentary for the May submission.</p>		
	ODI type	<p><b>Unplanned outage PC:</b> The company proposes a non-financial incentive without providing sufficient justification beyond stating that it is a new common PC.</p>	<p><b>Unplanned outage PC:</b> The company should propose a standard underperformance incentive rate for this PC supported by evidence to justify the customer valuations and forecast efficient marginal cost inputs that it proposes.</p>	NES.OC.A37	1 April 2019
	ODI rate	<p><b>Unplanned outage PC:</b> See concern above.</p>	<p><b>Unplanned outage PC:</b> The company should propose a financial underperformance incentive and explain and evidence how its proposed ODI rate is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term.</p> <p>The company should also provide the additional information set out in <b>‘Technical appendix 1: Delivering outcomes for customers’</b> to allow us to better understand the causes of variation in ODI rates for</p>	NES.OC.A38	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
			unplanned outages and assess the appropriateness of the company's customer valuation evidence supporting its ODI.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_COM14 Sewer collapses	Definition	No concern	None	N/A	N/A
	Stretch	<b>Sewer collapses PC:</b> The company provides insufficient evidence to justify that its proposed service levels. While the company is proposing year on year reductions we consider that it could go further.	<b>Sewer collapses PC:</b> The company should provide further evidence to justify its proposed service levels.	NES.OC.A39	1 April 2019
	ODI type	<b>Sewer collapses PC:</b> The company provides insufficient evidence to justify the use of outperformance payments on this PC and does not provide evidence that customers support the outperformance payment.	<b>Sewer collapses PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. Alternatively, the company should remove the outperformance payment.	NES.OC.A40	1 April 2019
	ODI rate	<b>Sewer collapses PC:</b> The company is proposing several sewerage related PCs and provides	<b>Sewer collapses PC:</b> The company should provide further evidence either to justify the existing rates for the following PCs (COM08,	NES.OC.A41	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		<p>insufficient evidence to demonstrate that it has given adequate consideration (and if necessary made adjustments) for potential overlaps between them when setting ODI rates.</p> <p>There is also substantial variation in ODI rates across companies (both on an absolute and per household basis). This implies large differences in underlying customer preferences that cannot plausibly be explained by variation in factors such as comparative and historical performance, or household income.</p>	<p>COM14, BES10, BES15, BES16, BES17) or adjust rates for this potential overlap. In either case the company should provide its evidence and rationale.</p> <p>The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer flooding, Pollution incidents, Sewer flooding risk reduction, Sewer blockages, External sewer flooding, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.</p> <p>The company should also provide the additional information set out in <b>‘Technical appendix 1: Delivering outcomes for customers’</b> to allow us to better understand the causes of variation in ODI rates for sewer collapses and assess the appropriateness of the company’s customer valuation evidence supporting its ODI.</p>		
	Caps, collars, deadbands	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Timing	No concern	None	N/A	N/A
PR19NES_COM15 Treatment works compliance	Definition	No concern	None	N/A	N/A
	Stretch	<b>Treatment works compliance PC:</b> The company does not propose the expected performance level of 100% compliance with statutory obligations.	<b>Treatment works compliance PC:</b> The company should set its proposed service level for the 2020-2025 period at 100%	NES.OC.A42	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Treatment works compliance PC:</b> There is substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income or water stress.	<b>Treatment works compliance PC:</b> The company should explain and evidence how its proposed ODI rate for treatment works compliance is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure (such as river water quality) and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term.  The company should also provide the additional information set out in ' <b>Technical appendix 1: Delivering outcomes for customers</b> ' to allow us to better understand the causes of variation in ODI rates for treatment works compliance and assess the	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
			appropriateness of the company's customer valuation evidence supporting its ODI.		
	Caps, collars, deadbands	<b>Treatment works compliance PC:</b> The company does not provide sufficient evidence that its proposed level of deadband is sufficiently challenging and protects customers from poor service delivery.	<b>Treatment works compliance PC:</b> The company should revise the deadband level to 99% or provide sufficient evidence to justify why this is not appropriate.	NES.OC.A43	1 April 2019
	Timing	No concern	None	N/A	N/A
PR19NES_BES09 Interruptions to supply greater than 12 hours	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	

NES	Area	Concern	Required action	Action reference	Date required
PR19NES_BES11 Discoloured water contacts	Definition	<b>Discoloured water contacts PC:</b> There are two asset health PCs related to customer contacts on the long list in our PR19 Final Methodology, and this measure is based on a subset of one of these. We consider that the measures set out in the asset health long list will drive better outcomes for customers.	<b>Discoloured water contacts PC:</b> The company should choose a more comprehensive measure for customer contacts about appearance of water from the asset health long list in the PR19 Final Methodology.	NES.OC.A44	1 April 2019
	Stretch	No concern	None	N/A	N/A
	ODI type	<b>Discoloured water contacts PC:</b> The company does not provide sufficient evidence to justify the use of outperformance payments on this PC and does not provide evidence that customers support the outperformance payment.	<b>Discoloured water contacts PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. Alternatively, the company should remove the outperformance payment.	NES.OC.A45	1 April 2019
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
PR19NES_BES12 Taste and smell contacts	Definition	No concern	None	N/A	N/A
	Stretch	<b>Taste and smell contacts PC:</b> The company provides insufficient evidence that its proposed service levels for the 2020 to 2025 period and the initial position are stretching. The company proposes a reducing number of contacts normalised by 10,000 people. When converted to absolute numbers the proposed level is increasing by 2024-25 from initial level. We identify evidence that the CCG has also challenged the stretch of this PC and also considered it insufficiently ambitious.	<b>Taste and smell contacts PC:</b> The company should review its proposed service levels and ensure that they are stretching. The company should clearly set out the evidence and rationale for the revised targets.	NES.OC.A46	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
PR19NES_BES13 Event Risk Index	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES15 Sewer blockages	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Sewer blockages PC:</b> The company submits a selection of sewerage ODIs which may double count incentives with this ODI.	<b>Sewer blockages PC:</b> The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer	NES.OC.A47	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		(COM08, COM14, BES10, BES15, BES16, BES17)	flooding, Sewer collapses, Pollution incidents, Sewer flooding risk reduction, External sewer flooding, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES17 Repeat sewer flooding	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Repeat sewer flooding PC:</b> The company submits a selection of sewerage ODIs which may double count incentives with this ODI. The standard ODI rate for this ODI has increased notably from the 2015-2020 period, and the	<b>Repeat sewer flooding PC:</b> The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer flooding, Sewer collapses, Pollution incidents, Sewer flooding risk reduction, Sewer blockages, External	NES.OC.A48	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		underperformance rate has reduced. (COM08, COM14, BES10, BES15, BES16, BES17)	sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES01 Satisfaction of Customers who receive additional support	Definition	<b>Satisfaction of Customers who receive additional support PC:</b> Northumbrian Water includes satisfaction of customers receiving the company's support services among both financially and non-financially vulnerable customers in this PC. It is important to understand satisfaction of customers receiving assistance among each of these vulnerability groups separately due to their different needs and the different types of services they receive.	<b>Satisfaction of Customers who receive additional support PC:</b> The company should split this PC into two PCs, one for financial and one for non-financial support scheme support. This would support more transparent measurement and reporting than the current PC proposes.	NES.OC.A49	1 April 2019
	Stretch	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES02 Awareness of additional support	Definition	<b>Awareness of additional support PC:</b> This PC includes awareness of customers receiving the company's support services among both financially and non-financially vulnerable customers. It is important to understand awareness of its customers receiving assistance among each of these vulnerability groups separately due to their different needs and the different types of services they receive.	<b>Awareness of additional support PC:</b> The company should split this PC into two PCs – one for financial and one for non-financial support recipient awareness. This would support more transparent measurement and reporting than the current PC it proposes.	NES.OC.A50	1 April 2019
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES03 Response time to written complaints	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES04	Definition	No concern	None	N/A	N/A

<b>NES</b>	<b>Area</b>	<b>Concern</b>	<b>Required action</b>	<b>Action reference</b>	<b>Date required</b>
Visible leak repair time	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES05 Customers' perception of trust	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Timing	No concern	None	N/A	N/A
PR19NES_BES06 Percentage of households in water poverty	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES07 Gap sites	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	<b>Gap sites PC:</b> The company does not provided sufficient evidence to justify the use of a non-financial incentive for this ODI.	<b>Gap sites PC:</b> The company should provide further evidence to justify the use of a non-financial incentive by demonstrating why a	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
			financial incentive would not be in the interests of customers. Alternatively, the company should formulate a financial ODI reflecting the reduction in customer bills that would result from improvements in the identification of gap sites.		
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES08 Voids	Definition	No concern	None	N/A	N/A
	Stretch	No concern.	None	N/A	N/A
	ODI type	<b>Voids PC:</b> The company proposes financial incentives on this PC, as its customers could benefit from service improvements in this area and should therefore be protected if the company does not deliver on its commitments. However, the company does not provide sufficient	<b>Voids PC:</b> The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed in such a way that does not create perverse incentives with respect to the timely and accurate registration of void sites.	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
		evidence to justify the use of an outperformance payment.			
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES10 Sewer flooding risk reduction	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>Sewer flooding risk reduction PC:</b> The company submits a selection of sewerage ODIs which may double count incentives with this ODI. (COM08, COM14, BES10, BES15, BES16, BES17)</p> <p>Additionally, the company does not provide sufficient evidence to set out the marginal cost estimates</p>	<p><b>Sewer flooding risk reduction PC:</b> The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer flooding, Sewer collapses, Pollution incidents, Sewer blockages, External sewer flooding, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately</p>	NES.OC.A51	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		used in estimating the underperformance ODI rate.	incentivises performance in the long and short-term. The company should additionally provide greater detail on its marginal cost estimates, clarify whether investment in this PC is cost beneficial and justify why investment is in customers' interests.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES14 Interruptions to supply between one and three hours	Definition	No concern	None	N/A	N/A
	Stretch	<b>Interruptions to supply between one and three hours PC:</b> The company proposes targets for Years 2 to 5 of the 2020-25 period expressed as a percentage of 2018-2021 performance. However, the company acknowledges that not all interruptions greater than one hour and less than three hours are currently inconsistently recorded. The company states that a baseline will be established from 2018-2021 performance but does not provide	<b>Interruptions to supply between one and three hours PC:</b> The company should provide a description of the process that will establish baseline performance to help assure the future setting of its performance level. It should also confirm that the data can be measured reliably.	NES.OC.A52	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		detail on how the inconsistencies in recording will be resolved.			
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Interruptions to supply between one and three hours PC:</b> The company provides insufficient evidence to support the transformation of marginal benefit valuations from supply interruptions of >3 hours duration to supply interruptions 1-3 hours duration.	<b>Interruptions to supply between one and three hours PC:</b> company should provide further evidence to justify and demonstrate the transformation process applied to marginal benefits and/or willingness to pay in this instance and that this is representative of customer valuations for this duration of supply interruption.	NES.OC.A53	1 April 2019
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES16 External sewer flooding	Definition	No concern	None	N/A	N/A
	Stretch	<b>External sewer flooding PC:</b> The company proposes to improve performance, but the resulting service level is still comparatively high. It has not provided convincing evidence that it cannot reach	<b>External sewer flooding PC:</b> The company should reconsider its proposed service levels and ensure that they are stretching. The company should clearly set out the evidence and rationale for the targets. If it is not proposing to meet forecast upper quartile	NES.OC.A54	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		forecast upper quartile performance.	performance, it will need to provide sufficient evidence to justify its decision not to do so.		
	ODI type	No concern	None	N/A	N/A
	ODI rate	<p><b>External sewer flooding PC:</b> The company is proposing several sewerage related PCs and has not provided sufficient evidence to demonstrate that it has given adequate consideration (and if necessary made adjustments) for potential overlaps between them when setting ODI rates.</p> <p>There is also substantial variation in proposed ODI rates across companies for common and comparable PCs. This finding implies large differences in underlying costs and customer preferences that cannot plausibly be explained by companies' comparative and historical performance, or exogenous factors such as household income.</p>	<p><b>External sewer flooding PC:</b> The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage performance commitments (including Internal sewer flooding, Sewer collapses, Pollution incidents, Sewer flooding risk reduction, Sewer blockages, Repeat sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.</p> <p>The company should also explain why its proposed rates differ from our assessment of the reasonable range around the industry average (as set out in '<b>Technical appendix 1: Delivering outcomes for customers</b>') and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in external sewer flooding.</p> <p>The company should also provide the additional information set out in '<b>Technical appendix 1: Delivering outcomes for</b></p>	NES.OC.A55	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
			<b>customers'</b> to allow us to better understand the causes of variation in ODI rates for external sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its ODI.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES18 Abstraction incentive mechanism (AIM)	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	<b>Abstraction incentive mechanism (AIM) PC:</b> The company proposes to apply an underperformance collar of 36.3 Megalitres, and its data table commentary explains that this is the maximum daily abstraction allowable under its Ormesby Broad abstraction licence. However, it is	<b>Abstraction incentive mechanism (AIM) PC:</b> The company should clarify whether its proposed underperformance collar applies to daily or annual AIM performance. If the collar applies to annual performance, the company should reset the collar level to allow for greater underperformance payment exposure.	NES.OC.A56	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		not clear whether the proposed collar applies to daily or annual performance. If this collar applies to annual performance, then the proposed underperformance ODI rate suggests that the maximum underperformance payments will be very low, and we have concerns that this will fail to incentivise the company to avoid poor performance.			
	Timing	No concern	None	N/A	N/A
PR19NES_BES19 Bathing water compliance	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Timing	No concern	None	N/A	N/A
PR19NES_BES20 Water environment improvements	Definition	<b>Water environment improvements PC:</b> The company provides responses to our early submission feedback; however, it acknowledges that there is still work to complete to finalise this PC before the start of the 2020-2025 period.	<b>Water environment improvements PC:</b> The company should finalise this PC. If this is not completed by 1 April 2019 the company should set out a detailed plan with a timetable of how it will do this.	NES.OC.A57	1 April 2019
	Stretch	<b>Water environment improvements PC:</b> The company provides insufficient evidence that its proposed service levels for the 2020 to 2025 period are stretching. We are concerned that the proposed improvement of 10 km of accessible water environment per annum is not sufficiently linked to outcomes for customers.	<b>Water environment improvements PC:</b> The company should clearly set out the evidence and rationale for the proposed targets and provide clarification on success measures for this PC.	NES.OC.A58	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	Timing	No concern	None	N/A	N/A
PR19NES_BES21 Greenhouse Gas Emissions	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES22 Bioresources	Definition	No concern	None	N/A	N/A
	Stretch	No concern	None	N/A	N/A
	ODI type	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	ODI rate	No concern	None	N/A	N/A
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES23 Delivery of water resilience enhanced programme	Definition	<b>Delivery of water resilience enhanced programme PC:</b> The company proposes a PC measuring incentivised enhancements. It has however not provided transparent in-period milestones for this measure.	<b>Delivery of water resilience enhanced programme PC:</b> The company should reconsider the PC definition and clarify how the success measures will work in practice.	NES.OC.A59	1 April 2019
	Stretch	<b>Delivery of water resilience enhanced programme PC:</b> The company provides insufficient evidence on its proposed targets to allow for assessment of the stretch levels for this PC.	<b>Delivery of water resilience enhanced programme PC:</b> The company should provide sufficient evidence of its in-period milestones in light of the allowed costs. It should clearly set out the evidence and rationale for the proposed levels of stretch.	NES.OC.A60	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Delivery of water resilience enhanced programme PC:</b> The company provides insufficient evidence to justify the methodology	<b>Delivery of water resilience enhanced programme PC:</b> The company should provide further evidence to justify the methodology used to calculate the ODI rate applied, or amend it to be in line with the	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
		applied in calculating the ODI underperformance rate.	standard Ofwat formula. In either case the company should provide its evidence and rationale.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES24 Delivery of lead enhancement programme	Definition	<b>Delivery of lead enhancement programme PC:</b> The company proposes a PC measuring incentivised enhancements. It has not provided transparent in-period milestones for this measure.	<b>Delivery of lead enhancement programme PC:</b> The company should revise the PC definition and provide sufficient evidence to clarify how the success measures will work in practice, including, where appropriate, milestones at which payments will be triggered.	NES.OC.A61	1 April 2019
	Stretch	<b>Delivery of lead enhancement programme PC:</b> The company has provided insufficient details on its proposed targets to allow assessment of the stretch levels for this PC.	<b>Delivery of lead enhancement programme PC:</b> The company should provide sufficient evidence of its in-period milestones in light of the allowed costs. It should clearly set out the evidence and rationale for the proposed levels of stretch.	NES.OC.A62	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Delivery of lead enhancement programme PC:</b> The company provides insufficient evidence to justify the methodology applied in	<b>Delivery of lead enhancement programme PC:</b> The company should provide further evidence to justify the methodology used to calculate the ODI rate applied, or amend	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
		calculating the ODI underperformance rate.	rates to be in line with the standard formula. In either case the company should provide its evidence and rationale.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES25 Delivery of smart water metering enhancement programme	Definition	<b>Delivery of smart water metering enhancement programme PC:</b> The company proposes a PC measuring incentivised enhancements. It has however not provided transparent in-period milestones for this measure.	<b>Delivery of smart water metering enhancement programme PC:</b> The company should revise the PC definition and provide clarification on how the success measures will work in practice, including, where appropriate, milestones at which payments will be triggered.	NES.OC.A63	1 April 2019
	Stretch	<b>Delivery of smart water metering enhancement programme PC:</b> The company has provided insufficient details on its proposed targets to allow assessment of the stretch levels for this PC. Customer support for the smart metering programme is inadequate.	<b>Delivery of smart water metering enhancement programme PC:</b> The company should provide adequate details of its in-period milestones in light of the allowed costs. It should clearly set out the evidence and rationale for the proposed levels of stretch, including customer support.	NES.OC.A64	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Delivery of smart water metering enhancement programme PC:</b>	<b>Delivery of smart water metering enhancement programme PC:</b> The	NES.OC.A65	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		The company provides insufficient evidence to justify the methodology applied in calculating the ODI underperformance rate.	company should provide further evidence to justify the methodology used to calculate the ODI rate applied, or amend rates to be in line with the standard Ofwat formula. In either case the company should provide its evidence and rationale.		
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES26 Delivery wastewater resilience enhancement programme	Definition	<b>Delivery wastewater resilience enhancement programme PC:</b> The company proposes a PC measuring incentivised enhancements. It has however not provided transparent in-period milestones for this measure.	<b>Delivery wastewater resilience enhancement programme PC:</b> The company should revise the PC definition and provide sufficient evidence to clarify how the success measures will work in practice, including, where appropriate, milestones at which payments will be triggered.	NES.OC.A66	1 April 2019
	Stretch	<b>Delivery wastewater resilience enhancement programme PC:</b> The company has provided insufficient details on its proposed targets to allow assessment of the stretch levels for this PC.	<b>Delivery wastewater resilience enhancement programme PC:</b> The company should provide sufficient evidence of its in-period milestones in light of the allowed costs. It should clearly set out the evidence and rationale for the proposed levels of stretch, including customer support.	NES.OC.A67	1 April 2019
	ODI type	No concern	None	N/A	N/A

NES	Area	Concern	Required action	Action reference	Date required
	ODI rate	<b>Delivery wastewater resilience enhancement programme PC:</b> The company provides insufficient evidence to justify the methodology applied in calculating the ODI underperformance rate.	<b>Delivery wastewater resilience enhancement programme PC:</b> The company should provide further evidence to justify and demonstrate the methodology used to calculate the ODI rate applied, or amend rates to be in line with the standard rate ODI formula set out within the PR19 Final Methodology. In either case the company should provide its evidence and rationale.	NES.OC.A68	1 April 2019
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES27 Delivery of cyber resilience enhancement programme	Definition	<b>Delivery of cyber resilience enhancement programme PC:</b> The company proposes a PC measuring incentivised enhancements. The company has however not provided transparent in-period milestones for this measure.	<b>Delivery of cyber resilience enhancement programme PC:</b> The company should revise the PC definition and provide sufficient evidence to clarify how the success measures will work in practice, including, where appropriate, milestones at which payments will be triggered.	NES.OC.A69	1 April 2019
	Stretch	<b>Delivery of cyber resilience enhancement programme PC:</b> The company has provided insufficient details on its proposed	<b>Delivery of cyber resilience enhancement programme PC:</b> The company should provide sufficient evidence of its in-period milestones in light of the allowed costs. It	NES.OC.A70	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
		targets to allow assessment of the stretch levels for this PC.	should clearly set out the evidence and rationale for the proposed levels of stretch.		
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Delivery of cyber resilience enhancement programme PC:</b> The company provides insufficient evidence to justify the methodology applied in calculating the ODI underperformance rate.	<b>Delivery of cyber resilience enhancement programme PC:</b> The company should provide further evidence to justify and demonstrate the methodology used to calculate the ODI rate applied, or amend rates to be in line with the standard rate ODI formula set out within the PR19 Final Methodology. In either case the company should provide its evidence and rationale.	NES.OC.A71	1 April 2019
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern	None	N/A	N/A
PR19NES_BES28 Delivery of Howdon STW enhancement	Definition	<b>Delivery of Howdon STW enhancement PC:</b> The company proposes a PC measuring incentivised enhancements. The company has however not provided transparent in-period milestones for this measure.	<b>Delivery of Howdon STW enhancement PC:</b> The company should revise the PC definition and provide sufficient evidence to clarify how the success measures will work in practice, including, where appropriate, milestones at which payments will be triggered.	NES.OC.A72	1 April 2019

NES	Area	Concern	Required action	Action reference	Date required
	Stretch	<b>Delivery of Howdon STW enhancement PC:</b> The company has provided insufficient details on its proposed targets, which does not allow assessment of the stretch levels for this PC.	<b>Delivery of Howdon STW enhancement PC:</b> The company should provide insufficient evidence of its in-period milestones in light of the allowed costs. It should clearly set out the evidence and rationale for the proposed levels of stretch.	NES.OC.A73	1 April 2019
	ODI type	No concern	None	N/A	N/A
	ODI rate	<b>Delivery of Howdon STW enhancement PC:</b> The company provides insufficient evidence to justify the methodology applied in calculating the ODI underperformance rate.	<b>Delivery of Howdon STW enhancement PC:</b> The company should provide further evidence to justify and demonstrate the methodology used to calculate the ODI rate applied or amend rates to be in line with the standard rate ODI formula set out within the PR19 Final Methodology. In either case the company should provide its evidence and rationale.	NES.OC.A74	1 April 2019
	Caps, collars, deadbands	No concern	None	N/A	N/A
	Timing	No concern.	None	N/A	N/A