July 2019

Trust in water

PR19 draft determinations

Northumbrian Water – Delivering outcomes for customers actions and interventions

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PR19 draft determinations: Northumbrian Water - Delivering outcomes for customers actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required company level actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Table 2 below sets out the required performance commitment-specific actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'NES' denotes the company Northumbrian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Table 3 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination. Table 4 below sets out any company changes to performance commitments that do not result in an intervention.

Each further intervention that is not resulting from an action, and company changes to performance commitments not resulting in an intervention has a unique reference. The prefix 'NES' denotes the company Northumbrian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Intervention numbers are preceded with a 'C'. Company changes to performance commitments not resulting in an intervention are proceeded with a 'D'.

In Table 3 and Table 4, we also specify the performance commitment reference number provided by the company (the prefix 'PR19NES_' denotes the company Northumbrian Water), the name of the performance commitment, and the action type (for example, stretch).

For all other documents related to the Northumbrian Water draft determination, please see the **draft determinations webpage**.

Table 1 – Northumbrian Water's response to required company level actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
Delivering outcomes for customers	NES.OC.A1	Definition	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.	1 April 2019	The company proposes to reinstate the R-C1: NWL independent value for money survey performance commitment as it believes this is the most statistically robust of the four measures and is conducted more frequently, which therefore allows more rapid response to changes. The company argues that keeping the other three CCWater measures would (R-C2, R-C3 and R-C4) would result in duplication and confuse customers. The company proposes to maintain the level at 8.2/10 throughout the period.	Intervention required. We accept the company's rationale for retaining only its R-C1 independent value for money survey. However, we have concerns that the company is not targeting an improvement in performance level across the period and has provided no rationale for why this is in the best interest of customers. We therefore propose to intervene and introduce a gradual improvement in performance level to 8.5/10 by the end of the period in line with performance improvement proposed by other companies for similar measures.	We are intervening to increase the level of stretch across the period. This is in line with what other companies are proposing for similar measures. We are intervening to set the following performance commitment (PC) levels: 2020-21 = 8.2 2021-22 = 8.3 2022-23 = 8.3 2023-24 = 8.4 2024-25 = 8.5 Units: score out of 10.
	NES.OC.A2	ODI rates	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. 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.	1 April 2019	The company provides commentary regarding how it uses the service valuation tool, customer testing, acceptability testing, amongst other customer evidence, to build a bottom-up methodology for its outcome delivery incentive rates. The company explains the further triangulation and customer research they have conducted since IAP. The company highlights that 92% of customers viewed their plan as acceptable, as part of their acceptability testing. It explains the methodology used to estimate marginal costs, although it does not confirm how it has validated whether or not these costs are efficient. The company demonstrate that no outcome delivery incentives are related to cost adjustment claims, and highlight where specific outcome delivery incentives are linked to enhancement expenditure.	No intervention required at a company level. We consider that the company has generally sought to use a range of evidence sources to build its outcome delivery incentive package and rates. Whilst there are some outcome delivery incentive rates that are not triangulated using other evidence, we consider that the evidence used is generally of high quality and an appropriate methodology applied. The company's proposed approach to deriving marginal cost appears robust, and the company highlights where outcome delivery incentive rates are related to enhancement expenditure of cost adjustment claims. In general, the company derives rates using an appropriate methodology. Where we have particular concerns about outcome delivery incentive rates these are discussed in our response to the relevant performance commitment specific actions in Table 2 or additional intervention in Table 3.	NA

	NES.OC.A3	ODI deadbands, caps and collars	See Customer protections section below.	1 April 2019	NA See response to NES.OC.A7	No intervention required. See response to NES.OC.A7.	NA
	NES.OC.A4	Enhanced ODIs	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.	1 April 2019	The company provides additional justification including further customer engagement it has undertaken on enhanced incentives.	No intervention required at a company level. We consider the rates below as part of NES.OC.A10, NES.OC.A13 NES.OC.A16 NES.OC.A22 NES.OC.A29.	NA
	NES.OC.A5	ODI package	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. The company should provide further evidence that overall acceptability and affordability of the ODI package has been tested with customers.	1 April 2019	The company argues that the overall package of outcome delivery incentives is based on bottom-up customer valuations, from a range of triangulated evidence. It highlights that the overall affordability and acceptability of the plan has been tested with customers, and that 92% of customer viewed their plan as acceptable through its acceptability testing. It also explains the additional customer protections that will be in place to manage affordability (e.g. use of caps where an outcome delivery incentive is material, payment sharing if the return on regulatory equity is above 2%). The company argues that incentives are further aligned through linking all outcome delivery incentives to revenue, ensuring executive pay is linked to performance commitment performance, and through setting an overall return on regulatory equity range of -1.83% to 1.35% .	No intervention required at a company level. The company provides sufficient justification and evidence. The overall package, following our interventions, is aligned to customer preferences and places sufficient incentives on the company to meet and exceed its performance targets.	NA
	NES.OC.A6	Asset health ODI package	We set out in table 2 PC level actions to address the concern on sewer collapses. The company should provide a clear list of what it considers to be its asset health PCs, and state its P10 underperformance payments and P90 outperformance payments for each of its asset health ODIs in £m and as a percentage of RoRE.	1 April 2019	The company provides a list of its asset health measures as well as its P10 and P90 values for all Asset health performance commitments. The company states that its overall return on regulatory equity range for asset health measures (at P10/P90) is -1.35% to 1.83%.	No intervention required. The company has provided a clear list of its asset health performance commitments and its potential P10 and P90 payments for each asset health performance commitment. Sewer collapses is addressed in NES.OC.A40 and A41.	NA
	NES.OC.A7	Customer protection	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	1 April 2019	The company confirms that it is proposing caps and collars where the P90 value is greater than 10% of the total value of P90 payments for the relevant price controls for the company. 7 out of 22 financial outcome delivery incentives have caps.	No intervention required at a company level. The company is proposing to adopt customer protection measures as set out in our 'PR19 draft determinations: Delivering outcomes for customers	NA

			mechanism and caps to material ODIs should be applied in accordance with guidance provided in the **'Technical appendix 1: Delivering outcomes for customers'**.		The company confirms that it has tested the highest outcome delivery incentive bill impact customers would accept over several engagement sessions. Through these sessions customers generally supported outperformance bill impacts of greater than 2%. They highlight that the lowest value of support for outperformance payment bill impacts from these sessions was 2.04% of return on regulatory equity, which compares favourably to their total P90 value of 1.61% of return on regulatory equity. Any outperformance rewards greater than 2.04% will be shared 50:50 with customers. The company confirms it will consider deferring outcome delivery incentive payments in a net present value neutral manner to prevent bill volatility greater than 5%.	policy appendix' to make sure that customers are adequately protected, but is proposing to share rewards at a lower level. It sought to apply caps and collars for financially material performance commitments. Our interventions have changed which performance commitments are financially material. We set out in Table 2 and Table 3 interventions to only have caps and collars on performance commitments that are financially material following our interventions.	

Table 2 – Northumbrian Water's response to required PC-specific actions and interventions for draft determinations

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
Delivering outcomes for customers	NES.OC.A8	Stretch	Interruptions to supply greater than three hours PC: 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.	1 April 2019	The company proposes to implement the values we calculated.	Intervention required. We have revised our view on performance commitment levels. We consider that 2024/25 levels are achievable but that the forecast upper quartile levels in earlier years do not appear to be achievable for this performance commitment. We are therefore introducing a glide path with a starting point of the upper quartile based on 2019-20 forecast data. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set performance commitment levels that are consistent with the rest of the industry for supply interruptions. These levels are: 2020-21 = 00:05:24 2021-22 = 00:04:48 2022-23 = 00:04:12 2023-24 = 00:03:36 2024-25 = 00:03:00 Units: hours:minutes:seconds per property per year.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A9	ODI rates	Interruptions to supply greater than three hours PC: 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 its customers' underlying preferences and priorities for service improvements in supply interruptions. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' 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.	1 April 2019	The company is proposing to amend its outcome delivery incentive rates by triangulating its proposed rates with other companies' (as set out in the IAP Outcomes Technical Appendix).	No intervention required. The company is proposing to re-triangulate its rates by using additional research, industry average outcome delivery incentive rates (as reflected by our reasonable range defined in the outcomes policy appendix) and the rates attached to its equivalent outcome delivery incentive for the period 2015-20. We have not identified any concerns with the company's approach and the resulting rates within the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A10	Enhanced ODIs	Interruptions to supply greater than three hours PC: 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. 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.	1 April 2019	The company proposes an enhanced outperformance threshold based on the performance across the best performing companies detailed in our Technical Appendix. The company proposes to move its enhanced penalty threshold performance for underperformance to 00:14:40 (the industry average) across the period 2020/25 as per fast track companies. This tightens its performance before it obtains an enhanced penalty. The company continues to propose enhanced incentive rates based on a multiple of 5 times its standard outcome delivery incentive rates. The company argues that its proposed rates are appropriate because it has adopted a conservative approach in determining this multiplier. It states its approach is consistent with that used by us to assess the impact on the industry/customers of small company mergers; and its business plan (which	Intervention required. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance	We are intervening to set common thresholds for enhanced outperformance payments, except where companies have proposed more challenging thresholds. We set out more detail in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. These are as follows: 2020-21 = 00:02:03 2021-22 = 00:01:54 2022-23 = 00:01:45 2023-24 = 00:01:36 2024-25 = 00:01:26 Units: hours:minutes:seconds per property per year. We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows:

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					included the aggregate range of its outcome delivery incentive package including enhanced outcome delivery incentives) achieved 91% acceptability when tested with customers. The company has also submitted qualitative research which it argues demonstrates that 66% of customers support setting enhanced rates using a multiplier of 5 times the standard rate.	thresholds for this performance commitment. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. The company's approach to deriving its enhanced outcome delivery incentive rates implicitly assumes a 1:1 relationship between enhanced outperformance in 2020-25 and performance commitment level stretch in 2025-30. It does not take account of the delay in benefits accruing to customers and assumes a constant willingness to pay valuation across enhanced and standard outperformance and for its own customers compared to the rest of industry.	2020-21 = 00:32:54 2021-22 = 00:32:54 2022-23 = 00:32:54 2023-24 = 00:32:54 2024-25 = 00:32:54 Units: hours:minutes:seconds per property per year. We are also intervening to set enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance. These are £3.232 million per minute per property per year for outperformance, and -£3.232 million for underperformance.
	NES.OC.A11	Caps, collars and deadbands	Interruptions to supply greater than three hours PC: 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.	1 April 2019	The company states it revises caps and for enhanced ODIs. The company proposes an enhanced cap at 00:00:00, as this is a natural best performance. It states that since caps are set on outperformance, it proposes a collar on enhanced underperformance which provides a similar width as the enhanced rewards.	Intervention required. We consider that the company's proposed cap on enhanced outperformance payments for this performance commitment is insufficient to protect customers, and may risk excessive management focus on a single performance commitment. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure to	We are intervening to set an enhanced outperformance cap at 1% of water regulated equity each year for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. See the 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice. We are intervening to set the enhanced underperformance collar for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. We are setting these at the lower decile of current company performance. This is as follows:

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						companies while protecting customers from poor performance.	2020-21 = 00:43:49 2021-22 = 00:43:49 2022-23 = 00:43:49 2023-24 = 00:43:49 2024-25 = 00:43:49 Units: hours:minutes:seconds per property per year
	NES.OC.A12	ODI rate	Leakage (NW) PC: 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' 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 customers' 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. 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.	1 April 2019	The company states that it has revised its proposed outcome delivery incentive rates to those implied by the lower boundary of the IAP range. The company provides us with data for us to assess its rates for the Northumbrian operating area.	Intervention required. While the company accepts the principle of alignment to industry average it has inappropriately applied the lower bound rate implied for Northumbrian Water at an aggregate level (in terms of £ per household per percentage leakage). The company has apportioned the implied incentive between its separate Northumbria and Essex and Suffolk performance commitments based on the ratio of its outcome delivery incentive rates proposed in its business plan. This undermines the purpose of defining reasonable ranges on a normalised basis (i.e. controlling for differences in household volumes and performance increment represented by a 1 Ml/d reduction in leakage). This results in an outcome delivery incentive rate materially above industry average (after appropriate normalisation) for Essex and Suffolk customers and a below industry average level of protection against incremental underperformance for customers in the company's Northumbria operating area. We are intervening to resolve this issue. We set out our rationale for setting outcome delivery incentive rates for this	We are intervening to set outcome delivery incentive rates at the levels implies by lower bound of the reasonable range, as applied to the company's Northumbria operating area. This results in underperformance and outperformance rates of -£0.174 million and £0.149 million per megalitre, respectively.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	NES.OC.A13	Enhanced ODIs	Leakage (NW) PC: 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. 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.	1 April 2019	The company presents its enhanced threshold assessment in leakage per property since a majority of its properties served are in urban or suburban centres of population. It bases its enhanced outperformance threshold on the leading level we led South West Water to. It has set its enhanced underperformance threshold 1 Ml/d below its 2015-20 penalty collar at 76 Ml/d or 86.29 litres per property per day. The company continues to propose enhanced incentive rates based on a multiple of 5 times its standard outcome delivery incentive rates. The company argues that its proposed rates are appropriate because it has adopted a conservative approach in determining this multiplier. It states its approach is consistent with that used by us to assess the impact on the industry/customers of small company mergers; and its business plan (which included the aggregate range of its outcome delivery incentive package including enhanced outcome delivery incentives) achieved 91% acceptability when tested with customers. The company has also submitted qualitative research which it argues demonstrates that 66% of customers support setting enhanced rates using a multiplier of 5 times the standard rate.	Intervention required. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance. As we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. For leakage, we have assessed on both a per property and per length of mains basis. We have weighted both measures equally	We are intervening to set common thresholds for enhanced outperformance payments, except where companies have proposed more challenging thresholds. We set out more detail in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. For this company in this region, these are as follows: 2020-21 = 39.9% 2021-22 = 41.7% 2022-23 = 43.7% 2023-24 = 45.5% 2024-25 = 49.8% Units: percentage reduction in leakage from initial levels on a three-year average basis. We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows: 2020-21 = 16.1% 2021-22 = 16.1% 2022-23 = 16.1% 2023-24 = 16.1% 2024-25 = 16.1% Units: percentage reduction in leakage from initial levels on a three-year average basis.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						to establish the enhanced outperformance and underperformance thresholds. The company is proposing rates that do not exceed our estimate of the sector-wide benefits to customers of enhanced outperformance (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). As such we are not intervening on the outcome delivery incentive rates.	
	NES.OC.A14	Caps, collars and deadbands	Leakage (NW) PC: 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.	1 April 2019	The company states it revises caps and collars and it is adopting caps and collars in line with our IAP guidance and the fast track company draft determinations. The company has proposed no upper limit (no collar) to its enhanced penalties and the cap is a natural cap of zero.	Intervention required. We consider that the company's proposed cap on enhanced outperformance payments for this performance commitment is insufficient to protect customers, and may risk excessive management focus on a single performance commitment. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure to companies while protecting customers from poor performance.	We are intervening to set an enhanced outperformance cap at 1% of water or wastewater regulated equity each year for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. See the 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice. We are intervening to set the enhanced underperformance collar for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. We are setting these at the lower decile of current company performance. This is as follows: 2020-21 = 26.0% 2021-22 = 26.0% 2022-23 = 26.0% 2023-24 = 26.0% 2024-25 = 26.0% Units: percentage reduction in leakage from initial levels on a three-year average basis.
	NES.OC.A15	ODI rates	Leakage (ESW) PC: 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	1 April 2019	The company states that it has revised its proposed outcome delivery incentive rates to those implied by the lower boundary of the IAP range.	Intervention required. While the company accepts the principle of alignment to industry average it has inappropriately applied the lower bound rate implied for Northumbrian Water at an	We are intervening to set outcome delivery incentive rates at the levels implies by lower bound of the reasonable range, as applied to the company's Essex and Suffolk operating area.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			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 customers' 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. 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.			aggregate level (in terms of £ per household per % leakage). The company has apportioned the implied incentive between its separate Northumbrian and Essex and Suffolk performance commitments based on the ratio of its outcome delivery incentive rates proposed in its September Business Plan. This undermines the purpose of defining reasonable ranges on the basis or normalised (i.e. controlling for differences in household volumes and performance increment represented by a 1Mld reduction in leakage). This results in an outcome delivery incentive rate materially above industry average (after appropriate normalisation) for Essex and Suffolk customers and a below industry average level of protection against incremental underperformance for customers in the company's Northumbria operating area. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	This results in underperformance and outperformance rates of -£0.180 million and £0.154 million per megalitre per day, respectively.
	NES.OC.A16	Enhanced ODIs	Leakage (ESW) PC: 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. 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.	1 April 2019	The company has presented its enhanced threshold assessment in leakage per property. It has based its threshold on the action from us to South West Water on enhanced leakage thresholds. It sets an enhanced penalty threshold 1 Ml/d below its 2015-20 penalty collar at 76 Ml/d or 86.29 litres/property/day. It states this is below current bottom quartile and lower than our forecast of bottom quartile performance in 2024/25. The company continues to propose enhanced incentive rates based on a multiple of 5 times its standard outcome delivery incentive rates. The company argues that its proposed rates are appropriate because it has adopted a conservative approach in determining this multiplier; its approach is consistent with that used by us to assess the impact on the	Intervention required. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene.	We are intervening to set common thresholds for enhanced outperformance payments, except where companies have proposed more challenging thresholds. We set out more detail in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. For this company in this region, these are as follows: 2020-21 = 24.7% 2021-22 = 27.0% 2022-23 = 29.5% 2023-24 = 31.8% 2024-25 = 37.6% Units: percentage reduction in leakage from initial levels on a three-year average basis.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					industry/customers of small company mergers; and its Business Plan (which included the aggregate range of its outcome delivery incentive package including enhanced outcome delivery incentives) achieved 91% acceptability when tested with customers. The company has also submitted qualitative research which it argues demonstrates that 66% of customers support setting enhanced rates using a multiplier of 5 times the standard rate.	Since the company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. For leakage, we have assessed on both a per property and per length of mains basis. We have weighted both measures equally to establish the enhanced outperformance and underperformance thresholds. The company's proposed enhanced rates exceed our estimate of the sector-wide benefits to customers of enhanced outperformance for leakage (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix').	We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows: 2020-21 = -40.5% 2021-22 = -40.5% 2022-23 = -40.5% 2023-24 = -40.5% 2024-25 = -40.5% Units: percentage reduction in leakage from initial levels on a three-year average basis. We are intervening to set enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance. These are £0.479 million per megalitre per day for outperformance payments and -£0.479 million per megalitre per day for underperformance payments.
	NES.OC.A17	Caps, collars and deadbands	Leakage (ESW) PC: 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.	1 April 2019	The company states it revises its caps and. Since its leakage measure for ESW accounts for more than 10% of its total water package it proposes an enhanced cap at P90 performance. For the enhanced penalties it proposes to have a band of 2 Ml/d over the standard penalty cap. This is twice as large as the overall reward band.	Intervention required. We consider that the company's proposed cap on enhanced outperformance payments for this performance commitment is insufficient to protect customers, and may risk excessive management focus on a single performance commitment. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced	We are intervening to set an enhanced outperformance cap at 1% of water regulated equity each year for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. See the 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice. We are intervening to set the enhanced underperformance collar for all of the performance commitments with enhanced outcome delivery incentives proposed by the

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						underperformance collar for the sector based on current lower decile performance which will limit the level of exposure to companies while protecting customers from poor performance.	company. We are setting these at the lower decile of current company performance. This is as follows: 2020-21 = -52.3% 2021-22 = -52.3% 2022-23 = -52.3% 2023-24 = -52.3% 2024-25 = -52.3% Units: percentage reduction in leakage from initial levels on a three-year average basis.
	NES.OC.A18	ODI rates	Per capita consumption PC: 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 customers' 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.	1 April 2019	The company proposes to amend its incentive rates to the nearest point in our reasonable range (as set out in our 'Technical appendix 1: Delivering outcomes for customers), thereby increasing both its underperformance and outperformance rates relative to its September business plan.	No intervention required. The company has responded to our IAP action by re-triangulating its proposed outcome delivery incentive rates against other companies' September business plan rates. This results in the company's rates increasing to the lower bound of the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. We have not identified an incentive for the company to understate its ODI rates based on its comparative current and forecast performance. As such, we are not intervening. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A19	Definition	Internal sewer flooding PC: 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).	1 April 2019	The company provides an action plan as required. The action plan sets out the activities the company will undertake to ensure the Amber and Red components of this performance commitment will be compliant by the required date.	No intervention required. The company has provided sufficient evidence of the actions it has taken to be fully compliant and will be fully compliant before 2020.	NA

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	NES.OC.A20	Stretch	Internal sewer flooding PC: 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.	1 April 2019	The company proposes to implement the values we calculated.	No intervention required. The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A21	ODI rate	Internal sewer flooding PC: 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. 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 'Technical appendix 1: Delivering outcomes for customers') and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in internal sewer flooding. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' 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.	1 April 2019	The company proposes re-triangulating its outcome delivery incentive rates using the other companies' proposed rates (as reflected in the IAP range) and differences in house prices between companies' operating regions. The company states that it has assessed the level of house prices across regions to ensure that applying our range would not create perverse incentives within its regions given house prices in North East England are the lowest across the country. The company provides details about how its outcome delivery incentive rates are coherent across its sewerage performance commitments. The company explains that less than 0.2% properties have had internal and external sewer flooding and hence there is no overlap. 14% blockages result in internal / external sewer flooding hence it reduces its incentive rate for blockages by 14%. It has removed its outperformance payment for sewer collapses since it cannot be sure there is no double counting.	Intervention required. The company is re-triangulating its proposed outcome delivery incentive rates against other companies' September business plan rates (using the lower bound of the IAP reasonable range). However it then applies a downward adjustment to this value based on regional variation in house prices. This results in outcome delivery incentive rates that are below the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company has not demonstrated that regional variation in house prices is an appropriate driver of variation in willingness to pay across companies, nor has it sufficiently explained the precise nature of how the adjustment has been applied. The company sufficiently explains how its package of outcome delivery incentive rates is coherent. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the outperformance and underperformance rates at the level proposed by the company after removing the downward adjustment for regional variation in house prices. This results in underperformance and outperformance payment rates of -£3.247 million and £2.523 million per incident per 10,000 connections, respectively.
	NES.OC.A22	Enhanced ODIs	Internal sewer flooding PC: 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.	1 April 2019	The company notes that its P10 and P90 expected performance does not reach either enhanced threshold, therefore it proposes to remove the enhanced incentives.	No intervention required.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			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.			The company removes the enhanced outcome delivery incentive, which we accept.	
	NES.OC.A23	Caps, collars and deadbands	Internal sewer flooding PC: 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.	1 April 2019	The company states it revises its caps and collars and it is adopting caps and collars in line with our IAP guidance.	Intervention required. We consider that the performance commitment is not financially material and we do not consider caps and collars are appropriate, unless evidence of specific customer support is provided. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to remove the collar.
	NES.OC.A24	Definition	Risk of severe restriction in a drought PC: 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.	1 April 2019	The company provides a response document outlining briefly its water resources management plan approach and provides the Certainty Grading calculation. No intermediate calculations are provided for calculating the zonal or company baseline risk, and the resultant performance commitment levels. The company proposes no change in its performance commitment levels as a result of this submission.	Intervention required. The risk of zero for each year is acceptable however we are asking companies to give us intermediate calculations. Intermediate calculations give us confidence that companies have followed our definition appropriately and allow us to intervene effectively if we do not consider the service levels are stretching. We would like companies to confirm that their performance commitment levels are reflective of their water resources management plan position. We would like companies to confirm which programmes of work will impact their risk profile forecasts. If companies do not provide the intermediate calculations this may impact our assessment of levels throughout the 2020-25 period since there needs to be consistency to make years comparable.	This is a sector wide action. The company should provide a full set of intermediate calculations at a zonal level, underlying the risk calculation (for both baseline levels and performance commitment). The company should confirm that its performance commitment levels are reflective of its water resources management plan position. This should include the potential that it will have access to drought orders and permits The company should confirm which programmes of work will impact its forecasts. The company should confirm which schemes will impact its forecasts.
	NES.OC.A25	Definition	Risk of sewer flooding in a storm PC: 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	1 April 2019	The company appears to have adopted the standard definition. The company presents the modelled and un-modelled populations at risk as determined by the metric.	Intervention required. The understanding of the scope and definition of this common performance commitment has been improved by both	We are intervening to set out that the company should confirm that it is: using the updated parameters in the catchment vulnerability assessment;

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			of Developing and Trialling Wastewater Resilience Metrics, Atkins.		The company has stated what it considers to be its assumptions for option 1a (unmodelled) and option 1b (modelled). For Option 1a, the company has not split its catchments into smaller, "functional" catchments as it claims that it would not fully understand the interdependencies between them without modelling. The company states it has assessed the vulnerability of all of its catchments as part of its DWMPs and has reported this as part of its submission. However, there is no reference to any modelling assumptions that have been made in determining the populations at risk. The company provides all the information set out in section 3.6 of Developing and Trialling Wastewater Resilience Metrics, Atkins.	ourselves and the companies following our IAP. We are intervening so that companies confirm that they will be updating their approach to flooding resilience in line with the revised definition	reporting the extent they use 2d or simpler modelling; and adopting FEH13 rainfall as standard and if not when expect to do so.
	NES.OC.A26	ODI rates	Water quality compliance PC: The company should provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' 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. The company should explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs.	1 April 2019	The company states that it has consulted our 'Technical Appendix 1' It has used values within our acceptable ranges, therefore it no longer uses our defined reward or penalty formulas set out in our 'PR19 final methodology'.	No intervention required. The company has responded to our IAP action by amending its proposed outcome delivery incentive rates against other companies' September business plan rates. The company's underperformance payment rate is within the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', and its committed performance level is zero. Therefore we are not intervening on the outcome delivery incentive rate. The company does not have past performance issues on water quality. The company sufficiently explains how its rate is coherent with rates proposed for other asset health performance commitments. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A27	Stretch	Pollution Incidents PC: We expect the company's service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	1 April 2019	The company proposes to implement the values we calculated.	No intervention required. The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A28	ODI rates	Pollution incidents PC: 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 pollution incidents. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' 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. 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.	1 April 2019	The company is amending its proposed incentive rates to the nearest point in our IAP range, thereby reducing both its underperformance and outperformance rates relative to its September business plan. The company provides details about how its O outcome delivery incentive rates are coherent across its sewerage performance commitments. The company explains that less than 0.2% properties have had internal and external sewer flooding and hence there is no overlap. 14% blockages result in internal / external sewer flooding hence it reduces its incentive rate for blockages by 14%. It has removed its outperformance payment for sewer collapses since it cannot be sure there is no double counting.	No intervention required. The company has reduced its proposed outcome delivery incentive rates to the upper bound of the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', which coincides with the core sample results of its willingness to pay research. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A29	Enhanced ODIs	Pollution incidents PC: The company should review the thresholds for enhanced outperformance payments and underperformance payments, and either make	1 April 2019	The company proposes to set its enhanced outperformance threshold and underperformance threshold at the level of the standard caps and collars we have set for	Intervention required. As we set out in 'PR19 draft determinations: Delivering outcomes for	We are intervening to set the enhanced outperformance thresholds for this

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			them more challenging or provide evidence to demonstrate that they are appropriate. 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.		United Utilities. The company continues to propose enhanced incentive rates based on a multiple of 5 times its standard outcome delivery incentive rates. The company argues that its proposed rates are appropriate because it has adopted a conservative approach in determining this multiplier; its approach is consistent with that used by us to assess the impact on the industry/customers of small company mergers; and its Business Plan (which included the aggregate range of its outcome delivery incentive package including enhanced outcome delivery incentives) achieved 91% acceptability when tested with customers. The company has also submitted qualitative research which it argues demonstrates that 66% of customers support setting enhanced rates using a multiplier of 5 times the standard rate.	customers policy appendix', we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since the company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance commitment. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. The company's approach to deriving its enhanced outcome delivery incentive rates implicitly assumes a 1:1 relationship between enhanced outperformance in 2020-25 and performance commitment level stretch in 2025-30. It does not take account of the delay in benefits accruing to customers and assumes a constant willingness to pay valuation across enhanced and standard outperformance and for its own customers compared to the rest of industry.	performance commitment at our assessment of the frontier over time. This is as follows: 2020-21 = 15.05 2021-22 = 14.57 2022-23 = 14.12 2023-24 = 13.75 2024-25 = 11.97 We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows: 2020-21 = 39.7 2021-22 = 39.7 2022-23 = 39.7 2023-24 = 39.7 2024-25 = 39.7 Units: number of incidents per 10,000 km of sewer. We are also intervening to set enhanced payment rates based on our estimate of the sector-wide benefits of enhanced outperformance. These are £1.397 million per incident per 10,000 km sewer for outperformance and -£1.397 million for underperformance.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A30	Caps, collars and deadbands	Pollution incidents PC: 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.	1 April 2019	The company states it revises its caps and collars and it is adopting enhanced caps and collars. The enhanced cap has been set at the P90 level and the enhanced collar at the level that would imply symmetry between enhanced outperformance payments and enhanced penalties.	Intervention required. The company has not applied an enhanced outperformance cap to this enhanced outcome delivery incentive which we consider risks insufficient protection for customers and excessive management focus on a single performance commitment. As we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' we consider enhanced outperformance caps are appropriate. As we set out in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure to companies while protecting customers from poor performance.	We are intervening to set an enhanced outperformance cap at 1% of wastewater regulated equity each year for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice. We are intervening to set the enhanced underperformance collar for all of the performance commitments with enhanced outcome delivery incentives proposed by the company. We are setting these at the lower decile of current company performance. This is as follows: 2020-21 = 85 2021-22 = 85 2022-23 = 85 2023-24 = 85 2024-25 = 85 Units: number of incidents per 10,000 km of sewer
	NES.OC.A31	ODI type	Mains repairs PC: 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.	1 April 2019	The company provides evidence to demonstrate that it has engaged with its customers on outperformance payments specifically for its mains bursts performance commitment. The company's engagement shows its customers support an outperformance payment, and its service valuation tool and additional bespoke research on this specific topic also support it.	No intervention required. The company demonstrates customer support for an outperformance payment for this performance commitment and the engagement is of sufficient quality.	NA
	NES.OC.A32	ODI rates	Mains repairs PC: 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	1 April 2019	The company states that it has consulted our 'Technical Appendix 1' and it has triangulated information from this guidance with its used values within our acceptable ranges, therefore it no longer uses our defined reward or penalty formulas set out in our 'PR19 final methodology'.	Intervention required. The company is reducing its proposed outcome delivery incentive underperformance rate to the upper bound of the IAP reasonable range. The company's underperformance payment rate is within the reasonable range that we set	We are intervening to reduce the company's outperformance payment rate to £0.182 million, to be equal to its underperformance payment rate.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			incentivises performance in the long and short-term. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODI rates for mains bursts and assess the appropriateness of the company's customer valuation evidence supporting its ODI.			out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', its committed performance level is good, and its comparative performance is line with the sector 'good' level. Therefore in line with 'PR19 draft determinations: Delivering outcomes for customers policy appendix' we are not intervening on the outcome delivery incentive underperformance rate. The company's proposed outperformance payment rate is larger than its underperformance payment rate. We do not consider outperformance rates should be larger than its underperformance payment rate except where it is well justified. The company has not provided such a justification. We will intervene to ensure it is equal to the underperformance rate. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	NES.OC.A33	Enhanced ODIs	Mains repairs PC: 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. 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.	1 April 2019	The company does not have an enhanced outcome delivery incentive on mains repairs.	No intervention required. The company has removed its enhanced outcome delivery incentive on mains repairs which we accept.	NA
	NES.OC.A34	Caps, collars and deadbands	Mains repairs PC: 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.	1 April 2019	The company does not have an enhanced outcome delivery incentive on mains repairs	No intervention required.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A35	Definition	Unplanned outage PC: 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).	1 April 2019	The company's April submission showed zero red, nine amber and three green rated components out of total twelve and reported that most of the components will get green rating by May 2019 or by 2019-20. However, the company's May submission does not confirm this and there are still 9 reds, zero amber, and 3 greens ratings. The auditor states that this is due to the fact that improvements in reporting were not implemented in time for the 2018-19 data to warrant an amber rating. The auditor's report also points that company is aware of improvements needed and have a number of action plans in place to get to compliant reporting.	No intervention required. The company has provided sufficient evidence to demonstrate that it will be compliant with the reporting requirements by 2020. The independent auditor has also confirmed the company's awareness of issues and action plans in place which should help it to be compliant by 2019-20.	NA
	NES.OC.A36	Stretch	Unplanned outage PC: 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 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.	15 May 2019	The company provides a revised figure of 7.88% and states there is an increase in unplanned outage actuals from 2017/18 to 2018/19. The company states this is partly due to improvements in reporting methodology, and was also influenced by a severe 2017/18 winter, including the freeze thaw event which necessitated more stringent management of water treatment works and unplanned outage levels in order to meet increased network demand. The company explains the forecast numbers are consistent with its business plan performance commitment to achieve a 10% improvement between 2020/21 and 2024/25 and these have been adjusted to reflect the latest forecasts.	Intervention required. The company does not provide compelling evidence that the proposed performance commitment levels are stretching. The company's forecast is higher than median industry forecast. We have used the median for this performance commitment since it is a new measure with no historical data to enable us to determine what 'good' looks like based on a forward projection. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for further detail. Therefore, we are intervening to set a performance commitment level based on a linear profile from the company's forecast 2019-20 value (7.38%) to the industry median value of 2.34% by 2024/25. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set performance commitment levels. These levels are: 2020/21 = 6.37% 2021/22 = 5.36% 2022/23 = 4.36% 2023/24 = 3.35% 2024/25 = 2.34% Units: percentage of peak week production capacity.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A37	ODI type	Unplanned outage PC: 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.	1 April 2019	The company states that in response to the challenge it is proposing to include an outcome delivery incentive underperformance payment. The company states that it is not proposing an outcome delivery incentive outperformance payment so there is no risk of duplication with payments for its interruptions and water quality performance commitments. The company considers that the underperformance payment is reflected in those for water supply interruptions and water quality. However, the company states that the outcome delivery incentive underperformance rate provides an additional incentive for it to maintain asset health in the short and long term	No intervention required. The company is complying with the action, proposing an underperformance payment rate.	NA
	NES.OC.A38	ODI rate	Unplanned outage PC: 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. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODI rates for unplanned outages and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company states that it has consulted our 'Technical Appendix 1'. It has used values within our acceptable ranges.	No intervention required. The company underperformance payment rate is above the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' which gives additional customer protection given its relatively poor comparative performance. Therefore we are not intervening on the underperformance payment rate. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A39	Stretch	Sewer collapses PC: The company should provide further evidence to justify its proposed service levels.	1 April 2019	The company proposes more stretching performance commitment levels compared to its business plan. It proposes a 28% improvement from 2019/20 to 2024/25	No intervention required. We consider the revised service levels provided by the company to be suitably stretching. The company proposed the maximum percentage reduction and this takes it to very close to a good level. We set out our rationale for setting performance commitment levels for this common performance commitment in	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	NES.OC.A40	ODI type	Sewer collapses PC: 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.	1 April 2019	The company states that it is difficult for a sewerage company to identify where a sewer collapse has not resulted in an incident that will impact on one of the other incentivised performance commitments. The company has therefore decided to remove the outperformance payment associated with sewer collapses, but will keep the proposed underperformance payment.	No intervention required. The company removes the outperformance payment for this performance commitment as it now considers that an outperformance payment is not appropriate.	NA
	NES.OC.A41	ODI rates	Sewer collapses PC: The company should provide further evidence either to justify the existing rates for the following PCs (COM08, COM14, BES10, BES15, BES16, BES17) or adjust rates for this potential overlap. In either case the company should provide its evidence and rationale. 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. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' 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.	1 April 2019	The company states that it has consulted our 'Technical Appendix 1'. It has used values within our reasonable ranges This has increased the rate The company provides details about how its outcome delivery incentive rates are coherent across its sewerage performance commitments. The company explains that less than 0.2% properties have had internal and external sewer flooding and hence there is no overlap. 14% blockages result in internal / external sewer flooding hence it reduces its incentive rate for blockages by 14%. It has removed its outperformance payment for sewer collapses since it cannot be sure there is no double counting.	No intervention required. The company has explained the formulation of its outcome delivery incentive rate. The company sufficiently explains how its rate is coherent with rates proposed for other asset health performance commitments. The company's underperformance payment rate is within the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. In addition, the company is proposing stretching service levels although it has relatively poor comparative performance.in 2017-18. However, the difference between the company's rate and the average of the range is not considered material (see outcome policy appendix). Therefore we are not intervening on the outcome delivery incentive rate, however this will be reviewed in our final determination when the 2018/19 performance data will be available. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A42	Stretch	Treatment works compliance PC: The company should set its proposed service level for the 2020-2025 period at 100%	1 April 2019	The company proposes to set its performance commitment levels at 100%.	No intervention required.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	No reference number.	ODI rate	Treatment works compliance PC: 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 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODI rates for treatment works compliance and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	NA	The company states that it has consulted our 'Technical Appendix 1'. It has used values within our reasonable ranges This has reduced the rate to be more in line with the sector.	No intervention required. The company's underperformance payment rate is within the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. Whilst the company has failed its treatment works compliance performance commitment this year, the difference between the company's rate and the upper bound of the range is not considered material (see outcome policy appendix). Therefore we are not intervening on the outcome delivery incentive rate, however this will be reviewed in our final determination when the 2018-19 performance data will be available. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A43	Caps, collars and deadbands	Treatment works compliance PC: The company should revise the deadband level to 99% or provide sufficient evidence to justify why this is not appropriate.	1 April 2019	The company proposes to set a deadband at 99%.	No intervention required. The company is implementing the values we have proposed.	NA
	NES.OC.A44	Definition	Discoloured water contacts PC: 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.	1 April 2019	The company has not responded to this action and retained its original definition of number of discoloured water contacts focused only on brown/orange/black water. Its performance commitment aligns with the previously used serviceability measure and its 2015-20 performance commitment.	Intervention required. We consider that the definition the company has adopted for this performance commitment provides limited coverage. The company has worse than average comparative performance for 'appearance' as reported on the Discover Water. We will	We will intervene to change the definition of this performance commitment to align with the standard definition as published on our website.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					In our 'PR19 final methodology', we linked the definition of this performance commitment with the Drinking Water Inspectorate letter IL01/2006 from which the Discover Water website draws its data for all types of contacts related to 'appearance' (black/brown/orange, blue/green, particles, white due to air, white due to chalk, animalcules, general conditions). Although the company states that it will report in alignment with the Discover Water website, it does not clearly link this with the Discover Water definition of appearance.	therefore intervene to change the definition of the performance commitment so it include all types of appearance related contacts and set associated performance commitment levels based on our industry comparative analysis. To set the forecast level for 2019/20 we have used an average of the three years of data from the Discover Water website combined for the three regions covered by the company (using population data for each region). This provides a level of 11.28 contacts per 10,000 population. We applied the upper quartile percentage improvement from all companies to obtain a forecast value for 2024/25 and set a linear profile for the intervening years.	We intervene to set the following performance commitment levels customer contacts for appearance: 2020-21 = 10.51 2021-22 = 9.75 2022-23 = 8.98 2023-24 = 8.21 2024-25 = 7.44 Units: number of customer contacts for appearance per 10,000 population.
	NES.OC.A45	ODI type	Discoloured water contacts PC: 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.	1 April 2019	The company provides evidence to demonstrate that it has engaged with its customers on outperformance payment for the discoloured water contacts performance commitment. The engagement indicates that the company's customers support an outperformance payment through its service valuation tool research.	No intervention required. We note the mixed nature of views from the different research, but the most current research shows sufficient customer support for an outperformance payment for this performance commitment and that the engagement is of sufficient quality.	NA
	NES.OC.A46	Stretch	Taste and smell contacts PC: 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.	1 April 2019	The company proposes to revise its performance commitment levels for taste and smell contacts, making an improvement of 11% over the period 2020-25 but keeping the absolute number of contacts constant at 957 for each year despite the forecast increase in population supplied year on year. It states that its proposal is aimed at keeping it ahead of upper quartile for this performance commitment. It also states that in its quarterly domestic tracking customer research, customers consistently score the Taste and Smell of its drinking water highly – at 9 out of 10. Thus a more stretching target is not warranted from a customer perspective.	No intervention required. The evidence presented on customers engagement on the level of service expected is sufficient. The overall reduction in customer contacts is acceptable over the period. The proposed performance commitment levels are slightly better than industry upper quartile by 2024-25 for the combined customer contacts (appearance + taste and odour) measure. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A47	ODI rate	Sewer blockages PC: 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, 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.	1 April 2019	The company states that the primary customer outcome measures in this suite of outcome delivery incentives relate to Pollution and Flooding. Blockages are also problematic for its customers, particularly when they occur on the local network, even if no pollution or flooding results. The company uses the incentive formula to calculate the rates. Therefore, the company focuses its response on ensuring that there is no overlap across the 3 flooding measures, or between collapses/blockages and the other measures. It states that in the past three years, less than 0.2% of incidents (from over 11,000 flooding incidents) have flooded internally, and have then subsequently flooded externally (and vice versa). It is therefore confident that the outcome delivery incentives for internal and external flooding complement each other and do not overlap. For repeat sewer flooding, the company states that the outcome delivery incentive rate is based on customer engagement relating to the degree to which a repeat incident is worse than a first incident, avoiding any overlap. Out of the total number of blockages, approximately 14% result in internal or external flooding from its sewerage network. It therefore proposes a 14% reduction to its proposed incentive rates for blockages, in order to remove any duplication. It proposes removing the outperformance payment for sewer collapses due to overlap.	No intervention required. The company sufficiently explains how its rate is coherent with the rates proposed for other asset health performance commitments. The company's underperformance payment rate is within the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. In addition, the company's proposed service level is at the upper quartile and it has good comparative performance. The proposed outperformance rate is lower than the underperformance rate. Therefore we are not intervening on the outcome delivery incentive rates. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A48	ODI rate	Repeat sewer flooding PC: 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 sewer flooding) and demonstrate how the package of ODIs across the relevant group of performance	1 April 2019	The company states that the primary customer outcome measures in this suite of outcome delivery incentives relate to pollution and flooding. For repeat sewer flooding, the company states that its rate is based on customer engagement relating to the degree to which a repeat	No intervention required. The company has complied with our action to explain the formulation of its outcome delivery incentive rate and its customer valuation evidence. The company sufficiently explains how its outcome delivery incentive rate is coherent with	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			commitments appropriately incentivises performance in the long and short-term.		incident is worse than a first incident, therefore ensuring no overlap.	rates proposed for other asset health performance commitments.	
	NES.OC.A49	Definition	Satisfaction of Customers who receive additional support PC: The company should split this PC into two PCs, one for financial and one for non-financial support scheme. This would support more transparent measurement and reporting than the current PC proposes.	1 April 2019	The company proposes to split the performance commitment into two commitments, one for financial and one for non-financial support schemes. It proposes to maintain its stretch levels for each performance commitment (8.7 out of 10 for 2020-21 rising to 8.8 out of 10 for 2023-24).	No intervention required. The company's proposals comply with the action.	NA
	NES.OC.A50	Definition	Awareness of additional support PC: 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.	1 April 2019	The company proposes to split the performance commitment into two commitments, one for financial and one for non-financial support for recipient awareness. It proposes to main its stretch levels for each performance commitment (increasing to 65% by 2024-25).	No intervention required. The company's proposals comply with the action.	NA
	No reference number.	ODI type	Gap sites PC: The company should provide further evidence to justify the use of a non-financial incentive by demonstrating why a 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.	1 April 2019	The company highlights the data challenges associated with measuring the number of gap sites and quantifying the customer benefit. It argues that that the uncertainties associated to this performance commitment means it would not be in customers interests to have a financial incentive on this performance commitment.	No intervention required. We consider that the data challenges highlighted by the company are common across the industry. We accept the proposed rationale for maintaining this outcome delivery incentive as reputational-only.	NA
	No reference number.	ODI type	Voids PC: 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.	NA	The company provides evidence that customers are supportive of an outperformance payment applied with a payment sharing mechanism, and how improving performance in this area would benefit customers. The company does not provide any commentary regarding the potential for perverse incentives.	No intervention required. We note that 83% of customers support outperformance payment applied with a payment sharing mechanism. There are clear direct benefits from outperformance in terms of bill reductions for other customers. Whilst the company does not address our question regarding perverse incentives, we consider that the overall risk posed by perverse incentives is not material enough to warrant an intervention to this performance commitment and outcome delivery incentive.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A51	ODI rate	Sewer flooding risk reduction PC: 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 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.	1 April 2019	The company states that the purpose of this performance commitment is to protect customers in the event of late or non-delivery of its proposed enhancement for Proactive Flood Risk Reduction. The company explains how its proposed outcome delivery incentive rates are coherent. This explanation is included in detail in NES.OC.A47.	No intervention required. The company has complied with our action to explain the formulation of its outcome delivery incentive rate and its customer valuation evidence. The company sufficiently explains how its rate is coherent with rates proposed for other asset health performance commitments.	NA
	NES.OC.A52	Stretch	Interruptions to supply between one and three hours PC: 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.	1 April 2019	The company provides a plan to consistently collect supply interruptions that last 1-3 hours data consistently. The company states the methodology aligns with the common supply interruptions performance commitment and is collected as robustly. The company states that data will be collected for 3 years between April 2018 and March 2021. This will provide a 3-year average with which to set the baseline.	No intervention required. The company is complying with the action, providing a clear description of the process for establishing a baseline and for data collection.	NA
	NES.OC.A53	ODI rate	Interruptions to supply between one and three hours PC: 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.	1 April 2019	The company explain how it uses the incentive rate for interruptions greater than 3 hours as a starting point, and adjusted this to 75% of the rate based on post-IAP customer research and qualitative evidence.	Intervention required. The company provided some rationale for how they have set the outcome delivery incentive rate, through triangulating other rates. Whilst this methodology is acknowledged as based on an element of subjective judgement, we consider that in principle it is appropriate. However, we do not consider that it has been applied correctly for the underperformance payment rate and that this should be greater than the outperformance rate as is the case for the common interruptions to supply measure. We are intervening to increase the underperformance payment	We are intervening to adjust the underperformance payment rate to -£1.119 million per minute.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						rate so that it is 75% of the standard rate for the common performance commitment.	
	NES.OC.A54	Stretch	External sewer flooding PC: 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 performance, it will need to provide sufficient evidence to justify its decision not to do so.	1 April 2019	The company is not proposing to revise its performance commitment levels, as it considers the level to be suitably stretching. The company has conducted additional customer engagement on its external sewer flooding performance commitment and states that 61% support the performance commitment level and the improvement provided (although the specific question asked was, 'should NES earn a reward for going beyond the performance commitment level').	No intervention required. The proposed service level demonstrates a 25.5% improve from 2019-20 to 2024-25 (21 incidents per 1,000 km). This is better than the upper quartile of improvements proposed by all companies. We consider this to be a suitably stretching level of service. The company has also conducted additional customer engagement since the IAP which shows strong support for the improvement level. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	NES.OC.A55	ODI rate	External sewer flooding PC: 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. 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 'Technical appendix 1: Delivering outcomes for customers') and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in external sewer flooding. The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODI rates for external sewer flooding and assess	1 April 2019	The company states that the primary customer outcome measures in this suite of outcome delivery incentives relate to pollution and flooding. Blockages are also problematic for its customers, particularly when they occur on the local network, even if no pollution or flooding results. Therefore, the company has focused its response on ensuring that there is no overlap across the three flooding measures, or between collapses/blockages and the other measures. . The company states that in the past three years, less than 0.2% of incidents (from over 11,000 flooding incidents) have flooded internally, and have then subsequently flooded externally (and vice versa). It is therefore confident that its outcome delivery incentives for internal and external flooding complement each other and do not overlap. The company has used values from our reasonable range set out at IAP for its proposed revised outcome delivery incentive rates. The company proposes to move rates to	No intervention required. The company sufficiently explains how its rate is coherent with rates proposed for other flooding performance commitments. The company has not made any adjustments to its proposed ODI rates which remain within the reasonable range. We have not identified any concerns with the company's underlying valuation research nor the derivation of its ODI rates We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA

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			the appropriateness of the company's customer valuation evidence supporting its ODI.		the nearest point on the reasonable range, this means that both out and underperformance rates) rise		
	NES.OC.A56	Caps, collars and deadbands	Abstraction incentive mechanism (AIM) PC: 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.	1 April 2019	The company confirms that the collar applies to daily performance.	No intervention required. The company has complied with our action. It has set the collar at a level which maintains a material incentive against underperformance.	NA
	NES.OC.A57	Definition	Water environment improvements PC: 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.	1 April 2019	The company proposes a revised final definition for this performance commitment. This includes details of: What is classified as a water environment improvement; Examples of how the river length would be calculated through different improvements; Recording of performance and validation by the NES Environment Manager; and Reporting to and assurance by the Water Environment Governance Group.	Intervention required. We have concerns that there is limited detail on the types of activities that will be covered under this performance measure and how stretching the interventions are likely to be. We acknowledge the external assurance provided by the Water Environment Governance Group, however, we propose strengthening their input into the activities undertaken.	We are intervening to strengthen the role of the Water Environment Governance Group within the performance commitment definition as there is currently limited information on what will be delivered under the measure. We are including the following activities in the definition: involvement of the Water Environment Governance Group in identifying suitable opportunities and interventions; a full scope will be agreed by the Water Environment Governance Group prior to each scheme being implemented; and external assurance on this process and on the benefits of the delivered schemes will be provided and reported in each year. We also clarify that work done in any given year on a stretch of bank or water body perimeter will be excluded from being counted again to the measure in the same period (2020-25).
	NES.OC.A58	Stretch	Water environment improvements PC: The company should clearly set out the evidence and rationale for the proposed targets and provide clarification on success measures for this PC.	1 April 2019	The company state that the performance commitment level is inherently stretching because it is a voluntary commitment and goes above and beyond any statutory obligation. The 10km target has been set based on discussion with catchment partners and forum, however, no evidence of whether these stakeholders agree that the target is stretching is provided. The company states the target also takes into account feedback from customers via their service valuation tool.	No intervention required. We are accepting the company's stretch of 10km given that the measure goes above and beyond regulatory requirements and the requirement for partnership working and funding to deliver these schemes. In line with the intervention for NES.OC.A57 we expect the company to work with the Water Environment Governance Group to identify as many suitable opportunities as possible and deliver beyond this target.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A59	Definition	Delivery of water resilience enhanced programme PC: The company should reconsider the PC definition and clarify how the success measures will work in practice.	1 April 2019	The company provides clarification of how the performance commitment will be practically implemented though an updated definition. This includes splitting the resilience package into 'elements' and detailing that a delay in any element beyond March 2025 will trigger underperformance payments.	Intervention required. We consider that the definition can be simplified so that it is more transparent and easier to reconcile. The company's revised definition does not sufficiently convey what "full completion" entails. The schemes should be considered to be completed when commissioned and in service. We accept the company's assurance proposals in principle, however these should in addition to reporting the schemes as complete, also report the likely delay in any individual element beyond 31st March 2025. In addition there is a lack of intermediate milestones that could demonstrate delivery to customers over the period.	We are intervening to ensure that the definition is more robust. In particular, we are strengthening the wording in the companies proposed definition to clearly state what "full completion" involves. The company should provide latest information on the timing of the schemes including any further milestone deliverables that could be assessed as discrete elements in its representations to the draft determination. We are also specifying assurance activities in the definition, to report the scheme as complete and to assess the likely delay in any individual element beyond 31 March 2025.
	NES.OC.A60	Stretch	Delivery of water resilience enhanced programme PC: 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.	1 April 2019	The company provides a statement that completing the water resilience package to time is extremely stretching, however, this is not supported with details of the schemes and why the end of the 2020-25 period is a stretching performance commitment level.	No intervention required. The programme of work will be agreed with the Drinking Water Inspectorate, and then converted into a legally binding programmes of work (Undertakings).	NA
	No reference number.	ODI rate	Delivery of water resilience enhanced programme PC: 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 standard Ofwat formula. In either case the company should provide its evidence and rationale.	1 April 2019	The company proposes an underperformance payment which reflects the avoided weighted average cost of capital from late delivery. The company propose to weight this based on the relative cost of each component of the enhancement programme. This calculation was not set out in full.	Intervention required. We have set the underperformance rate so that it will return expenditure to customers at the next price review that is not returned to customers under the cost sharing mechanism (we assume 50%) where the company has not delivered in the 2020-25 period.	We are intervening to set the underperformance rate at -£0.279 million.
	NES.OC.A61	Definition	Delivery of lead enhancement programme PC: 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.	1 April 2019	The company provides a definition of the performance commitment and how the delay payment would work by setting annual targets. It provides greater detail in how the lead replacement is broken into three groups and the proportion of lead replacement with each. Each of these groups has its own	Intervention required. We consider that the definition can be simplified so that it is more transparent and easier to reconcile. We are intervening to change the definition of this PC, so that it measures percentage completion of the lead enhancement	We are intervening to update the definition of this measure so that it tracks percentage completion of its lead enhancement programme. See response to NES.OC.A62 for the new stretch levels based on this updated definition.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					underperformance rate based on 50% of the unit costs. The company proposes multiple ODI rates and performance levels for delivering lead pipe replacements for three different types of customers under this single performance commitment.	programme. We have calculated separate percentage completion values for the following installations: Vulnerable customers; Rural customers; and Hotspots. We have calculated the percentage completion contribution of lead pipe replacement for vulnerable customers, rural customers and hotspots customers based on the unit cost provided for each. This has been calculated as follows: Vulnerable customers per unit % completion weighting = unit cost of vulnerable customer lead pipe replacement / total cost of lead enhancement programme = 0.046% per vulnerable customer lead pipe replacement Rural customers per unit % completion weighting = unit cost of rural customer lead pipe replacement / total cost of lead enhancement programme = 0.019% per rural customer lead pipe replacement. Hotspot customers per unit % completion weighting = unit cost of hotspot customer lead pipe replacement / total cost of lead enhancement programme = 0.019% per hotspot customer lead pipe replacement.	
	NES.OC.A62	Stretch	Delivery of lead enhancement programme PC: 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.	1 April 2019	The company provides details of how the performance commitment levels have been developed based on its estimates of the number of properties likely at risk. This uses a risk based approach considering the age and type of property. It provides a breakdown of the performance commitment level for each of its three categories of lead replacements: Vulnerable customers: 60% of total estimated properties requiring lead support to be targeted in the 2020-25 period; Rural supply: 415 customers which will allow the discontinuation of orthophosphate dosing; and Hotspot district metered areas: 271 replacements have been completed in the current 2015-20 period, with one more district metered still to be delivered.	Intervention required. The company has not fully complied with our action. The company provides evidence to support its end of period performance level based on total lead supply pipes replaced. While we accept that there is an element of customer demand which would drive the programme, we do not consider this to be a stretching enough target which is strong enough to incentivise performance throughout the period.	We are intervening to set targets in each year of the period based on the figures provided by the company, which have been converted into a % completion of the lead enhancement programme in NES.OC.A61. The performance levels for each year are as follows: 2020-21 = 15.1% 2021-22 = 36.4% 2022-23 = 57.6% 2023-24 = 78.8% 2024-25 = 100.0%

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					This programme of work includes delivering pipe replacement on the customer side (supply pipe) to completely remove lead from customer properties. The company considers this to be a new approach which adds risk and stretch to the lead enhancement scheme. It further argues that the lead removal activity is customer led, and that it is essential to retain flexibility to be able to actively respond to customer demand.		
	NES.OC.A62	ODI rate	Delivery of lead enhancement programme PC: The 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 formula. In either case the company should provide its evidence and rationale.	1 April 2019	The company explains how its outcome delivery rate is based on the unit cost of delivering its lead enhancement programme, with 50% payment sharing.	Intervention required. We consider that the company should be incentivised to deliver the programme steadily over the period to maximise benefits to customers. The approach to calculate under performance rates where we have no other reliable evidence of customer benefits from delivery of a performance commitment is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The underperformance outcome delivery incentive reflects the foregone benefits from annual delays. As set out in the policy appendix we calculate this through multiplying the programme total expenditure in scope of the performance commitment by the weighted average cost of capital plus the run-off rate, and then dividing this by the total number of schemes in scope. In addition we have set a further rate that will return expenditure to customers at the next price review that is not returned to customers under the cost sharing mechanism (we assume 50%) where the company has not delivered in the 2020-25 period.	We are intervening to state the underperformance payment rate as -£0.00834 million per percentage. In addition at PR24 we will recover allowed costs of any underperformance expected in 2024-25 using a rate of £0.0509 million per unit.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A63	Definition	Delivery of smart water metering enhancement programme PC: 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.	1 April 2019	The company provides clear targets for delivery and details of when outperformance payments will be triggered. The company proposes multiple ODI rates and performance levels for delivering new and replacement smart meters under this single performance commitment.	Intervention required. We are intervening to change the definition of this measure, so that it measures percentage completion of the smart water metering enhancement programme. We have calculated separate percentage completion values for installation of new meters and upgrading existing meters. We have calculated the percentage completion contribution of the delivery of each new meter and each upgraded existing meter based on the unit cost provided for each. This has been calculated as follows: New meters per unit % completion weighting = unit cost of new meter installation / total cost of smart metering enhancement programme = 0.0005007% per new meter installation Replacement meter upgrade per unit completion weighting = unit cost of replacement meter upgrade / total cost of smart metering enhancement programme = 0.0000592% per replacement meter upgrade.	We are intervening to update the definition of this measure so that it tracks percentage completion of its smart water metering enhancement programme. See response to NES.OC.A64 for the new stretch levels based on this updated definition.
	NES.OC.A64	Stretch	Delivery of smart water metering enhancement programme PC: 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.	1 April 2019	The company provides details in its enhancement case of customer support for metering and how its metering programme for the coming period (2020-2025) is due to deliver more for similar costs to the current period (2015-2020). It argues that the smart metering programme is only partially suited to having interim milestones as uptake is predominately optant led and the company needs to retain flexibility to respond to customer demand.	Intervention required. The company has not fully complied with our action. The company only provides an end of period performance level based on total smart meters installed. We do not consider that this is a stretching enough target to incentivise performance throughout the period. We are intervening to set performance commitment levels in each year of the period.	We are intervening to set targets in each year of the period based on the figures provided by the company, which have been converted into a percentage completion of the smart water metering enhancement programme in NES.OC.A63. The performance levels for each year are as follows: 2020-21 = 20.4%

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						As set out in our response to NES.OC.A63, we are intervening to redefine this performance commitment as a single scheme-based performance commitment. We are therefore intervening to set performance commitment levels based on the percentage completion of the overall scheme, using the revised definition. We are not changing the stretch of either type of meter's installation profile.	2021-22 = 40.6% 2022-23 = 60.6% 2023-24 = 80.4% 2024-25 = 100.0%
	NES.OC.A65	ODI rate	Delivery of smart water metering enhancement programme PC: The 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.	1 April 2019	The company explain how its outcome delivery incentive rate is based on the unit cost of delivering their smart metering enhancement programme, with 50% payment sharing.	Intervention required. We consider that the company should be incentivised to deliver the programme steadily over the period to maximise benefits to customers. The approach to calculate under performance rates where we have no other reliable evidence of customer benefits from delivery of a performance commitment is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The underperformance outcome delivery incentive reflects the foregone benefits from annual delays. As set out in the policy appendix we calculate this through multiplying the programme total expenditure in scope of the performance commitment by the weighted average cost of capital plus the run-off rate, and then dividing this by the total number of schemes in scope. In addition we have set a further rate that will return expenditure to customers at the next price review that is not returned to customers under the cost sharing mechanism (we assume 50%) where the company has not delivered in the 2020-25 period.	We are intervening to state the underperformance payment rate as -£0.0344 million per percentage. In addition, at PR24 we will recover allowed costs of any underperformance expected in 2024-25 using a rate of £0.2099 million per percentage.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	NES.OC.A66	Definition	Delivery wastewater resilience enhancement programme PC: 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.	1 April 2019	The company provides individual penalty rates for each element of its wastewater enhancement package, along with delivery dates.	Intervention required. We are intervening to update the definition for this performance commitment to measure the number of sites where flood mitigation schemes have been delivered at the 41 sites for which an enhancement allowance has been accepted. This updated definition provides greater transparency for the updated wastewater resilience enhancement allowance, which has only been allowed for the flood mitigation component of the wastewater resilience enhancement claim. There is a lack of intermediate milestones that could demonstrate delivery to customers over the period.	We are intervening to update the definition for this performance commitment to measures the number of sites where flood mitigation schemes have been delivered at the 41 sites. The company should provide latest information on the timing of the schemes including any further milestone deliverables that could be assessed as discrete elements in its representations to the draft determination.
	NES.OC.A67	Stretch	Delivery wastewater resilience enhancement programme PC: 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.	1 April 2019	The company provides delivery dates for each element of the wastewater enhancement package and details of customer support within the enhancement business case. The company does not provide in-period milestones.	Intervention required. We are intervening to set a stretch level based on the number of sites where flood mitigation schemes are delivered as per the change to the definition in NES.OC.A66.	We are intervening to set performance commitment levels in each year of the period based on the figures provided by the company. These are as follows: 2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 41 Units: number of sites.
	NES.OC.A68	ODI rate	Delivery wastewater resilience enhancement programme PC: 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.	1 April 2019	The company set a delay penalty which reflects the avoided weighted average cost of capital from late delivery, or the unit cost of delivery. The company propose to weight the delay penalty based on the relative cost of each component of the enhancement programme.	Intervention required. We are intervening to fully align the performance commitment to our final cost allowance. Given we have not provided cost allowance for other schemes within the company's proposed wastewater network resilience programme, customers only need to be protected from non-delivery for the 41 sewage treatment works and sewage pumping stations that had been identified as being at risk of flooding. We have set the underperformance rate so that	We are intervening to set the underperformance payment rate at -£0.410 million per percentage.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						it will return expenditure to customers at the next price review that is not returned to customers under the cost sharing mechanism (we assume 50%) where the company has not delivered in the 2020-25 period.	
	NES.OC.A69	Definition	Delivery of cyber resilience enhancement programme PC: 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.	1 April 2019	The company proposes to provide customer protection for £5.85m of its cyber resilience enhancement claim. This means a further £8.861m of the company's enhancement claim remains unprotected. It states that the remaining part of the enhancement claim is unclear and that outputs are not clearly defined as they will be based on ongoing risk analysis. However the company do propose the following 9 components within its enhancement claim: Advanced persistence threat (APT) solutions Privilege management, permissions management, network access control and 'end point zero-day' solutions to enhance security and prevent incidents happening. Microsoft E5 licences which provides enhanced security functionality (above that usually required) Enhanced employee awareness training Enhancing security of OT network to support 2000 OT outstations which are being migrated to new IP technology Incident-response capability (support from cyber specialists in event of an incident) Implement information security management system (ISMS) to guard against cyber threats and manage compliance frameworks Enhanced/red team testing to test holistic security (in line with CPNI recommendations) Microsoft operations manager's suite	Intervention required. We have identified gaps in the coverage of the performance commitment. The performance commitment should cover the entirety of the cyber resilience enhancement programme to provide protection to customers. We are intervening to change the definition of this performance commitment so that it measures percentage completion of the cyber resilience enhancement programme. We have calculated separate percentage completion values for the delivery of the Security Operations Centre (SOC) and the remaining 9 components provisionally proposed by the company as part of the deliverables related to the enhancement claim. As the company did not provide costs associated with the additional 9 components of the enhancement claim we have assumed an equal % completion weighting for these components. This ensures that customers are protected for the full value of the enhancement allowance allowed to the company. We have also included reporting requirements in the definition for this performance commitment to provide transparency to customers as to what is being delivered with the allowed enhancement funds, due to the lack of certainty in the current scope that has been submitted to the company.	We have updated the definition to measure the percentage completion of the cyber resilience enhancement programme. The percentage weighting for the Security Operations Centre (SOC) and the additional 9 provisional components has been calculated as follows: % completion weighting for delivery of SOC = Cost of SOC / Total enhancement allowance = 40.4% % completion weighting for each of the 9 remaining components = (1 – allowance for SOC) / 9 = 6.6% per component. The company will be expected under the updated definition of this measure to annually report on the activities it is undertaking under the cyber resilience enhancement claims, including the following details: what has been and is to be delivered and the benefits this will deliver; how this related to the original enhancement claim; how much is to be spent; and target delivery date of the schemes.
	NES.OC.A70	Stretch	Delivery of cyber resilience enhancement programme PC: The company should provide sufficient evidence of its in-period milestones in light of the allowed costs. It should clearly set out	1 April 2019	The company provides a proposed performance commitment level with a delivery date of 31st March 2023 for its Security Operations Centre. However, it states the	Intervention required. The performance commitment level should cover the entire programme - as such we	We are intervening to set a performance level or target delivery date that covers the delivery of the overall enhancement package. These are as follows:

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			the evidence and rationale for the proposed levels of stretch.		outputs for the remaining portion of the enhancement claim are unclear as they will be based on ongoing risk analysis.	are intervening to change the definition (NES.OC.A69). We are intervening to set a performance level or target delivery date that covers the delivery of the overall enhancement package. We are intervening to align the performance commitment to our cost allowance for this scheme. We have redefined the performance commitment to measure percentage scheme completion, with distinct milestones for different parts of the scheme. In line with our standard approach, the company will receive underperformance payments for delayed delivery and funding will be returned to customers at the end of the period for non-delivery.	2020-21 = 0.0 2021-22 = 40.4 2022-23 = 40.4 2023-24 = 40.4 2024-25 = 100.0 Units: percentage of scheme complete.
	NES.OC.A71	ODI rate	Delivery of cyber resilience enhancement programme PC: 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.	1 April 2019	The company proposes a delay penalty which reflects the avoided weighted average cost of capital from late delivery. The company assign a delay penalty to the delivery of the Security Operations Centre. This corresponds to £5.85 million of budget. £8.68 million has not been protected by the outcome delivery incentive, as the company claims it is unable to forecast exactly what will outcomes will be delivered at this stage.	Intervention required We consider that it is appropriate to have an outcome delivery incentive for both the delay and non-delivery of the programme. The approach to calculate under performance rates where we have no other reliable evidence of customer benefits from delivery of a performance commitment is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The underperformance outcome delivery incentive reflects the foregone benefits from annual delays. As set out in the policy appendix we calculate this through multiplying the programme total expenditure in scope of the performance commitment by the weighted average cost of capital plus the run-off rate, and then dividing this by the total number of schemes in scope. In addition we have set a further rate that will return expenditure to customers at the	We are intervening to set the underperformance payment rate to -£0.0107 million per percentage. In addition at PR24 we will recover allowed costs of any underperformance expected in 2024-25 using a rate of £0.0658 million per percentage.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						next price review that is not returned to customers under the cost sharing mechanism (we assume 50%) where the company has not delivered in the 2020-25 period.	
	NES.OC.A72	Definition	Delivery of Howdon STW enhancement PC: 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.	1 April 2019	The company proposes a performance commitment level with a delivery date of 31st March 2025 for both of the elements which make up the Howdon sewage treatment works enhancement claim. The company have set an underperformance penalty triggered by every day late the schemes are delivered.	Intervention required. We are not allowing the cost allowance claim associate with this scheme based performance commitment. As a consequence the performance commitment is no longer needed and so we are intervening to remove it.	We are intervening to remove this performance commitment.
	NES.OC.A73	Stretch	Delivery of Howdon STW enhancement PC: 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.	1 April 2019	NA As we are intervening to remove this performance commitment, this action is no longer relevant.	No intervention required.	NA
	NES.OC.A74	ODI rate	Delivery of Howdon STW enhancement PC: 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.	1 April 2019	NA As we are intervening to remove this performance commitment, this action is no longer relevant.	No intervention required.	NA
Affordability and vulnerability	NES.AV.A4	Affordability and vulnerability	Northumbrian Water has stated that it will achieve the British Standards Institution (BSI) standard for inclusive services but has not provided a performance commitment or plan on how it will do so. Northumbrian Water should propose a performance commitment on achieving the BSI standard for fair, flexible and inclusive services for all and maintaining it throughout the 2020 to 2025 period.	1 April 2019	The company proposes a metric which demonstrates either compliance or non-compliance with the British standards institution standard for inclusive services. The company proposes a performance commitment level of achieving compliance with the BSI standard by 2023. The company proposes the outcome delivery incentive type to be reputational.	Intervention required. The company has complied with the action and implemented a suitable performance commitment that meets our expectation for a performance commitment that measures compliance with the British Standards Institution's Standard for inclusive service. However, by setting a performance commitment level of achieving compliance in 2022-23, it does not commit to it achieving and maintaining compliance through the 2020-25 period. We do not believe the company justifies this proposed performance commitment level. The company has stated it narrowly missed out on compliance against the standard in 2017	We are intervening to change the stretch of the performance commitment level to compliance with the standard throughout the 2020-25 period.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						and we consider that achieving compliance before 2020-21 is achievable and in the best interests of customers. A non-financial incentive is consistent with what other companies have proposed.	
	NES.AV.A3	Required	Northumbrian Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 7% in 2019/20 to 10% of households in 2024/25. This is a sufficiently ambitious target. However, it has only checked 10.5% of PSR data over the past two years. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Northumbrian Water should include a Performance Commitment to increase its PSR reach to at least 7% of its customer base (measured by households) by 2024/25. Its Performance Commitment should also commit to checking at least 90% of PSR data every two years. For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.	1 April 2019	The company adopts all three features of our common performance commitment by amending its existing performance commitment. This now commits it to reach of 10% of households and data checking for 90% of customers. However, the company submits this as two separate performance commitments, one for reach and one for data checking.	Intervention required. The company adopts all three elements of our common performance commitment. However, the company submits this as two separate performance commitments, so we do not consider that it has fully met the proposal we set out.	We are intervening to reconcile the company's two performance commitments into one, to align the commitment with the rest of the sector. We are also amending the targets for this common performance commitment for all companies, splitting the current data checking target into two, separating attempted and actual contacts. More information on this common performance commitment can be found in 'Reporting guidance: Common performance commitment for the Priority Services Register'

Table 3 – Interventions not directly related to IAP actions

Intervention reference	Our assessment and rationale	Interventions
NES.OC.C1 PR19NES_BES11 Water Quality Contacts – discolouration Outcome delivery incentive rate	Intervention required. While we have not identified any specific concerns with the quality of research underpinning the company's proposed rates, the company has single-sourced the marginal benefit component of its proposed rates. The company's proposed rates are materially above the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix which is of concern given the company is forecast to earn a net outperformance payment for its corresponding outcome delivery incentive for the 2015-20 period, the company has worse than average comparative performance for 'appearance' as reported on the Discover Water and the company had used a different definition which we are intervening to change see NEC.OC.A44. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the outperformance rate by re-triangulating across the companies' proposed rate and the industry average (on a normalised basis). We are intervening to set the underperformance payment rate at the outperformance payment rate with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' September business plans, as explained in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. This results in underperformance and outperformance payment rates of -£1.133 million and £0.944 million per contact per 10,000 population, respectively.
NES.OC.C2 PR19NES_BES12 Water Quality Contacts - taste and odour Outcome delivery incentive rate	Intervention required. The company has not undertaken any primary valuation research to derive the outcome delivery incentive rates for its taste & odour contacts performance commitment and has instead assumed a constant proportionate relationship between customer willingness to pay for discolouration versus taste and odour contacts since 2015-20. It has then applied this ratio to the results of its PR19 valuation research for discolouration contacts. See NES.OC.C1 above. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set outcome delivery incentive rates at the same level as the company's discolouration contacts performance commitment (in absence of compelling evidence demonstrating a difference in customer valuations for specific types of water quality events for the 2021-2025 period). This results in underperformance and outperformance rates of -£1.133m and £0.944m/contact per 10,000 population, respectively.
NES.OC.C3 PR19NES_COM03 Water quality compliance (CRI) Collars and deadbands	Intervention required. The company has adopted our proposed deadband level set at 1.50 and proposed collars that differ from our standard collar of 9.5. As described in the outcomes policy appendix, we have further reviewed the deadband levels for all companies since the IAP. We recognise that this is a fairly new measure and there may be a need to retain some flexibility for new metaldehyde legislation to be implemented therefore we have increased the deadband for the first two years of 2020-25 compared to our proposal at IAP. As with the rest of the industry we are setting a deadband profile at 2.0 for the first two years, before tightening it to 1.5. It is important that the range of underperformance to the collar is adequate to provide clear incentives for companies to deliver statutory requirements. We are intervening to set a standard collar at 9.5 where companies have proposed a tighter collar.	We are intervening to set a standard deadband. The deadband profile for the Compliance Risk Index is: 2020-21 = 2.0 2021-22 = 2.0 2022-23 = 1.5 2023-24 = 1.5 2024-25 = 1.5 Unit = Compliance Risk Index Score. We are intervening to set a standard collar. The collar profile for the Compliance Risk Index is: 2020-21 = 9.5 2021-22 = 9.5 2022-23 = 9.5 2023-24 = 9.5 2024-25 = 9.5 Unit = Compliance Risk Index Score.

Intervention reference	Our assessment and rationale	Interventions
NES.OC.C4 PR19NES_COM13 Unplanned outage Deadbands	Intervention required. The company proposes a new deadband. It proposes this due to unplanned outage being a new measure and the relative volatility of yearly performance. The company states the deadband will allow time for the measure to gain more valuable historic data points on which performance can be measured. We consider that deadbands reduce the incentive for companies to improve their performance. Companies are able to manage the financial consequences of outcome delivery incentives using other mechanisms for example their in-period outcome delivery incentive determinations. Since this measure in its current definition is new we have considered company performance against the median rather than the upper quartile.	We are intervening to remove the deadband.
NES.OC.C5 PR19NES_COM13 Unplanned outage Collars	Intervention required. We consider that the performance commitment is not financially material and we do not consider caps and collars are appropriate. How we assess financially material and our standard approach to setting caps and collars is set out in our ‘outcomes policy appendix’	We are intervening to remove collars.
NES.OC.C6 PR19NES_BES22 Bioresources Definition	Intervention required. The company state that sludge or organic material traded as part of the bioresource price control is excluded from the measure. However, the company also state that this sludge will be mixed with indigenous sludge and treated to the same standard as sludge produced by the company itself. Given that the company make this commitment, there is no justification from excluding imported sludge or organic materials from water and wastewater companies or other third parties.	We are intervening to include imported sludge and/or organic matter through the bioresources price control as part of the measure.
NES.OC.C7 PR19NES_BES22 Bioresources Stretch	Intervention required. The company propose a performance commitment level of 98% despite historically achieving 100% for the same measure since 2014-15 and forecasting a 100% for the remaining two years of the current period. The company has not provided evidence of why a drop in performance to 98% is justified or in the best interest of customers.	We are intervening to increase performance levels to 100%.
NES.OC.C8 PR19NES_BES31 Water Industry National Environment Programme Performance commitment addition	Intervention required. The company does not propose a performance commitment to protect customers against the late delivery of its Water Industry National Environmental Programme (WINEP) requirements. We understand there is still uncertainty in scope for WINEP with a significant number of schemes uncertain and classified as “Amber” by the Environment Agency. We are intervening to introduce a performance commitment which covers the delivery of schemes which have been classified as “Green” by the Environment Agency on 1st April 2019. The performance commitment will include an underperformance outcome delivery incentive calculated based on an annual delay rate. The approach to calculate under performance rates where we have no other reliable evidence of customer benefits from delivery of a performance commitment is set out in ‘PR19 draft determinations: Delivering outcomes for customers policy appendix’.	We are intervening to introduce a performance commitment to cover schemes that have been classified as “Green” by the Environment Agency by the 1st April 2019. We are setting the performance commitment levels as follows: 2020-21 = 168 2021-22 = 360 2022-23 = 422 2023-24 = 497 2024-25 = 649 Units: water industry national environment programme schemes in scope of the performance commitment.

Intervention reference	Our assessment and rationale	Interventions
	The underperformance outcome delivery incentive reflects the foregone benefits from annual delays. As set out in the policy appendix we calculate this through multiplying the programme total expenditure in scope of the performance commitment by the weighted average cost of capital plus the run-off rate, and then dividing this by the total number of schemes in scope.	We are also intervening to include an underperformance payment rate of -£0.00969 million.
NES.OC.C9 PR19NES_NEP01 Delivery of WINEP requirements Performance commitment addition	Intervention required. We are intervening to add a reputational performance commitment that measures whether the company has met all of its WINEP requirements in each reporting year. The performance commitment will use the latest WINEP programme from the Environment Agency at the end of the reporting year. This will allow the inclusion of any changes to the WINEP between now and the end of 2025, including the change in classification of schemes from "Amber" to "Green".	We are intervening to add an additional reputational performance commitment that measures whether the company has met all of its WINEP requirements in each reporting year.
NES.OC.C10 PR19NES_BES10 Sewer flooding risk reduction Stretch	Intervention required. There is no reason that performance cannot be measured each year and greater benefits will be realised if delivered more quickly. We have based this on equal improvement each year. The company could propose a different profile if it has evidence it is more appropriate, but still stretching.	We are intervening to set performance commitment levels for earlier years. We have assumed a straight line improvement over the period. The resulting performance commitment levels are: 2020-21 = 1,480 2021-22 = 2,960 2022-23 = 4,440 2023-24 = 5,920 2024-25 = 7,400 The financial incentive still only applies for service delivery in 2024-25 as the performance commitment is cumulative and underperformance or outperformance should only be applied once.
NES.OC.C11 PR19NES_BES16 External sewer flooding Caps and collars	Intervention required. The company does not propose any caps and collars for this performance commitment. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. We consider that the performance commitment is financially material as outperformance could lead to unexpectedly high bill impacts without a cap. We consider that caps and collars are appropriate, but at different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set collars at the following levels: 2020-21 = 5,058 2021-22 = 5,058 2022-23 = 5,058 2023-24 = 5,058 2024-25 = 5,058 Units: The number of incidents of external flooding. We are intervening to set caps at the following levels: 2020-21 = 3,000 2021-22 = 2,800 2022-23 = 2,659 2023-24 = 2,487

Intervention reference	Our assessment and rationale	Interventions
		2024-25 = 2,315 Units: The number of incidents of external flooding.
NES.OC.C12 PR19NES_COM12 Mains repairs Caps and collars	Intervention required. The company proposes to include a cap and a collar. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals We consider that caps and collars are appropriate for this performance commitment because it is financially material. We consider that the proposed caps and collars were not set levels that would provide appropriate incentives for the company, while protecting customers from the risk of higher than anticipated impacts to bills, because the underperformance collars would not have given sufficient incentive. We consider that caps and collars are appropriate, but at different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set collars at the following levels: 2020-21 = 197.06 2021-22 = 197.06 2022-23 = 197.06 2023-24 = 197.06 2024-25 = 197.06 Units: Number of bursts per 1,000km of pipe network. We are intervening to set caps at the following levels: 2020-21 = 116.64 2021-22 = 114.35 2022-23 = 112.44 2023-24 = 109.93 2024-25 = 107.58 Units: Number of bursts per 1,000km of pipe network.
NES.OC.C13 PR19NES_COM05 Leakage (NW)	Intervention required. The company forecasts a minor increase in the proposed performance commitment level in the first year of the 2020-25 period which we do not consider stretching.	We are intervening to set the performance commitment level for 2020-21 to achieve 135.7 megalitres per day. This is as follows: 2020-21 = 0.9% Units: percentage reduction in leakage from initial levels on a three-year average basis.

Table 4 – Company changes to performance commitments since IAP not resulting in interventions

Performance commitment reference	Company's response	Our assessment and rationale	Interventions
NA	NA	NA	NA

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

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Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.