July 2019

Trust in water

# PR19 draft determinations

## SES Water – Delivering outcomes for customers actions and interventions

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# PR19 Draft Determinations: SES 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 'SES' denotes the company SES 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 'SES' denotes the company SES 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 'PR19SES_' denotes the company SES Water), the name of the performance commitment, and the action type (for example, stretch).

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

Table 1 – SES Water's response to company-wide required actions and interventions for draft determinations

| Test area | Action type | Action ref | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| Delivering outcomes for customers | Performance Reporting | SES.OC.A1 | The company should consider what performance reporting it will provide for customers beyond its annual performance report, including providing contextual information, to increase the impact of its ODIs on its reputation. | 1 April 2019 | The company describes its planned additional channels of distributing performance commitment (PC) information and the impact of outcome delivery incentives (ODI) to customers, such as through online portals, additional information on customer bills, customer forums and DiscoverWater. | No intervention required.<br><br>We expect companies' proposed approaches to take account of new communication channels and tools, for example, the Discover Water dashboard. SES Water commits to using a sufficiently broad range of channels and tools to effectively disseminate performance information to customers, customer challenge groups and other stakeholders. | NA |
| | ODI type | SES.OC.A2 | The company should provide further justification for setting the following PCs as non-financial: managing bad debt, perception of value for money, risk of severe restrictions in a drought, greenhouse gas emissions, pollution incidents, AIM, unplanned outages at treatment works, risk of severe restrictions in a drought, and delivery of WINEP. | 1 April 2019 | The company seeks to address our concerns for most of the performance commitments listed in their responses to individual actions:<br><br>Managing bad debt – see OC.A34<br>Perception of value for money – see OC.A36<br>Greenhouse gas emissions – see OC.A43<br>AIM (Abstraction Incentive Mechanism)– see OC.A46<br>Unplanned outages at treatment works – see OC.A23<br>Delivery of WINEP (Water Industry National Environmental Programme)– see OC.A46<br><br>The company argues that there is already an incentive to not underperform on pollution incidents, due to the risk of enforcement via a statutory process. It argues that no further financial incentive is needed.<br><br>The company argues that drought-related restrictions such as water rationing would have financial and reputational consequences for the company, so the incentive to avoid them is already high. The company further notes that it is a new measure. | No intervention required at a company level.<br><br>Where the company has responded to a performance specific action, we provide our assessment directly to that action. | NA |
| | ODI Rates | SES.OC.A3 | 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.<br>In cases of rejection or revisions to enhancement expenditure or a cost adjustment claim, the company | 1 April 2019 | The company engaged a consultancy to provide third party review of the calculation of the rates that were provided in their business plan. The consultancy report states that, where applicable, rates are derived from the marginal benefits evidence gained through the customer willingness to pay survey. The company revised some outcome delivery incentive rates in response to the concerns raised by us at IAP and by the consultancy report, and in light of the additional information now available from other companies' plans. | No intervention required at a company level.<br><br>Whilst no new customer-based evidence has been presented, SES Water have generally provided appropriate assurances that overall the calculation of outcome delivery incentive rates are based on appropriate evidence, and have made amendments where needed. | NA |

| Test area | Action type | Action ref | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | should consider the implications, if any, for the associated level of the PC and ODI incentive rates proposed, and provide evidence to justify any changes to its business plan submission.<br>In cases where a scheme will no longer be undertaken, the company should consider the removal of the associated scheme-specific PC.<br>The company should provide further evidence to detail the estimation of forecast efficient marginal costs within its ODI rate calculations, in line with our Final Methodology. In particular, the company should provide evidence to demonstrate how these marginal cost estimates relate to the cost adjustment claims or enhancement expenditure proposed by the company. | | The company states it has no scheme specific outcome delivery incentives. There are therefore no relevant implications to take in to account in relation to planned enhancement expenditure or cost adjustment claims.<br><br>The company provided further information on the calculation of marginal costs, stating they have been derived from its bottom-up total expenditure requirements and include both base and enhancement costs. The company explains it used expert judgement where expenditure relates to multiple performance commitments. | Where we are allowing a cost adjustment claim at a level different to that proposed by the company due to a different view of efficient costs, we reflect this in our responses to individual performance commitment actions.<br><br>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 interventions in Table 3. We are proposing two new outcome delivery incentives relating to enhancement expenditure on the water industry national environment programme and water softening. Our assessment of these outcome delivery incentives are captured separately in Table 3. | |
| | ODI caps, collars and deadbands | SES.OC.A4 | See Customer protections (SES.OC.A9) section below. | 1 April 2019 | NA | NA | NA |
| | Enhanced ODIs | SES.OC.A5 | No company-wide actions. Individual PC actions are set out in table 2. | 1 April 2019 | NA | NA | NA |
| | Overall ODI package | SES.OC.A6 | The company should provide further explanation of how its ODI package provides incentives through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers.<br>The company should provide further evidence that the ODI package is supported by robust customer engagement and valuations. In particular, it needs to fully demonstrate how customer outcomes have been implemented and address concerns raised by the Customer Security Panel.<br>The company should clarify how it has tested the acceptability of the ODI package with customers. | 1 April 2019 | The company provided an additional explanation regarding its customer willingness to pay survey, and the simulator tool used to model customer acceptability of differing service levels and prices.<br><br>The company argues that these results are reflected in the plan, are aligned to management/shareholder incentives, and has been appropriately tested with customers. | No intervention required at a company level.<br><br>The company provided 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. The largest incentives are typically placed on the outcomes customers value most highly. Customer support (in addition to willingness to pay research) for actioned outperformance payments was not provided. This is addressed in the outcome policy appendix and in Table 2 below.<br><br>Some evidence has been provided in the original business plan regarding the acceptability testing of the overall business plan. Evidence provided in this response is limited in places, particularly regarding how customer concerns have been implemented. However, overall, the inputs provided by the customer insight and engagement programme are considered to be sufficient. | NA |

| Test area | Action type | Action ref | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | ODI timing | SES.OC.A7 | No company-wide actions. Individual PC actions are set out in Table 2. | 1 April 2019 | NA | NA | NA |
| | Asset Health ODI package | SES.OC.A8 | The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments.<br>The company should increase its asset health underperformance payments in order to protect customers from poor performance or provide convincing evidence to demonstrate that its current proposals are in the interests of its customers and the assets.<br>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 is continuing to propose outperformance payments for its mains burst performance commitment. The company has not provided any additional evidence to support this proposal. The company has also not changed its outcome delivery incentive rates for asset health performance commitments, or provided additional information to support its proposals. It states that the outcome delivery incentive rates are based on its customer engagement and are therefore suitable.<br><br>The company has provided a list of performance commitments it considers are impacted by asset health, but does not provide the P10 or P90 payments in the format requested – percentage of return on regulatory equity. The company has considered including additional asset health performance commitments, but concludes these are not in the interests of customers. | No intervention required at a company level.<br><br>We consider the company's response to specific issues we identified with their asset health performance commitments and associated outcome delivery incentives in the relevant performance specific actions. | NA |
| | Customer Protection | SES.OC.A9 | The company should apply additional protections through an appropriate outperformance payment sharing mechanism and by implementing caps on individual PCs which could result in material outperformance payments. The payment sharing mechanism and caps to material ODIs should be applied in accordance with guidance provided in **Technical appendix 1: Delivering outcomes for customers.**<br>The company should provide further supporting evidence to set out its approach to bill smoothing so that it is clear how it will work in practice.<br>The company should provide further evidence that explains the maximum payments that customers could be exposed to and what, if any, mitigations are proposed to protect against this outcome. | 1 April 2019 | The company proposed an overall cap and collar of 3% return on regulatory equity, equivalent to £9 annual change in a customer bill. However it also explained that, if outperformance payments exceed 3% return on regulatory equity, it will not apply 50% of the payment to customers' bills.<br>No changes are made to individual outcome delivery incentive caps and collars. The company stated that bill smoothing will be applied if bill changes exceed 5%, in line with our guidance. | No intervention required.<br><br>The company is proposing to adopt our customer protection measures as set out in our 'outcomes policy appendix' to make sure that customers are adequately protected.<br><br>We expect the company to refer specifically to their 'outperformance sharing mechanism' rather than its 'overall cap and collar' in future publications. | NA |

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

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| Delivering outcomes for customers | Stretch | SES.OC.A10 | **Supply interruptions 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.<br>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.<br><br>We set out our rationale for setting performance commitment levels for this common performance commitment in the '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:<br><br>2020-21 - 00:05:24<br>2021-22 - 00:04:48<br>2022-23 - 00:04:12<br>2023-24 - 00:03:36<br>2024-25 - 00:03:00<br><br>Units are: minutes per property for year |
| | ODI rate | SES.OC.A11 | **Supply interruptions PC:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average that we 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 supply interruptions.<br><br>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 states that its outcome delivery incentive rates are calculated in line with our methodology based on the results of its customers' willingness to pay. The company has submitted a review of its valuation research prepared by Frontier Economics which is supportive of the company's approach. | Intervention required.<br><br>We have not identified any specific concerns with the quality of the company's underlying valuation research. However we have identified concerns with the company's triangulation of the marginal benefit component of willingness to pay which appears to be biased upwards by an extreme value. The company has not triangulated the results against any other sources which is of concern given its proposed rates are materially above the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix. The company's proposed rates are also materially greater than those that apply to its 2015-20 outcome delivery incentive.<br>We note that the company only provides willingness to pay as evidence of customer support for outperformance payments from its customer engagement similar to leakage see SES.OC.A12 which we consider is insufficient. The company is a good performer on this performance commitment and hence we allow the outperformance payment and revise it downwards it in line with our policy in the outcomes policy appendix. | We are intervening to triangulate the underperformance rate across (i) the company's proposed rate (ii) the upper bound of the reasonable range; and (ii) the rate that applies to the company's corresponding outcome delivery incentive for 2015-20.<br><br>We are intervening to set the underperformance rate equal to the outperformance rate (in absolute terms) with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' business plans. The resulting |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | | | | We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. | underperformance and outperformance rates are -£0.148 million and £0.123 million per minute per property, respectively. |
| | ODI type | SES.OC.A12 | **Leakage PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. | 1 April 2019 | The company has not provided any additional evidence but provides third party assurance from Frontier Economics. The company claimed its customer research indicates customers' willingness to pay for reductions in leakage based on its September business plan. | No intervention required.<br><br>The company presented both willingness to pay evidence in its business plan and third party assurance of this research in its revised business plan We expect evidence alongside willingness to pay evidence to demonstrate customer support for the principle of outperformance payments for this performance commitment which could be provided by customer engagement evidence. However in accordance with our policy on outcome delivery incentive type, since the company is a good performer, we are allowing the outperformance payment although we will revise the outcome delivery incentive outperformance rate downward. See SES.OC.A13. | NA |
| | ODI rate | SES.OC.A13 | **Leakage PC:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average that we set out in **Technical appendix 1: Delivering outcomes for customers** and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in leakage.<br><br>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. | 1 April 2019 | The company stated that its outcome delivery incentive rates are calculated in line with our methodology based on the results of its customers' willingness to pay. The company has submitted a review of its valuation research prepared by Frontier Economics, which is supportive of the company's approach. | Intervention required.<br><br>While we have not identified any specific concerns with the quality of the company's underlying valuation research, the company has not triangulated the results against any other sources which is of concern given its proposed rates are materially above the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix. The company's proposed rates are also materially higher than those which apply to its leakage outcome delivery incentive for the 2015-20 period<br><br>We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. | We are intervening to triangulate the underperformance rate across (i) the company's proposed rate (ii) the average of the reasonable range; and (ii) the rate that applies to the company's corresponding outcome delivery incentive for 2015-20.<br><br>We are intervening to set the underperformance rate equal to the outperformance rate (in absolute terms) with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | | | | | suggested in companies' business plans. The resulting underperformance and outperformance rates are -£0.415 million and £0.345 million per megalitre per day, respectively. |
| | Enhanced ODI | SES.OC.A14 | **Leakage PC:** The company should set out the performance thresholds for enhanced outperformance and underperformance incentives, and provide evidence demonstrating that these are consistent with both shifting the frontier and protecting its own customers. | 1 April 2019 | The company stated that the level at which the enhanced outperformance payment and underperformance payment rates are based on is a 75% percentage adjustment to the annual percentage reduction reflected in its plan. It states that it considered these levels to incentivise it to improve the industry upper quartile. | Intervention required.<br><br>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.<br><br>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 commitment.<br><br>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. | We are intervening to set the enhanced outperformance thresholds for this performance commitment at our assessment of the frontier over time.<br><br>This is as follows:<br><br>2020-21: 23.6%<br>2021-22: 26.0%<br>2022-23: 28.7%<br>2023-24: 31.2%<br>2024-25: 36.9%<br><br>Units: percentage reduction in leakage from initial levels on a three-year average basis.<br><br>We are also intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance.<br><br>This is as follows:<br><br>2020-21: -45.6% |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company’s response to the action | Our assessment and rationale | Interventions |
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| | | | | | | | 2021-22: -45.6%<br>2022-23: -45.6%<br>2023-24: -45.6%<br>2024-25: -46.5%<br><br>Units: percentage reduction in leakage from initial level on a three-year average basis. |
| | ODI type | SES.OC.A15 | **Usage (per capita consumption) PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. | 1 April 2019 | The company has not provided any additional evidence. The company states that its customer research indicates customers' willingness to pay for reductions in leakage, based on its business plan. | Intervention required.<br><br>The company presented both willingness to pay evidence in its business plan and third party assurance of this research in its revised business plan. We expect evidence alongside willingness to pay evidence to demonstrate customer support for the principle of outperformance payments for this performance commitment which could be provided by customer engagement evidence. Therefore, in accordance with our policy on outcome delivery incentive type, since the company is a comparatively poor performer, we are intervening remove the outperformance payment. As a consequence of this decision we are also intervening to remove the enhanced ODI. | We are intervening to remove the outcome delivery incentive outperformance payment including the enhanced ODI. |
| | ODI rate | SES.OC.A16 | **Usage (per capita consumption) PC:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average that we 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.<br><br>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 has made some minor downward adjustments to its proposed rates following the identification of a calculation error.<br><br>It has also updated its marginal cost associated with delivering its revised business plan. The company stated that its outcome delivery incentive rates are calculated in line with our methodology based on the results of its customers' willingness to pay. The company has submitted a review of its valuation research prepared by Frontier Economics, which is supportive of the company's approach. | Intervention required.<br><br>The company continues to propose outcome delivery incentive rates which are higher than the reasonable range that we set out in "PR19 draft determinations: Delivering outcomes for customers policy appendix" and those which apply to its corresponding outcome delivery incentive for the 2015-20 period. While we have not identified any specific concerns with the quality of the company's underlying valuation research, the company has not triangulated the results against other sources of evidence.<br><br>We are also removing the outperformance rate, see SES.OC.A15. | We are intervening to triangulate the underperformance rate across (i) the company's proposed rate; (ii) the industry average (on a normalised basis); and (iii) the company's 2015-20 per capita consumption outcome delivery incentive rate.<br><br>This results in an underperformance rate of -£0.089 million per megalitre per household per day. |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | | | | We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the PR19 draft determinations: Delivering outcomes for customers policy appendix. | |
| | ODI type | SES.OC.A17 | **Mains bursts PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. | 1 April 2019 | The company continues to propose an outperformance payment for this performance commitment. The company stated that its outcome delivery incentive rates have been assured by a third party and that in its willingness to pay research its customers supported investment on pipe replacement in the context that it would reduce the number of bursts. The company considered therefore that there is customer support for outperformance payments in this area. | Intervention required.<br><br>In line with our approach in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we expect evidence alongside willingness to pay evidence to demonstrate customer support for the principle of outperformance payments for this performance commitment which could be provided by customer engagement evidence. We consider that willingness to pay evidence for investment in pipe replacement is insufficient evidence to conclude that customers support outperformance payments for the asset health mains burst outcome delivery incentive. Therefore, we are intervening to remove the outperformance payment | We are intervening to remove the outperformance payment. |
| | ODI rate | SES.OC.A18 | **Mains bursts 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 incentivises performance in the long and short-term.<br><br>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. | 1 April 2019 | The company stated that it is not changing the outcome delivery incentive rates as they are calculated in line with our methodology and use information received from its customers on their willingness to pay for service improvements. Frontier Economics reviewed the calculations and did not identify any issues in their report.<br><br>The company provides details of which performance commitments it considers are connected to asset health and how those measure incentivise them to maintain asset health. | No intervention required.<br><br>The company has explained the formulation of its outcome delivery incentive rates. It does not provide an analysis to demonstrate how outcome delivery incentive rates are balanced across its asset health package and with other related performance commitments. However, its explanation of the impact of incentives from different measure is sufficient to demonstrate reasonable understanding of the balance of incentives across its asset health performance commitments.<br><br>The company's underperformance payment rate is within the reasonable range as set out in PR19 draft determinations: Delivering outcomes for customers policy appendix. The company has good comparative performance and no past performance issues. Therefore we are not intervening on the outcome delivery incentive rate. | NA |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | | | | We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. | |
| | ODI rate | SES.OC.A19 | **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.<br><br>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 is proposing a revised outcome delivery incentive rate and provides support for this rate.<br><br>The company states that Frontier Economics reviewed the calculation of the initial outcome delivery incentive rate proposed. The company has implemented the recommendation from Frontier Economics to change the underperformance rate following the identification of an issue with the use of a marginal cost value in the original calculation. | No intervention required.<br><br>The company has explained the formulation of its outcome delivery incentive rate. The company only uses marginal cost for its underperformance rate and have implemented a change to how they calculate this. It does not provide an analysis to demonstrate how outcome delivery incentive rates are balanced across its asset health package and with other related performance commitments. However, its explanation of the impact of incentives from different measure is sufficient to demonstrate reasonable understanding of the balance of incentives across its asset health performance commitments.<br><br>The company's underperformance payment rate is within our reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company does not have past performance issues on water quality.<br><br>Therefore we are not intervening on the outcome delivery incentive rate.<br><br>We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. | NA |
| | Caps, collars, deadbands | SES.OC.A20 | **Water quality compliance PC:** We propose to intervene to ensure companies perform to the regulatory requirement of 100% compliance against drinking water standards. As set out in the methodology we noted a deadband may be appropriate. It is important that the range of underperformance to the collar is adequate to provide clear incentives for companies to deliver statutory requirements. | 1 April 2019 | The company has adopted our proposed deadband of 1.50 and collar of 9.5 on the basis that it is applied across the industry. The company notes that there is potential for an underperformance payment manifesting from single failures at larger assets or those serving larger populations. | Intervention required.<br><br>The company is proposing to adopt our proposed deadband level, set at 1.50, and collar level at 9.50. We accept the collar level.<br><br>As described in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have further reviewed the | We are intervening to set a standard deadband. The deadband profile for the Compliance Risk Index is:<br><br>2020-21 – 2.0<br>2021-22 – 2.0 |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | The company should set a deadband at 1.50 and collar at 9.5 for 2020-25. | | | deadband levels for all companies since the IAP, we have further reviewed the deadband levels for all companies. 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, the level proposed by the company. | 2022-23 – 1.5<br>2023-24 – 1.5<br>2024-25 – 1.5<br><br>Unit = Compliance Risk Index Score |
| | Stretch | SES.OC.A21 | **Unplanned outages at treatment works 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 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 re-submit 2019/20 – 2024/25 forecast data in the 15 May 2019 submission. The company should also report their current and forecast company level peak week production capacity (Ml/d), the unplanned outage (Ml/d) and planned outage (Ml/d) in their commentary for the May submission. | 15 May 2019 | The company provides its 2018-19 forecast of 1.74% and its forecast profile for 2020-25, reducing to 1.71% by 2024-25.<br><br>The company also provides the calculations and forecasts for the calculation components. | No intervention required.<br><br>The company provides sufficient evidence and its forecast performance for 2024-25 is marginally below the industry upper quartile level.<br><br>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 |
| | ODI type | SES.OC.A22 | **Unplanned outages at treatment works PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. If it cannot do this, the company should propose a financial ODI. | 1 April 2019 | The company amends the outcome delivery incentive type to underperformance only. | No intervention required.<br><br>The company's proposed approach complies with the action, amending the outcome delivery incentive type to our default outcome delivery incentive of underperformance only. | NA |
| | ODI rate | SES.OC.A23 | **Unplanned outages at treatment works 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. | 1 April 2019 | The company states that it has calculated the outcome delivery incentive rate in line with a recommendation from Frontier Economics, the company appointed to review its outcome delivery incentives.<br><br>The company states that its rate is based on costs using production operational expenditure and capital expenditure for treatment works maintenance attributed to unplanned outage. | Intervention required.<br><br>The company has complied with our action to explain the formulation of its outcome delivery incentive rate and we note that the company's rate is based on costs and not willingness to pay. The company's proposed underperformance payment rate is below the lower bound of the reasonable range, as defined by the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', and although the | We are intervening to increase the company's underperformance payment rate to -£0.177 million, based on the average of the reasonable range. |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | 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. | | | company has good comparative performance we are concerned that customers are not protected. We are intervening to move the company to the average not the upper bound since it has good comparative performance.<br><br>The company does not provide an analysis to demonstrate how outcome delivery incentive rates are balanced across its asset health package and with other related performance commitments. However, its explanation of the impact of incentives from different measure is sufficient to demonstrate reasonable understanding of the balance of incentives across its asset health performance commitments.<br><br>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'. | |
| | Stretch | SES.OC.A24 | **Customer concerns about their water PC:** The company should revise its performance levels to be more stretching, at least beyond current performance levels, and provide sufficient evidence for its revised level. If the company does not think that a more stretching performance level is suitable, it should clearly set out the rationale for its position and provide sufficient evidence to underpin its decision. | 1 April 2019 | The company continues to propose to maintain its current level of performance and has provided further evidence to justify that the performance is stretching.<br><br>The company disagrees with the claim that its historical performance is 20% better than forecast and provides data on customer contacts and population supplied to support this argument. It also argues that despite only committing to maintain current performance it has struggled to meet this performance level in the current period, receiving penalties in 2 years and being within the deadband the other 2 years. It claims that the level of performance represents industry upper quartile and will be even more difficult to meet during the next period where the proposed additional network activity it will undertake will increase the risk of customer contacts for taste, appearance and odour whilst the work is undertaken. | No intervention required.<br><br>The company provides sufficient evidence that it is currently a good performer in this area and forecasts to maintain a similar number of absolute contacts on average whilst its population supplied increases. We note that the company has regularly not been able to meet its performance commitment levels during 2015-20 and faces additional challenges in the 2020-25 period. The company forecasts are beyond the upper quartile<br><br>We consider the levels the company proposes are sufficiently stretching.<br><br>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 type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | ODI rate | SES.OC.A25 | **Customer concerns about their water PC:** The company should provide further evidence to justify the use of PR14 rates or update these rates based upon more recent customer engagement evidence and forecast efficient marginal costs. In either case the company should provide its evidence and rationale. | 1 April 2019 | The company states that it is not changing the outcome delivery incentive rates as they are calculated in line with our methodology and use information received from its customers on their willingness to pay for service improvements. The company states it uses data from its PR14 research, as its more recent qualitative research shows that customers still value water quality highly and so the company considers it an area where customers would require it to provide the highest level of service rather than an area where they could meaningfully choose a different service level. Frontier Economics reviewed the calculations and did not identify any issues in their report. | No intervention required.<br><br>The rate the company proposes is consistent with the industry average and ensures customers receive a similar level of protection against underperformance as provided by its corresponding outcome delivery incentive for the 2015-2020 period. It uses the same data as PR14.<br><br>The company does not appear to have a credible incentive to either under or overstate its outcome delivery incentive rate based on its performance over 2015-20 or the relative degree of stretch implied by its 2024-25 performance commitment level compared to other companies.<br><br>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 |
| | Definition | SES.OC.A26 | **Customer confidence PC:** The company should provide further justification of why this PC is required in addition to C-MeX. | 1 April 2019 | The company proposes removing this performance commitment. It states that performance in this service area will be covered by the common C-Mex performance commitment. | No intervention required.<br><br>The company is proposing to remove the customer confidence performance commitment, due to the overlap with the C-Mex performance commitment. | NA |
| | Stretch | SES.OC.A27 | **Supporting customers in financial hardship PC:** The company should revise the target for this PC to make it more stretching as the original proposed target was higher (25,000). If the company does not think that a more stretching performance level is suitable, it should clearly set out the rationale for its position and provide sufficient evidence to underpin its decision. | 1 April 2019 | The company proposes to maintain its performance target at 19,000 customers. The company restates its rationale from its original business plan submission for this reduced target compared to its original target of 25,000 customers. It states that this lower performance level helps to offset potential bill impacts of improved performance on leakage and per capita consumption, which customers have stated they value more. | Intervention required.<br><br>The company has made a commitment to fund, through shareholders, 6,000 additional customers beyond their proposed 19,000 performance commitment level, without impacting overall customer bills.<br><br>Revising the performance commitment level is part of holding the company to this commitment, and avoids the risk the company notes of increased bill impacts on other customers. | We are intervening to increase the performance commitment level to 25,000 customers by 2024-25. The full performance commitment levels for each year are:<br><br>2020-21 – 12,960<br>2021-22 – 15,970<br>2022-23 – 18,980<br>2023-24 – 21,990<br>2024-25 – 25,000 |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | | | | | Units = number of customers |
| | Definition | SES.OC.A28 | **Vulnerable support scheme awareness PC:** The company should provide evidence of the sample size used in the annual survey to determine the PC target. | 1 April 2019 | The company updates its definition to include a minimum sample size of 400 customers. However, it states it is more appropriate for the independent, expert third party carrying out the survey to set the actual sample size each year rather than it being fixed within the definition. | No intervention required.<br><br>The company complies with the action, providing a minimum sample size and clarifying that the actual sample will be set each year by an independent expert third party. | NA |
| | Stretch | SES.OC.A29 | **Vulnerable support scheme awareness PC:** The company should revise its proposed performance levels to make them more ambitious or provide compelling evidence why it is in the interests of customers not to do so. | 1 April 2019 | The company proposes to revise the performance commitment levels to include a further increase of 10%. This implies it will be targeting 68% awareness by 2024-25 rather than 58%. | No intervention required.<br><br>The company's uplift in its performance commitment level of 10% to 68% by 2024-25 and justification for doing makes its proposed performance commitment levels sufficiently more stretching. | NA |
| | Definition | SES.OC.A30 | **Vulnerable support scheme helpfulness PC:** The company should revise its approach to assessing helpfulness of support schemes to better understand what the issues actually are and what improvements can be made to improve services. The company should provide evidence on survey methodology for this PC. Specifically this should cover the question asked to customers and the sample size. | 1 April 2019 | The company states it will keep the performance commitment definition as per the original business plan submission with the addition of a minimum sample size of 400.<br><br>The company is not proposing to make any major changes to the definition but has stated it will look to continually improve the services offered by seeking feedback from customers using the scheme and organisations who support customers likely to be using the service as part of their ongoing customer insight programme. | Intervention required.<br><br>The company complies with the action, providing a minimum sample size and clarifying that the actual sample will be set each year by an independent expert third party.<br><br>Although the company has complied with the action, providing sufficient detail on its proposed approach to the survey and to how it will seek to improve services, it should additionally obtain independent assurance of the survey approach from a suitably qualified organisation. | We are intervening to include in the performance commitment definition an expectation that the company should obtain independent assurance of the survey approach from a suitably qualified organisation. |
| | Stretch | SES.OC.A31 | **Vulnerable support scheme helpfulness PC:** The PC should only include surveying customers who accessed the services in relation to the survey. | 1 April 2019 | The company is not proposing to change its methodology. The company disagrees with us that the performance commitment should only survey customers using the vulnerable support scheme. It states that it is important to gain the views of customers outside of the scheme as customers can become vulnerable at any point in time through factors outside of their own control, therefore their opinions are valid. It also states that by surveying customers not currently using the scheme it provides an additional means to raise awareness of the availability of the scheme. | Intervention required.<br><br>We note the company's arguments for using a broader survey base, including to raise awareness. However, we have concerns about the validity of customers to provide insightful feedback on the helpfulness of the scheme with only a perceived view of what vulnerability may involve. The inclusion of these respondents risks skewing the results of the survey. The company can track views of customers outside of the | We are intervening to change the performance commitment definition to only include customers who have accessed the services within the scope of the survey. |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
|---|---|---|---|---|---|---|---|
| | | | | | | scheme separately to raise awareness and understand their views. | |
| | Definition | SES.OC.A32 | **Managing bad debt PC:** The company should provide further justification for having this PC and why it is appropriate despite low customer support. | 1 April 2019 | This company is proposing to remove the performance commitment. | No intervention required.<br><br>The company provides sufficient justification for removing this performance commitment.<br><br>No compelling evidence is presented to suggest customer support for this performance commitment. This is aligned with the findings of the significant majority of other water companies, who do not have dedicated performance commitments regarding bad debt. | NA |
| | Stretch | SES.OC.A33 | **Managing bad debt PC:** The company should provide further justification for targeting deteriorating performance. If it cannot do this, it should set a stretching target to improve performance, and provide sufficient evidence for its target. | 1 April 2019 | NA<br><br>As we have removed this performance commitment, this action is no longer relevant. | NA | NA |
| | ODI type | SES.OC.A34 | **Managing bad debt PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. The company should demonstrate how a non-financial incentive will benefit customers. | 1 April 2019 | NA<br><br>As we have removed this performance commitment, this action is no longer relevant. | NA | NA |
| | Stretch | SES.OC.A35 | **Perception of value for money PC:** The company should review the targets for this PC in the 2020-2025 period, taking into account recent performance. The company should increase the stretch of the target to improve on current performance, as it is currently already meeting the target of <10% of customers feeling that the company does not provide value for money. The company should provide sufficient justification for its revised targets. | 1 April 2019 | The company proposes removing this performance commitment entirely in response to the two actions (SES.OC.A35 and SES.OC.A36) received. It states that it will continue to monitor performance based on Consumer Council for Water survey results.<br><br>The company states that many of the aspects of the performance commitment within the control of the company are captured through other performance commitments such as supply interruptions, leakage and customer satisfaction. | Intervention required.<br><br>The company has not provided sufficient reasoning or evidence that the performance commitment is no longer needed. We consider that customers' perception of value for money is an important outcome that is not wholly captured through other performance commitments.<br><br>We consider that the company's commitment to monitor performance based on Consumer Council for Water survey results does not sufficiently compensate for the loss of the performance commitment with suitably stretching performance commitment levels. | We are intervening to reinstate the perception of value for money performance commitment (and assigning reference number PR19SES_B.6). We are setting the following performance commitment levels:<br><br>2020-21: 9<br>2021-22: 8<br>2022-23: 7<br>2023-24: 6<br>2024-25: 6 |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | ODI type | SES.OC.A36 | **Perception of value for money PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. The company should demonstrate how a non-financial incentive will benefit customers. If it cannot do this, the company should propose a financial ODI. | 1 April 2019 | The company proposes removing this performance commitment entirely in response to the two actions (SES.OC.A35 and SES.OC.A36) received. It states that it will continue to monitor performance based on Consumer Council for Water survey results.<br><br>The company also argues that a financial incentive is not appropriate as a number of factors outside of the company's control which will impact on customers' perceptions of value for money such as the general economic climate and the customer's own financial situation. | No intervention required.<br><br>We are re-instating the performance commitment (see SES.OC.A35). The company provides sufficient rationale for this performance commitment to include a non-financial outcome delivery incentive. Similar performance commitments for other companies are also non-financial. | NA |
| | ODI type | SES.OC.A37 | **Void properties 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. The company should remove the outperformance payment if it cannot provide this evidence. | 1 April 2019 | The company provided additional explanation regarding how reducing the number of void properties will reduce customer bills, which is in customers' interests.<br><br>The company also provided an explanation regarding the operational controls which prevent the risk of perverse incentives, stating that the process of registering properties on their systems is separate from the process of seeking customer details to convert a property from being void to billable. | No intervention required.<br><br>The company provides sufficient explanation of the benefits to customers from outperformance payments. The outperformance payments place strong incentives on the company to identify false voids, directly lowering bills for all other customers. The identification of a false void allows the company to issue a bill to the property. As the company's total wholesale revenue is fixed by the price control, this directly reduces bills for all other customers. . There is also sufficient rationale and evidence that demonstrates how reducing customer bills is a high priority for customers.<br><br>The company's explanation of how perverse incentives will be avoided is sufficient. | NA |
| | Stretch | SES.OC.A38 | **Risk of supply failures PC:** the company should provide sufficient evidence that its PC target is stretching. If it cannot do this then it should increase the stretch of its target. | 1 April 2019 | NA<br><br>This performance commitment has been removed as the enhancement claim submitted by the company associated with delivering the outcome for this measure has been rejected. | No intervention required. | NA |
| | ODI rate | SES.OC.A39 | **Risk of supply failures PC:** The company should provide further evidence to demonstrate the methodology used to calculate the ODI rates proposed.<br>The company should provide further evidence to justify the use of ODI outperformance payments, | 1 April 2019 | NA<br><br>This performance commitment has been removed as the enhancement claim submitted by the company associated with delivering the outcome for this measure has been rejected. | No intervention required. | NA |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | in particular how this relates to the enhancement expenditure proposed in this area. | | | | |
| | Stretch | SES.OC.A40 | **First contact resolution PC:** The company should provide justification for its committed performance level. | 1 April 2019 | The company is not proposing to revise its performance commitment levels and provides additional evidence. This includes comparison against evidence from the Institute of Customer Service, to justify why it considers the proposed performance commitment levels to be stretching.<br><br>The company states that, according to the Institute of Customer Service, companies which are leading performers within the retail non-food sector against their right first time metric achieve an average performance of 83.5%. The company acknowledges that exceptional performers in the sector achieve greater than 90% but argues that given the nature of service they provide, citing the example of customers reporting leaks or supply issues, it is not always possible to resolve these issues with one call. | Intervention required.<br><br>Although the company has provided further evidence, citing performance from the broader retail non-food sector to justify its target of 85%, we consider it would be more appropriate for the company to compare its performance against other water companies with similar measures. Other companies with similar measures are targeting performance of greater than 90% and therefore the company should be aiming to achieve a step change in performance to get closer to these levels of performance or beyond. | We are intervening to set the performance commitment level at the following levels in each year:<br><br>2020-21: 80%<br>2021-22: 82.5%<br>2022-23: 85%<br>2023-24: 87.5%<br>2024-25: 90% |
| | ODI type | SES.OC.A41 | **First contact resolution PC:** The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support.<br>The company should provide justification for not including digital channels. If it cannot do this, it should include digital channels. | 1 April 2019 | The company argues that repeat-contacts have an impact on customer time, which can be valued through lost earnings. No further evidence is provided of customer support.<br><br>The company do not respond directly to the issue we raise regarding the exclusion of digital channels from the performance commitment. However, the definition of this performance commitment notes that social media contacts will be excluded where the customer has not subsequently provided their details via a direct message. The company notes in the definition that these have to be excluded as the company has no means to record the contact made on the customers' account if they have not provided their details. | Intervention required.<br><br>SES Water provide no evidence to suggest that customers support the usage of an outperformance payment for this specific outcome delivery incentive. As such, we consider that an outperformance payment cannot be justified in this area.<br><br>The company provides sufficient rationale for why in this instance it is appropriate to exclude digital channels from the definition, only where the customer making contact cannot be matched to a record in the company system. | We are intervening to change the outcome delivery incentive type to be underperformance only. |
| | ODI rate | SES.OC.A42 | **First contact resolution PC:** The company should either provide further evidence to justify the existing methodology or refine ODI rates in line with direct customer willingness to pay evidence. In either case the company should provide its evidence and rationale. | 1 April 2019 | The company proposes amending its outcome deliver incentive rates. It has reviewed and modified its methodology to improve how lost potential earnings from repeat contacts are used to calculate the outcome delivery incentive rates. | No intervention required.<br><br>The company provide sufficient description of their methodology, which relies on revealed preferences, an approach which is permitted within our methodology. | NA |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | ODI type | SES.OC.A43 | **Greenhouse gas emissions PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. The company should demonstrate how a non-financial incentive will benefit customers. | 1 April 2019 | SES Water argue that, given they will use only renewable energy sources from Summer 2018, a further financial incentive is not appropriate. | Intervention required.<br><br>We note that the target of 55 kg of CO2 per million litres is currently only a forecast for 2019/20, which has not yet been achieved<br>.<br>We note that the customer challenge group would prefer to see a financial outcome delivery incentive. The company does not present any evidence of customer support for a non-financial incentive. As such, an underperformance financial outcome delivery incentive (the default position as set out in our 'PR19 methodology') is appropriate. | We are intervening to change the outcome delivery incentive to underperformance only.<br><br>In the absence of willingness-to-pay evidence regarding greenhouse gas emissions, we are setting the underperformance rate based on the Department for Business, Energy, and Industrial Strategy's average forecast traded price of carbon for 2020-2024, equivalent to £27.24 per tonne of CO2 equivalent. (This is available in their 'Updated short-term traded carbon values' publication.) Converting into the relevant unit of £ per kg of CO2 per million litres and applying cost sharing, this results in an underperformance rate of £1,578 per kilogram of CO2 equivalent per million litres of water put into supply. |
| | Stretch | SES.OC.A44 | **Abstraction incentive mechanism PC:** The company should provide further evidence on how the target performance level was calculated within the adapted AIM methodology. | 1 April 2019 | The company set out their reasoning for selecting the target, with further information on the logic behind the proposed performance commitment level and site selection.<br><br>The company explains how it applied our abstraction incentive methodology for site selection and this resulted in no sites being identified as suitable. | No intervention required.<br><br>The company provides sufficient explanation and evidence for how it has chosen sites and calculated performance commitment levels. | NA |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | | | The company also explains the detailed technical work it has undertaken in conjunction with stakeholders to identify a suitable site and target level. | | |
| | ODI type | SES.OC.A45 | **Abstraction incentive mechanism PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. | 1 April 2019 | The company explains that no sites meet the eligibility criteria set by us for the abstraction incentive mechanism. As a result, the company state they do not consider it appropriate to be financially rewarded for meeting this performance commitment as they cannot confirm there is measurable environmental benefit. | No intervention required.<br><br>The company provides a clear explanation that it cannot evidence the environmental benefits are cost-beneficial for the activity it is undertaking. As a result, it is not clear that financial incentives (underperformance or outperformance) would benefit customers. | NA |
| | ODI type | SES.OC.A46 | **River based improvement – delivery of WINEP PC:** The company should provide further evidence to justify the use of a non-financial incentive for this PC and evidence of customer support for this approach. The company should demonstrate how a non-financial incentive will benefit customers. | 1 April 2019 | The company argues that delivery of the water industry national environment programme can be changed by the Environmental Agency, who have statutory powers to establish and change projects that require participation from the company. The company also argues that there is a significant reputational impact associated to the under delivery of these projects. As such, they argue it would be unreasonable for a financial payment to be linked to the outcome delivery incentive. | Intervention required.<br><br>The company provides some rationale to justify the use of a non-financial incentive. However, it does not provide compelling rationale for why customers should not be protected against the late delivery of the company's water industry national environment programme obligations. Other companies with water industry national environment programme obligations have financial outcome delivery incentives.<br><br>See Table 3 - SES.OC.C9 to see our intervention to address the uncertainty in the schemes requiring delivery for the water industry national environment programme. | We are intervening to include an underperformance rate. In the absence of willingness to pay evidence, we are setting the rate based on the foregone customer benefit from each project being delayed by one year, using scheme costs as a proxy.<br><br>We calculate this through multiplying the programme total expenditure by the weighted average cost of capital plus the Run-Off Rate, and then dividing this by the total number of schemes (excluding amber schemes) in scope. This results in an outcome delivery incentive rate underperformance rate of £4,390 per unit. |
| Addressing affordability and vulnerability | SES.AV.A2 | Required | Sutton and East Surrey Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 1.5% in 2019/20 to | 1 April 2019 | The company adopts all three features of our common performance commitment by submitting a refined performance commitment which commits it to reach of | Intervention required.<br><br>The company adopts all three elements of our common performance commitment. We consider | We are intervening to amend the performance commitment levels for this common |

| Test area | Action type | Action reference | Required action | Date required | Summary of the company's response to the action | Our assessment and rationale | Interventions |
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| | | | 15% of customers in 2024/25. This is a sector leading target. In addition, the company has checked 100% of PSR data over the past two years. This is sector leading performance as well.<br>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): The company should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to checking at least 90% of its PSR data every two years.<br>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. | | 7% of households and data checking for 90% of customers. | that it has met the proposal we set out. However we are amending the performance commitment levels for all companies, and so intervention is required. | performance commitment for all companies and will split the current data checking target into two, splitting out attempted and actual contacts.<br>More information on this common performance commitment can be found in our Guidance Document (PR19 draft determinations: Reporting guidance – Common performance commitment for the Priority Service Register) (https://www.ofwat.gov.uk/publication/common-performance-commitment-outline-for-the-priority-service-register/). |

**Table 3 – Interventions not directly related to IAP actions**

| Intervention reference | Our assessment and rationale | Interventions |
|---|---|---|
| SES.OC.C1<br>PR19SES_E.1<br>Usage (per capita consumption)<br>Outcome delivery incentive type | Intervention required.<br>The company has not provided sufficient evidence of customer support for outcome delivery incentive outperformance payments for this performance commitment. | We are intervening to remove enhanced incentives from this performance commitment. |
| SES.OC.C2<br>PR19SES_E.1<br>Usage (per capita consumption)<br>Caps and collars | Intervention required.<br><br>We consider that caps and collars are appropriate for this performance commitment because it is financially material. We consider that the proposed collar was not set at a level that would provide appropriate incentives for the company. In response to the company evidence, the range that underperformance payments would apply was too small to provide sufficient incentive. | We are intervening to set the collars as follows:<br>2020-21: -8.9%<br>2021-22: -8.9%<br>2022-23: -8.9%<br>2023-24: -8.9%<br>2024-25: -8.9% |

| Intervention reference | Our assessment and rationale | Interventions |
|---|---|---|
| | 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 our ‘outcomes policy appendix’. | Units: percentage reduction in per capita consumption from initial level on a three-year average basis. |
| SES.OC.C3<br>PR19SES_A.5<br>Water Softening<br>Performance commitment addition | Intervention required.<br>The company has particular issues regarding water softening. It is the only company with a statutory obligation to soften water due to the 1862 Caterham Spring Water Company Act and then the 1903 Sutton District Waterworks Act (amended in 1983).. For the 2015-20 period, it has a performance commitment and associated outcome delivery incentive related to the delivery of its water softening programme, with a total maximum underperformance payment of £15 million. This performance commitment is not being continued in to the 2020-25 period, as the programme has now been delivered.<br>However, the company is submitting a £12 million cost adjustment claim to continue to provide softened water for 2020-2025. This claim has been allowed almost in its entirety and the company has proposed to the local authority (with jurisdiction to enforce) and communicated to the Drinking Water Inspectorate (DWI), a target level of water softening of 80 mgCa/l of calcium (reducing the calcium content from an average of around 120 mg Ca/l when it comes out of the ground) in treated water across its five sites, which is less stringent than the limit set in the Sutton District Act that covers part of SES supply zone (68 mg Ca/l). According to the company the local authority has raised no concerns regarding the company's proposed target.<br>The company is proposing to protect customers from non-delivery of this softening requirement by contributing towards a community fund if its water softening equipment is faulty for a month or more. The 'rate' of this mechanism is derived from the operating costs associated to water softening – equivalent to £24,000 for a month of non-delivery at one of its 5 sites.<br>We are concerned that this mechanism and financial incentive is insufficient. A performance commitment with a financial outcome delivery incentive is needed to provide sufficient incentive. This will help protect customers in the event that the company fails to deliver softened water to agreed specifications (80mg l/Ca). | We are intervening to include a performance commitment to protect customers from poor company performance in relation to water softening. We are introducing a performance commitment which has the following characteristics:<br>Sets the target for water softness at beneath 80 mg l/Ca. The company is expected to sample the five relevant sites three times a week. The measure will track average weekly hardness based on the average of the 3 weekly samples. The company will fail the weekly target at a site if the weekly average is above 80 mg l/Ca. The performance commitment level is being set at 260 for each year. This is calculated as 5 sites multiplied by 52 weeks. The funding provided to the company over previous price controls is seen as sufficient to provide continuous softening, even during periods of maintenance, therefore no deadbands or collars are being included for this measure.<br>Sets an underperformance rate at £21,150 for every week a single site produces an average weekly hardness of above 80mg l/Ca. This is calculated using the standard outcome delivery incentive formula, and is based on the submitted data of variable cost and customer benefit of receiving hardened water. The outcome delivery incentive rate is calculated using data provided by the company on what the additional cost to customers is of managing and mitigating the impacts of hard water.<br>The outcome delivery incentive will be in-period and has no collar or deadbands. We do not consider there is a need for a deadband or a collar as the company was funded to deliver softening equipment which would allow them to soften continuously, at the 80 mg l/Ca level the company themselves proposed. The softening process should also have been designed to allow softening at the proposed 80 mg l/Ca taking into account other water quality requirements, for example turbidity.<br>Additionally, the company is expected to provide confirmation from the London Borough of Sutton that they accept the company’s internal 80mg Ca/l performance level. The London Borough of Sutton ultimately hold the right to enforce more stringent softening performance levels as per the 1903 Sutton District Waterworks Act (as amended in 1983), therefore, their agreement to the proposed limit is critical. |
| SES.OC.C4<br>PR19SES_C.1<br>Risk of severe restrictions in a drought<br>Further information required | Intervention required.<br>Intermediate calculations both 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.<br>We would like companies to confirm that their performance commitment levels are reflective of their water resources management plan position.<br>We would like companies to confirm which programmes of work will impact their risk profile forecasts. | This is a sector wide action.<br>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).<br>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.<br>The company should confirm which programmes of work will impact its forecasts. |

| Intervention reference | Our assessment and rationale | Interventions |
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| | 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. | The company should confirm which schemes will impact its forecasts. |
| SES.OC.C5<br>PR19SES_C.4<br>Leakage<br>Enhanced outcome delivery incentives | Intervention required<br>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).<br>The company has not applied a cap on the leakage or water supply interruption enhanced outcome delivery incentives which 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.<br>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 enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance i.e. £0.467m per megalitre per day for outperformance and -£0.467m per megalitre per day for underperformance.<br>We are intervening to set an enhanced cap at 1% return on regulatory equity for the leakage and water supply interruption enhanced outcome delivery incentives.<br>1% return on regulatory equity is the highest enhanced payment a company can receive in any single year.<br><br>We are intervening to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance.<br><br>This is as follows:<br><br>2020-21: -57.7%<br>2021-22: -57.7%<br>2022-23: -57.7%<br>2023-24: -57.7%<br>2024-25: -57.7%<br><br>Units: percentage reduction in leakage from initial level on a three-year average basis. |
| SES.OC.C6<br>PR19SES_A.1<br>Water supply interruptions<br>Enhanced outcome delivery incentives | 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.<br>As we set out in 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.<br>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. | We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance.<br><br>This is as follows:<br><br>2020-21: 00:32:54<br>2021-22: 00:32:54<br>2022-23: 00:32:54<br>2023-24: 00:32:54<br>2024-25: 00:32:54<br><br>Units are hours:minutes:seconds<br><br>We are intervening to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance. |

| Intervention reference | Our assessment and rationale | Interventions |
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| | | This is as follows:<br><br>2020-21: 00:43:49<br>2021-22: 00:43:49<br>2022-23: 00:43:49<br>2023-24: 00:43:49<br>2024-25: 00:43:49<br><br>Units are hours:minutes:seconds<br><br>We are intervening to set an enhanced outperformance cap at 1% of water or wastewater regulated equity each year. See PR19 draft determinations: Delivering outcomes for customers policy appendix for how this will operate in practice. |
| SES.OC.C7<br>PR19SES_E.6<br>River based improvement - delivery of WINEP<br>Definition | Intervention required.<br>The company have highlighted the uncertainty in scope around their water industry national environment programme and the risk that this may change during 2020-25. Given the uncertainty around the requirement to deliver schemes classified as "Amber", we have updated the performance commitment definition to only include schemes classified as “Green” by the Environment Agency as of the 1st April 2019. This avoids unnecessary complexity in the performance commitments and outcome delivery incentives framework, which could require several revisions through the 2020-25 period to align with changes in the water industry national programme. | We are intervening to set the definition to include only schemes specified as "Green" by the Environment Agency as of the 1st April 2019. |
| SES.OC.C8<br>PR19SES_E.6<br>River based improvement - delivery of WINEP<br>Stretch | Intervention required.<br>We are intervening to set delay based rates (SES.OC.A46). In support of this, we are intervening to make the performance commitment level cumulative and aligned to the water industry national environment programme. | We are intervening to set the performance commitment levels as follows:<br>2020-21: 1<br>2021-22: 7<br>2022-23: 7<br>2023-24: 22<br>2024-25: 24<br>Units: Schemes within the water industry national environment programme categorised as ‘Green’ by the Environment Agency. |
| SES.OC.C9<br>PR19SES_NEP01<br>WINEP Delivery<br>Performance commitment addition | We are intervening to add a reputational performance commitment that measures whether the company has met all of its water industry national environmental programme requirements in each reporting year. The performance commitment will use the latest water industry national environmental programme programme from the Environment Agency at the end of the reporting year. This will allow the inclusion of any changes to the water industry national environmental programme between now and the end of 2025. | We are intervening to add an additional reputational performance commitment that measures whether the company has met all of its water industry national environmental programme requirements in each reporting year. |
| SES.OC.C10<br>PR19SES_B.1<br>Supporting customers in financial hardship<br>ODI type and ODI rate | We are intervening to add an underperformance payments in order to provide appropriate incentives to for the company to promote financial assistance. We have estimated the benefits of the social tariff – i.e. the avoidance of social impact including stress and anxiety as 10% of the reduction in tariffs and set this as the underperformance outcome delivery incentive rate.<br>In addition we will use the outcome delivery incentive to recover the difference in bills if more than 19,000 customers are added to the tariff in line with the company commitment. So, for | We are intervening to set an in period underperformance payment rate of £9.10 per customer and in addition the company will pay £91 for each customer that receives a social tariff above 19,000 in any year. |

| Intervention reference | Our assessment and rationale | Interventions |
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| | example if there are 19,500 customers that receive a social tariff then the company will pay for 500 customers. | |

**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.

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