

July 2019

Trust in water

PR19 draft determinations

South East Water – Delivering outcomes for customers actions and interventions

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PR19 Draft Determinations: South East 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 'SEW' denotes the company South East 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 'SEW' denotes the company South East 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 preceded with a 'D'.

In Table 3 and Table 4, we also specify the performance commitment reference number provided by the company (the prefix 'PR19SEW_' denotes the company South East Water), the name of the performance commitment, and the action type (for example, stretch).

For all other documents related to the South East Water draft determination, please see the [draft determinations webpage](#).

Table 1 – South East 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	SEW.OC.A1	Performance Commitment (PC) definition	The company should provide justification for discontinuing its PR14 Value for Money PC (E1: Customer satisfaction - bills are value for money and affordable) and provide evidence that value for money will be explicitly tested as a separate performance commitment. If it cannot provide sufficient justification for dropping the PC, the company should continue its PR14 Value for Money PC.	1 April 2019	The company proposes to reinstate this performance commitment. It has changed the metric from a percentage to a score out of 5. It has set a baseline of 3.7 based on 4 years historic data, and aims for 4 out of 5 in 2024-25.	No intervention required. The company has changed the way it measures value for money, it has replaced its current measure with a score out of 5. This does not affect the substance of the measure, the comparability of historic data, or the granularity of results. The company has four years past performance in the new measure on which to draw a baseline. Based on this historic data, the performance commitment that the company puts forward is suitably stretching.	NA
	SEW.OC.A2	ODI rates	In cases of rejection or revisions to enhancement expenditure or a cost adjustment claim, the company 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. In cases where a scheme will no longer be undertaken, the company should consider the removal of the associated scheme-specific PC. 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 the cost adjustment claims or enhancement expenditure proposed by the company.	1 April 2019	The company confirms it is not proposing any scheme-specific performance commitments. The company provides evidence around the methodology and rationale that were used in the calculations of marginal costs' estimates. In regard to how marginal costs relate to cost adjustment claims or enhancement expenditure, the company does not explain how costs, including enhancement costs, are allocated across outcome delivery incentives. However, the company confirms that its relevant employee team leaders have worked on both marginal costs and enhancement costs and that the process was monitored by its regulatory team.	No intervention required at a company level... Where we are allowing a cost adjustment claim at a level different to that proposed by the company due to us taking a different view of efficient costs, we reflect this in our responses to individual performance commitment actions. The company provides additional evidence around the methodology, rationale, and methodology of marginal costs. The company has followed a clear process. 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.	NA
	SEW.OC.A3	Overall 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.	1 April 2019	The company argues that its proposed outcome delivery incentive package is designed to enable customers, stakeholders, and regulators to readily hold it to account for its performance, particularly in areas that customers highly prioritised. The company also argues that its approach aligns its outcomes package to customer preferences.	No intervention required at the company level. 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
	SEW.OC.A4	Asset health ODI package	The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments. If it cannot do this, the company should remove the outperformance payments.	1 April 2019	The company does not have outperformance incentives on what it considers to be asset health performance commitments. It has outperformance	No intervention required. We agree with the company that appearance and the taste and odour of tap water are customer facing and that the company has	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			The company should state its P10 underperformance payments and P90 outperformance payments for each of its asset health ODIs in £m and as a percentage of RoRE.		<p>payments on its customer contacts performance commitments. The company states that it undertook customer engagement relating to asset health more generally but did not have available evidence to justify outperformance payments. The company has explained that it does not view appearance and taste and odour of tap water as asset health measures, since they are more customer facing and it has outperformance payments on these based on customer priorities and valuations</p> <p>The company has provided P10 and P90 performance payments for each of its asset health outcome delivery incentives.</p>	<p>provided adequate evidence of customer support for the outperformance payments on these performance commitments. The willingness to pay research shows that customer value service improvements for these measures. The company has complied with the action and provided its P10 and P90 payments for each asset health performance commitment.</p>	
	SEW.OC.A5	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 mechanism and caps to material ODIs should be applied in accordance with guidance provided in ' Technical appendix 1: Delivering outcomes for customers '.	1 April 2019	The company proposes including the 50% sharing mechanism for outperformance payments that exceed 3% return on regulatory equity and applying caps on individual material performance commitments.	<p>No intervention required at a company level.</p> <p>The company is proposing to adopt our customer protection measures as set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix' to make sure that customers are adequately protected. Where we are intervening on individual performance commitment caps and collars, these are discussed in Table 2 and Table 3.</p>	NA

Table 2 – South East 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	SEW.OC.A6	Stretch	Per capita consumption PC: The company should reconsider its proposed service levels and ensure that these are stretching given that it is in a water stressed area. The company should clearly set out the evidence and rationale for the revised targets.	1 April 2019	The company does not revise its proposed levels and provides more evidence for the original proposal. It explains that due to universal metering in its supply area its per capita consumption performance commitment level will need to be delivered almost solely by persuading customers to change their water-usage behaviour further. The company describes its mix of options with expected percentage savings that make up the total proposed reduction and presents evidence of a wide range of per capita consumption values across its own and neighbours’ water resource zones. The company explains that there are differences in socio-economic status of population it serves in comparison with neighbouring Southern Water.	<p>Intervention required.</p> <p>The company has the highest proposed per capita consumption level, which we do not consider stretching. The level is higher than 140 litres per person per day and understates the company’s own evidence. The company provides a clear description of its per capita consumption reduction initiatives and its estimates indicate potential total savings ranging between 6% and 8% at least, in comparison with the proposed reduction of 6.3%. The company demonstrates innovative thinking and its plan involves piloting and roll-out of new techniques. We do not consider its evidence of differences in population demographics sufficient and consider that the company assumed the lower end of possible savings indicated by its pilot studies.</p> <p>We are intervening to set a performance commitment level based on reducing per capita consumption by 8%, the upper end of the range suggested by their own evidence.</p> <p>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’.</p>	<p>We are intervening to set the performance commitment percentage reduction levels to the following values:</p> <p>2020-21 = 1.3%</p> <p>2021-22 = 3.2%</p> <p>2022-23 = 5.0%</p> <p>2023-24 = 6.5%</p> <p>2024-25 = 8.0%</p> <p>Units: percentage reduction in per capita consumption from initial level on a three-year average basis.</p>
	SEW.OC.A7	ODI rate	Per capita consumption 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 rate for Per capita consumption 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 reflect its customers’ preferences for improvements and therefore it has not amended its outcome delivery incentive rates. The company states that it has committed to a particularly stretching level of performance on	<p>No intervention required.</p> <p>The company has not made any amendments to its proposed outcome delivery incentive rates which remain within our reasonable range that we set out in ‘PR19 draft determinations: Delivering outcomes for customers policy appendix’. We have not identified</p>	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 also provide further evidence to justify and demonstrate the application of adjustments to the Ofwat formula in order to balance ODI payments across the ODI package, or consider alternative methods to achieve this objective. In either case, the company should provide its evidence and rationale.		this performance commitment and that applying the standard outcome delivery incentive formulae would have resulted in a negative underperformance payment rate (given marginal cost).The company has therefore set its underperformance payment rate equal to the outperformance payment rate.	any concerns with the company's underlying valuation research nor the derivation of its outcome delivery incentive rates. 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 '.	
	SEW.OC.A8	Stretch	Drought resilience 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 some intermediate calculations for risk at a water resource zone level. It does not provide the underlying supply-demand balance. There is also an explanation of the approach taken and how water resources management plan solutions are incorporated into the performance commitment level.	The performance commitment level (zero risk) is sufficiently stretching but may be unrealistic in year 1 given the starting non-zero risk. 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. 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. We set out our rationale for assessing this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix '.	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.
	SEW.OC.A9	ODI rate	Compliance Risk Index 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 rate for Compliance Risk Index (CRI) and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company proposes a reduced rate of -£0.349 million in response to our action. The company states that our requested additional information all relates to the use of customer valuation in calculating outcome delivery incentives. However the	Intervention required. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments. The company has explained the formulation of its outcome delivery	We are intervening to increase the company's underperformance payment rate to -£0.522 million, based on the average of the reasonable range.

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 explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs.		company's outcome delivery incentive rate for the Compliance Risk Index is cost-based only as it does not have customer valuations relating to the Compliance Risk Index. The company states that this is because of the cognitive challenges that would have existed in the research design; and also that it would be unreasonable to convert any customer valuations for other measures of water quality, as there is no clear conversion rate between the Compliance Risk Index and those other measures. The company provides more information on how its outcome delivery incentive rate was calculated, reviews its assumptions around the costs and the associated service levels, and compares its incentive rate against those submitted by other companies.	incentive rate. However, the company has reduced its rate significantly between its September 2018 and April 2019 business plan submissions, to align with the industry range and our amendments for the fast-track companies. The company's underperformance payment rate is at the lower bound of the reasonable range set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix', and the value in the September business plan was at the upper end of our range. Our approach is to triangulate both values and use the average of the range. The company has no performance issues. 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'.	
	SEW.OC.A10	Caps, collars, deadbands	Compliance Risk Index 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 is adequate to provide clear incentives for companies to deliver statutory requirements. The company should set a deadband at 1.50 for 2020-25.	1 April 2019	The company proposes to maintain its deadband of 3.7. The company argues that a performance commitment level based on only 3 years of published data is not sufficient to determine a robust upper quartile level. Furthermore the company states that the calculation of the Compliance Risk Index means that reported performance levels on this performance commitment are sensitive to relatively small changes in overall service levels. This means that a relatively small failure at the company's largest treatment works would contribute to a score above our proposed deadband of 1.5. The company further argues that the upper quartile benchmark level can be determined by what appears to be particularly strong levels of performance for a subset of companies but which could be considered as outlier levels of	Intervention required. This is not a new obligation but a different way to express performance against the longstanding statutory obligation to supply drinking water that is 100% compliant 100% of the time. The measure can fluctuate like all others, but existing performance data does not suggest volatility. Some variance may be due to the pesticide failures, which is expected to be reduced once the ban on the use of metaldehyde is in place at the start of the 2020. We consider that public perception is a matter of how the performance against targets are communicated and this should not be a reason to provide a worse level of service. As described in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have further reviewed the deadband levels for	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

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					performance. The company estimates that around 60-75% of the industry could fail to meet the deadband each year. It argues this could be very misleading for customers and risks an erroneous public perception that the majority of the industry now has serious issues with water quality.	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.	
	SEW.OC.A11	Stretch	Water supply interruptions 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	<p>The company proposes to adopt our performance commitment levels.</p> <p>The company comments on our approach to setting the upper quartile levels, arguing that approach of calculating the "upper-quartile of upper-quartiles" is not grounded in regulatory precedent or aligned with the original methodological intention to set performance commitment levels at an upper quartile level. The company proposes an alternative approach using baseline supply interruptions as the basis for performance commitment levels and excluding single high-impact interruptions resulting from external factors outside of company control.</p>	<p>Intervention required.</p> <p>Whilst the company has complied with our IAP action, 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.</p> <p>We set out our rationale for setting performance commitment levels including the methodology for setting the upper quartile levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.</p>	<p>We are intervening to set performance commitment levels that are consistent with the rest of the industry for supply interruptions. These levels are as follows:</p> <p>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</p> <p>Units: minutes per property for year</p>
	SEW.OC.A12	ODI rate	<p>Water supply interruptions 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 supply interruptions.</p> <p>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 rate for supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p>	1 April 2019	<p>The company argues that its outperformance payment rate is only just outside the reasonable range and is broadly in line with the rates on a per household basis set for South West Water and United Utilities through the fast-track process.</p> <p>The company argues that comparison with industry rates therefore does not suggest that its outperformance payment rate should be amended. The company further argues that while its underperformance payment rate is</p>	<p>Intervention required.</p> <p>Our draft determinations take into account customers' views on performance levels, as well as historical and forecast performance levels across the sector. In some instances this results in our draft decisions on performance commitment levels differing from the level supported by customers. We are satisfied that our decisions provide strong customer protection and appropriately incentivise the company.</p> <p>The company's proposed rates are materially below the reasonable range that we set out in 'PR19 draft</p>	<p>We are intervening to set the underperformance payment rate by triangulation across (i) the company's proposed rate; (ii) the industry average (on a normalised basis); and (iii) the rate that applies to the company's 2015-20 supply interruptions outcome delivery incentive.</p> <p>We are intervening to set the outperformance payment rate at the underperformance payment rate with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' September</p>

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					<p>outside the IAP range, this does not take account for the total compensation package it will provide to customers suffering from supply interruptions. The company states that it has committed to providing its customers with an enhanced compensation package for supply interruptions and therefore that customers are appropriately compensated when there is a service failure.</p> <p>The company states that its outcome delivery incentive rates reflect its customers' preferences for improvements and the specific nature of delivering service improvements and therefore is has not proposed to amend its outcome delivery incentive rates.</p>	<p>determinations: Delivering outcomes for customers policy appendix', and offer a lower level of customer protection than provided by the rates for its corresponding outcome delivery incentive for the 2015-20 period.</p> <p>We considered that the company has clear incentives to understate it rates given its recent poor performance on supply interruptions.</p> <p>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 '.</p>	<p>business plans as set out in PR19 draft determinations: Delivering outcomes for customers policy appendix.</p> <p>The results in outperformance and underperformance payment rates of £0.197 million and -£0.237 million per minute per property, respectively.</p>
	SEW.OC.A13	ODI rate	<p>Leakage 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 leakage.</p> <p>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 rate for leakage and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p>	1 April 2019	<p>The company argues that its outperformance payment rate is only just outside the IAP range, and is lower than the rate (per household per percentage distribution input) that we set for the company in its fast-track draft decision. The company argues that comparison against industry rates therefore does not suggest that its outperformance payment rate should be amended.</p> <p>The company further states that while its underperformance payment rate is outside of our reasonable range, it would argue this offers further protection to its customers and ensures it is incentivised to deliver on its promises in this key area. The company states its proposed outperformance payment rate is in-line with its 2015-20 rate (£0.315 per megalitre per day), and while its underperformance payment rate is higher than its 2015-20 rate, this reflects its customers' increased strength of feeling in relation to leakage.</p>	<p>Intervention required.</p> <p>The company's proposed outperformance payment rate is not materially higher than the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix, and is commensurate with the corresponding rate attached to its 2015-20 leakage outcome delivery incentive. Its proposed underperformance payment rate is materially higher than the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix.</p> <p>The performance commitment is a material contributor to downside financial risk to the return on regulatory equity. When combined with the rest of the outcomes delivery incentive package, we consider the financial exposure to the company resulting from this performance commitment's underperformance payment rate would be disproportionate. As such, we are</p>	<p>We are intervening to decrease the underperformance payment rate to £0.454 million per Mld.</p> <p>We have also made a cost allowance for the company to improve its performance on this measure. To protect customers we are setting an additional underperformance payment rate to return funding to customers. This cost recovery rate will operate between the performance commitment level in the final year and 81.1Ml at a rate of -£1.899 million per unit. Beyond 81.1, the underperformance payment rate will be the standard rate we have set at -£0.454 million per unit.</p>

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						<p>intervening to reduce the financial underperformance exposure by adjusting the underperformance collar. We are doing this by setting the underperformance payment rate equal to the outperformance payment rate, with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' business plans.</p> <p>In addition, we have given enhancement allowances to deliver leakage reductions beyond industry upper quartile. These allowances are contingent on the company delivering its performance commitment levels. To protect customers we are intervening to ensure the outcome delivery incentive rate will recover the enhancement allowances in the case that the company does not achieve its performance commitment levels.</p> <p>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 '.</p>	
	SEW.OC.A14	Stretch	Mains repairs PC: The company should reconsider its proposed service levels and ensure that these are stretching. If the company continues to propose performance that is worse than its historical levels, we will expect compelling evidence that increased active leakage control impacts the total number of mains repairs using the company's own data. This should include the relationship between pro-active and reactive mains repairs. As a minimum the evidence should show the historical correlation between active leakage control, and pro-active and reactive mains repairs. It should also show the impact of this relationship on proposed repair rates from the output of asset performance modelling. The company should also demonstrate that reduced (worse) performance levels are in the interests of customers and the assets.	1 April 2019	<p>The company has not changed its proposed service from its September business plan. The company refers to it outperforming its own internal target in order to achieve a better than economic level of leakage (ELL) performance. The company presents evidence that it claims shows the direct correlation between decreasing leakage levels and the increase in the number of proactive mains repairs.</p> <p>The company refers to other companies, including Fast Track companies, having proposed increased mains repair performance</p>	<p>Intervention required.</p> <p>The company has provided no new evidence but has reissued and reiterated its earlier submission. There is insufficient evidence to support the company's claim and we do not consider the link between leakage and repairs to be clearly evidenced. The company does not consider other factors that may have contributed to an increase in mains repairs. The company does not demonstrate that it can only reduce leakage by increasing the number of mains repairs.</p> <p>We will intervene to set a more stretching target. The new service levels</p>	<p>We are intervening to set the performance commitment levels to the following values.</p> <p>2020-21 = 152.6 2021-22 = 152.6 2022-23 = 152.6 2023-24 = 152.6 2024-25 = 152.6</p> <p>Units: Mains repairs per 1,000km</p>

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					commitment levels in the business plan and use this as partial justification of its proposal.	<p>will be based on the three best years of historical performance.</p> <p>As such, we are not accepting the company's justification, and are setting performance commitment levels based on the average of the three best recent years' actual performance (2013-14, 2014-15, and 2015-16). It represents a 16% improvement on the company's proposal.</p> <p>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'.</p>	
	SEW.OC.A15	ODI rate	<p>Mains repairs PC: The company should explain and evidence how its proposed ODI rate for mains repairs is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure (including leakage, supply interruptions and low pressure) and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term.</p> <p>The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODIs rate for mains repairs and assess the appropriateness of the company's customer valuation evidence supporting its ODI.</p>	1 April 2019	<p>The company states that our requested additional information all relates to the use of customer valuation in calculating outcome delivery incentives. However its outcome delivery incentive rate for mains repairs is cost-based only as it does not have customer valuations relating to it.</p> <p>The company states that it would be inappropriate to ask customers directly about mains repairs service levels, as its performance on mains repairs does not directly affect customer outcomes. For this reason it set an underperformance payment rate only, and calculated this based on costs only.</p>	<p>Intervention required.</p> <p>The company has explained the formulation of its outcome delivery incentive rate. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments. The company's underperformance payment rate is within our reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.</p> <p>However, the company has past delivery issues and poor current performance, as set out in PR19 draft determinations: South East Water - Accounting for past delivery appendix. As such, we consider it necessary to increase the underperformance payment rate to further incentivise improvements in performance</p> <p>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'.</p>	We are intervening to increase the company's underperformance payment rate to -£0.101 million per 1000km, based on the upper bound of the reasonable range.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	SEW.OC.A16	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 has included a RAG assessment which shows that there are zero red, five amber and seven green rated components out of 12. The company plans to apply our updated guidance to the 2019-20 data. The internal audits have identified areas for improvement and the external auditor also reports that there are no material issues relating to the process or data, though it has identified some areas for improvement in the process and documentation.	Intervention required. There are non-material issues yet to be resolved and company has not confirmed that it will be fully compliant by 2019-20, but has only stated that it will apply our updated guidance to collection and reporting of 2019-20 data for different components of this performance commitment.	We expect the company to provide an update on how its plans to achieve full compliance for this performance commitment by April 2020 and to resolve the non-material issues.
	SEW.OC.A17	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, and 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 proposed service level data in the May submission. The company should also report its current and forecast company level percentage outage compared to company peak week production capacity (MI/d), the unplanned outage (MI/d) and planned outage (MI/d) in its commentary for the May submission.	15 May 2019	The company provides its 2018-19 performance as 4.7% and its forecast reducing annually by 0.1% to 4.1% in 2024-25. The company also provides the calculations and forecasts for the calculation components.	Intervention required The company's proposed performance commitment levels are worse than the median industry forecast. We are intervening to set performance commitment levels using the median values from all companies' proposed performance commitment levels. We are using the median because it is a new measure with no historical data, limiting our ability to determine what good performance could be, based on company forecasts. We are setting the performance commitment levels based on a linear profile from the company's forecast 2019-20 value (4.70%) 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 the performance commitment levels to the following values. 2020-21 = 4.15 2021-22 = 3.70 2022-23 = 3.24 2023-24 = 2.79 2024-25 = 2.34 Units: percentage of peak week production capacity
	SEW.OC.A18	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 is now proposing an underperformance payment only incentive.	No intervention required. The company is complying with the action.	NA
	SEW.OC.A19	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	1 April 2019	The company states that it does not have customer valuations for its asset health performance commitments but has used cost	No intervention required. The company sufficiently explains how it has reached its proposed outcome	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
			<p>customer facing-impacts of the asset failure and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term.</p> <p>The company should also provide the additional information set out in '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.</p>		<p>based underperformance payments. . . The company also explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments.</p>	<p>delivery incentive rate and its coherence with other asset health outcome delivery incentives. The underperformance payment rate that is based on cost is aligned with the industry average, defined by our reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company is neither an especially good nor poor performer. We do not consider its performance is poor enough for us to intervene.</p> <p>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'.</p>	
	SEW.OC.A20	ODI rate	<p>Taste and odour of tap water PC: The company should provide further evidence to justify and demonstrate the calculation of this PC, in particular the triangulation of marginal benefits used to formulate the outperformance payment for this PC.</p> <p>The company should provide further evidence to demonstrate the underlying quality of the research on which input values are based and to justify the notably higher customer willingness to pay for taste and odour relative to appearance.</p>	1 April 2019	<p>The company states that it has reviewed the underlying marginal benefit values on which it derived its outcome delivery incentive rates. The company states the valuation input from its attribute valuation research was 17 times greater than the value from its 'Main Stage PR19 Stated Preference Research'. The company states that it has reviewed its approach to triangulation in light of this and has assigned a zero weight to the attribute value.</p>	<p>No intervention required.</p> <p>While the company's re-triangulated outcome delivery incentive rates are lower than the reasonable range that we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix, we have not identified any concerns with the company's revised derivation of the marginal benefit component of its rate nor have we identified an incentive for the company to understate its rates.</p> <p>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'.</p>	NA
	SEW.OC.A21	Caps, collars, deadbands	<p>Event Risk Index PC: The company should either remove its underperformance deadband, or reset the level of its underperformance deadband so that it is more closely aligned with current and recent historical performance. Alternatively the company may provide convincing evidence to explain why the existing deadband is appropriate and in customers' interests.</p>	1 April 2019	<p>NA</p> <p>This performance commitment is non-financial, and so this action is not relevant.</p>	<p>No intervention required.</p>	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
			If the company chooses to change the level of the deadband, it should provide compelling evidence to support the level it proposes.				
	SEW.OC.A22	Definition	Segmented satisfaction of household customers - segment 1 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance by third parties as well as review and challenge from the customer challenge group.	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	NA
	SEW.OC.A23	Definition	Segmented satisfaction of household customers - segment 2 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	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
					by third parties as well as review and challenge from the customer challenge group.		
	SEW.OC.A24	Definition	Segmented satisfaction of household customers - segment 3 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance by third parties as well as review and challenge from the customer challenge group.	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	NA
	SEW.OC.A25	Definition	Segmented satisfaction of household customers - segment 4 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	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
					by third parties as well as review and challenge from the customer challenge group.		
	SEW.OC.A26	Definition	Segmented satisfaction of household customers - segment 5 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance by third parties as well as review and challenge from the customer challenge group.	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	NA
	SEW.OC.A27	Definition	Segmented satisfaction of household customers - segment 6 PC: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.	1 April 2019	The company states that there will be a minimum of 400 customers surveyed annually in each segment. This is 2,400 in total. Customers will be contacted using a variety of approaches and will include 'seldom heard' groups. To avoid sample bias the company proposes to use random dialling. The company also states that sample quotas will be set using 2011 census data. The company is considering if and how to incorporate any relevant census data from 2021 given this is more up to date data but potentially may raise issues with comparability. The company commits to have ongoing discussion on these issues with the customer challenge group. The company also states that the results will be subject to external assurance	No intervention required. The company complies with the action and has provided additional detail on the approach for the survey covering all the key items we listed in our IAP action.	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
					by third parties as well as review and challenge from the customer challenge group.		
	SEW.OC.A28	Definition	Satisfaction of household customers who are experiencing payment difficulties PC: The company should confirm the size of the sample it intends to use. The company should also confirm that the survey will be externally assured and conducted in line with social research best practice.	1 April 2019	The company confirms that the survey will be externally assured and conducted in line with best practice. It also confirms the sample size will be 100 customer interviews monthly, so 1200 on an annual basis.	No intervention required. The company confirms the survey will be externally assured, and will conform to social research best practice.	NA
	SEW.OC.A29	Definition	Satisfaction of household customers who are receiving non-financial support PC: The company should confirm that survey will be externally assured and conducted in line with social research best practice for this PC.	1 April 2019	The company confirms that the survey will be externally assured and conducted in line with best practice.	No intervention required. The company confirms the survey will be externally assured, and will conform to social research best practice.	NA
	SEW.OC.A30	Definition	Satisfaction of household customers on our vulnerability schemes during a supply interruption PC: The company should confirm that survey will be externally assured and conducted in line with social research best practice for this PC.	1 April 2019	The company confirms that the survey will be externally assured and conducted in line with best practice.	Intervention required. The company confirms the survey will be externally assured, and will conform to social research best practice. However, we are intervening to change how the performance commitment is defined, so that we can set performance commitment levels. We are changing the definition to measure the change each year. This makes it possible for us to set performance commitment levels whilst some aspects of the performance commitment are still being developed. The new performance commitment levels are set out in Table 3.	We are intervening to change the definition to measure the change each year.
	SEW.OC.A31	Definition	Household customers receiving non-financial support PC: Refer to Affordability and Vulnerability documentation for actions related to this PC (Action SEW.AV.A4).	1 April 2019	See SEW.AV.A4	No intervention required.	NA
	SEW.OC.A32	Definition	Satisfaction of stakeholders in relation to assistance offered by South East Water PC: The company should explain why half of this PC is allocated to the water network plus price control. The company should explain which stakeholders will be included in the measurement of this PC and confirm that the survey will be externally assured and conducted in line with social research best practice.	1 April 2019	The company provides additional evidence for its price control allocation which is apportioned 50% to residential retail and 50% to water network plus. The company states that the reason for the allocation is because consumer vulnerability goes beyond services offered by the retail team. The proposed allocation is similar to other bespoke performance	Intervention required. The company has complied with the action and provides additional evidence in relation to price control allocation and the make-up of the survey. The company should ensure that it reports on progress against the items raised by the customer challenge group.	We are intervening to change the definition to measure the change each 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
					<p>commitments proposed by the company in this area.</p> <p>The company also provides additional details in relation to the stakeholders that will be included. The company also commits to ongoing mapping of the region and regular updates to relevant databases in order to ensure that stakeholders involved are continuously monitored and updated. The company also provides some details of survey testing that will be carried out prior to launch. The company commits to audit the data in line with International Organisation for Standardisation (ISO) and Market Research Society guidelines. In addition, the company commits to subject the survey results to external assurance and review by the customer challenge group.</p> <p>The March 2019 customer challenge group states a number of challenges it has applied to this performance commitment in order to improve the definition and methodology. These will ensure stakeholder groups are dynamic and appropriately represented.</p>	<p>However, we are intervening to change how the performance commitment is defined, so that we can set performance commitment levels. We are changing the definition to measure the change each year. This makes it possible for us to set performance commitment levels whilst some aspects of the performance commitment are still being developed. The new performance commitment levels are set out in Table 3.</p>	
	SEW.OC.A33	ODI type	<p>Gap sites PC: The company should provide further evidence to justify the use of a non-financial incentive for gap sites by demonstrating why a financial incentive would not be in the interests of customers.</p> <p>Alternatively, the company should formulate a financial ODI reflecting the reduction in customer bills that would result from the proposed programme of work to improve the identification of gap sites.</p>	1 April 2019	<p>The company argues that it does not have any historical data to base a target on.</p> <p>Additionally, the company proposes to document the number of identified gap sites and the number of those that are now being charged in order to amend the performance commitment in the future (2025-2030).</p>	<p>No intervention required.</p> <p>We agree that for this performance commitment setting a financial incentive can be problematic. However, we are intervening to set a performance commitment level and to set a full definition in a separate intervention (see Table 3).</p>	NA
	SEW.OC.A34	ODI type	<p>Voids – household properties PC: The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed</p>	1 April 2019	<p>The company provides its outcome delivery incentive rate calculation methodology and assumptions. It</p>	<p>Intervention required.</p>	<p>We are intervening to change the incentive rates. The calculation is based on an average wholesale bill of £190,</p>

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 such a way that does not create perverse incentives with respect to the timely and accurate registration of void sites.		<p>calculates the benefit to customers from identifying and billing a void property.</p> <p>The company's calculations include an assumption that excludes instances where it is unsuccessful in collecting bills. It also bases its calculation on the entirety of the household bill, including the retail component.</p>	<p>The company has sufficiently explained its approach to calculating the outcome delivery incentive. Whilst the overall approach of estimating the customer benefit from bill reductions is appropriate, we have identified two issues with the calculations.</p> <p>First, the company's adjustment for excluding instances where it is unsuccessful in collecting bills is not appropriate – it is for the company to manage unpaid debts, not customers – customers' bills will reduce when a bill is issued.</p> <p>Second, the company does not exclude the residential element (10%) of the bill in their calculation. As this element of the bill is subject to an average cost price control, and the company incurs additional retail costs by billing the extra property, it is not appropriate to include the residential element in the calculation.</p> <p>We are intervening to correct these two elements of the calculation to set the outcome delivery incentive rates.</p> <p>We set out our rationale for setting outcome delivery incentive rates for this performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.</p>	<p>marginal costs of £30, a cost sharing factor of 50%, and residential property numbers as provided by the company. The new rates are:</p> <p>Underperformance: £1.435 million per 1% Outperformance: £0.779 million per 1%</p>
	SEW.OC.A35	ODI type	<p>Voids – business properties PC: The company should provide further evidence to justify the use of a non-financial incentive by demonstrating why it would not be in customers' interests.</p> <p>Alternatively, the company should formulate a financial ODI reflecting the decrease in customer bills that would result from an incremental reduction in the proportion of void properties.</p>	1 April 2019	The company has formulated a financial outcome delivery incentive. The company proposes setting the outcome delivery incentive rates equal to those used for the 'voids – household properties' performance commitment, arguing that it should be equally incentivised to identify a business or household void, and that it lacks the detailed data to set different rates.	<p>Intervention required</p> <p>We accept the company approach, but we have intervened on the issues set out in SEW.OC.A34.</p>	<p>We are intervening to change the incentive rates. The calculation is based on an average wholesale bill of £190, marginal costs of £30, a cost sharing factor of 50%, and business property numbers as provided by the company. The new rates are:</p> <p>Underperformance: £0.335 million per 1% Outperformance: £0.182 million per 1%</p>

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	SEW.OC.A36	Definition	Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration PC: Companies should focus on delivering what matters to their customers, rather than the delivery of certain outputs and schemes. The company should resubmit its definition to measure a direct customer outcome.	1 April 2019	<p>The company proposes to keep the definition unchanged from the September 2018 submission. The company has, however, provided additional evidence and justification detailing why this is the most appropriate way to measure and monitor some of the challenges associated with diffuse pollution. In particular, the company provides additional evidence concerning the stakeholder engagement and development of this performance commitment over time. The company also states that due to the lag between activity and benefit, the definition is necessarily focused on hectares rather than more measurable aspects of environmental benefit. The performance commitment definition explicitly states that land managers need to take up one or more of an agreed list of measures.</p> <p>The company states "Successful engagement measures will be land managers that take up one or more of the following over the five year period: Farm site audit, water efficiency and advice package, Training package (e.g. on pesticide application), Pesticide calibration test, take up a biodiversity package, involvement in crop trials-other trials to improve water quantity or quality, provided a payment to use alternative pesticides-products, payments of Ecosystem Services, provided a capital payment to improve farm infrastructure and other engagement measures developed within the planning period and agreed with the Environment Agency. If a land manager takes up one or more of these engagement measures, the total amount of land that they manage (and which is</p>	<p>No intervention required.</p> <p>The company provides additional evidence and justification for the definition of this performance commitment. Since the performance commitment aims to address the issue of diffuse pollution by relying on the voluntary uptake and cooperation of third parties to deliver environmental benefits that may take longer to deliver tangible environmental benefit than the regulatory period, the definition of the performance commitment is appropriate.</p> <p>The performance commitment definition demonstrates good levels of support from key stakeholders (e.g. Natural England) and the company provides key activities that landowners must take up in order to count towards the performance commitment. This limits the degree to which the performance commitment is a volumetric assessment of hectares owned and ensures that changing farming practices should also occur.</p>	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
					identified as being at risk), will be included in our measurement."		
	SEW.OC.A37	ODI type	Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration PC: The company should provide further evidence to support the use of outperformance payments and how this ODI will benefit customers.	1 April 2019	<p>The company continues to propose outperformance payments. The company argues that without a financial incentive there is a risk that it would not have sufficient focus to deliver in this area. The company notes that any investments it makes in this area, if linked to a non-financial performance commitment, will only have long term environmental outcomes without any timely payoffs.</p> <p>Additionally, the company confirms that its outcome delivery incentive outperformance payment rate calculation is based on customer valuation and willingness to pay.</p>	<p>No intervention required.</p> <p>The company provides sufficient evidence of customer support for outperformance payments. Additionally, outperformance payments will create a clear incentive for the company to focus on this performance commitment which would in turn lead to higher customer benefit.</p>	NA
	SEW.OC.A38	Definition	Bespoke Abstraction Incentive Mechanism PC: The company should explain why it has chosen its AIM sites and why these are different from those in the 2015-2020 period. The company should also provide sufficient evidence as to how it has consulted with stakeholders and customers in the selection of these sites and in agreeing the PC.	1 April 2019	<p>The company sets out the filtering process it used to identify the new sites and its reasoning for removing existing 2015-20 abstraction incentive mechanism sites. The company explains:</p> <ul style="list-style-type: none"> - it is not continuing to include the sites at Windmill Hill as the only alternative to this site is now also recognised as an environmental concern; -Its new sites at Kingston, Itchel, Meon and North Charring are all identified as sites with environmental concerns following investigations; and - The stakeholders involved (Environment Agency, Environment Focus Group and environmentally focused members of the customer challenge group) and the consultations that took place between them and the company regarding these sites. 	<p>No intervention required.</p> <p>The company sufficiently explains the reasoning for its abstraction incentive mechanism sites differing from those in the 2015-20 period. The company also sufficiently explains the process it followed for engaging with stakeholders in agreeing these sites and the performance commitment.</p>	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
Addressing affordability and vulnerability	SEW.AV.A4	Affordability and vulnerability	<p>South East Water has already proposed a reputational performance commitment on Priority Services Register (PSR) growth (PR19SEW_J.1). It is proposing to increase its PSR reach from 1.7% in 2019/20 to 6.8% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has only checked 7.7% of PSR data over the past two years.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): South East Water should adapt its performance commitment on 'Household customers receiving non-financial support' (PR19SEW_J.1). It should increase its proposal for PSR growth to at least 7% of its customer base (measured by households) by 2024/25. It should also commit to checking at least 90% of PSR data every 2 years via its performance commitment.</p> <p>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.</p>	1 April 2019	The company adopts all three features of our common performance commitment by submitting a new reputational performance commitment which commits it to reach 10.8% of households and data checking for 90% of customers.	<p>Intervention required.</p> <p>The company adopts all three elements of our common performance commitment. We consider 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.</p>	<p>We are intervening to amend the performance commitment levels for this common performance commitment for all companies and will split the current data checking target into two, splitting out attempted and actual contacts.</p> <p>More information on this common performance commitment can be found in our Guidance Document titled 'Common performance commitment outline for the Priority Service Register ("PSR")' (https://www.ofwat.gov.uk-publication-common-performance-commitment-outline-for-the-priority-service-register-).</p>

Table 3 – Interventions not directly related to IAP actions

Intervention reference	Our assessment and rationale	Interventions
SEW.OC.C1 PR19SEW_L.1 Gap sites Definition	<p>Intervention required.</p> <p>The company commits to “achieve our programme relating to gap sites” with limited information on what this means, additionally the company sets the target as programme “achieved” with limited information on the parameters for achievement. As a result it is our assessment that the company has not provided a complete definition and the definition provided measures an output with no clear indication what the outcome would be. This is not appropriate as a complete definition must be provided for final determination which measures an outcome. Other companies by contrast have proposed definitions aimed directly at incentivising the identification and billing of gap sites.</p>	<p>We are intervening to include a performance commitment definition based on total number of gap sites identified and brought into billing each year as this is a metric which can be directly measured by the company. Therefore, the definition should be total gap sites identified and billed for each year of the plan.</p>

Intervention reference	Our assessment and rationale	Interventions
SEW.OC.C2 PR19SEW_L.1 Gap sites Stretch	<p>Intervention required.</p> <p>The company proposes a performance commitment level of "programme of work complete". This is not appropriate as it is unclear whether the definition is stretching or not or what the outcome will be.</p> <p>As we are setting the definition to be similar to that of other companies, we use their performance commitment levels to set suitably stretching performance commitment levels for the company. In particular:</p> <p>Affinity Water has a performance commitment level of 50 gap sites identified and brought into billing each year.</p> <p>The company has approximately half as many customers as Affinity Water. As such, a performance commitment level of 25 gap sites identified and brought into billing each year is sufficiently stretching.</p>	<p>We are intervening to set the performance commitment levels as follows:</p> <p>2020-21: 25 2021-22: 25 2022-23: 25 2023-24: 25 2024-25: 25</p> <p>Units: number of gap sites identified</p>
SEW.OC.C3 PR19SEW_A.2 Appearance of tap water Outcome delivery incentive rate	<p>Intervention required.</p> <p>The company has not provided sufficient evidence that it understands its past performance failures for all elements of this measure, therefore placing a greater risk on the delivery of future improved performance. See SEW.PD.A6 for a full assessment. Due to this concern, we are intervening to strengthen the underperformance payment incentive.</p> <p>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 outcomes policy appendix'.</p>	<p>We are intervening to increase the underperformance rate to industry average (on a normalised basis). This results in underperformance rate of -£2.255 million per contact per 1,000 population.</p>
SEW.OC.C4 PR19SEW_H.3 Water industry national environment programme (WINEP) Definition	<p>Intervention required.</p> <p>We are intervening to update the definition of this performance commitment to only include schemes classified as "Green" by the Environment Agency as of the 1st April 2019 and the Bewl Darwell Transfer Scheme. This removes the risk and uncertainty around changes in the scope of delivery of this performance commitment during the period 2020-25.</p> <p>We are also intervening to add a reputational performance commitment that measures whether the company has met all of its water industry national programme requirements in each reporting year. The performance commitment will use the latest water industry national 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 programme between now and the end of 2025.</p>	<p>We are intervening to update the definition of this performance commitment to only include schemes classified as "Green" by the Environment Agency as of the 1st April 2019 and the Bewl Darwell Transfer Scheme.</p> <p>We are intervening to add an additional reputational performance commitment that measures whether the company has met all of its water industry national programme requirements in each reporting year.</p>
SEW.OC.C5 PR19SEW_H.3 Water industry national environment programme (WINEP) Stretch	<p>Intervention required.</p> <p>We are intervening to set a delivery profile based on the Environment Agency's target completion dates for 59 of the company's green schemes and the Bewl-Darwell Transfer scheme. We are including the Bewl-Darwell Transfer scheme because for the purposes of this performance commitment we consider this scheme to be confirmed and as such have allowed costs.</p>	<p>We are intervening to set the performance commitment levels as follows:</p> <p>2020-21: 0 2021-22: 43 2022-23: 57 2023-24: 59 2024-25: 60</p> <p>Units: Cumulative number of schemes to zero decimal places</p>

Intervention reference	Our assessment and rationale	Interventions
SEW.OC.C6 PR19SEW_H.3 Water industry national environment programme (WINEP) Outcome delivery incentive type and rate	<p>Intervention required.</p> <p>We are intervening to set underperformance payments for this performance commitment, to provide sufficient incentives for the company to deliver its water industry national environment programme obligations in a timely manner. We do not consider a reputational outcome delivery incentive effectively achieves this aim.</p> <p>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.</p>	<p>We are intervening to change the outcome delivery incentive type to underperformance only and to set an underperformance rate of £0.0722 million per scheme.</p>
SEW.OC.C7 PR19SEW_C.10 Satisfaction of household customers on our vulnerability schemes during a supply interruption Stretch	<p>Intervention required.</p> <p>The company is not proposing performance commitment level. This is because some elements of the performance commitment are still in development, and so it is not possible to set numeric scores at this time. We are intervening (SEW.OC.A30) to change the definition to measure the improvement in satisfaction score each year</p>	<p>We are intervening to set the performance commitment levels as follows:</p> <p>2020-21: 0.1 2021-22: 0.1 2022-23: 0.1 2023-24: 0.1 2024-25: 0.1</p> <p>Units: Improvement in satisfaction score</p>
SEW.OC.C8 PR19SEW_J.2 Satisfaction of stakeholders in relation to assistance offered by South East Water Stretch	<p>Intervention required.</p> <p>The company is not proposing performance commitment level. This is because some elements of the performance commitment are still in development, and so it is not possible to set numeric scores at this time. We are intervening (SEW.OC.A32) to change the definition to measure the improvement in satisfaction score each year.</p>	<p>We are intervening to set the performance commitment levels as follows:</p> <p>2020-21: 0.1 2021-22: 0.1 2022-23: 0.1 2023-24: 0.1 2024-25: 0.1</p> <p>Units: Improvement in satisfaction score</p>
SEW.OC.C9 PR19SEW_B.4 Company sites protected from risk of flooding Stretch	<p>Intervention required.</p> <p>The company is not proposing performance commitment level for every year of the period. 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.</p>	<p>We are intervening to set performance commitment levels for earlier years. The resulting service levels are:</p> <p>2020-21 – 18 2021-22 – 36 2022-23 – 55 2023-24 – 73 2024-25 – 92</p> <p>The financial incentive still only applies for service delivery in 2024-25 as the performance commitment is cumulative and underperformance should only be applied once.</p>

Intervention reference	Our assessment and rationale	Interventions
SEW.OC.C10 PR19SEW_H.1 Engaging and working with landowners to improve catchment resilience related to raw water quality deterioration Stretch	Intervention required. The company is not proposing performance commitment level for every year of the period. 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. The resulting service levels are: 2020-21 – 2,843 2021-22 – 5,687 2022-23 – 8,530 2023-24 – 11,374 2024-25 – 14,217 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.
SEW.OC.C11 PR19SEW_H.2 Protecting wildlife and increasing biodiversity Stretch	Intervention required. The company is not proposing performance commitment level for every year of the period. 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 consider that it is appropriate to have an outperformance cap as we consider that the company has an element of discretion to increase delivery, which could lead it to undertake improvements that exceed customers' willingness to pay and/or focus on this performance commitment to the neglect of others.	We are intervening to set performance commitment levels for earlier years. The resulting service levels are: 2020-21 – 292 2021-22 – 584 2022-23 – 876 2023-24 – 1,168 2024-25 – 1,460 We are also intervening to set a cap on this PC based on the company's estimate of P90 performance at 1,671. 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.
SEW.OC.C12 PR19SEW_H.6 Engaging and working with abstractors to improve catchment resilience to low flows Stretch	Intervention required. The company is not proposing performance commitment level for every year of the period. 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. The resulting service levels are: 2020-21 – 4 2021-22 – 8 2022-23 – 12 2023-24 – 16 2024-25 – 20
SEW.OC.C13 PR19SEW_B.1 Supply interruptions Caps and collars	Intervention required. 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 accept that caps and collars are appropriate, but at different levels to those proposed by the company. In particular the collars do not provide sufficient incentive for the company.	We are intervening to set the collars as follows: 2020-21: 00:21:36 2021-22: 00:21:36 2022-23: 00:21:36 2023-24: 00:21:36 2024-25: 00:21:36 Units: minutes: seconds We are intervening to set the caps as follows:

Intervention reference	Our assessment and rationale	Interventions
	Our standard approach to setting caps and collars is set out in our 'outcomes policy appendix'.	2020-21: 00:04:39 2021-22: 00:04:04 2022-23: 00:03:31 2023-24: 00:02:58 2024-25: 00:02:24 Units: minutes: seconds
SEW.OC.C14 PR19SEW_D.1 Leakage Caps and collars	Intervention required. 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 a cap and collar are necessary, because the performance commitment is financially material, but at different levels to those proposed by the company. In particular the collars do not provide sufficient incentive for the company. 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 set the collars as follows: 2020-21: -5% 2021-22: -5% 2022-23: -5% 2023-24: -5% 2024-25: -5% Units: percentage reduction in leakage from initial level on a three-year average basis.
SEW.OC.C15 PR19SEW_G.1 Drought resilience PC ODI rates	The company has proposed an underperformance only outcome delivery incentive for this performance commitment	We do not consider that it is appropriate to have financial incentives for this new performance commitment.

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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July 2019

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