July 2019

Trust in water

PR19 draft determinations

Southern Water – Delivering outcomes for customers actions and interventions

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PR19 draft determinations: Southern 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 'SRN' denotes the company Southern 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 'SRN' denotes the company Southern 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 'PR19SRN_' denotes the company Southern Water), the name of the performance commitment, and the action type (for example, stretch).

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

Table 1 – Southern 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	SRN.OC.A1	Performance commitment (PC) definition	The company should provide further justification for discontinuing its PR14 Value for Money PC (7: Value-for-money). If sufficient justification for dropping the PC cannot be provided, the company should continue its PR14 Value for Money PC.	1 April 2019	The company proposes to reinstate the Value for Money performance commitment. The company is changing the methodology for the survey to align more closely with similar surveys conducted by agencies such as the Institute of Customer Service.	No intervention required. The company is complying with our action to reinstate the performance commitment. The adjustments being proposed to align the survey methodology to best practice are appropriate. The company also proposes suitably stretching performance commitment levels. We consider that retaining the performance commitment as a reputational outcome delivery incentive is appropriate.	NA
	SRN.OC.A2	Performance reporting	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 Outcome Delivery Incentives (ODIs) on its reputation.	1 April 2019	In addition to its existing channels including an interactive summary of its annual performance report, the company proposes to work with customers to co-create an online dashboard which provides key information in a clear, timely and transparent way.	No intervention required. The company demonstrates that it will use a range of effective channels and technologies to report performance to its customers. The company describes clearly how customers will be involved in developing performance reporting.	NA
	SRN.OC.A3	ODI rates	The company should consider the ODI rates proposed and provide further evidence, either from its own customer base or wider industry studies, to demonstrate that the marginal benefit estimates used are reflective of its customers' preferences and valuations, or conduct further engagement to develop triangulated ODI rates that are based on a broader range of customer evidence. 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	1 April 2019	The company explains the holistic changes it has made to its triangulation approach, to use data from willingness-to-pay and customer outcome delivery incentive analysis. The company describes an eight stage process that has been undertaken to reach the rates it is proposing. The company revises its proposals for its outcome delivery incentive rates relating to schemes, cost adjustment claims and enhancement spend. The company explains how its forecasts for efficient marginal costs relate to its base cost submission, with particular reference to their interaction with enhancement spend.	No intervention required at a company level. The company's evidence on outcome delivery incentive rates is derived from willingness to pay research and other customer evidence. It proposes a coherent process for ensuring that outcome delivery incentive rates are representative of customer valuations. Specific issues regarding individual outcome delivery incentive rates are captured in the responses to those actions. Where we are rejecting a cost adjustment claim or allowing it 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 a coherent explanation of how it has used cost forecasts to set its outcome delivery incentive rates. Specific issues regarding the usage of costs in individual outcome delivery incentive rates are captured in the responses to those actions in Table 2.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			cost adjustment claims or enhancement expenditure proposed by the company. Individual PC actions are set out in Table 2.				
	SRN.OC.A4	ODI deadbands, caps and collars	The company should provide further ODI-specific evidence to support its individual use of both caps and collars, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company should reconsider its widespread application of collars to financial PCs and it should consider applying these features more selectively. The company's evidence for its individual caps and collars should include justification for the levels at which the cap and/or collar are set, and the company should explain why these levels are appropriate and in its customers' interests.	1 April 2019	The company proposes to reduce the number of caps and collars used compared to its original business plan, for example reducing the proposed number of collars from 26 to 10. It proposes to change its policy towards caps and collars, such that they are only used when the company has confidence in the basis of the data on which the performance commitment level is set and extreme weather influences performance, or where the company does not have confidence in the basis of the data on which the performance commitment level is set and management does not have significant control over performance. The company also commits to adopting our approach to caps and collars on material performance commitments.	No intervention required at a company level. The company provides sufficient evidence regarding its overall usage of caps and collars, and has sought to reduce the numbers of caps and collars based on criteria it has outlined. However, we do not consider the criteria regarding the influence of extreme weather to be appropriate. We want to ensure companies are incentivised to mitigate the risk of service failure during severe weather. Customers experience the down- and upside of the fluctuations in terms of their service, so it seems reasonable that appropriate adjustments are made to bills. Companies are able to manage the financial consequences of outcome delivery incentives using other mechanisms, for example their in-period outcome delivery incentive determinations. As such, we do not consider that extreme weather alone is sufficient to justify caps and collars. There is one instance where this criterion is the only reason for applying a collar: 'maintain bathing waters at excellent'. Our assessment and intervention is captured in SRN.OC.A52. Comments regarding the usage of caps on outperformance-only outcome delivery incentives are captured in the review of those specific actions.	NA
	SRN.OC.A5	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. With regards to a balanced package and incentivising the company to meet its own challenges and customer priorities; the company should provide further explanation why some ODIs of medium importance to customers carry significantly higher ODI outperformance payments than those of high customer priority.	1 April 2019	The company provides commentary as to how the outcome delivery incentive package was reviewed and considered by customers, both in the formative and review stages of the business plan. It provides evidence which shows how customer priorities align to the level of each outcome delivery incentive. It argues that its proposed return on regulatory equity range provides strong shareholder incentives. It highlights how its proposed employee bonus scheme is linked to outcome delivery incentive performance.	No intervention required at a company level. We consider that the company has conducted a thorough customer engagement process and that evidence used is of a sufficiently high quality. The company provides sufficient justification and evidence. The overall package, following our interventions, is aligned to customer preferences and for most circumstances 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.	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 provide further explanation regarding how it has considered potential double counting across its asset health ODIs.		The company provides further commentary for each asset health performance commitments as to why there is no material double counting in asset health outcome delivery incentives.	There are specific instances where we consider this not to be the case. These have been considered in the responses to the specific actions in Table 2. The company provides detailed and sufficient evidence to demonstrate that interactions between asset health and associated service performance commitments do not result in a double counting of incentives.	
	SRN.OC.A6	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. .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 notes that from their eight asset health performance commitments, four have outperformance payments associated with them (mains bursts, external sewer flooding, drinking water appearance and drinking water taste and odour). All four of these performance commitments were included in their outcome delivery incentives research. Customer expressed a positive willingness to pay for improvements in these performance commitments. The company provides a list of what it believes are its asset health performance commitments. It has provided P90 and P10 performance payments for each performance commitment.	No intervention required. For the four asset health performance commitments with outperformance payments, the company was asked to provide sufficient evidence to demonstrate customer support. The company provides sufficient evidence to demonstrate that its customers support the outperformance payments for its mains repairs performance commitment (see action SRN.OC.A27). We consider the inclusion of outperformance payments on the other three performance commitments as being appropriate and is supported by customers (hence no specific action at IAP), but the quality of the supporting evidence is mixed. The company has complied with the action and provided its P10 and P90 payments for each asset health performance commitment.	NA
	SRN.OC.A7	Customer protection	The company should provide further evidence that explains the maximum outperformance payments that customers could be exposed to and what mitigations are proposed to protect against this outcome. The company should refer to the customer protection measures outlined in **Technical appendix 1: Delivering outcomes for customers.**	1 April 2019	The company commits to applying an overall cap and collar equivalent to a £5 change in bills year-on-year due to outcome delivery incentive performance. This constitutes the maximum outcomes outperformance or underperformance payments that customers could be exposed to. The company did not comment on our guidance that 50% of outperformance where outperformance exceeds 3% return on regulatory equity in a year should be shared with customers. The criteria for using individual caps and collars is outlined, and is explained in further detail in SRN.OC.A4.	Intervention required. The company has provided clear evidence of the overall level of bill protection provided through an overall cap and collar. We are concerned that the company's proposed approach would overly dampen incentives where performance could go beyond a £5 year-on-year change in bills. As such, we are imposing our customer protection measures as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' to make sure that customers are adequately protected, while maintaining appropriate incentives for companies to deliver what customers want. The company will manage the impacts on bills through how it sets prices each year to avoid volatility in bills.	We are intervening so that companies share 50:50 any gains above 3% return on regulatory equity in any year.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						Our views on individual caps and collars are captured in OC.A4. We consider that the companies' use of caps and collars is generally appropriate.	

Table 2 – Southern 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	SRN.OC.A8	ODI rate	**Water quality compliance (CRI) PC:** The company should explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs and any PCs relating to the associated customer facing-impacts of the asset failure and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term. The company should 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 (CRI) and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company states that the Compliance Risk Index has the largest underperformance payment of all its water outcome delivery incentives. This is consistent with its importance to customers, who regard safe drinking water as their number one priority. The company states that the incentive rate for this outcome delivery incentive is based on a combination of outcome delivery incentive research and marginal cost analysis. It has removed manual adjustments that it applied to some outcome delivery incentives in its September Business Plan, and revisited its triangulation, as per action SRN.OC.A3.	No intervention required. The company has complied with our action to explain the formulation of its outcome delivery incentive rate and its customer valuation evidence. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments. The company's underperformance payment rate is within our reasonable range and the company does not have past performance issues on water quality. Therefore we are not intervening on the outcome delivery incentive rate. 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
	SRN.OC.A9	Caps, collars, deadbands	**Water quality compliance (CRI) 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. The company should set a deadband at 1.50 and collar at 9.5 for 2020-25.	1 April 2019	The company proposes alternative deadbands and collars than the ones outlined in our action at IAP. The company argues that although its current performance on the new Compliance Risk Index measure is behind the rest of the sector, this performance is attributed largely to a single large treatment works (Testwood in Hampshire). This site is subject to an improvement plan accepted by the Drinking Water Inspectorate. As a result of these necessary improvement works the company states that it cannot accept the deadbands proposed by	Intervention required. We do not consider the company's justification plausible as we consider that regulatory enforcement notices incentivise the company to rectify failures. Focus on these sites is important to delivering good drinking water quality hence these sites should be included. As described in the PR19 draft determinations: Delivering outcomes for customers policy appendix,	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

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					Ofwat as they would result in a de facto financial penalty, rather than an incentive to deliver good performance. The company presents deadbands that would require it to deliver upper quartile performance for all works except Testwood. Therefore the company would be penalised for not meeting Drinking Water Inspectorate requirements at Testwood or not meeting upper quartile performance across its other sites. The company states that its alternative proposal delivers progressive improvements for customers, is deliverable and will result in performance at the end of the 2020-25 period that will be better than under our proposals.	we have further reviewed the deadband levels for all companies since the IAP. We recognise that this is a fairly new measure and there may be a need to retain some flexibility for new metaldehyde legislation to be implemented therefore we have increased the deadband for the first two years of 2020-25 compared to our proposal at IAP. As with the rest of the industry we are setting a deadband profile at 2.0 for the first two years, before tightening it to 1.5. A deadband set at the levels we are proposing allows for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures. It is important that the range of underperformance to the collar is adequate to provide clear incentives for companies to deliver statutory requirements. We are intervening to set a standard collar at 9.5 where companies have proposed a tighter collar.	2023-24 – 1.5 2024-25 – 1.5 Unit = Compliance Risk Index Score We are intervening to set a standard collar of 9.5 only for 2024-25 where the company has proposed a tighter collar. The collar profile for the Compliance Risk Index is therefore: 2020-21 – 14.2 2021-22 – 14.17 2022-23 – 13.55 2023-24 – 11.24 2024-25 – 9.5 Unit = Compliance Risk Index score
	SRN.OC.A10	ODI type	**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 provides further evidence from recent customer research and outlined customers' willingness to pay for reductions in leakage. Recent customer research involved 23 customers via an online platform and 6 meeting with stakeholders representing vulnerable customers, non-household customers, environmental groups and local authorities.	No intervention required. The findings of recent customer research indicate customer support for an outperformance payment for the leakage performance commitment, although the research cannot be considered to be statistically representative. The research report does not provide details of all stimulus materials used, or details of how representative is the sample of participants. As such, the results cannot be considered to be robust, but they may provide an indication of the views of customers. However in accordance with our policy on outcome delivery incentives type in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we also check performance before rejecting the outperformance payment which would reduce customer benefit. In cases such as this one where the company is a good performer, we are	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
						intervening to revise the outcome delivery incentive outperformance rate downward (see SRN.OC.A11).	
	SRN.OC.A11	ODI rate	**Leakage PC:** The company should provide further evidence to justify the appropriateness of the proposed adjustment to the ODI rate or remove the adjustment. The company should explain why its proposed rate differs 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. 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 is proposing to revise its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that it has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process.	Intervention required. The company's proposed outcome delivery incentive rates are close to the industry average, as defined inPR19 draft determinations: Delivering outcomes for customers policy appendix , and we have not identified any concerns with the basis on which they have been derived. However, the company has provided insufficient evidence of customer support for outperformance payments (see SRN.OC.A10). As such, we are intervening to reduce the outperformance rate to the lowest of the values from the customer valuation research. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to reduce the outperformance rate to the level implied by lowest triangulation input from company's valuation research. This is £0.144m per megalitre per day.
	SRN.OC.A12	ODI type	**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 provides new evidence including customer research and willingness to pay information to support outperformance payments for further reduction in per capita consumption over and above the performance commitment levels. Recent customer research involved 23 customers via an online platform and 6 meeting with stakeholders representing vulnerable customers, non-household customers, environmental groups and local authorities. Triangulation research showed that per capita consumption was of medium importance to customers.	No intervention required. As with SRN.OC.A10, the findings of recent customer research indicate customer support for underperformance payments for the per capita consumption performance commitment but less for outperformance commitments. The research cannot be considered to be statistically representative. The research report does not provide details of all stimulus materials used, or details of how representative is the sample of participants. As such, the results cannot be considered to be robust, but they may provide an indication of the views of customers However, in accordance with our policy on outcome delivery incentives type in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we also check performance before rejecting the outperformance payment which would reduce customer benefit. In cases such as this one where the company is a good performer, we are	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
						intervening to revise the outcome delivery incentive outperformance rate downward (see SRN.OC.A13).	
	SRN.OC.A13	ODI rate	**Per capita consumption PC:** The company should provide further evidence to justify the appropriateness of the proposed adjustment to the ODI rate or remove the adjustment. 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. The company should also reflect any amendments to its standard incentives rates within its enhanced ODI incentive rates, consistent with its existing multiplier of 2 applied to its standard rate, or provide evidence to justify why this is not appropriate.	1 April 2019	The company is proposing to revise its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that is has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process.	Intervention required. The company's proposed outcome delivery incentive rates are close to the industry average, as defined by the reasonable range set out in PR19 draft determinations: Delivering outcomes for customers policy appendix ', and we have not identified any concerns with the basis on which they have been derived. However, we consider that the company has provided insufficient evidence of customer support for outperformance payments (see SRN.OC.A12). As such, we are intervening to reduce the outperformance rate to the lowest of the values from the customer valuation research. 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 reduce the outperformance rate based on re-triangulation across company's lower value from its willingness to pay research and the lower bound of the industry average, as defined by the reasonable range set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix '. This results in an outperformance rate of £0.080 million per litre per head per day.
	SRN.OC.A14	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	The company proposes to adopt our proposed level for 2024-25. However the company also sets a glide path for earlier years in the 2020-25 period and argues this is both feasible and reflects its implementation of a smart network programme which would enable it to meet performance commitment levels by 2024-25.	Intervention required. The company's smart network is a solution to allow it to improve performance, but in itself, it is not a reason for an adjustment. We have revised our view on performance commitment levels. We consider that 2024-25 levels are achievable but that the forecast upper quartile levels in earlier years do not appear to be achievable for this performance commitment. We are therefore introducing a glide path with a starting point of the upper quartile based on 2019-20 forecast data. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set performance commitment levels as outlined in PR19 draft determinations: Delivering outcomes for customers policy appendix that are consistent with the rest of the industry for supply interruptions. These levels are: 2020-21 - 00:05:24 2021-22 - 00:04:48 2022-23 - 00:04:12 2023-24 - 00:03:36 2024-25 - 00:03:00 Units are: minutes per property for 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
	SRN.OC.A15	ODI rate	**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 water supply interruptions. 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 supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company is proposing to revise its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that is has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process.	No intervention required. The company's proposed outcome delivery incentive rates are within our reasonable range set out in PR19 draft determinations: Delivering outcomes for customers policy appendix, and we have not identified any concerns with the basis on which they have been derived. 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
	SRN.OC.A16	Caps, collars, deadbands	**Water supply interruptions PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests.	1 April 2019	The company revised its approach to caps and collars, but has not removed them entirely. The company argues that the reason for doing this is a there is a high degree of uncertainty in performance due to risk from weather disruptions. They also argue that its caps and collars protect customers from bill volatility and that customers are supportive of the levels it proposes.	Intervention Required We consider that caps and collars are appropriate for this performance commitment because it is financially material. However, we consider that the collars proposed by the company were not set at levels that would provide appropriate incentives. In response to the company evidence: -The range that underperformance payments would apply too small to provide sufficient incentive. -The customer evidence was insufficient, in particular there are other ways of protecting customers from bill volatility. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set collars at the following levels 2020-21 – 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

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	SRN.OC.A17	Stretch	**Internal sewer flooding PC:** For this common PC we expect all companies' service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	1 April 2019	The company proposes to implement the values we calculated.	No intervention required. The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	SRN.OC.A18	ODI rate	**Internal sewer flooding 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 internal sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its ODI. The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage PCs (including Sewer collapses, Pollution incidents, External sewer flooding) 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 is proposing to revise its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that is has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process. It notes the rates are within the normalised range in our IAP.	No intervention required. The company's proposed outcome delivery incentive rates are within our reasonable range set out in PR19 draft determinations: Delivering outcomes for customers policy appendix. We have not identified any concerns with the company's underlying valuation research nor its derivation of its outcome delivery incentive rates We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	SRN.OC.A19	Caps, collars, deadbands	**Internal sewer flooding PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests.	1 April 2019	The company revised its approach to caps and collars, but has not removed them entirely. The company argues that the reason for doing this is a there is a high degree of uncertainty in performance due to risk from weather disruptions. They also argue that its caps and collars protect customers from bill volatility and that customers are supportive of the levels it proposes.	Intervention required. We consider that the proposed collars were not set at levels 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. -It is appropriate that the company is incentivised to respond to the impacts of weather so that it provides a resilient service -The customer evidence was insufficient, in particular there are other ways of protecting customers from bill volatility. We consider that the performance commitment is financially material as outperformance could lead to unexpectedly high bill impacts without a cap. We consider that caps and collars are appropriate, but at	We are intervening to set collars at the following levels 2020-21 – 3.35 2021-22 – 3.35 2022-23 – 3.35 2023-24 – 3.35 2024-25 – 3.35 Units: Incidents per 10,000 connections

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	SRN.OC.A20	Stretch	**Pollution incidents PC:** For this common PC we expect all companies' service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	1 April 2019	The company proposes to implement the values we calculated.	No intervention required. The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	SRN.OC.A21	ODI type	**Pollution incidents PC:** The company should provide a rationale that sufficiently justifies the inclusion of an outperformance payment for this PC and provide evidence of customer support.	1 April 2019	The company provides new evidence including customer research and willingness to pay information to support outperformance payments for further reduction in pollution incidents over and above the performance commitment levels. Recent customer research involved 23 customers via an online platform and 6 meeting with stakeholders representing vulnerable customers, non-household customers, environmental groups and local authorities.	No intervention required. As with OC.A10, we consider that the company's evidence is insufficient. The findings of recent customer research indicate customer support for outperformance payments for the pollution incidents performance commitment. The research cannot be considered to be statistically representative. Although the company's comparative performance on pollution incidents is poor, it proposes to adopt the stretching industry upper quartile performance commitment levels. Therefore, we will allow the company to retain the outperformance payment but intervene to adjust rate given our concerns about customer support (see SRN.OC.A22).	NA
	SRN.OC.A22	ODI rate	**Pollution incidents 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 pollution incidents and assess the appropriateness of the company's customer valuation evidence supporting its ODI. The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage PCs (including Internal sewer flooding, Sewer collapses, External sewer flooding) and demonstrate how the package of ODIs across the relevant group of PCs	1 April 2019	The company proposes to reduce its rates relative to its business plan in response to our company-wide action. We called for it to demonstrate that its approach to the derivation of marginal benefit values is appropriate. The company states that it has revised its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that is has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process.	Intervention required. It has not been possible to reconcile the company's stated approach to triangulation with its proposed outcome delivery incentive rates proposed. However, the company's new outcome delivery incentive rates are within the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix. The company has provided sufficient evidence for us to verify that its rates are commensurate with an appropriate use of the willingness to pay values from its most recent piece of customer research.	We are intervening to reduce the outperformance rate to the level implied by lowest triangulation input from company's valuation research. This results in an outperformance rate of £0.287million per incident per 10,000 km of sewer.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			appropriately incentivises performance in the long and short-term.			However, as the company has not provided sufficient evidence of customer support for outperformance payments (see SRN.OC.A21), we are intervening to reduce the outperformance rate. 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'.	
	SRN.OC.A23	Caps, collars, deadbands	**Pollution incidents PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests. The company should consider extending the performance range over which incentive payments apply, by reducing the level of the cap and increasing the level of the collar.	1 April 2019	The company revised its approach to caps and collars, but has not removed them entirely. The company argues that the reason for doing this is a there is a high degree of uncertainty in performance due to risk from weather disruptions. They also argue that its caps and collars protect customers from bill volatility and that customers are supportive of the levels it proposes.	Intervention required. We consider that the proposed collars were not set at levels 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. -It is appropriate that the company is incentivised to respond to the impacts of weather so that it provides a resilient service -The customer evidence was insufficient, in particular there are other ways of protecting customers from bill volatility. We consider that the performance commitment is financially material as outperformance could lead to unexpectedly high bill impacts without a cap. We consider that caps and collars are appropriate, but at different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The performance of the company has been particularly poor and we consider there is a greater risk (than other companies) that the company could exceed the collar that we would set using our standard approach. To appropriately incentivise the company we have set the collar at twice the 2020-21 committed performance level for each year in the 2020-25 period. This is a change to our standard approach and provides a higher level of financial exposure to ensure the company are appropriately incentivised to improve performance.	We are intervening to set collars at the following levels 2020-21 – 49.01 2021-22 – 49.01 2022-23 – 49.01 2023-24 – 49.01 2024-25 – 49.01 Units: Incidents 10,000 km sewer

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	SRN.OC.A24	Definition	**Risk of severe restrictions in a drought PC:** The company should explain its level of stretch and submit the intermediate calculation outputs as shown in the common definition guidance published on our website for the drought resilience metric.	1 April 2019	The company provides some of the intermediate calculations for risk at a water resource zone level including the overall supply-demand balance. However, the detailed breakdown for how risk is calculated as a 25-year average is missing.	Intervention required. The detailed breakdown for how risk is calculated as a 25-year average is missing. Our understanding of the company's approach to risk is therefore limited. This means that it is difficult to form a view on whether both the starting risk and much lower performance commitment are reliable. It is noted that Southern Water has comparatively large supply-demand balance issues in the short term and we would expect at least some residual risk to a 1-in-200 year drought in this calculation. The performance commitment level (zero risk) is sufficiently stretching but may be unrealistic in year 1 given the starting non-zero risk. Intermediate calculations give us; confidence that companies have followed our definition appropriately; and allow us to intervene effectively if we do not consider the service levels are stretching. We expect the company to confirm that their performance commitment levels are reflective of their water resources management plan position. We also expect the company to confirm which of their programmes of work will affect their risk profile forecasts. If companies do not provide the intermediate calculations this may impact our assessment of levels throughout the 2020-25 period since there needs to be consistency to make years comparable.	This is a sector wide action. The company should provide a full set of intermediate calculations at a zonal level, underlying the risk calculation (for both baseline levels and performance commitment). The company should confirm that its performance commitment levels are reflective of its water resources management plan position. This should include the potential that it will have access to drought orders and permits The company should confirm which programmes of work will impact its forecasts.
	SRN.OC.A25	Definition	**Risk of sewer flooding in a storm PC:** The company should adopt the standard definition in full, providing full details of any assumptions in its measurement and reporting methodology, including all the information set out in section 3.6 of Developing and Trialling Wastewater Resilience Metrics, Atkins.	1 April 2019	The company confirms that it will adopt the full standard definition. The company provides an explanation of its measurement approach. The company notes that adopting the Atkins approach in Option 1b of creating buffer circles for model predicted flooding volumes and counting address-points within the circles for Option 1b (as opposed to more detailed 2D modelling) means that internal and external flooding risk is not defined or excluded. However, the company notes that external and internal flooding risk, as well as form blockages, is accounted for in the vulnerability criteria. The company made no mention of more detailed	Intervention required. We have improved the definition of this common performance commitment in consultation with the industry following our IAP. We expect companies to confirm that they will be updating their approach to flooding resilience in line with the revised definition. We are intervening so that companies confirm that they will be updating their approach to flooding resilience in line with the revised definition.	We are intervening to set out that the company should confirm that it is: using the updated parameters in the catchment vulnerability assessment; (And setting out any additional criteria that they intend to use) reporting the extent to which they use 2d or simpler modelling; and

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					type 2D modelling and so it appears that the company intends to follow the simpler buffer zone approach for the Option 1B assessment.		adopting FEH13 rainfall as standard and if not with immediate effect then when it expects to do so.
	SRN.OC.A26	Stretch	**Risk of sewer flooding in a storm PC:** The company should provide more evidence that it has followed the guidance and calculated the risk accurately.	1 April 2019	The company confirms that it will adopt the full standard definition and provides further evidence regarding how it had calculated the risk across its catchments.	No intervention required. The company provides sufficient further information to address the action.	NA
	SRN.OC.A27	ODI type	**Asset health: mains bursts PC:** The company should provide a rationale that sufficiently justifies the inclusion of an outperformance payment for this ODI and evidence of customer support. The company should demonstrate how this ODI will benefit its customers. If the company cannot do this, it should remove the outperformance payment.	1 April 2019	The company states that it has set a stretching target to reduce the level of mains bursts, and if it does not deliver these improvements it will incur significant underperformance payments. Outperformance payments will only be available if it delivers performance which is amongst the best in the sector. The company's customers expressed a willingness to pay for reductions in mains bursts below the level included in its business plan and in its outcome delivery incentive research.	No intervention required. The company performance on this measure is good in comparison with the industry. The company evidences that mains bursts was included in its outcome delivery incentive research and that its customers expressed a positive willingness to pay for improvements. The findings of recent customer research indicate customer support for outperformance payments for the mains burst performance commitment.	NA
	SRN.OC.A28	ODI rate	**Asset health: 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, 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. 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 bursts and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company states that it is removing the manual adjustments, and has revisited its triangulation as per action SRN.OC.A3. This led to a change in incentive rates. The company states that it believes its package of outcome delivery incentives across the associated water network performance commitments demonstrates a reasonable balance and coherence as shown by examination of the maximum available under and outperformance payments. As outcome delivery incentive rates for different performance commitments are not directly comparable, the company has based its analysis on the maximum out and under performance payments, rather than the rates themselves to provide a clear view of relative size.	No intervention required. The company has explained the formulation of its outcome delivery incentive rate. 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 has good comparative performance. Therefore we are not intervening on the outcome delivery incentive rate. The company's outperformance rate is lower than the underperformance rate. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments.	NA
	SRN.OC.A29	Caps, collars, deadbands	**Asset health: mains bursts PC:** The company should either remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this	1 April 2019	The company is proposing to remove its deadbands for this performance commitment.	No intervention required. The company is complying with our action to remove the deadbands.	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
			deadband is appropriate and in customers' interests. The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing, ODI-specific justification for this decision. This should include justification for the level at which the collar is set, with an explanation of how this compensates customers adequately for poor service performance. The company should consider increasing the level of its collar to a level more consistent with recent historical performance, thereby extending the performance range over which underperformance payments apply. As part of this process, the company should reconsider the level of its P10 performance estimates. Regardless of the decisions taken with regards to the underperformance collar, we expect the company to either revise its P10 estimates upwards or otherwise provide compelling evidence for the level at which they are currently set.				
	SRN.OC.A30	Definition	**Asset health: 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 reports that it is the process of updating its internal processes and will have a fully compliant process in place from the end of April 2019. In its May submission company has rated zero red, two amber and ten green. This is also confirmed by independent assurance. The company states that it will be able to report the RAG status in 2019/20 as 'Green' for all measures.	No intervention required. The company has provided sufficient evidence to demonstrate that it will be fully compliant with the reporting requirements by 2020.	NA
	SRN.OC.A31	Stretch	**Asset health: 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 APR submission, but only for unplanned outage. 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 resubmit its 2019-20 to 2024-25 forecast data in the May submission. The company should also report its current and forecast company level peak week production capacity (PWPC) (Ml/d), unplanned outage (Ml/d) and planned outage (Ml/d) in its commentary for the May 2019 submission.	15 May 2019	The company provides its unplanned outage performance data for 2018-19. A commentary on the updated data has been provided. This includes the company's current and forecast peak week production capacity and planned outage. The company's response provides its 2018-19 unplanned outage as 17.04%, which is higher than the forecast in the business plan. The company provides an updated profile of unplanned outage reduction through the 2020-25 period, reflecting the higher starting point. This revised profile still reaches the business plan performance commitment level of 3.2% by the end of the 2020-25 period.	No intervention required. The company proposes the biggest reduction of any company, from 16.81% to 3.20%. The 2024-25 forecast is worse than the industry median level of 2.34% but we consider the level of improvement the company is proposing to be sufficiently stretching. 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

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					The company explains that the 2018-29 increase on its previous year's figure is due to the fact that it used peak daily output to calculate peak week production capacity but is now using design capacity as per the guidance.		
	SRN.OC.A32	ODI rate	**Asset health: unplanned outage:** The company should explain and evidence how its proposed ODI rate for unplanned outages is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **Technical appendix 1: Delivering outcomes for customers** to allow us to better understand the causes of variation in ODIs rate for unplanned outages and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company states that it has revisited its approach to outcome delivery incentive. It has provided the maximum outperformance and underperformance payments for the performance commitments related to the customer facing impacts of water supply asset failure. The company has detailed the long and short term incentivisation as requested.	No intervention required. 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 and better than the industry average. 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
	SRN.OC.A33	ODI rate	**Asset health: sewer collapses per 1,000km sewers:** The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage PCs (including Internal sewer flooding, Pollution incidents, External sewer flooding) and demonstrate how the package of ODIs across the relevant group of PCs appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **Technical appendix 1: Delivering outcomes for customers** to allow us to better understand the causes of variation in ODIs rate for sewer collapses and assess the appropriateness of the company's customer valuation evidence supporting its ODI.	1 April 2019	The company states that it believes its package of outcome delivery incentives across the associated sewer network performance commitments demonstrates a reasonable balance and coherence as shown by examination of the maximum available under and outperformance payments. As outcome delivery incentive rates for different performance commitments are not directly comparable, the company has based its analysis on the maximum out and under performance payments, rather than the rates themselves to provide a clear view of relative size. The company significantly reduces its outcome delivery incentive rate and states that it has changed its approach. It now sets the level based on the relevant marginal costs, rather than customer research since the latter has given rise to outlier values. It has also reviewed its marginal costs, which were based on an allocation of costs between closely associated PCs. It has increased the allocation of costs to its related external flooding performance commitment.	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's underperformance payment rate has been significantly reduced and is now more in line with the industry average, as defined by the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix. We are concerned that the adjusted rate does not use the customer research that the previous rate was based on and we do not find there is sufficient evidence to justify the change proposed. Therefore we are intervening on the outcome delivery incentive rate by triangulating between the two values. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the underperformance rate at the -£1.8425 million per unit

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	SRN.OC.A34	Caps, collars, deadbands	**Asset health: sewer collapses per 1,000km sewers:** The company should either remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this deadband is appropriate and in customers' interests. The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing ODI-specific justification for this decision. This should include justification for the level at which the collar is set, and an explanation of how this sufficiently protects customers from poor service performance.	1 April 2019	The company proposes to remove its underperformance deadband for this performance commitment. The company proposes to remove its collar for this performance commitment	No intervention required. The company is complying with our action to remove the deadbands and to reconsider the collar	NA
	SRN.OC.A35	Caps, collars, deadbands	**Asset health: treatment works compliance PC:** The company should consider changing its underperformance collar to 97% in each year which is roughly in line with its worst recent performance. It should also change its deadband to 99%, consistent with other companies.	1 April 2019	The company proposes to amend its deadband to 99% in each year. The company states that a deadband of 99% equates to three failed works. The company proposes a collar of 97% for each year	No intervention required. A deadband of 99% is in line with our policy (see 'PR19 draft determinations: Delivering outcomes for customers policy appendix). The company has complied with the action to set a collar at 97%. Without a collar, the performance commitment would be a material contributor to 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 rate would be disproportionate	NA
	SRN.OC.A36	Stretch	**Properties at risk of receiving low pressure PC:** The company should provide sufficient evidence that its proposed targets are stretching. The company should clearly set out the evidence and rationale for its proposed targets. If it does not do this then the company should change its targets to make them stretching.	1 April 2019	The company proposes retaining the performance commitment levels from its business plan. The company states that it initially was of the view to remove this performance commitment, but customers' feedback was that this excluding this performance commitment may lead to deterioration in performance. Therefore just to maintain the current performance level it has included this performance commitment with underpayments only. It states that the targets are to maintain performance at the current level and is consistent with its PR14 performance commitment and customer preferences. In PR19 customer research, low water pressure did not emerge as a high priority	Intervention required. We do not find company's rationale compelling (customers' low priority on this performance commitment and not to deteriorate performance from the current level) for carrying forward the 2015-20 performance commitment at the same performance level without forecasting any improvement during 2020-25. We consider that the company needs to improve on this performance commitment to bring performance in line with the industry. We are therefore intervening to set revised performance commitment levels based on our industry comparative analysis.	We are intervening to set performance commitment levels based on applying the upper quartile of percentage improvements being proposed by other companies (29% from 2019-20 to 2024-25). These levels are as follows: 2020-21 = 242 2021-22 = 227 2022-23 = 212

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					for improvement. It also claims that its business plan does not include any totex to reduce low pressure problems and the purpose of the outcome delivery incentive is purely to protect customers from the risk of deteriorating performance.	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'.	2023-24 = 197 2024-25 = 182 Units: number of properties.
	SRN.OC.A37	Definition	**Improve the bathing waters at 'Excellent' quality (cost adjustment claim) PC:** The company should revise the definition of the PC to include a commitment to the use of official samples taken by the Environment Agency. It should also revise its definition in line with our July 2018 feedback.	1 April 2019	The company confirms that its intention was to use official Environment Agency samples, but agrees that this was not clear in the definition submitted in September 2018. It has modified the definition to clarify this.	No intervention required. The company complies with the action. We consider that the company has sufficiently addressed our July 2018 feedback. However, see related intervention on in period measurement in Table 3.	NA
	SRN.OC.A38	ODI type	**Improve the bathing waters at 'Excellent' quality (cost adjustment claim) PC:** The company should provide evidence to demonstrate customer support for outperformance payments on this ODI.	1 April 2019	The company provides evidence that customers support outperformance payments for bathing water and that the outperformance payments are in line with the level that customers are willing to pay for improving bathing water over and above their target.	No intervention required. The company provides sufficient evidence that customers support an outperformance payment for this performance commitment. The company has validated that customers are supportive of the maximum bill impact of this outcome delivery incentive.	NA
	SRN.OC.A39	ODI rate	**Improve the bathing waters at 'Excellent' quality (cost adjustment claim) PC:** The company should provide further evidence to justify the higher outperformance incentive rate relative to the underperformance standard incentive rate, or revise its outperformance payment such that this is no higher than the level of underperformance standard incentive rate proposed.	1 April 2019	The company highlights the holistic changes it had made to its outcome delivery incentive methodology. Its proposed outperformance rate remains higher than the underperformance incentive rate, because the underperformance rate is based on the value of the cost adjustment claim, while the outperformance rate is based on customer valuation.	Intervention required. Whilst we recognise that customers support an outperformance payment, we consider that the proposed approach to calculation results in an inappropriately balanced incentive. Whilst the outperformance incentive rate is set in accordance with our methodology, there is no evidence that using the company's proposed methodology for setting the outcome delivery incentive underperformance rate is in customers' interests, or has received specific customer support.	We are intervening to set outcome delivery incentive rates in line with our standard formula. This ensures the underperformance rate reflects both the cost and benefit components. Using the company's data on marginal benefits and marginal costs, we propose an increase in the underperformance rate from £0.683 million to £1.700 million per bathing water.
	SRN.OC.A40	Caps, collars, deadbands	**Improve the bathing waters at 'Excellent' quality (cost adjustment claim) PC:** The company should provide further ODI-specific evidence to support its use of a cap, whilst also considering how its use of	1 April 2019	The company proposes removing the cap. The company will earn an outperformance payment for delivering more than two of the four named	No intervention required.	NA

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			this feature aligns with its broader approach to customer protection. The company's evidence should include justification for the level at which the cap is set, and the company should explain why its level is appropriate and in customers' interests.		bathing waters. As the definition limits the payments to four specific bathing waters, the definition provides a natural cap for performance on this outcome delivery incentive.	The company provides sufficient justification for removing the cap, through highlighting that there is a 'natural' cap on this performance commitment.	
	SRN.OC.A41	ODI rate	**Drinking water taste and odour PC:** The company should explain why it has set its underperformance payment symmetrically and justify why investment in this PC is in customers' interests. The company should also provide evidence to justify magnitude of its proposed outperformance payment rates including the 10% uplift applied to generate them.	1 April 2019	The company states that it has removed the manual adjustments, and revisited its triangulation as per action SRN.OC.A3. This has led to a change in the incentive rates. The updated proposed underperformance payment is no longer symmetrical with the outperformance payment. The company states that customers support investment to reduce taste and odour problems and demonstrated a willingness to pay for improvements.	Intervention required. The company proposes to increase its rates such that they are now even further above the industry average. It has not been possible to reconcile the company's claimed approach to triangulation (and the associated valuations) with the resulting triangulated marginal benefit value. The proposed rates are much higher than those implied by the outputs of the company's valuation research. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set outcome delivery incentive rates at same level as for the company's water quality contracts (discolouration) performance commitment (in the absence of compelling evidence demonstrating a difference in customer valuations for specific types of water quality events). The results in underperformance and outperformance rates of -£4.632 million and £3.860 million per contact per 1,000 population, respectively.
	SRN.OC.A42	Stretch	**Effluent re-use PC:** The company should set targets for each year between 2020-21 and 2024-25 and ensure that they are stretching. The company should clearly set out the evidence and rationale for its proposed targets.	1 April 2019	The company proposes to maintain its target of zero, stating that it does not feel they can commit to a given level of performance as the scheme is considered innovative and therefore uncertain, and it cannot reasonably predict demand. It states that there is no total expenditure allowed for this in the plan and that any schemes will be funded through the outcome delivery incentive. Therefore customers are protected as they will only pay for the level of activity delivered.	No intervention required. Although we consider the company could have tested demand for recycled effluent with potential end users during the water resources management plan process, we propose to allow the company to maintain its zero target on the basis that it seeks out cost-effective opportunities to implement effluent recycling. We are intervening on the company's outcome delivery incentive rate for this performance commitment to align with industry efficient costs from the water resources management plan (SRN.OC.A43).	NA
	SRN.OC.A43	ODI type	**Effluent re-use PC:** The company should provide evidence to justify the use of an outperformance-only payment for this ODI and evidence of customer support for this approach. The company	1 April 2019	The company continues to propose an outperformance-only outcome delivery incentive as it has not included any associated costs their plans. The company also says that costs can only feasibly be met through the outcome delivery incentive	Intervention required. We have concerns around the outperformance rate of £201 per cubic metre of recycled effluent supplied. This does not appear to represent value to customers	We are intervening to reduce the outperformance rate. The new rate has been calculated as:

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			should demonstrate how this outperformance-only ODI will benefit customers.		outperformance payments. The company explains that it calculates the outperformance rate by dividing the total amount customers are willing to pay for this activity by the volume of effluent re-use it believes it can feasibly deliver. Customers are supportive of innovation involving water recycling.	when compared against alternative supply sources. The approach used in the calculation is not appropriate and does not appear to accurately represent customer valuations. Whilst we encourage innovative schemes, such as use of effluent, to meet the water resources resilience challenge faced by Southern Water, the proposals must be cost-effective. Therefore, we propose to intervene to set the outcome delivery incentive rate at £1.20 million per megalitre per day based on the median unit cost of non-leakage supply-demand balance 2020-25 expenditure.	£1.20 million per megalitre per day = £0.00329 million per megalitre supplied per year = £0.00000329 million per cubic metre supplied per year
	SRN.OC.A44	Definition	**Satisfactory bioresources recycling PC:** The company should revise the PC definition. Where it has not addressed our July 2018 feedback, it should clearly set out the rationale for not doing this.	1 April 2019	In July 2018 the company was asked to clarify how its sludge trading activities would be accounted for within this performance commitment. The company updates its performance commitment definition clarifying that the performance commitment will cover material imported from third parties but exclude material exported to third parties as part of its trading activities.	Intervention required. The company has complied with the action in explaining its intention. However, for all companies that have measures related to the Environment Agencies Environmental Impact Assessment, we have clarified that the measure should include both imported sludge (that the company become responsible for) and exported sludge to make sure that its obligations are met under any contracts it enters into.	We have amended the definition to include exported material to third parties
	SRN.OC.A45	Definition	**River water quality PC:** The company should revise the PC definition. Where it has not addressed our July 2018 feedback, it should clearly set out the rationale for not doing so.	1 April 2019	In July the company was asked to clarify the specific river lengths within the water industry national environment programme that were to be included in the measure and how the outputs would be reported. The company updates its performance commitment definition, providing specific water industry national environment programme driver codes to be included in this performance commitment. It also clarifies that the column titled "Final Scheme Completion Date" in the national environment programme tracker, submitted to the Environment Agency, will be used to report outputs.	Intervention required. The company has complied with our original action to specify specific river lengths included within the scope of the PC and to specify how performance will be measured. However we are intervening to update the definition of this performance commitment to only include schemes classified as "Green" by the Environment Agency as of 1st April 2019. This minimises any risk or uncertainty which may have arisen from a change in scope related to delivery of this performance commitment We are also intervening to add a reputational performance commitment that measures whether the company has met all of its Water Industry National Environment Programme requirements in each	We are intervening to set the definition to include only schemes specified as "Green" by the Environment Agency as of the 1st April 2019. This may be updated prior the final determination to include the latest water industry national environment programme requirements. We are intervening to add an additional reputational performance commitment that measures whether or

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						reporting year. The performance commitment will use the latest WINEP from the Environment Agency at the end of the reporting year. This will allow the inclusion of any changes to the WINEP between now and the end of 2025.	not the company has met all of its Water Industry National Environment Programme requirements in each reporting year.
	SRN.OC.A46	ODI type	**River water quality PC:** The company should provide sufficient evidence that its customers support an outperformance payment.	1 April 2019	The company provides evidence that customers are willing to absorb the bill increases in order for the work to be completed as soon as possible.	Intervention required. The company provides good quality evidence in its recent outcome delivery incentive research that customers are supportive of an incentive payment associated to the early delivery of this scheme. However, following the removal of amber schemes (unconfirmed schemes on 1 April 2019) under the definition of this performance commitment, we do not believe the early deliver of green schemes alone is sufficiently stretching to justify outperformance payments. Therefore, we are removing outperformance payments for this performance commitment.	We are removing outperformance payments for this performance commitment.
	SRN.OC.A47	ODI rate	**River water quality PC:** Should the company propose to keep outperformance payments on this PC, the company should consider the proposed outperformance payment potential and either revise the ODI outperformance payment in line with customer evidence or provide compelling evidence why the ODI rates are considered appropriate. In either case the company should set out its evidence and rationale.	1 April 2019	The company continues to propose an outperformance incentive. The company has have adjusted the timing of the outperformance mechanism and adjusted the P10/P90 scenario to reflect a more informed view of these scenarios. This has materially reduced the size of the outperformance payment potential at these performance levels.	No intervention required. The company has provided sufficient rationale to support their proposals, including new evidence on the potential range of financial outcomes at the P10/P90 levels that make the outcome delivery incentive rates more credible. Since we are intervening to remove outperformance payments for this performance commitment this action no longer applies.	NA
	SRN.OC.A48	Caps, collars, deadbands	**River water quality PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests.	1 April 2019	The company proposes removing the underperformance collar and outperformance cap that were attached to this performance commitment in their initial submission due to it having its own natural collar and cap based on the water industry national environment programme. The company argues that the natural cap is the same as the P90 level – i.e. the level the cap was previously set at. Removing the cap will not impact	No intervention required. Since we are intervening to remove outperformance payments for this performance commitment this action no longer applies. We are accepting the company's removal of its underperformance collar.	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
					customer protections for this outcome delivery incentive.		
	SRN.OC.A49	Definition	**Abstraction Incentive Mechanism PC:** The company should provide sufficient evidence to justify why it proposes to discontinue a site and why there are not further sites in its area that should be included in the AIM PC.	1 April 2019	The company provides further evidence for its position. The 2015-20 scheme has been removed as it is now superseded by the company's demand management programme. The company states that there are no further opportunities for abstraction incentive mechanism sites. This is because the abstraction incentive mechanism is meant to find alternatives to the sites which damage the environment but in the company's case there are few alternative sites. The company states that on following our approach all other sites were removed by the three filters for site selection due to four key reasons: No alternative sources were available to facilitate an abstraction incentive mechanism reduction; An abstraction incentive mechanism reduction would have required an increase in network capacity; The sources were in zones with other supply risks (for example, the source is needed for nitrate blending) and implementation of an abstraction incentive mechanism scheme would amplify these supply risks; and The sources were either drought or leakage sources with intermittent use.	No intervention required. The company has consulted with the Environment Agency, who agree with its approach. The company has sufficiently evidenced that it has followed our methodology appropriately in reaching its conclusions.	NA
	SRN.OC.A50	Definition	**Maintain bathing waters at 'Excellent' PC:** The company should revise the definition of the PC to include a more direct commitment to use official samples taken by the Environment Agency.	1 April 2019	The company confirms that its intention was to use official Environment Agency samples, but agrees that this was not clear in the definition submitted in September 2018. It has modified the definition to clarify this definition.	No intervention required. The company complies with the action. We consider that the company has sufficiently addressed our July 2018 feedback. However, see related intervention on in period measurement in Table 3.	NA
	SRN.OC.A51	ODI rate	**Maintain bathing waters at 'Excellent' PC:** The company should either provide further evidence to justify the methodology employed and why its ODI rates are reasonable or revise ODI rates based upon robust customer valuations and forecast	1 April 2019	The company states that it bases the rate for this outcome delivery incentive on the value of its 2015-20 regulatory period cost adjustment claim. The value of the cost adjustment claim provides a direct	No intervention required. The proposed rate provides a material incentive for the company to deliver this performance commitment. We also consider that the proposed	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
			efficient marginal costs to provide customers with sufficient protection from under delivery against the PC target		indication of the cost to customers per year to improve a single bathing water to excellent.	outcome delivery incentive rate is broadly comparable to other outcome delivery incentive rates with similar customer valuations. Normally we consider that a calculation based on willingness to pay and efficient marginal cost data is generally preferable, in order to appropriately protect customers from deterioration in performance. On balance, we consider the evidence provided is sufficient and so we are not intervening.	
	SRN.OC.A52	Caps, collars, deadbands	**Maintain bathing waters at 'Excellent' PC:** The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing, ODI-specific justification for this decision. This should include justification for the level at which the collar is set, and an explanation of how this protects customers adequately for poor service performance.	1 April 2019	The company proposes to amend the definition of this outcome delivery incentive to ensure it protects all 57 bathing waters, rather than just the 7 bathing waters which were improved last year. It has maintained a collar at 50 bathing waters. The company argues that there is a high degree of uncertainty in performance as bathing water quality can be impacted by extreme weather events and action of third parties. They argue that this uncertainty is outside of reasonable management control and can lead to volatility in performance.	Intervention required. We consider that caps and collars are not appropriate for this performance commitment because it is not financially material, and the company does not provide sufficient evidence for an alternative justification. In response to the company evidence: We do not consider that the argument that extreme weather could influence performance to be compelling. We consider that the company has sufficient control over its performance for this performance commitment to meaningfully forecast performance over the 2020-25 period. We expect companies to manage extreme weather events as part of their business-as-usual activities, and as such should be incentivised to do so. The rolling four year assessment addresses possible atypical weather in a particular year. Our approach to assessing financial materiality and our standard approach to setting caps and collars is set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix.'	We are intervening to remove the collar.
	SRN.OC.A53	Definition	**Improve the number of bathing waters to at least 'Good' (Cost Adjustment Claim) PC:** The company should revise the definition of the PC to include a more direct commitment to use official samples taken by the Environment Agency.	1 April 2019	The company confirms that its intention was to use official Environment Agency samples, but agrees that this was not clear in the definition submitted in September 2018. It has modified the definition to clarify this.	No intervention required. The company complies with the action. We consider that the company has sufficiently addressed our July 2018 feedback. However, see related intervention on in period measurement in Table 3.	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
	SRN.OC.A54	ODI type	**Improve the number of bathing waters to at least 'Good' (cost adjustment claim) PC:** The company should provide further evidence to justify the use of an outperformance payment for this ODI, in particular evidence of customer support for this approach.	1 April 2019	The company provides evidence that customers support outperformance payments for bathing water and that the outperformance payments are in line with the level that customers are willing to pay for improving bathing water over and above their target.	No intervention required. The company provides sufficient evidence that customers support an outperformance claim for this outcome delivery incentive. The company has validated that customers are supportive of the maximum bill impact of this outcome delivery incentive.	NA
	SRN.OC.A55	ODI rate	**Improve the number of bathing waters to at least 'Good' (cost adjustment claim) PC:** Should the company propose to keep outperformance payments on this PC, the company should either provide further evidence to justify how the proposed ODI rates are reasonable both in relation to its customer valuations and the underperformance payment proposed, or revise its ODI outperformance payment such that this does not exceed the magnitude of the underperformance payment. In either case the company should set out its evidence and rationale.	1 April 2019	The company highlights the holistic changes it had made to its outcome delivery incentive methodology. Its proposed outperformance rate remains higher than the underperformance incentive rate, because the underperformance rate is based on the value of the cost adjustment claim, while the outperformance rate is based on customer valuation of improving bathing waters. The company continues to propose a 0% cost sharing factor.	Intervention required. Whilst we recognise that customers support an outperformance payment, we consider that the proposed approach to calculation results in an inappropriately balanced incentive. The outperformance payment is achieved by improving additional bathing waters to good quality. As such, it is appropriate to use a customer willingness to pay valuation for the outperformance rate. However, there is no specific, compelling evidence that a cost sharing rate of 0% is appropriate. We consider that the underperformance rate is at an appropriate level. Outperformance can only occur if the Environment Agency agree to add further bathing waters to the scope of this performance commitment.	We are intervening to set the outperformance rate by applying 50% cost sharing, in accordance with our standard formula as set out in the 'PR19 final methodology'. This results in an outperformance payment of £1.191 million per bathing water.
	SRN.OC.A56	Definition	**Target 100 PC:** The company should revise the PC definition in line with our feedback from July 2018. Where it has not addressed our July 2018 feedback, it should clearly set out the rationale for this.	1 April 2019	In July 2018 the company was asked to clarify; whether it was using billed or estimated data; how voids would be treated and how occupancy shifts would be tracked as part of the performance commitment. The company updated its performance commitment definition to clarify that all voids are excluded and billed data will be used rather than estimates. The definition also includes clarification that third party data (e.g. Experian) will be used to manage shifts in occupancy rates.	No intervention required. The company has complied with the action, providing the expected changes to the definition and additional information.	NA
	SRN.OC.A57	Definition	**Water saved from water efficiency visits PC:** The company should revise the PC definition in line with our feedback from July 2018. Where it has not	1 April 2019	In July 2018 the company was asked to clarify its assumptions on the uptake of water efficiency devices per visit and the assumed savings per type of device.	No intervention required. The company has complied with the action, providing	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
			addressed our July 2018 feedback, it should clearly set out the rationale for this.		The company has updated its definition to confirm assumed uptake of devices is between 1 and 2 devices per visit. It provides clarification that savings are based on UK Water Industry Research report 09/WR/25/4 but uses historical data of consumption reduction after a water efficiency visit, which are around 10%. The new definition provides details of assumed savings per water efficiency device.	the expected changes to the definition and additional information.	
	SRN.OC.A58	ODI type	**Water saved from water efficiency visits PC:** The company should provide further evidence to justify the use of an outperformance payment for this ODI and evidence of customer support for this approach.	1 April 2019	The company proposes to change this outcome delivery incentive to be reputational only. This is because of the overlap with per capita consumption, and because there is limited customer support for outperformance payments for this performance commitment.	No intervention required. The company has provided sufficient justification for making this outcome delivery incentive reputational only, on the grounds that there is limited customer support for outperformance payments. Furthermore, there is material crossover with the per capita consumption and Target100 performance commitments, such that any financial incentives for this performance commitment could result in duplicating financial incentives elsewhere.	NA
	SRN.OC.A59	ODI rate	**Water saved from water efficiency visits PC:** The company should provide further evidence and explanations to demonstrate that there is no double-counting of ODI payments between this PC and the common PC per capita consumption.	1 April 2019	NA As we have accepted the company proposal to remove financial incentives on this performance commitment, the action is no longer relevant.	No intervention required.	NA
	SRN.OC.A60	Caps, collars, deadbands	**Water saved from water efficiency visits PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests.	1 April 2019	NA As we have accepted the company proposal to remove financial incentives on this performance commitment, the action is no longer relevant.	No intervention required.	NA
	SRN.OC.A61	ODI type	**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.	1 April 2019	The company provides an explanation of the size of the outperformance incentive in relation to the additional costs incurred by customers from void properties, in order to justify the proposed outperformance payment.	The company provides sufficient evidence that an outperformance payment would benefit customers, through directly leading to a decrease in customer bills. Whilst the company does not provide any evidence that there is not a risk of a perverse incentive, we consider that the risk of perverse incentives is minimal for this performance commitment.	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
						Please see Table 3 for an intervention to the definition of this performance commitment.	
	SRN.OC.A62	ODI rate	**Void properties PC:** The company should outline the basis on which its ODI rates have been calculated and demonstrate that they do not exceed the reduction in bills that customers would experience from a reduction in void sites.	1 April 2019	The company explains the willingness to pay and cost data used to estimate the marginal customer benefit, and provides the calculations used to set this outcome delivery incentive rate.	Intervention required. The company's proposed outcome delivery incentive rate does not accurately reflect the expected direct benefit for customers decrease in customer bills as a result of identifying voids. As such, we have adjusted both underperformance and outperformance rates, based on the benefit of wholesale bill reduction to customers from void identification, customer numbers, and the efficient marginal cost of identifying voids. 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 '.	We are intervening to adjust the outcome delivery incentive rate based on an average wholesale bill of £394, marginal costs of £30, a cost sharing factor of 50%, and property numbers as provided by the company. The new rates are: Underperformance: £7.230 million per 1% Outperformance: £3.758 million per 1%
	SRN.OC.A63	Definition	**Customer satisfaction with vulnerability support PC:** The company should provide additional evidence on the survey sample size used to determine the target for this PC. In addition, the company should 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 sample size will be, as a minimum, 350 Priority Service Register (PSR) customers, with an aim to reach 400 customers. The company confirms that the research approach will follow social research best practice. The approach will be developed with the customer challenge group and be externally assured to ensure it is robust.	No intervention required. The company has provided the additional evidence on survey size, external assurance and has confirmed that the research approach will follow social research best practice.	NA
	SRN.OC.A64	Definition	**Replace lead customer pipes PC:** The company should revise the PC definition in line with our feedback from July 2018. Where it has not addressed our July 2018 feedback, it should clearly set out the rationale for this.	1 April 2019	In July 2018 the company was asked to clarify whether the replacement of communication and supply pipes were included within this performance commitment. The company clarifies it will not be including replacement of the company communication pipe or customer supply pipe for this performance commitment. The performance commitment only includes replacement of lead internal plumbing and fittings.	No intervention required. The company has complied with the action, providing the expected additional information.	NA
	SRN.OC.A65	Stretch	**Replace lead customer pipes PC:** The company should set targets for each year between 2020-21 and 2024-25 and ensure that they are stretching. The company should clearly set out the evidence and rationale for its proposed targets.	1 April 2019	The company proposes to maintain its target of zero, stating that they do not feel they can commit to a given level of performance as the scheme is considered innovative and therefore uncertain, and they cannot reasonably predict demand. It states that there is no total expenditure allowed for this in	Intervention required. We are concerned that the performance commitment does not incentivise the company to deliver any activities in its current form.	We are intervening to set a performance commitment level as follows: 2020-21 – 43 2021-22 – 43

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 plan and that any schemes will be funded through the outcome delivery incentive therefore customers are protected as they will only pay for the level of activity delivered.	Therefore, we are intervening to set a performance commitment level of 215 customers over the 2020-25 period (spread evenly across every year), representing 10% of the proposed cap level. We consider that there is sufficient certainty over this level of demand to set a performance commitment level. This is to ensure the company is reputationally incentivised to deliver at least some activity as part of the scheme, and reduces the risk of no activity at all taking place. Whilst understanding the difficulties of predicting uptake of such a scheme a target of 10% of the calculated cap level is achievable and incentivises stretching performance beyond this level to claim outperformance payments.	2022-23 – 43 2023-24 – 43 2024-25 – 43 Units: properties
	SRN.OC.A66	ODI type	**Replace lead customer pipes PC:** The company should provide a rationale that sufficiently justifies the use of an outperformance-only payment for this ODI and evidence of customer support for this approach. The company should demonstrate how this outperformance-only ODI will benefit customers.	1 April 2019	The company argues for this to be an outperformance only outcome delivery incentive as funding for subsidising customers is not included in their total expenditure allowance. The outperformance rate will be based on efficient cost recovery only. Customers are fully protected by this approach as they will only pay for the level of activity that is undertaken.	No intervention required. The rationale provided for setting this as an outperformance-only outcome delivery incentive, and for using the outcome delivery incentive rate as a form is cost recovery, is sufficient. We consider this to be an innovative scheme, and the costs for this scheme are not included in the base cost plan, given this is specifically for lead pipes in customer plumbing. Furthermore, we consider that the proposed outcome delivery incentive is based on efficient cost, and the maximum payment level makes this a low risk investment for potentially significant customer benefit, if the trial evidences long term viability of the scheme.	NA
	SRN.OC.A67	Stretch	**Surface water management PC:** The company should set targets for each year between 2020-21 and 2024-25 and 2024-25 and ensure that they are stretching. The company should clearly set out the evidence and rationale for its proposed targets.	1 April 2019	The company proposes to maintain its target of zero, stating that: they do not feel they can commit to a given level of performance as the scheme is considered innovative and therefore uncertain; and they cannot reasonably predict demand. It states that there is no total expenditure allowed for this in the plan and that any schemes will be funded through the outcome delivery incentive therefore customers are protected as they will only pay for the level of activity delivered.	Intervention required. Surface water management is delivered to greater or lesser extent by all companies and is included within the costs used to set cost thresholds. Furthermore it has been demonstrated to be a cost effective approach for companies to deliver long term objectives to effectually drain its area. We do not accept the company's argument that it cannot reasonably predict demand for such a scheme. Other companies have set similar performance commitments related to removing	We are intervening to set a performance commitment level as follows: 2020-21 – 182,000 2021-22 – 182,000 2022-23 – 182,000 2023-24 – 182,000 2024-25 – 182,000 Units: cubic metres of surface water removed

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						surface water from the wastewater network and have set stretching performance commitment levels. Therefore, we propose to set performance commitment levels based on the estimated volume of water that is likely to be drained from the equivalent of 22,000 roof tops in line with stretch levels proposed by other companies. We have expressed it on a per cubic metre (m^3) basis to allow the company flexibility in how it removes surface water from the combined network, rather than purely disconnecting individual properties. The performance level has been calculated based on the following data and assumptions: Average annual rainfall in Southern Water region: 600mm (Met office) Average roof area square metres (m2): 67.16m2 (based on other company submissions) This gives a total of 40.6m3 of surface water drained per roof top in a given year and with a performance level set at 22,000 roof top equivalents removed, this give a performance level of 910,000m3 in the period and 182,000 in every given year. We encourage the company to review the above assumptions and provide suitable alternatives if it considers these do not accurately represent its region.	from the combined sewer network
	SRN.OC.A68	ODI type	**Surface water management PC:** The company should provide further evidence to justify the use of outperformance-only payments for this ODI and evidence of customer support for this approach.	1 April 2019	The company is proposing an outperformance only outcome delivery incentive, as this outcome delivery incentive is only for customer-level activity (rather than other standard flood mitigation activity). As such, it argues that funding for this activity is not included in their total expenditure submission, and can only be recovered by outcome delivery incentive outperformance payments.	Intervention required. We do not consider the company's argument and evidence to be sufficient. The companies own customer research highlights customers feel activities such as this should be funded as part of the core business plan. We also note that several other companies are proposing to deliver surface water management activity without receiving additional funding from outperformance payments. Therefore, we propose to set an out and underperformance incentive rate for this performance commitment, as is consistent with other companies. This will incentivise the company to achieve a stretching target for this performance	We are intervening to set the outcome delivery type to outperformance and underperformance. We are setting both the outperformance and the underperformance rate as £2.08 per m^3 of surface water removed from the combined sewer network.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						commitment. The Intervention will provide benefits to customers in regards to sewer flooding and pollution incidents, whilst incentivising performance beyond this level. We are using the company's proposed rate of £84 per property disconnected and convert this to a £ per m^3 rate using an average of 40.6 m3 drained per roof top as calculated in our response to SRN.OC.A67. This gives a rate of £2.08 per m3 of surface water removed from the combined network.	
	SRN.OC.A69	Stretch	**Community engagement PC:** The company should provide its fully assured baseline and targets with its annual performance reporting submission in 2019-20.	1 April 2019	The company has agreed to provide a fully assured baseline and targets in their annual performance report 2019-20.	No intervention required. The company has complied with the action, committing to provide the information in their annual performance report 2019-20.	NA
	SRN.OC.A70	Definition	**Schools visited and engagement with children PC:** The company should revise the definition of the PC to ensure that it measures actual outcomes for customers, not outputs.	1 April 2019	The company proposes to update its performance commitment definition to measure the outcome of school visits rather than just the number of visits. The performance commitment will now measure the percentage of good and excellent feedback based on post visit surveys. The performance commitment will have a target of 90% good or excellent feedback, whilst visiting 1 in 8 schools within the region.	No intervention required. The company's proposal is to use post engagement survey responses from participants that have been engaged during school visits rather than number of visits. We consider this proposed revision in approach to be sufficiently outcomes based measure.	NA
	SRN.OC.A71	Stretch	**Water supply resilience PC:** The company should clearly set out the evidence for its proposed targets in relation to the initial position.	1 April 2019	The company clarifies that the current baseline for properties identified as at risk of long-term supply interruptions, based on a zonal resilience metric, is 59,630. The performance commitment level remains at 38,407, representing a reduction of 36% in properties at risk.	No intervention required. The company has provided further evidence that demonstrates that the performance commitment levels are sufficiently stretching, representing a 36% reduction compared to the baseline.	NA
	SRN.OC.A72	Definition	**Access to daily water consumption data PC:** The company should revise the PC definition in line with our feedback from July 2018. Where it has not addressed our July 2018 feedback, it should clearly set out the rationale for this.	1 April 2019	In July 2018 the company was asked to clarify its definition of a residential property. The company responds to the July 2018 actions and clarifies that a residential property means one household so, for example, one flat within a block of flats would be a single residential property.	No intervention required. The company has clarified its definition of a residential property.	NA
	SRN.OC.A73	Stretch	**Access to daily water consumption data PC:** The company should set targets for each year between 2020-21 and 2024-25 and 2024-25 and ensure that they are stretching. The company	1 April 2019	The company proposes to maintain its target of zero, stating that they do not feel they can commit to a given level of performance as the scheme is considered innovative and therefore uncertain, and	Intervention required. The current zero target does not incentivise the	We are intervening to set the performance commitment levels as follows:

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			should clearly set out the evidence and rationale for its proposed targets.		they cannot reasonably predict demand. The company states there is no total expenditure allowed for this in the plan and that any schemes will be funded through the outcome delivery incentive, therefore customers are protected as they will only pay for the level of activity delivered.	company to roll out devices in sufficient volume to get meaningful results on their effectiveness. Although we accept the company is not in direct control of customer uptake of devices, we consider that the company can effectively engage customers to encourage uptake for a relatively small proportion of customers to uptake the devices. We consider the enhancement funding allowed for the company's metering programme is sufficient to cover the additional costs of 17,644 units within the plan. We consider that this is an appropriate trial size to test the effectiveness of the access to daily water consumption devices. As such, we will set this performance level, and any properties above this will qualify for outperformance payments.	2020-21: 3,529 2021-22: 3,529 2022-23: 3,529 2023-24: 3,529 2024-25: 3,529
	SRN.OC.A74	ODI type	**Access to daily water consumption data PC:** The company should provide a rationale that sufficiently justifies the use of an outperformance-only payment for this ODI and evidence of customer support for this approach. The company should demonstrate how this outperformance-only ODI will benefit customers, over and above what would be delivered without this PC.	1 April 2019	The company continues to propose an outperformance only outcome delivery incentive, arguing that it requires active customer participation and that it cannot control the uptake. As such, it argues that funding for this activity is not included in their total expenditure submission, and can only be recovered by outcome delivery incentive outperformance payments.	No intervention required. We have concerns that the outcome from this measure is clearly related to a reduction in overall per capita consumption, for which the company already has an enhanced outcome delivery incentive rate. However, we also recognise that low unit cost could lead to material benefits for customers. We are not intervening, beyond the intervention to establish stretching performance.	NA
	SRN.OC.A75	ODI rate	**External sewer flooding 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 external sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its ODI. The company should explain and evidence how its proposed ODI rate for this PC is coherent with the rates proposed for all other sewerage PCs (including Internal sewer flooding, Sewer collapses, Pollution incidents) 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 is proposing to revise its approach to triangulation and the derivation of outcome delivery incentive rates. The company states that is has removed the scaling factors applied to its outcome delivery incentive rates and has incorporated other companies' outcome delivery incentive rates (as reflected by the IAP ranges) in its triangulation process. The company states that it believes its package of outcome delivery incentives across the associated sewer network performance commitments demonstrates a reasonable balance and coherence as shown by examination of the maximum available under and outperformance payments. As outcome delivery incentive rates for different performance	No intervention required. The company's proposed outcome delivery incentive rates are within the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', and we have not identified any concerns with the basis on which they have been derived. The company sufficiently evidences how its proposed rates are coherent with other sewerage performance commitments. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					commitments are not directly comparable, the company has based its analysis on the maximum out and under performance payments, rather than the rates themselves to provide a clear view of relative size.		
	SRN.OC.A76	Caps, collars, deadbands	**External sewer flooding PC:** The company should provide further ODI-specific evidence to support its use of a cap and a collar, whilst also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, and the company should explain why these levels are appropriate and in customers' interests. The company should either increase the level of the collar, to bring it above recent performance, or provide further evidence to justify the existing level.	1 April 2019	The company revised its approach to caps and collars, but has not removed them entirely. The company argues that the reason for doing this is a there is a high degree of uncertainty in performance due to risk from weather disruptions. They also argue that its caps and collars protect customers from bill volatility and that customers are supportive of the levels it proposes.	Intervention required. We consider that the proposed caps and collars were not set at levels that would provide appropriate incentives for the company, while protecting customers from the risk of higher than anticipated impacts to bills. We also consider that: The range for which underperformance payments would apply was too small to provide sufficient incentive.; and It is appropriate that the company is incentivised to respond to the impacts of weather so that it provides a resilient service; and The customer evidence was insufficient, in particular there are other ways of protecting customers from bill volatility. We consider that the performance commitment is financially material as outperformance could lead to unexpectedly high bill impacts without a cap. We consider that caps and collars are appropriate, but at different levels to those the company proposed based on our standard approach. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the collars as follows: 2020-21: 6618 2021-22: 6618 2022-23: 6618 2023-24: 6618 2024-25: 6618 Units: Number of External flooding incidents The caps are as follows: 2020-21: 4010 2021-22: 3776 2022-23: 3533 2023-24: 3348 2024-25: 3171 Units: Number of External flooding incidents
	SRN.OC.A77	Stretch	**Natural capital PC:** The company should provide evidence of the review of its targets in its annual performance reporting submission in 2021-22.	1 April 2019	The company commits to revisiting its targets and providing evidence of this review within its annual performance report submission in 2021-22.	Intervention required. At IAP we initially asked the company to consider reviewing targets during the 2020-2025 period. We now consider that targets should not be changed from those that will be set out in final determinations.	We are intervening to make clear that the service levels will not be updated by the company.

Test area	Action reference	Action type	Required action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						For this performance commitment, the company should instead review its ambition to outperform the service levels in 2021-22.	
	SRN.OC.A78	ODI type	**Gap sites PC:** The company should provide further evidence to justify the use of a non-financial incentive by demonstrating why a financial incentive would not be in the interests of customers. Alternatively, the company should formulate a financial ODI reflecting the reduction in customer bills that would result from improvements in the identification of gap sites.	1 April 2019	The company argues it does not have sufficient reliable data to support the creation of a financial outcome delivery incentive - although they have committed to reviewing this outcome delivery incentive after the first 2 years of 2020-25.	No intervention required. We recognise the industry-wide challenges with data quality for gap sites. We find the rationale for keeping this outcome delivery incentive as reputational-only are sufficient.	NA
Addressing affordability and vulnerability	SRN.AV.A2	Required	Southern Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 0.4% in 2019/20 to 1.1% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has checked no PSR data over the past two years. We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Southern Water 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. For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.	1 April 2019	The company adopts all three features of our common performance commitment by submitting a revised performance commitment which commits it to reach of 7% of households and data checking for 90% of customers. The company notes that although this represents a significant increase compared to the original commitment in the business plan, it believes the cost of expanding these initiatives can be accommodated within our current projection of efficient costs.	Intervention required. 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.	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. 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
SRN.OC.C1 PR19SRN_RR06 Gap sites Definition	Intervention required. The company has not provided a complete definition and states that it will develop it later in the period. This is not appropriate as a complete definition must be provided for final determination. The company has not provided a complete definition therefore are intervening to include an appropriate definition.	We are intervening to set a definition based on the total number of gap sites identified and brought into billing each year.
SRN.OC.C2 PR19SRN_RR06 Gap sites Stretch	Intervention required. The company has not provided a complete definition and states that it will develop it later in the period. The company also provides an arbitrary percentage increase as a performance commitment level for whatever it decides that the performance commitment will measure. This is not appropriate as it is unclear whether the definition is stretching or not. We are intervening to set performance commitment level that is stretching and consistent with the definition we are implementing. This is based on a similar performance commitment proposed by Affinity Water, who have a performance commitment level of 50 gap sites identified and brought into billing each year. Southern Water has approximately 30% more customers than Affinity Water, suggesting 65 sites per year is an appropriate target.	We are intervening to set the performance commitment levels as follows: 2020-21: 65 2021-22: 65 2022-23: 65 2023-24: 65 2024-25: 65 Units: number of gap sites identified
SRN.OC.C3 PR19SRN_WN13 Long term supply demand balance schemes Multiple interventions	Intervention required. The company proposes a performance commitment with an underperformance outcome delivery incentive if there are delays to ensure customer protection for efficient delivery of the long term supply demand schemes, in response to SRN.CE.A2. We asked the company to provide evidence to justify the performance commitment levels and outcome delivery incentive rates proposed. We have identified a number of issues with the company's proposal: Whilst the company proposed an external third party audit in 2023-24 to assess progress and whether to apply a delay underperformance payment, we consider that progress reported on an annual basis by the company itself, with a final year external audit would be more appropriate. The annual reporting will provide appropriate incentives to ensure progress is made throughout the period. The end of period audit provides information to inform the next price review and will occur at a time that there should be greater certainty as to whether the company is on track to deliver. The company proposes the delay underperformance payment rate will be calculated based on how many years the benefit (megalitres a day) is delayed. However, the outcome delivery incentive rate calculation implies that delays will only apply if the benefit is delayed by a whole year. This ignores the impact of delays that are shorter than a year, but still substantial. We consider that is more appropriate to measure this in months. We have calculated the underperformance rate based on the expected cost per month, assuming the investment will be delivered over the whole five year period. If either the company fails to invest (or is not efficient in its investment) which leads to delay, the payment will be returned to customers. In addition if the company does not plan to deliver the full benefit in terms of the benefit in terms of additional capacity, expenditure should also be returned to customers.	We are intervening to set the performance commitment so It measures the expected number of months delay to deliver the investment A formal review will be carried out to inform the next price review that will determine the progress of the schemes by an appropriately qualified external third party If there is an expected delay the underperformance rate is £0.949 million, which is based on the scheme based on the allowed costs being divided by 60 months of delivery and multiplied by the cost sharing rate (50%). If the company plans to deliver less than the full capacity we will in addition recover £0.322 million per Ml/d, which is based on the allowed costs being divided by 182.5 Ml/d expected capacity and multiplied by the cost sharing rate (50%).

Intervention reference	Our assessment and rationale	Interventions
SRN.OC.C4 PR19SRN_WN11 Properties at risk of receiving low pressure Outcome delivery incentive rate	Intervention required. The outcome delivery incentive rate normalised by number of households is within our reasonable range as defined in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', however, the company also has comparatively poor performance in low pressure during the 2015-20 period. As such we are intervening to increase the rate to increase customer protection against poor performance on this measure. We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in PR19 draft determinations: Delivering outcomes for customers policy appendix.	We are intervening to change the company's underperformance rate to -£0.00313 million which aligns to the industry average, as defined by the reasonable range set out in PR19 draft determinations: Delivering outcomes for customers policy appendix.
SRN.OC.C5 PR19SRN_WR01 Per capita consumption (PCC) Stretch	Intervention required. The company forecasts a minor increase in the proposed performance commitment level in the first year of the 2020-25 period which we do not consider stretching.	We are intervening to set the performance commitment level for 2020-21 to achieve 129.1 litres per person per day. This is as follows: 2020-21: 1.0% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis.
SRN.OC.C6 PR19SRN_WR01 Per capita consumption (PCC) Enhanced outcome delivery incentives	Intervention required. The company has not applied an enhanced outperformance cap to this enhanced outcome delivery incentive which we consider risks insufficient protection for customers and excessive management focus on a single performance commitment. As we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' we consider enhanced outperformance caps are appropriate. As we set out in PR19 draft determinations: Delivering outcomes for customers policy appendix we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance commitment. 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. As we set out inPR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure to companies while protecting customers from poor performance.	We are intervening to set an enhanced cap at 1% return on regulatory equity. 1% return on regulatory equity is the highest enhanced outperformance payment a company can receive in any single year on a single performance commitment. We are intervening to set the enhanced outperformance thresholds for this performance commitment at our assessment of the frontier over time. This is as follows: 2020-21: 6.8% 2021-22: 7.5% 2022-23: 8.3% 2023-24: 9.1% 2024-25: 9.9% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis. We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows: 2020-21: -10.8% 2021-22: -10.8% 2022-23: -10.8% 2023-24: -10.8% 2024-25: -10.8% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis.

Intervention reference	Our assessment and rationale	Interventions
		We are intervening to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance. This is as follows: 2020-21: -14.2% 2021-22: -14.2% 2022-23: -14.2% 2023-24: -14.2% 2024-25: -14.2% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis.
SRN.OC.C7 PR19SRN_WWN09 River water quality Multiple	Intervention required. The company's proposal of adjusting the performance commitment levels if the scope of the Water Industry National Environment Programme (WINEP) changes is not appropriate. We are intervening to change the definition. Consequently, the target is no longer appropriate and needs to change to cover only activity classified by the Environment Agency as "Green" water industry national environment programme schemes. The river quality lengths have been taken from the water industry national environment programme issued by the Environment Agency to water companies on the 29/03/2019. We have only included "Green" certainty schemes and those Primary Driver codes that the company had included for this measure in its IAP response to SRN.OC.A45. The company may propose alternative lengths if it has evidence that these better reflect the length of river improvements requirements for its "Green" water industry national environment programme schemes. An in-period incentive would be more aligned to when the company is required to deliver their water industry national environment programme and also aligns with company's research demonstrating customer's value timely delivery of river quality improvements. We are therefore intervening to change this to and in-period outcome delivery incentive.	We are intervening to set the performance commitment level to: 7.60km in 2020-21 106.60km in 2021-22 134.70km in 2022-23 134.70km in 2023-24, and; 242.20km in 2024-25. We are intervening to set the outcome delivery incentive for this performance commitment to in-period.
SRN.OC.C8 PR19S RN_WWN16 Thanet sewers Multiple	Intervention required. The performance commitment that the company proposed lacked clarity in how it would be measured. We are intervening to change the definition of this performance commitment to increase transparency as well as set an underperformance rate to (a) align to the cost allowance and (b) fit with our change to definition. We consider that the expected number of months that the scheme will be late provides greater transparency. We have calculated the underperformance rate based on the expected cost per month, assuming the investment will be delivered over the whole five year period. If either the company fails to invest (or is	We are intervening to set the performance commitment level to: 2020-21: 0 2021-22: 0 2022-23: 0 2023-24: 0 2024-25: 0 Units are expected months of delays We are also intervening to set an underperformance rate of -£0.250 million.

Intervention reference	Our assessment and rationale	Interventions
	not efficient in its investment) which leads to delay, the expenditure not recovered under the cost sharing mechanism will be returned to customers.	
SRN.OC.C9 PR19SRN_N01 Community engagement Definition	Intervention required. The company has set its performance commitment level at upper quartile (UQ) in 2024-25, but expressed the definition in terms of ranking. We are intervening to change definition to report the percentile rather than the rank, in line with the company committed level of upper quartile.	We are intervening to change definition to report the percentile rather than the rank
SRN.OC.C10 PR19SRN_N01 Community engagement Stretch	Intervention required. The company only provided the stretch for 2024-25. There is no reason that performance cannot be measured each year and greater benefits will be realised if delivered more quickly. We consider it is reasonable to expect the company to deliver upper quartile performance each year.	We are intervening to set service levels for earlier years. The resulting service levels are: 2020-21 – 75 2021-22 – 75 2022-23 – 75 2023-24 – 75 2024-25 – 75
SRN.OC.C11 PR19SRN_CA01 Impounding reservoirs Performance commitment addition	Intervention required. The company has been allowed enhancement expenditure to fund four reservoir safety schemes that are required to comply with the Reservoirs Act 1975, we are intervening to introduce a performance commitment to protect customers from late and non-delivery of these schemes. The performance commitment will measure the completion of the four schemes. Each scheme has been assigned a percentage based on the estimated cost of each scheme as a proportion of the overall enhancement expenditure allowance. The company will report the cumulative schemes delivered according to these percentages. The approach to calculate under performance rates where we have no other reliable evidence of customer benefits from delivery of a performance commitment is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The performance commitment includes an underperformance only outcome delivery incentive based on the percentage delivered It includes a claw back mechanism to return costs for any schemes which are not delivered by the end of the period.	We are intervening to set a performance commitment which has the following characteristics: Measures the completion of the four reservoir safety schemes. Each scheme has been given the following % completion weighting: Bewl = 48.8%, Darwell = 14.8%, Powdermill = 19.9%, Weirwood = 16.5%. The performance commitment has an underperformance only outcome delivery incentive. Totex x (WACC + Water resources RCV run-off rate) / 100 = £0.00705m per %. The outcome delivery incentive is in-period and there is no collar. A claw back mechanism has been included to recover costs for any non-delivery of schemes by 2024-25 at the next price review; this has been calculated based on the following calculation: Claw back rate per % non-delivered = Totex x 50%/100 = £0.0347m per % non-delivered.
SRN.OC.C12 PR19SRN_WWN05 Asset health: treatment works compliance PC Outcome delivery incentive type and timing	This end-of-period outcome delivery incentive was not actioned at IAP but has been reassessed for draft determinations. The company proposed the outcome delivery incentive as an end-of-period regulatory capital value adjustment that was justified because of the large incentive rate that the company attached to the performance commitment and the link the performance commitment had to long term asset health. However, the large rate is capped on an annual basis and as such we do not consider this to be sufficient justification for an end period outcome delivery incentive. Regulatory capital value adjustments can take 20+ years to fully compensate customers for poor performance, and the company has had performance issues in this area. An in-period outcome delivery incentive	We are intervening to set the outcome delivery incentive on its treatment works compliance performance commitment to in-period.

Intervention reference	Our assessment and rationale	Interventions
	brings the payment closer to the time customers experience the service. We are also intervening to change this outcome delivery incentive rate to revenue linked.	
SRN.OC.C13 PR19SRN_WN07 Drinking water appearance Outcome delivery incentive rates	Intervention required. The company has made a small downward adjustment to its proposed outcome delivery incentive rates, however its rates remain materially higher than industry average. The rates are also significantly higher than that which apply to its 2015-20 Discolouration Contacts outcome delivery incentive. It has not been possible to verify the appropriateness of the proposed rates as the company has not demonstrated how it has derived the marginal benefit value.	We are intervening to set the underperformance rate by re-triangulating across the company's proposed PR19 rate, the industry average and the PR14 rate. We are setting the outperformance rate equal to the underperformance rate with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' business plans. The results in underperformance and outperformance rates of -£4.632 million and £3.860 million per contact per 1,000 population, respectively.
SRN.OC.C14 Large new water resource schemes (Fawley desalination scheme) (SRN.CMI.A3 and SRN.CE.A2) Performance commitment removal	Intervention required. We set a number of actions around the company's proposed Fawley desalination scheme, see actions SRN.CMI.A3 and SRN.CE.A2, which required the company to propose suitable customer protections around the delivery of the scheme. The company proposed an example performance commitment with customer protections that it would apply if the schemes were to go ahead. We have assessed this further and have decided it would be more appropriate to protect customers through an end of period mechanism - see PR19 draft determinations: Strategic regional water resource solutions appendix for more details. Therefore, we are intervening to remove the company's proposed performance commitment for this scheme.	We are intervening to remove the company's proposed performance commitment for the Large new water resource schemes (Fawley desalination scheme).
SRN.OC.C15 PR19SRN_WWN15 Natural Capital Stretch	Intervention required. We can see no reason that performance cannot be measured each year and greater benefits will be realised if delivered more quickly. We consider it is reasonable for the company to deliver the baseline for one catchment earlier so that any learning can be applied to other catchments.	We are intervening to set service levels for earlier years. The resulting service levels are: 2020-21 – 0 2021-22 – 0 2022-23 – 1 2023-24 – 1 2024-25 – 3
SRN.OC.C16 PR19SRN_WWN12 Improve the number of bathing waters to at least 'Good' Stretch	Intervention required. There is no reason that performance cannot be measured each year and greater benefits will be realised if delivered more quickly. We consider it is reasonable for the company to deliver 2 bathing waters a year earlier. However, we agree the financial incentives should only apply in 2024-25. The incentive while only applying to 2024-25 should be in period as this will not be able to be assessed at the next price review and will need to apply in period to impact charges after final determination in 2024 has concluded.	We are intervening to set service levels for earlier years. The resulting service levels are: 2020-21 – 0 2021-22 – 0 2022-23 – 0 2023-24 – 2 2024-25 – 5 The financial incentive still only applies for service delivery in 2024-25. We are also intervening to set the outcome delivery incentive for this performance commitment to in-period.

Intervention reference	Our assessment and rationale	Interventions
SRN.OC.C17 PR19SRN_WWN13 Improve the bathing waters at 'Excellent' quality Stretch	Intervention required. There is no reason that performance cannot be measured each year and greater benefits will be realised if delivered more quickly. The company should deliver more stretching service by delivering a bathing beach one year early and thus provide greater benefits to customers. The incentive while only applying to 2024-25 should be in period as this will not be able to be assessed at the next price review and will need to apply in period to impact charges after final determination in 2024 has concluded.	We are intervening to set service levels for earlier years. The resulting service levels are: 2020-21 – 0 2021-22 – 0 2022-23 – 0 2023-24 – 1 2024-25 – 2 The financial incentive only applies for service delivery in 2024-25.
SRN.OC.C18 PR19SRN_WN04 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. However, we consider that the proposed collars were not set at levels that would provide appropriate incentives for the company. In particular we consider that the underperformance payments would be too small to provide sufficient incentive. We consider that a cap and collar are necessary, because the performance commitment is financially material. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers' policy appendix.'	We are intervening to set collars to: 2020-21: -5.0% 2021-22: -5.0% 2022-23: -5.0% 2023-24: -5.0% 2024-25: -5.0% Units: percentage reduction in leakage from initial level on a three-year average basis.
SRN.OC.C19 PR19SRN_WN05 Asset Health: Mains bursts 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. However, we consider that the proposed collars were not set at levels that would provide appropriate incentives for the company as the underperformance payments would be too small to provide sufficient incentive. We consider that a cap and collar are necessary, because the performance commitment is financially material. How we assess financially material and our standard approach to setting caps and collars is set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix.'	We are intervening to set collars to: 2020-21: 179.4 2021-22: 179.4 2022-23: 179.4 2023-24: 179.4 2024-25: 179.4 Units Number of repairs per 1000km
SRN.OC.C20 PR19SRN_WWN06 Surface water management PC Caps and collars	Intervention required. Following our interventions to update the definition and stretch of this performance commitment (see SRN.OC.A67 and SRN.OC.A68), we believe it is necessary to update the caps and collars on this PC so that the potential outperformance and underperformance payments are in line with the customers willingness to pay evidence presented by the company for this performance commitment.	We are intervening to set collars to: 2020-21: 67,000 2021-22: 67,000 2022-23: 67,000 2023-24: 67,000 2024-25: 67,000 Units: m^3 of surface water removed We are intervening to set caps to:

Intervention reference	Our assessment and rationale	Interventions
		2020-21: 297,000 2021-22: 297,000 2022-23: 297,000 2023-24: 297,000 2024-25: 297,000 Units: m^3 of surface water removed
SRN.OC.C21 PR19SRN_RR03 Void properties Definition	We wish to standardise the unit and decimal placing used for this performance commitment for clarity as it is common to several other companies.	Intervention required. Where the company has used values as a proportion of 1 in its performance commitment levels (ie 0.0238) this value will be represented as a % to 2 decimal places (ie 2.38%).

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

PC 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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