July 2019

Trust in water

PR19 draft determinations

Wessex Water – Delivering outcomes for customers actions and interventions

Ofwat

www.ofwat.gov.uk

PR19 Draft Determinations: Wessex 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 'WSX' denotes the company Wessex 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 'WSX' denotes the company Wessex 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 'PR19WSX_' denotes the company Wessex Water), the name of the performance commitment, and the action type (for example, stretch).

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

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

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Delivering outcomes for customers	WSX.OC.01	Performance Commitment (PC) definition	The company should provide further evidence to justify discontinuing its PR14 Value for Money performance commitment (A3: Percentage rating good value for money). If sufficient evidence to justify dropping the performance commitment cannot be provided, the company should continue its PR14 Value for Money performance commitment.	1 April 2019	The company is proposing to reinstate the performance commitment and maintain its current performance commitment level at 75%. The company proposes a non-financial incentive for this performance commitment.	Intervention required. The company proposes reinstating the performance commitment with a non-financial outcome delivery incentive. However, just maintaining the 2015-20 performance commitment level is not stretching. We consider that the company should be aiming to improve in this area, particularly as bills will be reduced in real terms. We are therefore intervening to set more stretching performance commitment levels more aligned to those proposed by other water companies.	We are intervening to set the performance commitment levels as follows: 2020-21 = 77% 2021-22 = 79% 2022-23 = 81% 2023-24 = 83% 2024-25 = 84% Units: percentage
	WSX.OC.02	ODI rates	In cases of rejection or revisions to enhancement expenditure or a cost adjustment claim, the company should consider the implications, if any, for the associated level of the performance commitment and outcome delivery 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 performance commitment. The company should provide further evidence to detail the estimation of forecast efficient marginal costs within its outcome delivery incentive rate calculations, in line with our PR19 Final Methodology. In particular, the company should provide evidence to demonstrate how these marginal cost estimates relate to the cost adjustment claims or enhancement expenditure proposed by the company.	1 April 2019	The company does not provide additional information regarding the impact of rejections or revisions of enhancement expenditure or cost adjustment claims on its performance commitment levels or outcome delivery incentive rates proposed. The company does not provide any additional information on the removal of scheme specific performance commitments. The company provides further explanation of marginal costs. It also provides additional research on customer preferences on outperformance payments and outcome delivery incentive rates.	No intervention required at a company level. The company has not amended any bespoke performance commitments or its associated outcome delivery incentives due to changes in enhancement expenditure or cost assessment claims. Any changes in common performance commitment levels or outcome delivery incentives are discussed in the actions on the individual performance commitment itself. The only scheme specific performance commitment is North Bristol Sewerage Strategy. We are partially accepting the company's cost adjustment claim. Our interventions regarding this scheme are discussed in Table 3. Across its submissions on outcomes, enhancement expenditure and cost assessment claims the company provides sufficient detail on efficient marginal costs. Overall, the company is complying with the action. Where we have particular concerns about outcome delivery incentive rates these are discussed in our response to the relevant performance commitment specific actions in Table 2 or additional interventions in Table 3.	NA

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	WSX.OC.03	Enhanced ODIs	The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.	1 April 2019	The company continues to propose enhanced incentive rates based on a multiple of 4.3x its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide benefits of frontier shifting performance and that its research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced payments. The company argues that the rejection of its enhanced rates will result in a much narrower range of potential incentives that are substantially skewed to the downside.	No intervention required at a company level. We are intervening on several performance commitments to set enhanced outcome delivery incentive rates where rates are below our estimate of the sector-wide benefits to customers of enhanced outperformance (as set out in PR19 draft determinations: Delivering outcomes for customers policy appendix) These interventions are discussed in the relevant performance commitment specific actions in Table 2, and so this discussion is not duplicated here. We are intervening on rates for enhanced outcome delivery incentives on leakage, per capita consumption and internal sewer flooding but not on the rate for pollution incidents and are only intervening on the underperformance rate for water supply interruptions.	NA
	WSX.OC.04	Overall ODI package	The company should provide further evidence that it has tested the acceptability and affordability of the overall size of its outcome delivery incentive package with customers. The company should provide further evidence to clarify the methods used to derive the overall size of the outcome delivery incentive Return on Regulated Equity (RoRE). The company should also provide further explanation regarding why there appears to be a lack of balance of incentives in the outcome delivery incentive package between performance commitments that are customer priorities and those of management and /or shareholders.	1 April 2019	The company provides further evidence on the acceptability and affordability of its overall outcome delivery incentive package with customers through a quantitative survey of customers. This research shows customers are willing to support a wide range of possible values for bill increases associated with outperformance. The company also provides evidence to justify its business plan proposals return on regulatory equity range compared to the range resulting from our potential interventions from our initial assessment of business plans (IAP) publication, arguing it provides appropriate incentives to shift the frontier of performance. The company does not provide any specific additional evidence to justify the lack of balance of incentives in the outcome delivery incentive package between performance commitments that are customer priorities and those of management and /or shareholders.	No intervention required at a company level. The company provides insufficient evidence to justify the overall balance of incentives. We are intervening on several performance commitments to better align these incentives to customer priorities, changing the overall package. The interventions we are proposing maintain consistency with customer's stated preferences for the size of the overall outcome delivery incentive package and affordability. We consider these interventions are sufficient and no further action at a company level is required.	NA
	WSX.OC.05	Asset health ODI package	The company should propose a further performance commitment for Customer contacts about water quality (taste and odour) from the asset long list with an appropriate outcome delivery incentive.	1 April 2019	The company proposes an additional performance commitment for customer contacts (taste and odour).	No intervention required. The company has complied with the action and provided its P10 and P90 payments for each asset health performance commitment.	NA

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
			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 list of what it considers to be its asset health performance commitments, and state its P10 underperformance payments and P90 outperformance payments for each of its asset health outcome delivery incentives in £m and as a percentage of RoRE.		The company proposes retaining its outperformance payment for its customer contacts measure and states that the total P90 for this performance commitment would be less than 0.1% of its return on regulatory equity range. The company provides a list of what it believes are its asset health performance commitments. It provides P90 and P10 payments for each performance commitment. The company states that its P90 performance is less than 0.1% of its return on regulatory equity range. The company also states that its P10 performance for asset health performance commitments makes up 15% of its total downside RoRE.	The company has complied with the action to propose a further performance commitment. We accept the outperformance payment on customer contacts since there is evidence that a majority of customers support outperformance payments on this metric. We have adjusted the rate to ensure it is not different from the industry average, as defined by the reasonable range set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. This is discussed in Table 3 below.	
	WSX.OC.06	Customer protection	The company should apply additional protections through an appropriate outperformance payment sharing mechanism and by implementing caps on individual performance commitments which could result in material outperformance payments. The payment sharing mechanism and caps to material outcome delivery incentives should be applied in accordance with guidance provided in the **'Technical appendix 1: Delivering outcomes for customers'.** The company should provide further details of its proposed protections (20% reinvestment mechanism and customer consultation). With regards to consulting the CCG in the event of outperformance payments above 2% RoRE, the company should clarify how this consultation will affect its decision and whether the decision of the CCG would be binding. The company should apply outcome delivery incentive payments above 2% RoRE in-period and to revenue. In line with this approach, the company should propose an appropriate bill smoothing mechanism to mitigate the impact of	1 April 2019	The company proposes caps on its financially material outperformance payments. The company provides further detail of its proposed 20% reinvestment mechanism and customer consultation. The company is not proposing to adopt our additional protections through the outperformance sharing mechanism. It provides additional information on the role of the customer challenge group where outperformance payments exceed 2%, explaining that the company Board cannot be bound by the customer challenge group's views, but will give them significant weight.	Intervention required. The company proposes implementing our overall methodology on caps and collars. Where we have performance commitment-specific concerns regarding caps or collars these are discussed in the relevant actions. The justification for the company's proposed alternative to our proposals for outperformance sharing above 3% are not compelling. The outperformance incentive proposed would still enable the company to earn 100% of outperformance above 2% if the company's Board decides this is appropriate. The delay to this payment through the regulatory capital value in 2025 is not an appropriate protection and would dampen incentives for good performance compared to our proposals. The underperformance mechanism the company proposes risks underperformance payments not being made for a long time period after the poor performance occurs - customers should be quickly compensated for poor performance. As such, we are imposing our customer protection measures as set out in our 'PR19 draft determinations: Delivering outcomes for customers	We are intervening to remove the company's proposed outperformance and underperformance 2% cap (and associated mechanisms for how performance above this range will be assessed and returned to customers or kept by the company). We are replacing this mechanism with outperformance sharing above 3% return on regulatory equity.

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
			large outperformance payments in any given year.			policy appendix' to make sure that customers are adequately protected.	

Table 2 – Wessex Water's response to required performance commitment-specific 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	WSX.OC.07	ODI rates	**Volume of water leaked performance commitment:** 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 outcome delivery incentive rates for leakage and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive. The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average that we set out in **'Technical appendix 1: Delivering outcomes for customers'** and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in leakage.	1 April 2019	The company states that it has not made any adjustments to its outcome delivery incentive rates. However it appears to be proposing a reduction in both its out and underperformance rates by approximately 35% relative to its business plan.	Intervention required. We did not identify any concerns with the company's derivation of the outcome delivery incentive rates (or underlying research at IAP) proposed in its business plan. However, the company appears to have reduced both its out and underperformance rates. We have not been able identify a justification for this reduction. 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 reverse the proposed reduction in the company's rates. This results in underperformance and outperformance rates of -£0.330 million and £0.220 million per megalitre per day, respectively.
	WSX.OC.08	Enhanced ODIs	**Volume of water leaked performance commitment:** The company should set out the thresholds for enhanced outperformance payments, and provide sufficient evidence to demonstrate that these are consistent with shifting the frontier and protecting its own customers. The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.	1 April 2019	The company says its enhanced outperformance threshold is based on industry frontier normalised as % reduction of annual average and underperformance thresholds are based on industry lower quartile normalised as % reduction of annual average. ..Both based on the average of each company's 'shadow reporting performance in 2016-17 and 2017-18 The company is continuing to propose enhanced incentive rates based on a multiple of 4.3x its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide benefits of frontier shifting performance; that its	Intervention required. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's	We are intervening to set common outperformance thresholds for enhanced outperformance payments, except where companies have proposed more challenging thresholds. We set out more detail in the PR19 draft determinations: Delivering outcomes for customers policy appendix. For this company, these are as follows: 2020-21 = 49.3 2021-22 = 47.9 2022-23 = 46.2

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 propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. The company should provide its evidence and rationale for the level of the cap imposed.		research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced outcome delivery incentive payments; and that the rejection of its enhanced outcome delivery incentive rates will result in a much narrower range of potential incentives that are substantially skewed to the downside. The company does not propose an enhanced outperformance cap since it claims that it does not pass our tests for caps / collars eg individual caps and collars are likely to be more appropriate where data quality is lower, or there is less comparative or historical information on performance or where P10 / P90 performance levels are difficult to estimate or evidence on customer benefit is less robust and therefore ODI rates are less well supported	enhanced outperformance thresholds for this performance commitment. For leakage, we have assessed the frontier on both a per property and per length of mains basis. We have weighted both measures equally to establish the enhanced outperformance threshold. The company's proposed enhanced rates exceed our estimate of the sector-wide benefits to customers of enhanced outperformance for leakage (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). The company's acceptability testing research does not explicitly reference its enhanced outcome delivery incentive payments and therefore does not provide sufficient evidence of customer support for its proposed rates. 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.	2023-24 = 44.7 2024-25 = 41.5 Units: megalitres per day. We are intervening to set enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance. These are £0.465 million per megalitre per day for outperformance and -£0.465 million per megalitre per day for underperformance. We are intervening to set an enhanced outperformance cap at 1% of water regulated equity each year. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice.
	WSX.OC.09	ODI rates	**Per capita consumption performance commitment**: 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 outcome delivery incentive rates for per capita consumption and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.	1 April 2019	The company states that it has reduced its volume of water used per person outcome delivery incentive rates to take account of the overlap in benefit with its bespoke Water Saved by Efficiency Engagement performance commitment.	Intervention required. The company has not justified why it is appropriate to shift the value of incentive from the common performance commitment towards the bespoke performance commitment. This is concerning given we have less comparative data to set stretching performance commitment levels for bespoke performance commitments and also in light of the company's 2015-20 comparative performance across the two equivalent performance commitments (for which it has consistently met is target for the bespoke measure but not for per capita consumption). We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft	We are intervening to reverse the proposed reduction in the company's rates. This results in underperformance and outperformance payment rates of -£0.130 million and £0.091 million per litre per head per day, respectively.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						determinations: Delivering outcomes for customers policy appendix'.	
	WSX.OC.10	Enhanced ODIs	**Volume of water used per person performance commitment**: The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates. The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. The company should provide evidence and rationale for the level of the proposed cap.	1 April 2019	For enhanced outcome delivery incentives in general, the company is continuing to propose enhanced incentive rates based on a multiple of its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide benefits of frontier shifting performance; that its research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced outcome delivery incentive payments; and that the rejection of its enhanced outcome delivery incentive rates will result in a much narrower range of potential incentives that are substantially skewed to the downside. The company also states on per capita consumption that it deems it inappropriate to receive an enhanced outperformance payment for this performance commitment. However the company has proposed an enhanced outperformance rate but no enhanced outperformance threshold. The company does not propose an enhanced outperformance cap.	Intervention required. The company's proposed enhanced outperformance rate (£0.73 million per megalitre per day) exceeds our estimate of the sector-wide benefits to customers of enhanced outperformance for per capita consumption (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). The company's acceptability testing research does not explicitly reference its enhanced outcome delivery incentive payments and therefore does not provide sufficient evidence of customer support for its proposed rates. The company also states that it deems it inappropriate to receive an enhanced outperformance payment for this performance commitment. The company has proposed an enhanced outperformance rate but no enhanced outperformance threshold. Our decision on this is to set the company an enhanced outcome delivery incentive for this performance commitment and thus we are assessing and making decisions on all aspects of an enhanced ODI for the company here and in WSX.OC C8. 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 the PR19 draft determinations: Delivering outcomes for customers policy appendix we consider enhanced outperformance caps are appropriate.	We are intervening to set enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance. This is £0.411 million per litre per person per day for outperformance and -£0.411 million per litre per person per day underperformance. We are intervening to set an enhanced outperformance cap at 1% of water regulated equity each year. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice. Our decision on this is to set the company an enhanced outcome delivery incentive for this performance commitment and thus we are assessing and making decisions on all aspects of an enhanced outcome delivery incentive for the company here and in WSX.OC C8. If the company wishes to remove its enhanced outcome delivery incentive for this performance commitment it should also remove all the data in App1 and state this clearly. If the company would like a two tiered penalty rate only it should state this clearly.
	WSX.OC.11	Caps, collars, deadbands	**Volume of water used per person performance commitment**: The company should either remove the proposed deadbands from this performance commitment or provide convincing evidence to explain why these features are appropriate and in customers' interests.	1 April 2019	The company proposes retaining its underperformance and outperformance deadbands and provides additional justifications. It states that three-year average is unable to fully normalise for the influence of the weather, which could also negatively affect customers as the company could be rewarded for meeting	Intervention required. We consider that deadbands reduce the incentive for companies to improve their performance. Weather variability applies to all companies, not just Wessex Water therefore there is no justification for	We are intervening to remove the deadband.

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 propose a cap on its outperformance payments in each year of the 2020-25 period. The company should provide evidence and a rationale for the level at which the cap is set.		its per capita consumption performance commitment simply because the weather has been on average wetter and less sunny. The company therefore proposes an outperformance deadband to protect customers.	exception on this basis. We consider that the three year average on leakage and per capita consumption accounts for weather variability on these metrics. Customers experience the down and upside of the fluctuations in terms of their service, so it seems reasonable that the appropriate adjustments are made to bills. Companies are able to manage the financial consequences of outcome delivery incentives as part of considering the impact of outcome delivery incentives in the round in their applications for their in-period ODI determinations. The company does not provide compelling evidence that justifies the use of deadbands for this performance commitment. We set out our rationale for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	WSX.OC.12	ODI type	**Volume of water saved by water efficiency engagement performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support.	1 April 2019	The company provides additional evidence to justify the use of an outperformance payment for this performance commitment. The company provides the findings from additional quantitative research on customer priorities and Willingness to Pay for improvements in Community Services, including helping customers to use less water.	Intervention required The company provided insufficient evidence for outperformance payments for this performance commitment. Whilst we acknowledge the company has taken steps to reduce the risk of double counting (see WSX.OC.13), the issue remains that a unit of improvement in water usage due to water efficiency engagement will attract a greater financial reward (from the two relevant outcome delivery incentives) than other methods of reducing consumption. This is a distortion of incentives compared to incentivising only per capita consumption. The company should use the most efficient methods to reduce consumption, which may include engagement activity. The company proposal distorts incentives by financially rewarding one method of reducing residential consumption more than other methods.	We are intervening to remove this distortion of incentives by removing the outperformance and underperformance payments for the bespoke performance commitment.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.13	ODI rate	**Volume of water saved by water efficiency engagement performance commitment:** The company should provide further evidence and explanations to demonstrate that there is no double-counting of outcome delivery incentive payments between this performance commitment and the common performance commitment per capita consumption.	1 April 2019	NA We are removing the financial incentives associated with this performance commitment. As a consequence this action is no longer relevant.	No intervention required.	NA
	WSX.OC.14	ODI rate	**Compliance risk index (CRI) performance commitment:** 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 outcome delivery incentive rate for CRI and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive. The company should explain and evidence how its proposed outcome delivery incentive rate for CRI is coherent with the rates proposed for other asset health performance commitments.	1 April 2019	The company states that it is not making any adjustments to its outcome delivery incentive rates and that it supplies the additional information required in our Technical appendix 1. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges our use of reasonable ranges. It suggests we have provided no evidence to explain how or why we have chosen our 'reasonable ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced and supported by recognised good practice.	No intervention required. Our methodology for intervening on outcome delivery incentive rates is explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced outcome delivery incentives to push forward the industry frontier, we use the following terminology for outcome delivery incentive underperformance rates: Standard rate or tier one; and Multiplied rate or tier two. For both tier one and tier two rates, we have followed our methodology for intervening on outcome delivery incentive rates as explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. Both the company's tier one and tier two underperformance payment rates are above the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' and give significant customer protection against underperformance. Therefore we are not intervening on the outcome delivery incentive rates. We have arrived at an assessment for each company's outcome delivery incentive rate based on several factors including for example the size	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 proposes two underperformance rates for this performance commitment. One is termed a standard rate and the other an enhanced rate which is based on a 4.3 times multiplier of the standard rate. This enhanced rate applies at a different threshold to the standard rate.	and derivation of the rate as well as the company's performance. The company sufficiently explains how its outcome delivery incentive rates for asset health performance commitments are coherent by demonstrating that its incentives do not double either costs or willingness to pay valuations. 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 '.	
	WSX.OC.15	Caps, collars, deadbands	**Compliance risk index (CRI) performance commitment:** 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 to implement the values we calculated for the deadband. The company has not set its standard underperformance collar at our proposed collar level of 9.5. Instead it has applies our standard collar to its enhanced underperformance collar.	Intervention required The company is proposing to adopt our proposed deadband level, set at 1.50, and collar level at 9.50. As described in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', we have further reviewed the deadband levels for all companies. We do however recognise that 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 PR19 compared to our IAP proposals. A deadband set at the levels we are proposing allows for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures As with the rest of the industry we are setting a deadband profile at 2.0 for the first two years, before tightening it to 1.5, the level proposed by the company. The company has not set its standard underperformance collar at our proposed collar level of 9.5. Instead it has applies our standard collar to its enhanced underperformance collar. We are intervening to set the standard underperformance collar to our standard collar.	We are intervening to set a standard deadband. The deadband profile for the Compliance Risk Index is: 2020-21 = 2.0 2021-22 = 2.0 2022-23 = 1.5 2023-24 = 1.5 2024-25 = 1.5 Unit: Compliance Risk Index Score.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.16	Stretch	**Customer property sewer flooding (internal) performance commitment:** We expect the company's service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	1 April 2019	The company proposes to implement the values we calculated.	No intervention required. The company is implementing the values we have proposed. We set out our rationale for setting performance commitment levels for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	NA
	WSX.OC.17	ODI rate	**Customer property sewer flooding (internal) performance commitment:** 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 provide sufficient evidence to demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in internal sewer flooding. The company should also provide the additional information set out in '**Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in outcome delivery incentive rate for internal sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive. The company should explain and evidence how its proposed outcome delivery incentive rate for this performance commitment is coherent with the rates proposed for all other sewerage performance commitments (including Customer property sewer flooding (external), Sewer flooding risk, Sewer collapses and Pollution incidents) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.	1 April 2019	The company does not propose to amend its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges Ofwat's use of reasonable ranges. Ofwat has provided no evidence to explain how or why it has chosen its 'reasonable ranges' for each ODI rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided ODI rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced. The company provides an explanation of how the rates for each of the performance commitments relating to sewerage performance are coherent. It states that each	Intervention required. Our methodology for intervening on outcome delivery incentive rates is explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company is proposing rates which are materially higher than the reasonable range that we set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. While we have not identified specific concerns with the quality of the companies' valuation research there are large variations between the results from each piece of research which gives us less confidence that the resulting outcome delivery incentive rates are appropriate. We are concerned to see the proposing outcome delivery incentive rates significantly above industry average and want to protect customers against higher outperformance payments then the value they attach to incremental service improvements. The company has strong past performance in this area and is forecast to earn a large net outperformance payment for its equivalent 2015-20 outcome delivery incentive. We have arrived at an assessment for each company's outcome delivery incentive rate based on several factors including for example the size and derivation of the 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 '.	We are intervening to set outcome delivery incentive rates at the level implied by the results of the company's primary stated preference research (which we have the most confidence in). The resulting underperformance and outperformance payment rates are -£4.715 million and £3.296 million per incident per 10,000 connections, respectively.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					performance commitment is based on a separately triangulated willingness to pay value. It also states that the cost adjustment claim for sewer flooding is allocated across the internal sewer flooding, external sewer flooding and sewer flooding risk outcome delivery incentives.		
	WSX.OC.18	Enhanced ODIs	**Customer property sewer flooding (internal) performance commitment:** The company should consider the thresholds for enhanced outperformance and underperformance payments, and either make them more challenging or provide evidence to demonstrate that they are appropriate. The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates. The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. The company should provide evidence and a rationale for the level at which the cap is set.	1 April 2019	The company states that its enhanced outperformance threshold is based on industry frontier and underperformance threshold is based on industry lower quartile based on the average of each company's 'shadow reporting' performance in 2016-17 and 2017-18. The company is continuing to propose enhanced incentive rates based on a multiple of 4.3x its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide benefits of frontier shifting performance; that its research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced outcome delivery incentive payments; and that the rejection of its enhanced outcome delivery incentive rates will result in a much narrower range of potential incentives that are substantially skewed to the downside. The company does not propose an enhanced outperformance cap since it claims that it does not pass our tests for caps / collars, for example individual caps and collars are likely to be more appropriate where data quality is lower, or there is less comparative or historical information on performance or where P10 / P90 performance levels are difficult to estimate or evidence on customer benefit is less robust and therefore ODI rates are less well supported.	Intervention required. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance commitment. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. The company's proposed enhanced outperformance rate exceeds our estimate of the sector-wide benefits to customers of enhanced outperformance for internal sewer flooding (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). The company's acceptability testing research does not explicitly reference its enhanced outcome delivery incentive payments and therefore does not provide	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 = 1.11 2021-22 = 1.08 2022-23 = 1.04 2023-24 = 0.95 2024-25 = 0.89 Units: incidents per 10,000 sewer connections. 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 = 2.4 2021-22 = 2.4 2022-23 = 2.4 2023-24 = 2.4 2024-25 = 2.4 Units: incidents per 10,000 sewer connections.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						sufficient evidence of customer support for its proposed rates. The company has not applied an enhanced outperformance cap to this enhanced outcome delivery incentive which risks insufficient protection for customers and excessive management focus on a single performance commitment. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we consider enhanced outperformance caps are appropriate.	We are intervening to set enhanced rates based on our estimate of the sector-wide benefits of enhanced outperformance. These are £22.292 million per incident per 10,000 connections for outperformance and -£22.292 million per incident per 10,000 connections for underperformance. We are intervening to set an enhanced outperformance cap at 1% of water or wastewater regulated equity each year. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice.
	WSX.OC.19	Stretch	**Water supply interruptions performance commitment:** For this common performance commitment 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. The company states that it does not agree that it is feasible to deliver the service improvements within the funding allowed for base service.	Intervention required. We expect an efficient company to achieve sector forecast upper quartile performance within base cost allowances. 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 the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set performance commitment levels that are consistent with the rest of the industry for supply interruptions. These levels are: 2020-21 = 00:05:24 2021-22 = 00:04:48 2022-23 = 00:04:12 2023-24 = 00:03:36 2024-25 = 00:03:00 Units: hours:minutes:seconds per property for year.
	WSX.OC.20	ODI rates	**Water supply interruptions performance commitment:** 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	1 April 2019	The company has not adjusted its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its	Intervention required. The company is proposing rates which are materially below the industry average, as defined by the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company is also continuing to	We are intervening to set the underperformance rate by triangulating across the company's proposed rate and the industry average rate (on a normalised basis). We are intervening to set the outperformance rate at the underperformance rate with an

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			for service improvements in Water supply interruptions. The company should provide evidence to justify the larger outperformance payment rates relative to underperformance payment rates, or amend these to ensure that the outperformance payment is no higher than the underperformance payment. In either case the company should set out the evidence and rationale. 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 outcome delivery incentive rate for Water supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.		own customers' views and, therefore, in its own customers' interests. The company challenges ours use of reasonable ranges, arguing that: We have provided no evidence to explain how or why we has chosen the 'reasonable ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing a 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced.	propose an underperformance rate which is lower than its outperformance rate. The company has not provided sufficient detail for us to determine whether the marginal benefit component of its rate is appropriately derived using the outputs of its customer research. This is concerning given the company is currently performing poorly relative to its 2015-20 performance commitment levels. We have arrived at an assessment for each company's outcome delivery incentive rate based on several factors including for example the size and derivation of the rate as well as the company's performance 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 '.	adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' September business plans (as explained in PR19 draft determinations: Delivering outcomes for customers policy appendix). This results in underperformance and outperformance rates of -£0.176 million and £0.147 million per minute per property per year respectively.
	WSX.OC.21	Enhanced ODI	**Water supply interruptions performance commitment:** The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the enhanced rates to be based on a lower multiple applied to the standard incentive rates.	1 April 2019	The company is continuing to propose enhanced incentive rates based on a multiple of 4.3x its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide benefits of frontier shifting performance; that its research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced outcome delivery incentive payments; and that the rejection of its enhanced outcome delivery incentive rates will result in a much narrower range of potential incentives that are substantially skewed to the downside.	Intervention required. While the company's proposed outperformance rate does not exceed our estimate of the sector-wide benefits to customers of enhanced outperformance for water supply interruptions (as set out in PR19 draft determinations: Delivering outcomes for customers policy appendix), it is proposing an underperformance rate that is lower than its outperformance rate. This imbalance in rates towards the upside gives rise to the risk that the company takes unreasonable risks to achieve enhanced outperformance, which may inadvertently result in very poor performance for customers.	We are intervening to increase the enhanced underperformance rate to the same level as the enhanced outperformance rate. This is -£0.300 million per minute per property.
	WSX.OC.22	Stretch	**Water mains bursts performance commitment:** The company should reconsider its proposed service levels and ensure that they are stretching. If the company continues to propose performance that is worse than its historical levels, it will need to provide compelling evidence that increased active leakage control impacts the total number of mains repairs using	1 April 2019	The company does not propose any changes. The company attempts to prove the assumption that as more detection and accompanying repairs are being performed, the number of reported jobs falls as there are less visible leaks to report. The report asserts that the absolute leakage position was the more significant factor than the size of the	Intervention required. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced ODI to push	We are intervening to set the tier one performance commitment levels to the following values. 2020-21 = 145.7 2021-22 = 145.7 2022-23 = 145.7 2023-24 = 145.7

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's own data, including the relationship between pro-active and reactive mains repairs. As a minimum the evidence should show the historical correlation between active leakage control, pro-active and reactive mains repairs. It should also show the impact of this relationship on forecast repair rates from the output of asset performance modelling. The company should also provide sufficient evidence to demonstrate that reduced (worse) performance levels are in the interests of customers and the assets.		leakage reduction, with greater numbers of repairs required to maintain lower levels of leakage. The company provides a bottom-up and a combined strategy analysis of the impact of its leakage reduction and mains renewal options on repairs, with the 'Best' scenario indicating the number of repairs increasing from 144 to 149 in the 2020-25 period. The company proposes that "enhanced" underperformance incentives apply at the same performance commitment levels as the standard incentives	forward the industry frontier, we use the following terminology for performance commitment levels: Standard performance commitment level or tier one level Multiplied performance commitment level or tier two level . The company does not provide sufficient evidence that its proposed tier one performance commitment levels represent a stretching target. The reasons for this are set out below and also in the PR19 draft determinations: Delivering outcomes for customers policy appendix . The company provides insufficient evidence that higher number of repairs is caused by maintaining leakage at lower level. The statistical analysis provided shows a weak relationship. The authors state they do not expect to be able to explain all the variation of mains jobs using only leakage reduction. Therefore, the company provided insufficient evidence that there is a valid relationship between leakage levels and numbers of repairs. The company does not provide any evidence that increased active leakage controls to achieve 15% leakage reduction will increase the repair numbers as stated in its response. As such, we are not accepting the company's justification, and are setting tier one performance commitment levels based on the average of the three best recent years' actual performance (2012-13, 2013-14, and 2015-16). It represents an 11% improvement on the company's proposal. For tier two levels, we are retaining the company proposal as the levels at which the company considers multiplied rates should apply to afford customers additional protection against underperformance. We set out our rationale for setting performance commitment levels for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	2024-25 = 145.7 Units: mains burst per 1,000km.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.23	ODI rates	**Water mains bursts performance commitment:** The company should explain and evidence how its proposed outcome delivery incentive rate for mains bursts is coherent with the rates proposed for performance commitments relating to the associated customer facing-impacts of the asset failure (such as leakage, supply interruptions and low pressure) and provide sufficient evidence to demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers')** to allow us to better understand the causes of variation in outcome delivery incentive rates for mains bursts and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.	1 April 2019	The company has not adjusted its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges ours use of reasonable ranges, arguing that: We have provided no evidence to explain how or why we has chosen the 'reasonable ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing a 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced. The company also states that it has supplied the additional information required in our Technical appendix 1. The company proposes two underperformance rates for this performance commitment. One is termed a standard rate and the other an enhanced rate which is based on a 4.3 times multiplier of the standard rate The company states that any underperformance relative to its target levels would trigger the enhanced multiplier immediately should it fail its target.	No intervention required. Our methodology for intervening on outcome delivery rates is explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other related performance commitments by demonstrating that its incentives do not double count either costs or willingness to pay valuations. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced outcome delivery incentive to push forward the industry frontier, we use the following terminology for outcome delivery incentive underperformance rates: Standard rate or tier one; and Multiplied rate or tier two. For both tier one and tier two rates, we have followed our methodology for intervening on outcome delivery incentive rates as explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company's tier one underperformance payment is based on unit cost and the tier two rate is based on a multiple of this. Both are higher than the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' and therefore afford enough customer protection. The company's comparative performance is neither especially poor nor especially good. We are not intervening on the outcome delivery incentive rates. We have arrived at an assessment for each company's outcome delivery incentive rate based on several factors including for example the size and derivation of the rate as well as the company's performance	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						We set out our rationale for setting outcome delivery incentive rates for this common performance commitment in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	WSX.OC.24	Caps, collars, deadbands	**Water mains bursts performance commitment:** The company should reconsider whether to apply an underperformance collar to this performance commitment, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing outcome delivery incentive-specific justification for this decision. This should include justification for the level at which the collar is set, and the company should explain how this compensates customers adequately for poor service performance.	1 April 2019	The company states that its response was misinterpreted. The company proposes a two tiered underperformance payment which it terms its enhanced rates. It has set an underperformance threshold beyond which the higher underperformance rate applies.	No intervention required. We consider the threshold level to be appropriate in incentivising the company to not perform poorly. As such, we are not intervening on the threshold. The company does not propose a collar on the underperformance payments resulting from the higher rate.	NA
	WSX.OC.25	ODI rates	**Unplanned outage performance commitment:** 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 unplanned outages. The company should also explain and evidence how its proposed outcome delivery incentive rate for unplanned outage is coherent with the rates proposed for performance commitments relating to the associated customer facing-impacts of the asset failure and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in outcome delivery incentive rate for unplanned outage and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.	1 April 2019	The company states that it is not making any adjustments to its outcome delivery incentive rates and that it supplies the additional information required in Technical appendix 1. The company states that its water supply is resilient and almost no customer would experience an interruption to supply should there be an unplanned outage in its region. The company states that its valuation considers the marginal cost of treating water in its most expensive works compared to treating it in its cheapest works. It claims that this is almost certainly an overestimate as it is incredibly unlikely that its cheapest works goes out of service and has to be supplemented by its most expensive works. The company proposes two underperformance rates for this performance commitment. One is termed a standard rate and the other an enhanced rate which is based on a 4.3 times multiplier of the standard rate The company states that any underperformance relative to its target levels	Intervention required. Our methodology for intervening on outcome delivery incentive rates is explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced outcome delivery incentive to push forward the industry frontier, we use the following terminology for outcome delivery incentive underperformance rates: Standard rate or tier one; and Multiplied rate or tier two. For both tier one and tier two rates, we have followed our methodology for intervening on outcome delivery incentive rates as explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company only considers the potential short-term impact on customers when setting its outcome delivery incentive rate, however this performance	We are intervening to increase the company's underperformance payment rates to -£0.382 million, based on the average of the reasonable range as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. Since the same rate applies to both tier one and tier two rates, we will set only one standard tier one rate for the company on this performance commitment.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
					would trigger the enhanced multiplier immediately should it fail its target.	commitment is designed to help maintain and improve long-term asset health, which the company has not considered. Both the company's tier one and tired two underperformance payment rates are below the lower bound of the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix', and so do not provide sufficient protection for current or future customers. Therefore we will intervene to ensure the rates are within the range. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other related performance commitments by demonstrating that its incentives do not double count either costs or willingness to pay valuations. 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'.	
	WSX.OC.26	Stretch	**Sewer collapses performance commitment:** The company should provide convincing evidence that the proposed service levels are in the interests of customers and the assets in the context of a long term plan. Otherwise it should propose improving service levels at least in line with recent improving performance.	1 April 2019	The company proposes retaining the performance commitment levels in its business plan. It has not used cost benefit analysis here as it claims that this performance commitment covers a very complex area and that the costs associated are convoluted. However, it states that it expects that it would not be cost beneficial to improve any further and that the target is based on a stable level of service. Recent improvements have been due to dry weather, as a result of which less collapses are reported (fewer flooding incidents). The company also states that the new definition has resulted in other companies' numbers varying considerably from those previously reported, but its performance data has not changed at all. The company states that it wants to gradually improve its performance in the medium / long term. The company proposes that "enhanced" underperformance incentives apply at the same performance commitment levels as the standard incentives	Intervention required Comparative data suggests the company is the second worst performer in this performance commitment. It is not clear how the company has decided an improvement is not cost beneficial. There appears to be no customer engagement on setting service levels. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced ODI to push forward the industry frontier, we use the following terminology for performance commitment levels: Standard performance commitment level or tier one level; and Multiplied performance commitment level or tier two level. For tier one standard levels, we are intervening to set a more stretching performance commitment	We are intervening to set the standard, tier one performance commitment levels to the following values: 2020-21 = 17.08 2021-22 = 16.06 2022-23 = 15.04 2023-24 = 14.02 2024-25 = 13.00 Units: sewer collapses per 10,000 km of sewer.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						level, based on the maximum improvement proposed by two other companies (who used a percentage improvement approach to setting their performance commitment levels) equivalent to a 28% improvement from 2019-20 to 2024-25. This is discussed further in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. For tier two levels, we are retaining the company proposal as the levels at which the company considers multiplied rates should apply to afford customers additional protection against underperformance. 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'.	
	WSX.OC.27	ODI rates	**Sewer collapses performance commitment:** The company should explain and evidence why its proposed rate differs from our assessment of the reasonable range that we set out in **'Technical appendix 1: Delivering outcomes for customers'.** It should also provide sufficient evidence to demonstrate that this variation is consistent with customers' underlying preferences and priorities for avoiding this type of asset failure. The company should explain and evidence how its proposed outcome delivery incentive rate for this performance commitment is coherent with the rates proposed for all other sewerage performance commitments (including Customer property sewer flooding (internal), Customer property sewer flooding (external), Sewer flooding risk and Pollution incidents) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow	1 April 2019	The company has not adjusted its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges ours use of reasonable ranges, arguing that: We have provided no evidence to explain how or why we has chosen the 'reasonable ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing a 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall.	Intervention required. The company sufficiently explains how its outcome delivery incentive rates for related performance commitments are coherent by demonstrating that its incentives do not double count either costs or willingness to pay valuations. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced outcome delivery incentive to push forward the industry frontier, we use the following terminology for outcome delivery incentive underperformance rates: Standard rate or tier one; and Multiplied rate or tier two. For both tier one and tier two rates, we have followed our methodology for intervening on outcome delivery incentive rates as explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company's tier one underperformance payment rate is within the reasonable range set out in 'PR19	We are intervening to increase the company's standard, tier one underperformance payment rate to -£0.388 million, based on the average of the reasonable range.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			us to better understand the causes of variation in outcome delivery incentive rates for sewer collapses and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.		There should be a consistent approach that is well evidenced. The company states that any underperformance relative to its target levels would trigger the enhanced multiplier immediately should it fail its target. The company proposes two underperformance rates for this performance commitment. One is termed a standard rate and the other an enhanced rate which is based on a 4.3 times multiplier of the standard rate The company also states that it has supplied the additional information required in our Technical appendix 1.	draft determinations: Delivering outcomes for customers policy appendix', but the company has poor comparative performance, therefore we have intervened to increase the rate to the average of the reasonable range to appropriately incentivise improvements in performance. The company's tier two underperformance payment rate is significantly higher than the tier one rate and our reasonable range and therefore affords increased customer protection and we will not intervene on this 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'.	
	WSX.OC.28	Caps, collars, deadbands	**Sewer collapses performance commitment:** The company should reconsider whether to apply an underperformance collar to this performance commitment, taking account of its broader approach to customer protection. If the company decides to retain the collar, it should provide a convincing outcome delivery incentive-specific justification for this decision. This should include justification for the level at which the collar is set, and the company should explain how this compensates customers adequately for poor service performance.	1 April 2019	The company states that its response was misinterpreted. The company proposes a two tiered underperformance payment which it terms its enhanced rates. It has set an underperformance threshold beyond which the higher underperformance rate applies.	No intervention required. We consider the threshold level to be appropriate in incentivising the company to not perform poorly. As such, we are not intervening on the threshold. The company does not propose a collar on the underperformance payments resulting from the higher rate.	NA
	WSX.OC.29	ODI rates	**Treatment works compliance** **performance commitment:** The company should explain and evidence 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 provide sufficient evidence to demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in treatment works compliance. The company should also explain and evidence how its proposed outcome delivery incentive rate	1 April 2019	The company has not adjusted its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges our use of reasonable ranges, arguing that: We have provided no evidence to explain how or why we have chosen the 'reasonable	No intervention required. The company proposes a two tiered underperformance payment which it terms its enhanced rates. On performance commitments where the company has used enhanced incentives but has not proposed an enhanced ODI to push forward the industry frontier, we use the following terminology for outcome delivery incentive underperformance rates: Standard rate or tier one; and Multiplied rate or tier two.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			for treatment works compliance is coherent with the rates proposed for performance commitments relating to the associated customer facing-impacts of the asset failure (such as those relating to river water quality) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in outcome delivery incentive rate for treatment works compliance and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.		ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences. The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing a 'reasonable range'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced. The company also states that it has supplied the additional information required in our Technical appendix 1. The company proposes two underperformance rates for this performance commitment. One is termed a standard rate and the other an enhanced rate which is based on a 4.3 times multiplier of the standard rate. This enhanced rate applies at a different threshold to the standard rate.	For both tier one and tier two rates, we have followed our methodology for intervening on outcome delivery incentive rates as explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The tier one incentive rate is based on the unit cost only and the tier two rate is a multiplier of this. The company's tier one underperformance payment rate is within the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix' and the tier two underperformance rate affords customer protection from underperformance. The company does not have past performance issues. Therefore we are not intervening on the outcome delivery incentive rates. The company sufficiently explains how its outcome delivery incentive rates for related performance commitments are coherent by demonstrating that its incentives do not double count either costs or willingness to pay valuations. 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'.	
	WSX.OC.30	Stretch	**Wastewater pollution incidents - category 1-3 performance commitment:** We expect the company's service levels to reflect the values we have calculated for each year of the 2020 to 2025 period.	April 1	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
	WSX.OC.31	ODI rates	**Wastewater pollution incidents - category 1-3 performance commitment:** The company should explain why its proposed rate differs from	1 April 2019	The company states that it is not making any adjustments to its outcome delivery incentive rates and that it supplies the additional	No intervention required.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			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 wastewater pollution incidents - category 1-3. The company should explain and evidence how its proposed outcome delivery incentive rate for this performance commitment is coherent with the rates proposed for all other sewerage performance commitments (including Customer property sewer flooding (internal), Customer property sewer flooding (external), Sewer flooding risk and Sewer collapses) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers')** to allow us to better understand the causes of variation in outcome delivery incentive rate for Wastewater pollution incidents - category 1-3 and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.		information required in Technical appendix 1. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company provides an explanation of how the rates for each of the performance commitments relating to sewerage performance are coherent. It states that each performance commitment is based on a separately triangulated willingness to pay value. It also states that the cost adjustment claim for sewer flooding is allocated across the internal sewer flooding, external sewer flooding and sewer flooding risk outcome delivery incentives.	Our methodology for intervening on outcome delivery incentive rates is explained in detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. 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 sewerage performance commitments. The company's proposed outcome delivery incentive rate is not different from the industry average, as defined by the reasonable range set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. 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 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	
	WSX.OC.32	Enhanced ODIs	**Wastewater pollution incidents - category 1-3 performance commitment:** The company should reconsider the thresholds for enhanced outperformance and underperformance payments, and either provide further evidence to demonstrate that they are appropriate or amend them to a more challenging level of performance. In either case the company should set out its evidence and rationale. The company should provide further evidence to justify the level of the enhanced outcome delivery incentive outperformance and underperformance incentive rates proposed, or consider revising the	1 April 2019	The company says its enhanced outperformance threshold is the industry frontier based on the average of each company's performance in 2016 and 2017 and that its enhanced underperformance threshold is the industry lower quartile based on the average of each company's performance in 2016 and 2017. The company is continuing to propose enhanced incentive rates based on a multiple of 4.3x its standard outcome delivery incentive rates. The company argues that its enhanced rates are consistent with the sector-wide	Intervention required. 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	We are intervening to set common thresholds for enhanced outperformance payments, except where companies have proposed more challenging thresholds. We set out more detail in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. For this company, these are as follows: 2020-21 = 15.05 2021-22 = 14.57

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			enhanced rates to be based on a lower multiple applied to the standard incentive rates. The company should propose a cap on its enhanced outperformance payments in each year of the 2020-25 period. The company should provide evidence and rationale for the level of the cap proposed.		benefits of frontier shifting performance; that its research shows that customers strongly support its overall outcome delivery incentive package which includes enhanced outcome delivery incentive payments; and that the rejection of its enhanced outcome delivery incentive rates will result in a much narrower range of potential incentives that are substantially skewed to the downside. The company does not propose an enhanced outperformance cap.	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. The company is proposing rates that do not exceed our estimate of the sector-wide benefits to customers of enhanced outperformance (as set out in 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). As such we are not intervening on the outcome delivery incentive rates. 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 the PR19 draft determinations: Delivering outcomes for customers policy appendix we consider enhanced outperformance caps are appropriate.	2022-23 = 14.12 2023-24 = 13.75 2024-25 = 11.97 Units: number of incidents per 10,000km of sewer. We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. This is as follows: 2020-21 = 39.7 2021-22 = 39.7 2022-23 = 39.7 2023-24 = 39.7 2024-25 = 39.7 Units: incidents per 10,000 km of sewer. We are intervening to set an enhanced outperformance cap at 1% of water or wastewater regulated equity each year. See 'PR19 draft determinations: Delivering outcomes for customers policy appendix' for how this will operate in practice.
	WSX.OC.33	Stretch	**Event risk index (Wessex Water) (ERI WW) performance commitment:** The company should provide sufficient evidence to justify why maintaining performance at levels already attained is a sufficiently stretching target. In addition to this the company should provide further evidence to justify that the stretch is supported by its customers.	1 April 2019	The company justifies its proposed performance commitment levels using historic and comparative information with additional customer based research.	Intervention required. The company explained to customers that its Event Risk Index proposals were payments for the company reaching "industry leading" levels and stated the company seeks to achieve "top level performance". The company provides insufficient evidence that "top level performance" is being targeted as it is not proposing leading performance or upper quartile	We are intervening to amend the performance commitment levels as follows: 2020-21 = 10 2021-22 = 10 2022-23 = 10 2023-24 = 10 2024-25 = 10

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						performance. For example, one company is proposing a performance commitment level of zero for the 2020-25 period and in addition to this it does not explain why it is not at least targeting upper quartile based on the latest available data which is the 2017 Drinking Water Inspectorate values. As a result, we consider that the company has not sufficiently justified its performance commitment level in light of its own customer research. We consider the level the company proposes to be insufficiently stretching given its aim to be a "leading" and "top" company and the levels are less than the upper quartile for 2017. We are intervening to set performance commitment levels based on the industry upper quartile for 2017, the most recent year of data available from the Drinking Water Inspectorate.	Units: Event Risk Index score.
	WSX.OC.34	ODI type	**Event risk index (Wessex Water) (ERI WW) performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support. Alternatively, the company should remove the outperformance payment.	1 April 2019	The company provides additional evidence to justify the use of an outperformance payment for this performance commitment. The company provides the findings from additional qualitative and quantitative research on customer priorities and willingness to pay for improvements in the Event Risk Index. The company shows that customers consider water quality to be a high priority, and that a majority of customers support some level of outperformance payments for performance above the target levels.	No intervention required. The company has provided sufficient evidence to justify an outperformance payment. The additional research shows clear customer support for outperformance payments. We consider there is customer benefit if the company exceeds very stretching targets in the volume, severity and management of water quality events. The Event Risk Index is still a relatively new metric and the learning from its usage during 2020-2025 will help inform how it is used in future price control periods.	NA
	WSX.OC.35	ODI rate	**Event risk index (Wessex Water) (ERI WW) performance commitment:** Should the company propose to keep the outperformance payments, the company should either provide compelling evidence as to the appropriateness of this outcome delivery incentive rate relative to the other outcome delivery incentives it has proposed or significantly revise the outcome delivery incentive outperformance payments downward in line with evidence of customer support. The company should develop an underperformance payment incentive rate based upon forecast efficient marginal cost estimates.	1 April 2019	The company provides additional evidence to justify the outperformance outcome delivery incentive rates it proposes. The company found from qualitative research with customers that a majority would be willing to pay £13 (bill increase) for a level that is only likely to be achieved in 10% of scenarios. This is a level consistent with the figure originally calculated using a top-down approach in the business plan. However, the company also tested different performance levels and finance rewards in quantitative research and found that a majority support bill increases of £6.56 for reaching the performance levels of the best company to date. The quantitative research also finds that a minority of customers are	Intervention required. The company's evidence for the outcome delivery incentive outperformance rate is not compelling. The rate is not supported by customers in the additional quantitative research performed by the company, and is based on an inappropriate top-down methodology. We are intervening to amend the rate to a level supported by customers. The company evidence for the outcome delivery incentive underperformance rate is not compelling. It states only that it is based on marginal costs. This leads to an underperformance rate which is much lower than the outperformance rate, both on a per	We are intervening to reduce the outcome delivery incentive outperformance rate by 50%, to £0.48 million. This reflects the level of outperformance customers supported in the quantitative research for being as successful as the best company to date in exceeding its targets. We are intervening to set the outcome delivery incentive underperformance rate to be equal to the outperformance rate, to £0.48 million.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			In each case the company should provide its evidence and rationale.		prepared to pay more for further performance improvements. The company does not provide any additional evidence to support its underperformance rate.	unit basis and for the P10/P90 performance level payment estimates. We are intervening to amend the underperformance rate to align to the outperformance rate. This is consistent with customer preferences, and avoids the scenario where an incremental improvement in performance is much more strongly incentivised than an incremental decrease in performance.	
	WSX.OC.36	Caps, collars, deadbands	**Event risk index (Wessex Water) (ERI WW) performance commitment:** The company should either remove the proposed deadbands from this performance commitment or provide convincing evidence to explain why these features are appropriate and in customers' interests. If the company wishes to retain the deadbands, it should consider whether to reset its underperformance deadband to bring this much closer to projected performance in the 2020 – 2025 period. The company should provide explicit justification for the revised level at which it proposes to set underperformance deadband. The company should propose a cap on its outperformance payments in each year of the 2020-25 period. The company should provide evidence and rationale for the level of the cap proposed.	1 April 2019	The company is removing the deadbands from this performance commitment. The company has also proposed a cap on its outperformance payments in each year of the 2020-25 period. It states that the cap level is set at the P90 outperformance level in line with our methodology set out in Technical Appendix 1 of the initial assessment of plans. The company also includes a collar at the P10 underperformance level. It states that this is to ensure a balance of risk and reward. It sets the P10 based on the provisional 2018 national average performance.	Intervention required. The company is complying with the action. It is removing the deadband, and so no intervention on this part of the action is required. The company has also proposed an appropriate cap, in line with our methodology. 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 the collar should be at different levels to those the company proposed. 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 commitment, after other interventions are applied, is a material contributor to downside financial risk to the return on regulatory equity. We consider the financial exposure to the company resulting from this performance commitment's underperformance rate would be disproportionate in the context of the rest of the outcomes delivery incentive package. As such, we are intervening to reduce the financial underperformance exposure by adjusting the underperformance collar. We are intervening to set the collar to limit financial exposure to double the maximum outperformance payments from achieving the outperformance cap.	We are intervening to set the collar to 19.218 for every year of the period 2020-2025. This limits the financial underperformance to £4.42 million a year, double the maximum financial outperformance from reaching the cap.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.37	ODI type	**Total bill reduction to customers on social tariffs per 10,000 households performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support for this proposal. The company should provide sufficient evidence to demonstrate how this outcome delivery incentive will benefit customers.	1 April 2019	The company provides additional quantitative evidence of customer support for outperformance payments. It commissioned research which showed a high degree of acceptability for bill increases for outperformance for this performance commitment. The company did not provide any evidence or rationale for why customers would benefit from outperformance payments on this performance commitment.	Intervention required. The company's evidence of customer benefit is not sufficient. Whilst there is evidence of customer support for outperformance payments, it is not clear why customers would benefit from the company earning outperformance payments on this performance commitment. There is also a high risk of double counting with the outperformance rate proposed for the performance commitment on Successful applications for assistance received by the independent advice sector/third parties (see WSX.OC.38). Under the structure the company is proposing, they would receive rewards on two outcome delivery incentives when they exceed their social tariff targets through using applications from third parties - this double counting is not an appropriate reward structure.	We are intervening to remove the outperformance payments.
	WSX.OC.38	ODI type	**Successful applications for assistance received by the independent advice sector/third parties performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support for this proposal. The company should provide sufficient evidence to demonstrate how this outcome delivery incentive will benefit customers.	1 April 2019	The company provides additional quantitative evidence of customer support for outperformance payments. The company also explains that the outperformance payments will be paid to third parties for successful applications for assistance.	No intervention required. The company's rationale for outperformance payments is sufficient. The company is adopting an innovative approach to increase the number of customers on its schemes. It is requesting additional funding only for where it exceeds its stretching targets on successful applications received. The outperformance payments will be used entirely to pay the third parties (for example, debt charities), who may otherwise not have the resources to make the applications to Wessex Water - as such there is a clear customer benefit to outperformance payments. Our intervention to remove outperformance payments on 'total bill reduction to customers on social tariffs per 10,000 households' removes the risk of double rewarding the company.	NA
	WSX.OC.39	Stretch	**Void sites performance commitment:** The company should propose a target and clearly set out the evidence and rationale for the revised targets.	1 April 2019	The company provides additional information setting out its reasoning for not increasing stretch including its historic and current performance relative to the rest of the industry and comparison using council tax void information.	No intervention required. The company's rationale and evidence for not increasing stretch further is sufficient. The company provides clear evidence of how it performs relative to other water companies, in particular utilising data on properties considered empty for the purposes of council tax. This data suggests it is a relatively good performer.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.40	ODI type	**Void sites performance commitment:** 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 explains that without financial incentives on the outcome delivery incentive, the regulatory framework does not incentivise companies to identify occupied void properties. The company also provides evidence that the performance commitment is designed to not incentivise any under or over-forecasting of voids, and to avoid incentivising focusing efforts in just one part of the regulatory period.	No intervention required. The company's evidence and justification is sufficient. There is a clear customer benefit (bill reduction) to improving void performance above stretching targets, and the company would not otherwise have strong incentives to undertake this additional activity.	NA
	WSX.OC.41	ODI rates	**Void sites performance commitment:** The company demonstrated that its proposed outcome delivery incentive rates do not exceed the reduction in bills that customers would experience from a reduction in the proportion of void sites.	1 April 2019	The company explains that the proposed incentive rate is based on its estimate of efficient marginal costs. It explains these are based on the average cost to the company of visiting a property. The company compares these costs to the benefits to customers of bill reductions, showing the benefit to customers outweighs the proposed outperformance rate.	Intervention required. The company clearly explains how the benefits to customers are larger than the outperformance payments, which are based on costs. However, the company's proposed outcome delivery incentive rate does not accurately reflect the expected 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 are also adjusting the rates to be on a per 1% basis rather than the company's per 0.1% basis. We set out our rationale for setting outcome delivery incentive rates for this performance commitment in the '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 £288, marginal costs of £59, a cost sharing factor of 50%, and property numbers as provided by the company. The new rates are: Underperformance payment = £3.055 million per 1% Outperformance payment = £1.701 million per 1%
	WSX.OC.42	ODI type	**Gap sites performance commitment:** 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 outcome delivery incentive reflecting the reduction in customer bills that would result from an increase in the identification of gap sites.	1 April 2019	The company is revising the outcome delivery incentive type to outperformance only. They propose an outcome delivery incentive rate of £320 per property, the average bill in the region.	Intervention required. The company has provided sufficient justification for an outperformance payment - there is a clear customer benefit from identifying additional gap sites, and without an incentive to outperform the company does not have incentive to identify these additional sites. The company does not provide any explanation or evidence for not including an underperformance	We are intervening to set an underperformance payment rate. We are also intervening to reduce the outperformance payment rate. We are setting both rates to be equal (on a per property basis) to those we are intervening to set for voids. For gap sites, the outperformance payment rate is £145 per property, and the

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
						rate. As such, there is no compelling case for excluding an underperformance rate. The outcome delivery incentive rate proposed by the company would allocate all of the benefit to identifying a gap site to the company, with no sharing with customers. As such, the justification for the outcome delivery incentive rate being proposed by the company is not sufficient.	underperformance payment rate is £260 per property.
	WSX.OC.43	ODI type	**Number of children/students engaged performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support. The company should also provide sufficient evidence to demonstrate how this outcome delivery incentive will benefit customers.	1 April 2019	The company provides additional quantitative evidence of customer support for outperformance payments.	No intervention required. The company's evidence for outperformance payments for this performance commitment is sufficient. There is evidence of customer support for outperformance payments. There is also a clear customer benefit from the additional educational activities which provide potential long-term benefits at a low cost. The outcome delivery incentive rate proposed allows the company to recover only its additional costs for going beyond its stretching targets, limiting the scope for outperformance.	NA
	WSX.OC.44	Definition	**Tackling water quality at home and in the work place performance commitment:** The company should provide additional detail to clarify the definition of this performance commitment and how it will report against the measure	1 April 2019	The company clearly sets out the scoring mechanism, the process for collecting the score and assurance in their response. In particular it sets out: - The scoring mechanism and how many points are allocated for each item; - The sources of data (water fitting inspections and lead customer supply pipe replacements); and - That it has external assurance from Mott McDonald on this scoring mechanism.	Intervention required. The company provides sufficient evidence detailing the definition and reporting. However, the company has proposed to report the metric as a cumulate measure. As the financial incentive is linked to the overall costs and benefits over time the metric should be reported according to delivery within the year. Otherwise payments could be due over multiple years for delivery in a single year. For example if the company did not improve at all the underperformance in year 1 would lead to underperformance payments in each year.	We are intervening to report the performance commitment on an annual basis: 2020-21 = 18,297 2021-22 = 18,297 2021-22 = 18,297 2021-22 = 18,297 2021-22 = 18,297 Units: numerical score.
	WSX.OC.45	ODI type	**Tackling water quality at home and in the work place performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support for this proposal. The company should also provide sufficient	1 April 2019	The company provides additional quantitative research showing customer support for outperformance payments.	No intervention required. The company's evidence for outperformance payments for this performance commitment is sufficient. There is evidence of customer support for	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			evidence to demonstrate how this outcome delivery incentive will benefit customers.			outperformance payments. There is also a clear customer benefit from the activity, including the replacement of household and non-household customer lead service pipes. The outcome delivery incentive rate proposed allows the company to recover only its additional costs for going beyond its stretching targets, limiting the scope for outperformance. The cost estimates provided are consistent with our expectations for the scope of work planned by the company.	
	WSX.OC.46	Timing	**Lead communication service pipes replaced (Wessex Water assets) performance commitment:** The company should justify its use of end-of-period incentives, explaining why future customers will benefit from performance improvements achieved during the 2020 – 2025 period. The company should consider removing this performance commitment if it cannot demonstrate that performance improvements are cost beneficial to achieve. In either case the company should provide its evidence and rationale.	1 April 2019	The company provides an explanation of the public health risks of lead pipes. The company highlights the long-term risk to young children who are exposed to lead, including ill-health, lost earnings and the cost of special education. The company re-iterates the evidence presented in the September Business Plan of the positive cost-benefit analysis over the lifetime of the assets.	No intervention required. The company's explanation of the long-term benefits to current and future customers of an accelerated lead pipe replacement programme is sufficient. In addition, the company's cost benefit analysis shows the total costs are outweighed by the benefits which arise principally from the avoided costs of ill-health. The structure of the outcome delivery incentive rates proposed allows the company to obtain an appropriate share of the long-term benefits from exceeding the stretch targets. We also note that the outcome delivery incentive outperformance rate is based on marginal costs only.	NA
	WSX.OC.47	ODI rate	**Customer property sewer flooding (external) performance commitment:** The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average that we set out in **'Technical appendix 1: Delivering outcomes for customers'** and demonstrate that this variation is consistent with customers' underlying preferences and priorities for service improvements in external sewer flooding. The company should explain and evidence how its proposed outcome delivery incentive rate for this performance commitment is coherent with the rates proposed for all other sewerage performance commitments (including Customer property sewer flooding (internal), Sewer flooding risk, Pollution incidents and Sewer collapses) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately	1 April 2019	The company has not adjusted its rates in response to our IAP action. The company states that some of its outcome delivery incentive rates fall outside the ranges we provided at IAP. The company states that the evidence suggests that, on balance, using its own incentive rates based on its customer research is more likely to be reflective of its own customers' views and, therefore, in its own customers' interests. The company challenges our use of reasonable ranges, arguing that: We have provided no evidence to explain how or why we has chosen the 'reasonable ranges' for each outcome delivery incentive rate. The company's customer research and triangulation has been widely praised and it is confident that it has provided outcome delivery incentive rates that accurately reflect customer preferences.	No intervention required. Our methodology for intervening on outcome delivery incentive rates is explained in detail in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'. The company has not made any adjustments to its proposed outcome delivery incentive rates which remain aligned to the industry average (as defined by the reasonable range in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'). We have not identified any concerns with the company's underlying valuation research nor in its derivation of its outcome delivery incentive rates. The company sufficiently explains how its outcome delivery incentive rate is coherent with rates proposed for other asset health performance commitments by demonstrating that its incentives do not double either costs or willingness to pay valuations.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			incentivises performance in the long and short-term. The company should also provide the additional information set out in **'Technical appendix 1: Delivering outcomes for customers'** to allow us to better understand the causes of variation in outcome delivery incentive rates for external sewer flooding and assess the appropriateness of the company's customer valuation evidence supporting its outcome delivery incentive.		The company states that it is important to ensure that the quality of research undertaken by different companies is high before assessing 'reasonable ranges'. There should be clear and transparent explanations for removing companies from the comparison and for choosing ranges around the mean within which companies might be expected to fall. There should be a consistent approach that is well evidenced. The company also states that it has supplied the additional information required in our Technical appendix 1.	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'.	
	WSX.OC.48	ODI rate	**Sewer flooding risk performance commitment:** The company should explain and evidence how its proposed outcome delivery incentive rate for this performance commitment is coherent with the rates proposed for all other sewerage performance commitments (including Customer property sewer flooding (internal), Customer property sewer flooding (external), Pollution incidents and Sewer collapses) and demonstrate how the package of outcome delivery incentives across the relevant group of performance commitments appropriately incentivises performance in the long and short-term.	1 April 2019	The company provides an explanation of how the rates for each of the performance commitments relating to sewerage performance are coherent. It states that each performance commitment is based on a separately triangulated willingness to pay value. It also states that the cost adjustment claim for sewer flooding is allocated across the internal sewer flooding, external sewer flooding and sewer flooding risk outcome delivery incentives.	No intervention required. The company's explanation of the coherence of the marginal benefit element of the calculations is sufficient. In particular, the sewer flooding risk outcome delivery incentive is calculated using marginal costs only, so there is no risk to double counting with the common performance commitments on sewer flooding. The company's explanation of marginal costs is also sufficient. The company has split the costs associated with its enhancement spend on sewer flooding across the internal, external and flooding risk performance commitments.	NA
	WSX.OC.49	ODI type	**Natural capital: improve Sites of Special Scientific Interest (SSSI sites) performance commitment:** The company should provide further sufficient evidence to justify the use of outperformance payments for this outcome delivery incentive and also provide evidence of customer support for its proposed approach. The company should provide compelling evidence that customers are willing to pay for expedited scheme delivery and that this delivers clear additional benefits that customers' value. The company should also set out evidence that outperformance will not occur due to normal re-profiling of the investment programme.	1 April 2019	The company proposes revising the performance commitment to better define outperformance. Outperformance will be achieved by going beyond what has been agreed with Natural England or the Catchment Panel. The company also explains that there is little scope for re-profiling as the action plan for delivery will be agreed for the full five years in advance with the Catchment Panel. The Catchment Panel will also review and sign off actions for each year. The company also clarifies that the water industry national environment programme will have no impact on this performance commitment.	No intervention required. The company's proposed revisions to outperformance will provide clear benefit to customers. There is also some evidence of customer support. We also note that the outcome delivery incentive outperformance rate is based on marginal costs only, limiting the potential for excessive returns.	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	WSX.OC.50	ODI type	**Working with communities to improve bathing performance commitment:** The company should provide further sufficient evidence to justify the use of outperformance payments for this outcome delivery incentive and sufficient evidence to demonstrate that customers support an accelerated delivery of schemes and that this delivers clear additional benefits that customers' value. The company should also set out evidence that outperformance will not occur due to normal re-profiling of the investment programme.	1 April 2019	The company provides additional detail on the role of the catchment panel on agreeing and signing-off the targeted bathing waters each year and the associated activities. This company states this will allow re-profiling only when it benefits customers. The company also argues that as delivery will be undertaken by third parties who are resource constrained, significant outperformance will be difficult.	No intervention required. The company's use of the catchment panel to ensure the profile of activity is beneficial to customers and the environment is sufficient, given the scope of the activity planned. We also note that the outperformance rate is based on cost-recovery only, limiting the opportunity for outperformance. There is evidence of customer support for outperformance, and we note the total number of bathing waters in scope is capped.	NA
	WSX.OC.51	ODI rates	**Working with communities to improve bathing performance commitment:** The company should provide further evidence to justify the application of the 1.2 multiplier to the outperformance payment (including evidence of customer support for the magnitude of outperformance incentive applied to this specific performance commitment).	1 April 2019	The company is removing the 1.2 multiplier applied to the performance commitment.	No intervention required. The company is complying with the action. It has removed the multiplier on the outperformance rate and so no intervention is required.	NA
	WSX.OC.52	Definition	**Working with catchment partners to improve natural capital performance commitment:** The company should clarify the definition of this performance commitment particularly with reference to how it provides additional value beyond that already funded through other related performance commitments and WINEP.	1 April 2019	The company has provided an explanation how the performance commitment provides benefits over and above those required by the water industry national environment programme and that outperformance is not possible on the water industry national environment programme elements.	No intervention required. The company has provided sufficient further clarification and detail, including: - What the specific benefits above and beyond the water industry national environment programme are - Outperformance is limited to non-water industry national environment programme schemes only. As such, no intervention is necessary.	NA
	WSX.OC.53	Stretch	**Working with catchment partners to improve natural capital performance commitment:** The company should explain and justify this proposed fall in performance between 2019 and 2021 or it should correct this if it is an error.	1 April 2019	The company has provided further evidence to support its original position and proposes correcting figures which initially were incorrect.	No intervention required. The company proposes amending the performance commitment levels so that performance does not fall over time.	NA
	WSX.OC.54	ODI type	**Working with catchment partners to improve natural capital performance commitment:** The company should provide further evidence to justify the use of an outperformance payment for this performance commitment, including evidence of customer support for its proposal. The company should provide sufficient evidence to demonstrate how this outcome delivery	1 April 2019	The company provides additional quantitative research showing customer support for outperformance payments. The company has updated the performance commitment so that outperformance payments are earned only for delivering additional schemes.	No intervention required. The company's justification to retaining outperformance payments is sufficient. There is evidence of customer support, and there is a clear benefit to customers from additional schemes being completed above the stretching target. The outcome delivery incentive rate has also been	NA

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			incentive will deliver benefits that customers' value.			designed so that the company recovers only the efficient marginal costs of extra schemes, limiting the scope for large outperformance payments.	
	WSX.OC.55	ODI rate	**Working with catchment partners to improve natural capital performance commitment:** The company should provide further evidence to justify that the 1.2 multiplier should affect the outperformance payment that the company proposes, or remove this multiplier from the outperformance incentive rate only.	1 April 2019	The company is removing the 1.2 multiplier applied to the performance commitment.	No intervention required. The company is complying with the action. It has removed the multiplier on the outperformance rate and so no intervention is required.	NA
	WSX.OC.56	ODI type	**Reduce frequent spilling overflows (non-WINEP) performance commitment:** The company should provide sufficient further evidence to justify the use of outperformance only payments for this outcome delivery incentive and evidence of customer support for this approach. The company should also provide sufficient evidence to demonstrate how this outperformance only outcome delivery incentive will benefit customers. Failing that, the company should consider a different outcome delivery incentive type.	1 April 2019	The company argues that outperformance payment only is a necessary consequence of the zero target level. The company explains that the activity is over and above statutory requirements. The company states that improvements are not mandatory and will be undertaken only when they are cost-beneficial and agreed with the Environment Agency. The company argues that customers are protected from inefficient delivery as the outcome delivery incentive only accounts for the efficient cost of delivery.	No intervention required. The company's additional evidence of customer support for outperformance payments is high quality and sufficient. Customer support for outperformance payments is strongest for environmental measures out of all the areas tested in the additional research. There is also a clear customer benefit that will be assessed using a standard methodology and requires agreement of the Environment Agency. As such, no intervention is required.	NA
	WSX.OC.57	ODI type	**Km of river improved (non-WINEP) performance commitment:** The company should provide further evidence to justify the use of an outperformance only payment for this performance commitment, including evidence of customer support for its proposal. The company should also provide sufficient evidence to demonstrate how this outcome delivery incentive will benefit customers. Alternatively, the company should change the type of performance commitment.	1 April 2019	The company argues that outperformance payment only is a necessary consequence of the zero target level. The company states that improvements are not mandatory but are cost-beneficial, and that customers are protected against underperformance in their statutory requirements through the water industry national environment programme. The company also states it has significant stakeholder support for the additional activity receiving a financial outcome delivery incentive. The company also presents evidence from the Environment Agency that demonstrates their support for the activity receiving funding and explaining why the activity cannot be included in the water industry national environment programme.	No intervention required. The company presents sufficient evidence of stakeholder support for this activity, including letters from local councils and evidence of support from the Environment Agency. The evidence also includes clear customer benefit from the activity, including mitigating the risk of river water quality blocking additional housing development and business growth in the region. The company is going beyond their statutory requirements with this activity. The company's high quality quantitative evidence of customer support for outperformance payments for improving river quality is also sufficient.	NA
Addressing affordability and vulnerability	WSX.AV.A2	Affordability and vulnerability	Wessex Water has proposed a financial performance commitment on Priority Services Register (PSR) growth 'Number of customers added to the Priority Services Register' (PR19WSX_C1). It is proposing an out and under outcome delivery incentive and is aiming to increase its PSR reach from 2% in 2019/20 to	1 April 2019	Wessex Water adopts all three features of our common performance commitment by amending its measure submitted in September 2018. The company meets the 7% and 90% target levels and removes the outperformance payment previously associated with this measure.	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	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.

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			5.9% of customers in 2024/25. 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): Wessex Water should adapt its performance commitment on 'Number of customers added to the Priority Services Register' (PR19WSX_C1). This would involve making the performance commitment reputational and targeting a PSR reach of at least 7% of households by 2024/25. It should also commit to checking at least 90% of PSR data every 2 years via its performance commitment. 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.			are amending the performance commitment levels for all companies, and so intervention is required.	More information on this common performance commitment can be found in our guidance document, 'Common performance commitment outline for the Priority Service Register ("PSR")' (https://www.ofwat.gov.uk/publication/common-performance-commitment-outline-for-the-priority-service-register/).

Table 3 – Interventions not directly related to IAP actions

Intervention reference	Our assessment and rationale	Interventions
WSX.OC.C1 PR19WSX_E9 Reduce frequent spilling overflows (non-WINEP) Definition	Intervention required. Our further review of this performance commitment has identified that the company has not included any information in the definition on how it will consider or use sustainable urban drainage systems (SUDs) to reduce these frequent spilling overflow incidents. We consider that such approaches can be valuable and cost-effective ways to improve performance and should be included as possible solutions.	We are intervening to specify in the definition of this performance commitment that the company should include how it is considering utilising sustainable urban drainage systems as a solution to frequent spilling overflows.
WSX.OC.C2 PR19WSX_E9 Reduce frequent spilling overflows (non-WINEP) Outcome delivery incentive rate and incentive form	Intervention required. The company provides further evidence to support outperformance payments. In its business plan it explains the outcome delivery incentive rate is based on customer willingness to pay for schemes to reduce Frequent Spilling Overflows (FSOs). In its response to WSX.OC.56 the company explains the outcome delivery incentive rate only accounts for the efficient costs of delivery. However, as we did not raise an action on the	We are intervening to set the outcome delivery incentive rate based on efficient cost recovery. The company provides an estimate of efficient costs for completing 14 additional schemes. The unit cost per scheme is consistent with similar schemes within the company's water industry national environment programme. Converting the unit

Intervention reference	Our assessment and rationale	Interventions
	outcome delivery incentive rate it does not provided any further additional evidence or justification to support the proposed outcome delivery incentive rate. As we are not intervening to remove the outperformance payment we have further reviewed the proposed outperformance rate. The company does not provide sufficient evidence to justify its outcome delivery incentive rate. Its approach relies on using customer willingness to pay. As the willingness to pay appears to exceed the marginal costs, setting the outcome delivery incentive rate using willingness to pay would allow the company to earn high levels of return with minimal risk. If this activity was being funded through a cost enhancement claim, only efficient costs would be allowed. It is not be appropriate for the company to earn greater returns simply due to the regulatory mechanism being applied. The outcome delivery incentive rate the company is proposing is not compelling. The rate allows recovery of more than efficient costs, which is inconsistent with how the activity would have been treated if the company had submitted a cost enhancement claim. In addition the company proposes to split the incentive form between revenue and RCV to limit the impact on customer bills. We are intervening to set the outcome delivery incentive for this performance commitment to revenue only because we consider there are more appropriate ways to manage bill impacts on customers at a company level rather than within individual performance commitments.	cost to an Equivalent Annual Cost (EAC) and applying the sharing factor (as the company does in the data it provides) gives an in-period outcome delivery incentive outperformance rate of £0.055 million, and an end-of-period regulatory capital value increase of £0.78 million. We are intervening to change the outcome delivery incentive form to revenue.
WSX.OC.C3 PR19WSX_E9 Reduce frequent spilling overflows Caps and collars	Intervention required. The company does not propose any caps for this performance commitment. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. We consider that the performance commitment is financially material as outperformance could lead to unexpectedly high bill impacts without a cap. We consider that caps are appropriate and have set them 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 outperformance cap at 13 each year.
WSX.OC.C4 PR19WSX_E11 Km of river improved (non-WINEP) Outcome delivery incentive rate	Intervention required. The company provides further evidence to support outperformance payments. In its business plan it explains the outcome delivery incentive rate is based on customer willingness to pay for schemes to reduce Frequent Spilling Overflows (FSOs). In its response to WSX.OC.56 the company explains the outcome delivery incentive rate only accounts for the efficient costs of delivery. However, as we did not raise an action on the outcome delivery incentive rate it does not provided any further additional evidence or justification to support the proposed outcome delivery incentive rate. As we are not intervening to remove the outperformance payment we have further reviewed the proposed outperformance rate. The company does not provide sufficient evidence to justify its outcome delivery incentive rate. Its approach relies on using customer willingness to pay, even though as the target level is zero there is no risk to the company of not meeting its target level. As the willingness to pay appears to exceed the marginal costs, setting the outcome delivery incentive rate using willingness to pay would allow the company to earn high levels of return with minimal risk. If this activity was being funded through a cost enhancement claim, only	We are intervening to set the outcome delivery incentive rate based on efficient cost recovery and we estimate that this is £20,000 per km. Applying the cost sharing factor, we set the outcome delivery incentive outperformance rate to £10,000 per km.

Intervention reference	Our assessment and rationale	Interventions
	efficient costs would be allowed. It would not be appropriate for the company to earn greater returns simply due to the regulatory mechanism being applied. The outcome delivery incentive rate the company is proposing is not compelling. The rate allows recovery of more than efficient costs, which is inconsistent with how the activity would have been treated if the company had submitted a cost enhancement claim.	
WSX.OC.C5 PR19WSX_E5 Greenhouse gas emissions Outcome delivery incentive rate	Intervention required. The company explains that it calculated the outcome delivery incentive rate based on the 2017 short-term traded cost of carbon. It explains this is consistent with Government policy appraisal guidance. The company does not provide sufficient evidence to justify the outcome delivery incentive rate used. The company correctly uses the short-term traded cost of carbon, but does not apply this in a manner consistent with Government policy appraisal guidance. It uses the 2017 value, whereas the value should be set using the expected values during the period in which the emissions occur (2020-2025). We are intervening to correct this error.	We are intervening to set the underperformance rate using the average of the values for the traded cost of carbon for 2020 to 2024. This changes the underperformance payment rate from -£0.0041 million to -£0.0195 million.
WSX.OC.C6 PR19WSX_E10 Length of river with improved water quality through WINEP delivery Definition	Intervention required. The company's proposed performance commitment levels do not take into account the risk of Amber schemes being removed from the water industry national environment programme. Given the uncertainty around the requirement to deliver schemes classified as "Amber", we have updated the performance commitment definition to only include schemes classified as “Green” by the Environment Agency as of the 1st April 2019. This avoids unnecessary complexity in the performance commitments and outcome delivery incentives framework, which could require several revisions through the 2020-25 period to align with changes in the water industry national programme.	We are intervening to set the definition to include only schemes specified as "Green" by the Environment Agency as of the 1st April 2019.
WSX.OC.C7 PR19WSX_E10 Length of river with improved water quality through WINEP delivery Stretch	We are intervening to change the definition. Consequently the target is no longer appropriate and needs to change. The company could propose a different profile if it has evidence it is more appropriate, but still stretching.	We are intervening to set the target to include only schemes specified as "Green" by the Environment Agency. The Performance Commitment Levels are as follows: 2020-21 = 0 2021-22 = 159.4 2022-23 = 167.4 2023-24 = 167.4 2024-25 = 399.9 Units: km of river improved
WSX.OC.C8 PR19WSX_W2 Per capita consumption Stretch	Intervention required. The company forecasts an increase in the proposed performance commitment level in the first three years of the 2020-25 period which we do not consider stretching.	We are intervening to set the performance commitment levels for 2020-21, 2021-22 and 2022-23 to achieve 128.9, 128.8 and 128.6 litres per person per day respectively. These are as follows: 2020-21 = 0.1% 2021-22 = 0.2%

Intervention reference	Our assessment and rationale	Interventions
		2022-23 = 0.3% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis.
WSX.OC.C9 PR19WSX_W2 Per capita consumption Enhanced ODIs	Intervention required. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced outperformance threshold for the sector since we want to ensure companies only receive enhanced outperformance payments for pushing forward the industry frontier. Where companies have proposed less stretching levels than this we are intervening to move them to our assessment of the frontier over time. Due to information asymmetry, where companies proposed more stretching levels we do not propose to intervene. Since this company's proposal is less stretching than our assessment of the frontier, we are intervening on the company's enhanced outperformance thresholds for this performance commitment. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure companies have whilst protecting customers from poor performance. The company also states that it deems it inappropriate to receive an enhanced outperformance payment for this performance commitment. The company has proposed an enhanced outperformance rate but no enhanced outperformance threshold. This makes it unclear as to whether the company would like an enhanced outcome delivery incentive on this measure or not.	We are intervening to set the enhanced outperformance thresholds for this performance commitment at our assessment of the frontier over time. These are as follows: 2020-21 = 5.7% 2021-22 = 6.4% 2022-23 = 7.3% 2023-24 = 8.1% 2024-25 = 8.9% 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. These are as follows: 2020-21 = -12.0% 2021-22 = -12.0% 2022-23 = -12.0% 2023-24 = -12.0% 2024-25 = -12.0% Units: percentage reduction in per capita consumption from initial levels on a three-year average basis. We are intervening to set the enhanced underperformance collars for this performance commitment at the lower decile of current company performance. These are as follows: 2020-21 = -15.4% 2021-22 = -15.4% 2022-23 = -15.4% 2023-24 = -15.4% 2024-25 = -15.4%

Intervention reference	Our assessment and rationale	Interventions
		Units: percentage reduction in per capita consumption from initial levels on a three-year average basis. If the company wishes to remove its enhanced outcome delivery incentive for this performance commitment it should also remove all of the relevant data in its data tables and state this clearly. If the company would like a two tiered penalty rate it should state this clearly.
WSX.OC.C10 PR19WSX_W1 Leakage Enhanced ODI underperformance threshold and collar	Intervention required. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure companies have whilst protecting customers from poor performance.	We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. These are as follows: 2020-21 = -22.4% 2021-22 = -22.4% 2022-23 = -22.4% 2023-24 = -22.4% 2024-25 = -22.4% Units: percentage reduction in leakage from initial levels on a three-year average basis. We are intervening to set the enhanced underperformance collars for this performance commitment at the lower decile of current company performance. These are as follows: 2020-21 = -32.9% 2021-22 = -32.9% 2022-23 = -32.9% 2023-24 = -32.9% 2024-25 = -32.9% Units: percentage reduction in leakage from initial levels on a three-year average basis.
WSX.OC.C11 PR19WSX_R1 Water supply interruptions Enhanced ODIs	Intervention required. As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance threshold for the sector based on current lower quartile performance which should protect customers from poor performance. We consider that this will protect customers from companies taking unreasonable risks to achieve enhanced outperformance and potentially end up with very poor performance. The company 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 the PR19 draft determinations: Delivering outcomes for customers policy appendix we consider enhanced outperformance caps are appropriate.	We are intervening to set the enhanced underperformance thresholds for this performance commitment at the lower quartile of current company performance. These are as follows: 2020-21 = 00:32:54 2021-22 = 00:32:54 2022-23 = 00:32:54 2023-24 = 00:32:54 2024-25 = 00:32:54 Units: hours:minutes:seconds.

Intervention reference	Our assessment and rationale	Interventions
	As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure companies have whilst protecting customers from poor performance.	We are intervening to set an enhanced outperformance cap at 1% of water or wastewater regulated equity each year. See the PR19 draft determinations: Delivering outcomes for customers policy appendix for how this will operate in practice. We are intervening to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance. These are as follows: 2020-21 = 00:43:49 2021-22 = 00:43:49 2022-23 = 00:43:49 2023-24 = 00:43:49 2024-25 = 00:43:49 Units: hours:minutes:seconds.
WSX.OC.C12 PR19WSX_E2 Pollution incidents Enhanced ODIs	As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure companies have whilst protecting customers from poor performance.	We are intervening to set the enhanced underperformance collars for this performance commitment at the lower decile of current company performance. These are as follows: 2020-21 = 85.00 2021-22 = 85.00 2022-23 = 85.00 2023-24 = 85.00 2024-25 = 85.00 Units: pollution incidents per 10,000km of sewer.
WSX.OC.C13 PR19WSX_F1 Customer property sewer flooding (internal) Enhanced ODIs	As we set out in the PR19 draft determinations: Delivering outcomes for customers policy appendix, we have calculated a single enhanced underperformance collar for the sector based on current lower decile performance which will limit the level of exposure companies have whilst protecting customers from poor performance.	We are intervening to set the enhanced underperformance collars for this performance commitment at the lower decile of current company performance. These are as follows: 2020-21 = 4.30 2021-22 = 4.30 2022-23 = 4.30 2023-24 = 4.30 2024-25 = 4.30 Units: sewer flooding incidents per 10,000 connections.
WSX.OC.C14 PR19WSX_Q2	Intervention required.	We are intervening to set the underperformance rate by triangulating across the company's proposed rate, the industry average rate (on a normalised basis) and

Intervention reference	Our assessment and rationale	Interventions
Water quality customer contacts	The company states that it has increased its rates following the incorporation of taste and odour contacts into the definition of the performance commitment. The company has not provided sufficient evidence to demonstrate that it has appropriately amended its rates to take account of the revision to the performance commitment definition. The revised rates remain materially below the industry average and provide a lower level of customer protection against underperformance relative to the rates which apply to its equivalent 2015-20 outcome delivery incentive. The company is also forecast to accrue a net underperformance payment on its equivalent 2015-20 performance commitment. As such, we are intervening to increase the outcome delivery incentive rates.	the rate that applies to the company's equivalent 2015-20 outcome delivery incentive. We are intervening to set the outperformance rate at the underperformance rate with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' September business plans (as explained in PR19 draft determinations: Delivering outcomes for customers policy appendix). The resulting underperformance and outperformance rates are -£0.990m and £0.825m/contact per 1,000 population, respectively.
WSX.OC.C15 PR19WSX_Q2 Water quality customer contacts Stretch	Intervention required. Our industry comparative analysis for this performance commitment shows that company's forecast performance is less than industry's upper quartile in absolute terms or on upper quartile percentage improvement from 2019-20 to 2024-25. We are therefore intervening to drive further improvement in this measure. We set out our rationale for setting performance commitment levels for this common performance commitment in the 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the following performance commitment levels: 2020-21 = 1.31 2021-22 = 1.22 2022-23 = 1.12 2023-24 = 1.03 2024-25 = 0.93 Units: customer contacts per 1,000 population. The values are based on the application of the upper quartile percentage improvements proposed by other companies (34%) from 2019-20 to 2024-25, using a linear profile.
WSX.OC.C16 PR19WSX_R2 Risk of severe restrictions in a drought	Intervention required. No action on this performance commitment was given to the company. We need some more information to assess the proposals. Intermediate calculations both give us confidence that companies have followed our definition appropriately and allow us to intervene appropriately if we do not consider the service levels are stretching. We would like companies to confirm that their performance commitment levels are reflective of their water resources management plan position.	This is a sector wide action. The company should provide a full set of intermediate calculations at a zonal level, underlying the risk calculation (for both baseline levels and performance commitment). The company should confirm that its performance commitment levels are reflective of its water resources management plan position. This should include the potential that it will have access to drought orders and permits. The company should confirm which programmes of work will impact its forecasts. The company should confirm which schemes will impact its forecasts.
WSX.OC.C17 PR19WSX_R3 Risk of sewer flooding in a storm	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	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)

Intervention reference	Our assessment and rationale	Interventions
	resilience in line with the revised definition.	• reporting the extent to which they use 2D or simpler modelling; and •adopting FEH13 rainfall as standard and if not when it expects to do so. Can the company also provide any modelling assumptions, full reporting tables from the model and model coverage.
WSX.OC.C18 PR19WSX_F4 North Bristol Sewer Scheme - Trym catchment	Intervention required. We are intervening to redefine the performance commitment so that it is more transparent whether the scheme is delayed beyond 2022-23. This means the company will incur underperformance payments for every month of delay after 31 March 2023. We are also setting the underperformance rate for delays to be aligned to our final cost allowance and new definition in line with our standard approach to setting rates. We have also amended the non-delivery rate to align with our final cost allowance and new definition in line with our standard approach to setting rates.	We are intervening to set the levels for this performance commitment. These are as follows: 2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 0 Units: months of delays to zero decimal places We are intervening to remove the second underperformance payment rate in App1 and set a single underperformance payment rate at -£0.142 million and the non-delivery rate at -£0.930 million per unit of non-delivery.
WSX.OC.C19 PR19WSX_Q4 Lead communication service pipes replaced (Wessex Water assets) Multiple interventions	Intervention required. We are intervening to set the outcome delivery incentive for this performance commitment to just revenue because we consider there are more appropriate ways to manage bill impacts on customers at a company level rather than within individual performance commitments. The rate is calculated to reflect the element of efficient totex not corrected through cost sharing (assumed to be 50%). As a consequence of this, we are also intervening to change the performance commitment levels to be annual pipe replacements rather than cumulative, though are not changing the total stretch by 2024-25. We are also setting outperformance caps for this performance commitment to protect customers from high outperformance commitments. This is at the P90 levels reported by the company. We are not setting underperformance collars as all expenditure should be returned to customers if not delivered.	We are intervening to change the outcome delivery incentive type to revenue. We are intervening to change the performance payment rate to £0.000628 million per pipe replaced. We are intervening to set the levels for this performance commitment. These are as follows: 2020-21 = 1,160 2021-22 = 1,410 2022-23 = 2,010 2023-24 = 2,210 2024-25 = 2,210 Units: number of pipes replaced each year. We are also intervening to set outperformance caps for this performance commitment. These are as follows: 2020-21 = 9,900 2021-22 = 9,900 2022-23 = 9,900 2023-24 = 9,900

Intervention reference	Our assessment and rationale	Interventions
		2024-25 = 9,900 Units: number of pipes replaced each year.
WSX.OC.C20 PR19WSX_NEP01 Delivery of WINEP requirements Performance commitment addition	Intervention required. We are intervening to add a reputational performance commitment that measures whether the company has met all of its water industry national environment programme requirements in each reporting year. The performance commitment will use the latest water industry national environment programme from the Environment Agency at the end of the reporting year. This will allow the inclusion of any changes to the water industry national environment programme between now and the end of 2025.	We are intervening to add an additional reputational performance commitment that measures whether the company has met all of its water industry national environment programme requirements in each reporting year.
WSX.OC.C21 PR19WSX_R5 Unplanned outages Caps, collars and deabands	Intervention required. We consider that the proposed collar is not set at a level that would provide appropriate incentives for the company, while protecting customers from the risk of higher than anticipated impacts to bills. The range that underperformance payments would apply was too small to provide sufficient incentive. Our standard approach to setting collars that have sufficient incentive is set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the underperformance collars to: 2020-21 = 4.68 2021-22 = 4.68 2022-23 = 4.68 2023-24 = 4.68 2024-25 = 4.68 Unit: percentage outage compared to company peak week production capacity.
WSX.OC.C22 PR19WSX_W3 Customer reported leaks fixed within a day Caps, collars and deabands	Intervention required. The company does not propose to include a cap and a collar. As we did not raise an action at IAP regarding caps and collars for this performance commitment, the company has not provided any additional evidence to support its proposals. We consider that 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 our 'PR19 draft determinations: Delivering outcomes for customers policy appendix'.	We are intervening to set the underperformance collars to: 2020-21 = 75 2021-22 = 75 2022-23 = 75 2023-24 = 75 2024-25 = 75 Units: percentage of leaks fixed within the allotted time. We are intervening to set the outperformance caps to: 2020-21 = 97 2021-22 = 97 2022-23 = 97 2023-24 = 97 2024-25 = 97 Units: percentage of leaks fixed within the allotted time.
WSX.OC.C23 PR19WSX_E3	Intervention required.	We are intervening to set a negative number for the performance commitment due to the definition stating that a lower number signifies better performance.

Intervention reference	Our assessment and rationale	Interventions
PR19WSX_E12 Abstraction incentive mechanism (Mere) Abstraction incentive mechanism (Stubhampton) Definition	The definition of this performance measure sets out that a negative number signifies an improved performance. For example, if the abstraction incentive mechanism baseline is 5 Ml/day and the company abstracts an average of 4 Ml/day from the abstraction site when river flows are below the trigger threshold then, if flows are below the threshold for 100 days, the company has an improved performance relative to the baseline of (4 Ml/day minus 5 Ml/day)*100 days = minus 100 Ml. The information submitted by the company indicated that positive signified improved performance. As such, we understand that the company information should have the opposite signage and are intervening to correct the error.	
WSX.OC.C23 PR19WSX_A2 Successful applications for assistance received by the independent advice sector/third parties Caps and collars	Intervention required. We consider that the performance commitment is uncertain and that the company estimates of likely outperformance could be wrong. Large outperformance could lead to unexpectedly high bill impacts if the company estimates are wrong. We consider caps and collars are appropriate and have set them based on our standard approach which is set out in PR19 draft determinations: Delivering outcomes for customers policy appendix.	We are intervening to set the underperformance collars to: 2020-21 = 1,500 2021-22 = 1,500 2022-23 = 1,500 2023-24 = 1,500 2024-25 = 1,500 Units: number of successful applications. We are intervening to set the outperformance caps to: 2020-21 = 3,000 2021-22 = 3,000 2022-23 = 3,000 2023-24 = 3,000 2024-25 = 3,000 Units: number of successful applications.

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

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

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

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

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

July 2019

This document is also available from our website at www.ofwat.gov.uk.

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

OGL