

December 2019

PR19 final determinations

SES Water – Delivering outcomes for customers final decisions

PR19 final determinations: SES Water – Delivering outcomes for customers final decisions

In our draft determinations we published the ‘[Delivering outcomes for customers actions and interventions](#).’ document for each company. This document set out the actions from our initial assessment of plans, a summary of the company’s response to the action, our assessment of the company’s response, and the interventions we made as part of the draft determination. It also set out any interventions that did not result from an initial assessment of plans action, which we made as part of the draft determination.

This final determination document sets out the decisions we make for the final determination in response to representations received on our draft determinations and any other changes for the final determination.

Table 1 below sets out the draft determination decisions on performance commitments that were the subject of representations from the company, a summary of the company representation, our assessment and rationale for the final determination decision and our decisions for the final determination. Table 2 sets out the draft determination decisions on performance commitments that were the subject of representations from other stakeholders, a summary of the other stakeholder representations, our assessment and rationale for the final determination decision and our decisions for the final determination. Table 3 sets out any changes for the final determinations that are not resulting from representations received relating to the company.

Each performance commitment has a unique reference. The prefix ‘PR19SES’ denotes SES Water.

For all other documents related to the SES Water’s final determination, please see the [final determinations webpage](#).

Our ‘Outcomes performance commitment appendix’ for the company is published alongside this document. These documents are intended to be fully consistent. In the event of any inconsistency, then the ‘Outcomes performance commitment appendix’ takes precedence in all instances.

Table 1: SES Water - Representations in response to the draft determination

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
Leakage PR19SES_C.4	Performance commitment levels	No intervention at draft determination.	<p>The company challenges our current definition of upper quartile performance which uses both normalised metrics per property and per kilometre of mains simultaneously.</p> <p>The company states that a 15% reduction (on a 3 year average basis) represents a significant improvement in performance from its already strong position and it considers that only using the per property metric would reinforce its upper quartile position, making it eligible for enhanced funding beyond what is included in base expenditure.</p>	<p>No change for the final determination.</p> <p>Our approach follows our PR19 methodology, which states companies should set their proposed performance commitment levels to achieve forecast upper quartile in relation to both litres per property per day and per km of mains per day. This is because these are accepted normalised metrics used by the industry in England and Wales.</p> <p>The upper quartile values are based on the companies’ September 2018 business plans. Only three companies (Anglian Water, Bristol Water, and South East Water) forecast their performance to be at or better level than both upper quartiles, which reflect the fact that both the joins and connections, and aging pipes, are the ‘weak’ points in the network that cause</p>	N/A

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				leaks. For this reason we consider that both metrics are valid for setting the performance commitment levels.	
Leakage PR19SES_C.4	Outcome delivery incentive rates	<p>We intervened to triangulate the underperformance rate across (i) the company's proposed rate (ii) the average of the reasonable range; and (iii) the rate that applies to the company's corresponding outcome delivery incentive for 2015-20.</p> <p>We intervened to set the outperformance rate equal to the underperformance rate (in absolute terms) with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance suggested in companies' September 2018 business plans. The resulting underperformance and outperformance rates are -£0.415 million and £0.345 million per megalitre per day, respectively.</p>	<p>The company states that it accepts our draft determinations on its ODI rate, conditional upon our allowing its enhancement funding request of £17.4m, which we rejected in our draft determinations.</p> <p>The company also provides additional Willingness To Pay research by Box Clever, which it claims demonstrates customer support for additional funding for reducing leakage.</p>	<p>Change for the final determination.</p> <p>We do not consider the standard ODI outperformance rate set at draft determination is related to the company's enhancement funding claim.</p> <p>The company refers to new willingness to pay figures from additional research in its representation. The research the company references relates to its funding claim rather than its standard ODI rates.</p> <p>We do not find the research sufficient to change our ODI rate for final determination. The company provides the consumer with improvement options with the relevant bill increases, however these were only listed against usage and helping those in financial difficulty. Additionally, the company does not show how it educated the consumer on the performance commitment or showed them any comparative or historical performance figures so that the consumer can make an informed decision. We allow the company enhancement funding for this performance commitment. We therefore set an additional underperformance ODI rate to recover funding where a company does not reach the performance levels the funding is granted for.</p> <p>We include an additional Tier 1 underperformance rate designed to recover the enhancement funding should the company fail to reach its performance commitment level. This is calculated in line with our approach for 'cost recovery ODIs for common performance commitments' set out in the 'Delivering outcomes for customers policy appendix' and in the ODI calculation sheet. The Tier 1 rate is calculated as -£2.169m/MI/d. The rate will apply between the company's performance commitment level and the funding threshold i.e. the upper quartile. The Tier 1 rate combines the recovery of enhancement funding with the foregone customer benefit for performance increments below the company's performance commitment level but above the upper quartile level.</p> <p>See the 'Delivering outcomes for customers policy appendix' for more information on how we have calculated ODI rates and</p>	<p>We change our draft determination to add tier 1 underperformance rate to recover enhancement funding if the company does not achieve the performance levels that its funding is granted for. We set the rate at -£2.169m/ Mld. The rate will apply between the company's performance commitment level each year and the following performance levels:</p> <p>2020-21 = 1.2% 2021-22 = 3.3% 2022-23 = 6.2% 2023-24 = 6.2% 2024-25 = 6.2%</p> <p>Units: Percentage reduction from 2019/20 baseline using a 3 year average (%)</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				associated thresholds for common performance commitments with cost-recovery.	
Leakage PR19SES_C.4	Enhanced ODI rates Enhanced ODI thresholds	At draft determination, we intervened to set enhanced under/outperformance thresholds and to reduce the company's enhanced outperformance and underperformance rates. We set rates based on our benchmarking externality and thresholds based on our view of frontier performance.	The company states that it accepts the interventions made on its enhanced thresholds, rates and cap for its leakage performance commitment, subject to our granting the requested enhanced funding of £17.4m.	<p>Change for the final determination.</p> <p>We do not consider that our approach to setting enhanced threshold, caps or rates should be contingent on whether the company's enhanced funding is granted. Enhancement funding is granted only to cover company performance up to its performance commitment level and the company's enhancement funding claim would not cover performance levels that would attract enhanced ODI payments and therefore the claim is not linked to the company's enhanced ODI rate or thresholds.</p> <p>We retain the same methodology that we used to assess enhanced ODI rates at draft determination. We update the data on standard ODI rates used to calculate the benchmarking externality for final determination and correct any errors in our draft determination calculations. As a result the enhanced ODI underperformance and outperformance rate on this performance commitment change for the final determination. Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p> <p>We make amendments to our methodology for calculating enhanced outperformance thresholds for the final determination, details of which can be found in the 'Delivering outcomes for customers policy appendix'. We also change outperformance thresholds if we have found errors in our draft determination calculations. We therefore update the enhanced outperformance thresholds for this performance commitment.</p> <p>We retain the same methodology used at draft determination to set enhanced underperformance thresholds, however we have updated enhanced underperformance thresholds to align with the lower quartile of the latest year of actual performance (2018-19). This is in line with our approach detailed in the 'Delivery outcomes for customer's policy appendix'. Further details can be found in the 'Delivering outcomes for customer s policy appendix'.</p>	<p>We change the company's enhanced outperformance and underperformance ODI rate to £0.463m/Mld and -£0.463m/Mld respectively.</p> <p>We change the company's enhanced outperformance thresholds on this performance commitment to the following:</p> <p>2020-21 = 21.9% 2021-22 = 23.0% 2022-23 = 24.4% 2023-24 = 26.1% 2024-25 = 28.1%</p> <p>Units: Percentage reduction from 3 year average baseline.</p> <p>We change the company's enhanced underperformance threshold on this performance commitment to the following:</p> <p>2020-21 = -50.0% 2021-22 = -50.0% 2022-23 = -50.0% 2023-24 = -50.0% 2024-25 = -50.0%</p> <p>Units: Percentage reduction from 3 year average baseline.</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>Water softening</p> <p>PR19SES_A.5</p>	<p>Performance commitment level and performance commitment definition</p>	<p>Our intervention at draft determination was to introduce this performance commitment.</p> <p>We set a hardness limit of 80mg/l in the definition.</p> <p>The performance commitment levels are:</p> <p>2020-21 = 260 2021-22 = 260 2022-23 = 260 2023-24 = 260 2024-25 = 260</p> <p>Unit: Number of times that water treatment works meet the weekly target</p> <p>The introduced measure tracks weekly average hardness based on the average of 3 weekly samples. The performance commitment is set at 260, this is calculated as 5 sites multiplied by 52 weeks.</p> <p>Additionally, as part of the performance commitment the company has a statutory obligation to provide confirmation from the London Borough of Sutton that they accept the 80mg hardness limit.</p>	<p>The company states that it accepts the introduction of a softening performance commitment and an associated outcome delivery incentive but recommends an alternative approach to that at draft determination which it considers reflects the nature of its softening activities and the effective impact that failing the performance commitment level has on its customers.</p> <p>The company proposes the performance commitment levels to be set to the following:</p> <p>2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 0</p> <p>Unit: Mg/l above target per site per quarter.</p> <p>The company proposes that performance be measured as a quarterly average, as opposed to the binary nature of our definition, which tracks by how many weeks in a calendar year it misses its softening performance commitment level. The company supports its proposals through a report by a third party consultant (NERA) dated September 2019.</p> <p>CCWater states that setting the water softening performance commitment level as a running average rather than an absolute figure would allow the company the flexibility to strike the right balance between delivering customer's priorities on both water hardness and water quality.</p>	<p>Change for the final determination.</p> <p>There is wider stakeholder support of the company's proposals which we consider compliment the company's representations.</p> <p>The company states that a running average is more appropriate than calculating the value on a weekly basis, as there are several variables that affect the water hardness level such as raw water quality, site throughput and degree of alkalinity. It states that it can only make adjustments after test results show failure, which makes a binary measure. We are mindful that our draft determination definition states that the company should take at least three water hardness samples a week but does not specify timing of these, which is open to inconsistencies that a running average may be able to avoid. The company's proposals for setting the incentives are based on what we consider to be credible analysis of historical data. However, it does not sufficiently justify why a quarter of a year is a more appropriate period to measure the performance as opposed to more frequent measurement interval.</p> <p>The company states that softening below the draft determination performance commitment level may result in additional costs to it and its customers which are not currently in the funding allowance and may also lead to increased carbon emissions. The London Borough of Sutton council provides written confirmation that it accepts SES Water's performance commitment level to maintain an average quarterly level of 80mg/l at the Woodman Sterne plant (and any other treatment works governed by the Sutton District Waterworks Act 1903). This is a letter to the company dated 22 October 2019. In addition to the acceptance, the London Borough of Sutton makes a number of stipulations regarding annual reporting that the company must comply with. These include reporting:</p> <ul style="list-style-type: none"> • Performance in relation to levels of hardness at relevant treatment plants recorded in previous 12 months. • Performance in customer satisfaction by reference to levels of contacts relating to water hardness recorded in previous 12 months, including any proposed regulatory underperformance payments in relation to its agreed performance commitment. 	<p>We revise the performance commitment definition to measure performance on a fortnightly basis and include in the definition that the timing of the company's water hardness tests should represent a uniform regime over time and that this should be verified by an appropriate third party. We revise the definition to state that performance will be measured as the extent by which the water softening threshold is missed and with a performance commitment level of zero.</p> <p>We revise the performance commitment levels to:</p> <p>2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 0</p> <p>Unit: The average number of milligrams per litre of Calcium by which water treatment works fail to meet the fortnightly target reported to zero decimal places.</p> <p>If the local authority which enforces the Sutton District Waterworks Act 1903 (as amended) notifies the company to adjust the target level of water softening that it requires the company to meet, the company must notify Ofwat of the adjusted target and Ofwat will consider whether this performance commitment should be changed</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				<ul style="list-style-type: none"> Business plans or proposals for the maintenance and/or improvement in the treatment of water hardness. <p>The company's proposals result in significantly lower incentives to deliver and we also consider that reporting performance quarterly does not result in improved benefits for customers. Whilst we agree that a running average and scaled underperformance payments are more appropriate, we consider that a quarterly reporting period is too long as customers would experience detriment, for example in terms of increased detergent use even for shorter periods.</p> <p>We consider that the company provides sufficient and convincing evidence for us to update the performance commitment definition and consequently the performance commitment levels. However, we also consider that it is not unduly onerous on the company to have different reporting obligations and that a fortnightly reporting period is appropriate.</p> <p>See 'SES Water - Delivering outcomes for customers additional information appendix' for further detail.</p>	
<p>Water softening PR19SES_A.5</p>	<p>ODI rates</p>	<p>Our intervention at draft determination was to introduce the performance commitment and impose an ODI underperformance rate of -£0.02115m.</p>	<p>The company proposes underperformance payments that are scaled according to the amount by which the performance commitment level has been missed and are normalised per mega litre supplied to reflect the number of customers served. The company proposes an ODI underperformance rate of -£0.006706m.</p> <p>The company states that the impact on customers for missing the performance commitment level by 1mg/l is far less than that of missing the performance commitment level by 41 mg/l for example, and that this should be reflected in the incentive rates.</p> <p>The company presents its calculation of the incentive rates which are proportioned by the average throughput in a year of each of the five works. We consider that this is an appropriate approach. It provides a worked example for Elmer water treatment works which has an average throughput of 38MI/day of the total 132MI/day that it</p>	<p>Change for the final determination.</p> <p>We consider that the company calculation of the maximum incorrectly multiplies its proposed underperformance payment by five sites twice, which results in an artificially higher figure. We calculate the correct amount in the company's worked example to be £79,152. We also consider that its proposals for scaled underperformance payments complicate the reporting to customers, unlike our draft determination which allows for one simple measure.</p> <p>We consider that the company has provided sufficient and convincing evidence for us to revise the ODI underperformance rate to reflect the extent to which the company misses the performance commitment level. However we continue with our draft determination approach of using a single ODI rate.</p> <p>See 'SES Water - Delivering outcomes for customers additional information appendix' for further detail.</p>	<p>We revise the ODI underperformance rate to reflect the extent to which the performance commitment level is missed. This results in an underperformance payment rate of -£0.0282m per unit.</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
			supplies. The company calculates the maximum underperformance payment in a quarter to be £395,761 compared to £274,950 as would have resulted from applying our draft determination definition.		
River based improvement - delivery of WINEP PR19SES_E.6	Performance commitment levels	<p>We intervened at draft determination to set performance commitment levels as follows:</p> <p>2020-21= 1 2021-22= 7 2022-23= 7 2023-24= 22 2024-25= 24</p> <p>Units: Cumulative schemes within the water industry national environment programme categorised as 'Green' by the Environment Agency.</p>	<p>The company has not made representations regarding our intervention at draft determination. However the company submits a query in relation to our draft determination questioning the delivery profile that we proposed at the draft determination. It notes a discrepancy between its draft determination performance commitment levels and the profile set out in the most recent version of the WINEP programme provided to the company by the Environment Agency.</p> <p>The company proposes the following delivery profile:</p> <p>2020-21= 1 2021-22= 6 2022-23= 6 2023-24= 22 2024-25= 24</p> <p>Units: Cumulative schemes within the water industry national environment programme categorised as 'Green' by the Environment Agency.</p>	<p>Change for the final determination.</p> <p>There were discrepancies in the delivery profile due to the measure being based on a reporting year and not a calendar year. We address this in the final determination.</p>	<p>We change our draft determination to set the performance commitment levels at the following levels:</p> <p>2020-21= 0 2021-22= 7 2022-23= 7 2023-24= 7 2024-25= 24</p> <p>Units: Cumulative schemes within the water industry national environment programme categorised as 'Green' by the Environment Agency.</p>
Risk of supply failures PR19SES_C.2	Reintroduce performance commitment	<p>At draft determination this performance commitment was removed as the enhancement claim submitted by the company associated with delivering the outcome for this measure was rejected.</p>	<p>The company states that its performance commitment should be reintroduced, subject to accepting the need for expenditure for this enhancement.</p> <p>The company confirms that its target is that 100% of properties will be able to be supplied by more than one treatment works by 2024-25.</p> <p>The company states that once completed, it expects that its customers will be the only ones in the United Kingdom to benefit from this level of strategic resilience and this resilience will also contribute to</p>	<p>Change for the final determination.</p> <p>The outperformance payment is based on completing the projects one year early, which appears stretching. We consider that an earlier reduction in the risk of supply failures is a customer benefit, although the benefit may be low as it relates to a relative reduction in risk for a single year and the risk of a supply failure is already very low.</p> <p>However, we consider that the company's customer willingness to pay evidence is not sufficient, as it is not clear that customers were provided with sufficient information about current risks. We consider that customers may have expressed a significantly</p>	<p>We reintroduce the performance commitment.</p> <p>We remove the outperformance payment.</p> <p>We set the underperformance payment rate of -£0.0064m per percentage.</p> <p>In addition at PR24 we will recover allowed costs of any underperformance expected in</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
			<p>increasing the connectivity of the wider region, and will make the region more drought resilient and protect the environment.</p> <p>The company confirms that its proposed target is supported by its customers, having been directly tested through its qualitative and quantitative customer engagement. It states that not only do its customers support the work but they are willing to fund it through bills as part of a balanced package of measures to improve the reliability of their future water supply. The company states that it has undertaken additional analysis as part of its representation which it claims shows that customers accept up to an average annual bill increase of £5.64 to protect 100% of properties from the risk of supply failures. However it claims that the most it will cost customers in any one year of the 2020-25 period is £2.60. It further confirms that its quarterly household customer tracker survey consistently shows that 'continuous supply' is the strongest driver of overall satisfaction. The company provides evidence of third party assurance of the calculation by Frontier Economics and additional willingness to pay information at draft determination by Box Clever.</p>	<p>lower willingness to pay value if they were informed of the genuine change in probability of supply failure through delivery of this investment. We therefore consider that the company does not provide sufficient evidence of customer support for outperformance payments. We also consider the willingness to pay information should not be used to set the underperformance rate.</p> <p>We introduce a clause that states we will recover a proportion of allowed costs in addition to the delay underperformance rate if the company under delivers in the 2020-25 period and will not deliver the improvements in the 2025-30 period. This is because we consider that outcome delivery incentive rates for late delivery should compensate customers for the forgone benefit of not receiving the scheme on time. In the event of non-delivery customer protection should be through recovery of the allowed costs that are not recovered through cost sharing.</p>	2024-25 using a rate of - £0.0285m per percentage.
C-MeX PR19SES_D.2	All	We set a common performance commitment for all companies regarding customer satisfaction.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	See 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.
D-MeX PR19SES_D.3	All	We set a common performance commitment for all companies regarding developer satisfaction.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	See 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.

Table 2: SES Water - Representations from other stakeholders

Stakeholder	Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
Consumer Council for Water	Leakage PR19SES_C.4	Performance commitment levels	No intervention at draft determination.	CCWater notes how the company had performed historically well compared to other companies in leakage, and that it would expect to see this performance continue. However it did note that the company had not been awarded enhanced funding for leakage.	No change for the final determination. See 'SES Water - Cost efficiency final determination appendix' for our assessment of its enhancement funding claim.	N/A
SES Water Customer Scrutiny Panel	Leakage PR19SES_C.4	Performance commitment levels	No intervention at draft determination.	The Customer Scrutiny Panel notes how it is supportive of the company putting an argument forward for an enhancement of funding to support the company's reduction in leakage activity, given that it was the highest stated customer priority. The panel notes that the company has advised it that the disallowed expenditure would likely lead to a focus on short-term leakage reduction activity, rather than a more sustainable solution.	No change for the final determination. See 'SES Water - Cost efficiency final determination appendix' for our assessment of its enhancement funding claim.	N/A
Consumer Council for Water	Per capita consumption PR19SES_E.1	Performance commitment levels	No intervention at draft determination.	CCWater does not consider that the company has successfully evidenced how it will reach its per capita consumption performance commitment level, but it is aware that the company has been allowed £19.5m of funding to install 80,000 meters, which may help contribute to this reduction.	No change for the final determination. We consider that the company's performance commitment levels reflect suitable stretch for an efficient company.	N/A
Consumer Council for Water	Water supply interruptions PR19SES_A.1	Performance commitment level	The intervention we made at draft determination was to set performance commitment levels that are consistent with the rest of the industry for supply interruptions. The following values were set: 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	CCWater notes how the company is currently a 'strong performer on Water Supply Interruptions (WSIs)', although it indicates that it is 'concerned that the company may be able to achieve considerable ODI outperformance payments in this area by simply maintaining current performance (or even deteriorating slightly as it is currently above the industry upper quartile)'. It suggests to us that we ensure 'any ODI payments the company is able to achieve are appropriate and only reward exceptional performance'.	No change for the final determination. We welcome the comments from CCWater. We acknowledge that in setting a common performance level there will be a wide variation in how stretching this performance level is for different companies, however, we consider that there are benefits of setting a common level across all companies in terms of moving the sector to providing a common service to customers. We assess the ODI rates for all companies to ensure they are set appropriately.	N/A

Stakeholder	Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
			Units are: minutes per property for year			
Consumer Council for Water	Non-performance commitment specific	ODIs	N/A	<p>CCWater has conducted additional customer research. It finds that 87% of the company's customers found the potential impact of ODIs on their water bills over the period to be acceptable. It notes this is a lower level of acceptability than that achieved by the 'base' plan.</p> <p>It notes that the company did not carry out customer research on the potential impact of ODIs on bills.</p>	<p>No change for the final determination.</p> <p>We note the results of the Consumer Council for Water's research, which shows that the majority of customers support the bill impacts of our draft determinations including ODIs. Whilst there is a lower level of support than for our baseline draft determination, it is still a clear majority.</p>	N/A
Business Stream, UK Water Retailer Council	Non-household void sites	Performance commitment definition	<p>We set a bespoke performance commitment for some companies (Severn Trent Water, SES Water, South East Water, Thames Water, and United Utilities) regarding non-household void sites. We set a bespoke performance commitment for some companies (Severn Trent Water, Northumbrian Water, United Utilities, and Wessex Water) regarding non-household gap sites</p>	<p>Two retailer stakeholders (Business Stream, UK Retailer Water Council) welcome incentives to reduce non-household void and gap properties but said it significantly increases the likelihood of wholesalers unilaterally activating charges on retailers for void properties, introducing unmanageable cost and risk for retailers. They also note data quality issues in the market database.</p> <p>They also state that void and gap performance commitments are inconsistent in process, design and incentive rates. One representation proposes that we temporarily suspend the introduction of the PR19 incentives and charges for vacant properties until an industry-wide solution is agreed.</p> <p>They state that wholesalers might not share financial incentives with retailers, despite the costs of bringing vacant sites into charging potentially being incurred by retailers. One of the stakeholders proposes a consistent scheme for sharing payments with retailers.</p>	<p>Change for the final determination.</p> <p>With regards to the concerns raised in relation to the charging levels that wholesalers could apply to vacant properties and data quality issues, we are considering this point as part of our ongoing review of incumbent water company support for the development of effective markets. While we cannot require companies to share outperformance payments with retailers, we would expect this to be considered by companies given the joint role both play in identifying and reducing the level of gaps and void sites in the market.</p> <p>Retailers may deal with multiple wholesalers and so bespoke performance commitments can risk exacerbating market frictions from cumbersome wholesaler-retailer interactions. The Retailer Wholesaler Group (RWG) is developing a set of consistent processes for implementing financial incentives relating to business gaps sites and voids by April 2020. In April 2020 we will ask each of the six wholesalers with bespoke performance commitments on gaps or voids to set out the steps they have taken to ensure that the introduction of these bespoke performance commitments will not exacerbate problems associated with wholesaler-retailer interactions.</p> <p>It is possible that, at some time during the 2020-25 period, a common financial incentive on gaps and/or voids is</p>	<p>We include a clause for all relevant performance commitments which confirms that we will take into account the financial consequences of any retail market mechanism which may be developed, for example, under the Market Performance Framework, when making in-period determinations.</p>

Stakeholder	Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
					<p>developed by market participants (for example this could be developed at part of the reform of the Market Performance Framework). If industry was planning to introduce a common financial incentive on business voids, we would consider, with those companies which have bespoke performance commitments on business retail gaps and voids, the appropriate way to take such a measure into account in their future in-period determinations. For performance commitments relating to non-household gaps or void sites, we therefore include a clause which confirms that we will take into account the financial consequences of any retail market mechanism which may be developed, for example, under the Market Performance Framework, when making in-period determinations.</p> <p>We discuss this topic in more detail in our ‘Business retail market representations’.</p>	

Table 3: SES Water - Changes to the draft determination not due to a representation

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
N/A	ODI rates	We intervened on some ODI rates at draft determination.	<p>Change for the final determination.</p> <p>For final determinations we revise some ODI rates on which we have previously intervened due to updates in the underlying data used to calculate the ODI rates. In particular, we update the data on the number of connections to reflect the latest information available. In most cases this has only a small impact on the ODI rates.</p> <p>We update all ODI rates where we calculate a 'delay' or 'cost-recovery' rate using the weighted average cost of capital and/or other regulatory parameters to reflect the values we are using in our final determination.</p> <p>We also make a small number of corrections for where we have identified errors in our draft determination calculations. The final ODI rates are specified in SES Water – Outcomes performance commitment appendix.</p>	We change ODI rates where the underlying data used to calculate the rate has been updated, or an error has been identified.
<p>Water Quality Compliance (Compliance Risk Index)</p> <p>PR19SES_A.4</p>	Caps, collars and deadbands	<p>The intervention we made at draft determinations was to set a standard deadband which all companies were expected to adopt. The deadband profile for the Compliance Risk Index (CRI):</p> <p>2020-21 = 2.0 2021-22 = 2.0 2022-23 = 1.5 2023-24 = 1.5 2024-25 = 1.5</p> <p>Unit = Compliance Risk Index Score</p>	<p>Change for the final determination.</p> <p>We revise the deadband on the Compliance Risk Index to a score of 2.00 throughout the period reducing the risk of underperformance payments in the last three years of the 2020-25 period. This allows more flexibility in performance to take into account the uncertainty created by the ban on the use of metaldehyde being overturned by the High Court and also aligns with the median level of current company performance.</p> <p>Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We set a revised standard deadband for all companies. The deadband profile for the Compliance Risk Index is:</p> <p>2020-21 = 2.0 2021-22 = 2.0 2022-23 = 2.0 2023-24 = 2.0 2024-25 = 2.0</p> <p>Unit = Compliance Risk Index Score</p>
<p>Water supply interruptions</p> <p>PR19SES_A.1</p>	Performance commitment levels	<p>The intervention we made at draft determination was to set performance commitment levels that were consistent with the rest of the industry for supply interruptions. The following values were set:</p> <p>2020-21 = 00:05:24 2021-22 = 00:04:48 2022-23 = 00:04:12 2023-24 = 00:03:36</p>	<p>Change for the final determination.</p> <p>We adjust the water supply interruptions 2024-25 level to five minutes, with an amended glidepath in the first four years, taking account of wider evidence to calibrate stretch of performance commitment for an efficient company.</p> <p>Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We set revised performance commitment levels to the following values:</p> <p>2020-21 = 00:06:30 2021-22 = 00:06:08 2022-23 = 00:05:45 2023-24 = 00:05:23 2024-25 = 00:05:00</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
		<p>2024-25 = 00:03:00</p> <p>Units = Hours:minutes:seconds (HH:MM:SS) per property per year</p>		<p>Units = Hours:minutes:seconds (HH:MM:SS) per property per year</p>
<p>Water supply interruptions</p> <p>PR19SES_A.1</p>	ODI rates	<p>We intervened at draft determination due to concerns with the company's proposed triangulation of its customer valuation research. The company's proposed rates were also materially greater than those that apply to its 2015-20 outcome delivery incentive. The resulting underperformance and outperformance rates are -£0.148 million and £0.123 million per minute per property, respectively.</p>	<p>Change for the final determination.</p> <p>When considering the performance commitment package as a whole, we consider whether the balance of incentives for particular performance commitments is appropriate at both an industry and company level. We set all companies' underperformance rates symmetrically to outperformance rates to provide a more balanced spread of incentives and risk on water supply interruptions. For further details on our approach to sector wide interventions on ODI rates see our 'Delivering outcomes for customers policy appendix'.</p>	<p>We change the underperformance payment rate to -£0.121m per minute per property, and the outperformance payment rate to £0.121m per minute per property.</p>
<p>Water supply interruptions</p> <p>PR19SES_A.1</p>	Enhanced ODI collar	<p>We intervened at draft determination to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance.</p>	<p>Change for the final determination.</p> <p>We retain the same methodology used at draft determination to set enhanced underperformance collars, however we update the enhanced underperformance collars to align with the lower decile of the latest year of actual performance (2018-19). This is in line with our approach detailed in the 'PR19 draft determination: Delivery outcomes for customer's policy appendix'. We update the enhanced underperformance collars for this performance commitment. Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We change the company's enhanced underperformance collar on this performance commitment to the following:</p> <p>2020-21 = 00:19:17 2021-22 = 00:19:17 2022-23 = 00:19:17 2023-24 = 00:19:17 2024-25 = 00:19:17</p> <p>Units: Minutes per property</p>
<p>Water supply interruptions</p> <p>PR19SES_A.1</p>	Enhanced ODI thresholds	<p>We intervened at draft determination to set the company's enhanced underperformance thresholds at the lower quartile of industry performance.</p>	<p>Change for the final determination</p> <p>We retain the same methodology used at draft determination to set enhanced underperformance thresholds, however we update the enhanced underperformance thresholds to align with the lower quartile of the latest year of actual performance (2018-19). This is in line with our approach detailed in the 'PR19 draft determination: Delivery outcomes for customer's policy appendix'. Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We change the company's enhanced underperformance thresholds on this performance commitment to the following:</p> <p>2020-21 = 00:16:59 2021-22 = 00:16:59 2022-23 = 00:16:59 2023-24 = 00:16:59 2024-25 = 00:16:59</p> <p>Units: Minutes per property</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
Water supply interruptions PR19SES_A.1	P90 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P90 performance levels in this case, we first adjust the P90 performance levels for changes in the performance commitment levels between business plan submission and final determination. We then adjust the P90 performance levels to increase linearly from the 2020-21 level up to the level of the enhanced outperformance threshold by 2024-25. We consider that we should take into account the additional incentive from enhanced ODIs on performance.</p>	<p>We estimate P90 performance levels as:</p> <p>2020/21 = 00:03:50 2021/22 = 00:03:09 2022/23 = 00:02:27 2023/24 = 00:01:45 2024/25 = 00:01:03</p> <p>Units: Hours:minutes:seconds (HH:MM:SS) per property per year, reported to zero decimal places.</p>
Leakage PR19SES_C.4	Performance commitment definition	No intervention at draft determination.	<p>Change for the final determination.</p> <p>To avoid any misinterpretation regarding the value for the company's 2019-20 leakage target, we amend the performance commitment definition to clarify the requirement for all companies.</p>	<p>We amend the wording of the performance commitment definition to the following:</p> <p>'As a minimum, if, using the PR14 calculation of leakage set out in the PR14 performance commitment, a company does not meet its 2019-20 leakage performance commitment level (specified in our PR14 final determinations), the company's actual level for 2019-20 will, for the purposes of setting the baseline for the 2020-25 period, be adjusted downwards by one third of the difference between the value derived from the PR14 2019-20 performance commitment level and the actual level for 2019-20. For PR14 performance commitments set on a three or five year average basis, we assume the 2019-20 annual performance commitment level is equal to the average level specified in the PR14 performance commitment.'</p>
Leakage PR19SES_C.4	Enhanced ODI collar	We intervened at draft determination to set the enhanced underperformance collar for this performance commitment at the lower decile of current company performance.	<p>Change for the final determination.</p> <p>We retain the same methodology used at draft determination to set enhanced underperformance collars, however we update the enhanced underperformance collars to align with the lower decile of the latest year of actual performance (2018-19). This is in line with our approach detailed in the 'PR19 draft determination: Delivery outcomes for customer's policy appendix'. We update the enhanced underperformance collars for this performance commitment. Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We change the company's enhanced underperformance collar on this performance commitment to the following:</p> <p>2020-21 = -70.7% 2021-22 = -70.7% 2022-23 = -70.7% 2023-24 = -70.7%</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
				2024-25 = -70.7% Units: Percentage reduction from 3 year average baseline.
Leakage PR19SES_C.4	P90 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P90 performance levels in this case, we first adjust the P90 performance levels for changes in the performance commitment levels between business plan submission and draft determination. We then conduct reasonable range analysis on the ratio of P90 performance levels to performance commitment levels set at draft determination, and we determine that the P90 performance level is outside the reasonable range. We therefore increase the stretch of the P90 performance levels to align them to the reasonable range outer bound one standard deviation away from the mean.</p> <p>We then adjust the P90 performance levels to increase linearly from the 2020-21 level up to the level of the enhanced outperformance threshold by 2024-25. We consider that we should take into account the additional incentive from enhanced ODIs on performance.</p>	<p>We estimate P90 performance levels as:</p> <p>2020-21 = 3.1 2021-22 = 10.5 2022-23 = 18.0 2023-24 = 25.4 2024-25 = 32.8</p> <p>Units: Percentage reduction from 2019-20 baseline, reported to one decimal place.</p>
Mains Repairs PR19SES_A.2	Performance commitment levels	No intervention at draft determination.	<p>Change for the final determination.</p> <p>We increase the performance commitment levels for mains repairs by a reducing percentage, for all companies, in all years, making it easier to achieve. The aim is to allow all companies the flexibility to deliver the improvement in leakage reduction, allowing more flexibility in the earlier years to use proactive mains repairs to reduce leakage.</p> <p>Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We set the performance commitment levels to the following values:</p> <p>2020-21 = 66.5 2021-22 = 64.6 2022-23 = 62.7 2023-24 = 60.9 2024-25 = 59.0</p> <p>Units: Mains burst per 1,000km</p>
Mains Repairs PR19SES_A.2	ODI rates	We did not intervene on the company's ODI rate at draft determination.	<p>Change for the final determination.</p> <p>When considering the performance commitment package as a whole, we consider the balance of incentives for particular performance commitments is appropriate at both an industry and company level. We set all companies' underperformance rates at the normalised industry average on mains repair to provide a more balanced spread of incentives and risks across the company's performance commitments.</p>	<p>We change the company's ODI underperformance rate to -£0.022m/ number per 1,000km of sewer.</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
			This will ensure the company does not overly focus on mains repairs to the detriment of other performance commitments which will benefit its customers. For further details on our approach to sector wide interventions on ODI rates see our 'Delivering outcomes for customers policy appendix'.	
Unplanned Outage PR19SES_C.3	Performance commitment levels	No intervention at draft determination.	<p>Change for the final determination.</p> <p>We consider that a standard performance level in 2024-25 is appropriate for this measure. We consider this an appropriate approach for unplanned outage as it recognises the current maturity of the metric and the limited historical dataset in which to set stretching levels for. A standard level for 2024-25 is not suitable for any other asset health performance commitment as this would allow deterioration of performance for many companies, which is counter to our methodology requirement for companies to improve performance.</p> <p>All companies that forecast performance (2019-20 or actual 2018-19) better than 2.34% will be set performance commitments levels at 2.34% in all years. All companies that forecast performance (2019-20 or actual 2018-19) worse than 2.34% will be set profiles from their forecast 2019-20 value to 2.34%. The only exception to this is Southern Water which proposes worse performance commitment levels but a significant improvement from their current levels, therefore we have allowed Southern Water a different 2024-25 level.</p> <p>As SES Water's 2019-20 forecast is better than 2.34%, we set the set performance commitments levels at 2.34% in all years.</p> <p>Further details can be found in the 'Delivering outcomes for customers policy appendix'.</p>	<p>We set the performance commitment levels to the following values:</p> <p>2020-21 = 2.34 2021-22 = 2.34 2022-23 = 2.34 2023-24 = 2.34 2024-25 = 2.34</p> <p>Units: Percentage of peak week production capacity (%)</p>
Unplanned Outage PR19SES_C.3	Caps, collars and deadbands	We did not set a collar in the draft determination.	<p>Change for the final determination.</p> <p>The company does not make a representation regarding the collar for this performance commitment. We explain in the 'Delivering outcomes for customers policy appendix' that we apply caps and collars for all companies and how we set these levels. For unplanned outages we set the collar at 2 times the 2020-21 performance commitment level for all companies (except those with enhanced ODIs).</p>	<p>We set collar levels to:</p> <p>2020-21 = 4.68 2021-22 = 4.68 2022-23 = 4.68 2023-24 = 4.68 2024-25 = 4.68</p> <p>Units: Percentage of peak week production capacity (%)</p>
Void Properties PR19SES_B.4	ODI rates	No intervention at draft determination.	Change for the final determination.	We revise ODI rates to:

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
			<p>As we explain in the 'Delivering outcomes for customers policy appendix', we revise our methodology for performance commitments concerning 'void properties'. We remove the cost sharing factor, as there is no cost sharing for the retail price control. We also calculate the financial incentive based on a weighted incentive rate based on the number of customers between single and dual services to more accurately align incentives to the customer benefit.</p> <p>We also apply a symmetric 50% sharing ratio to protect customers against the impact of macroeconomic factors. This is applied symmetrically to underperformance and outperformance payments. The change in methodology is due to representations from a number of companies, we consider that together the arguments and evidence provided are sufficient and convincing for us to change the voids ODI rate methodology to share the risk between the company and customers.</p>	<p>Underperformance: -£0.241m per 1%.</p> <p>Outperformance: £0.241m per 1%.</p>
<p>Void Properties PR19SES_B.4</p>	<p>Caps, collars and deadbands</p>	<p>No intervention at draft determination</p>	<p>Change for the final determination.</p> <p>As we explain in the 'Delivering outcomes for customers policy appendix' we consider that performance commitments that measure the percentage of void properties are uncertain and all companies should have caps and collars. In the appendix we explain how we set the level of caps and collars.</p> <p>We do not change the company P10 and P90 estimates of performance.</p>	<p>We set the underperformance collar to the following level:</p> <p>2020-21 = 3.36 2021-22 = 3.36 2022-23 = 3.36 2023-24 = 3.36 2024-25 = 3.36</p> <p>Units: Percentage of household and non-household properties classed as void.</p> <p>We set the outperformance cap to the following level:</p> <p>2020-21 = 2.30 2021-22 = 2.20 2022-23 = 2.00 2023-24 = 1.90 2024-25 = 1.70</p> <p>Units: Percentage of household and non-household properties classed as void.</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
River based improvement - delivery of WINEP PR19SES_E.6	ODI rate	We intervened at draft determination to set the underperformance rate for this performance commitment at -£0.00439m/scheme.	Change for the final determination. We change the company's ODI rate on this performance commitment to reflect its final cost allowances and cost sharing rates. We update the company's ODI rates using our standard methodology in our 'Delivering outcomes for customers policy appendix'.	We change the company's underperformance rate to -£0.00425m per scheme.
River based improvement - delivery of WINEP PR19SES_E.6	P10 performance levels	N/A	Change for the final determination. Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'. To estimate P10 performance levels in this case, we use the performance commitment levels set at final determination. We take this approach because this performance commitment reflects delivery of a planned scheme, and we consider that the experience in the water industry is that planned schemes are delivered in most cases. It would be a scenario that would occur in less than 10% of cases that the company would not deliver its performance commitment.	We estimate P10 performance levels as: 2020-21 = 0 2021-22 = 7 2022-23 = 7 2023-24 = 7 2024-25 = 24 Units: Cumulative number schemes completed each year to zero decimal places
Priority services for customers in vulnerable circumstances PR19SES_B.5	Performance commitment level	Our intervention at draft determination was to change the definition of the performance commitment by splitting the measure into 'attempted' (i.e. an outbound contact that has not received a response) and 'actual' contacts (i.e. updates to data based on contact with the customer).	Change for the final determination. The company does not make a representation regarding the performance commitment level. However, we receive a number of representations from companies and other stakeholders. Based on the compelling evidence set out in these representations, we revise the performance commitment levels for the actual contacts element of the performance commitment.	The following is a sector-wide change for the final determination. We revise the performance commitment levels for the actual contacts to: 2020-21 = 17.5 2021-22 = 35.0 2022-23 = 35.0 2023-24 = 35.0 2024-25 = 35.0 Unit: Percentage of priority services customers that the company has made actual contact with.
Greenhouse gas emissions PR19SES_E.2	Performance commitment definition	No intervention at draft determination.	Change for the final determination. Yorkshire Water states that should it continue on a green tariff, it intends to use a zero-emission factor rather than the 2019-20 emission factor. It further states that the guidance does not allow exported energy to count as an offset, however, it intends to use the national grid as a conduit to its excess energy generation to use at its other sites rather than exporting to the grid for consumption by others. It	We revise the performance commitment definition to allow flexibility to use either the grid emissions factor within the carbon accounting workbook or a 'market-based' emissions factor for electricity supplied via the grid.

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
			<p>considers that it will therefore report its net electricity consumption to include this self-generated energy.</p> <p>As a result of Yorkshire Water's representation, we consider that an update to the definition should be applied to other companies' comparable performance commitment definitions.</p> <p>Please see the 'Yorkshire Water - Delivering outcomes for customers final decisions' document for the full assessment.</p>	
<p>Greenhouse gas emissions</p> <p>PR19SES_E.2</p>	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we use the company's P10 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because P10 performance levels were not provided in the company's April business plan submission.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 65 2021-22 = 65 2022-23 = 65 2023-24 = 65 2024-25 = 65</p> <p>Units: kgCO₂e per Ml of water put into supply to zero decimal places.</p>
<p>Risk of supply failures</p> <p>PR19SES_C.2</p>	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we use the performance commitment levels set at final determination. We take this approach because this performance commitment reflects delivery of a planned scheme, and we consider that the experience in the water industry is that planned schemes are delivered in most cases. It would be a scenario that would occur in less than 10% of cases that the company would not deliver its performance commitment.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 65 2021-22 = 65 2022-23 = 76 2023-24 = 76 2024-25 = 100</p> <p>Unit: Percentage</p>
<p>Supporting customers in financial hardship</p> <p>PR19SES_B.1</p>	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we use the company's P10 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because P10 performance levels were not provided in the company's April business plan submission.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 12,604 2021-22 = 13,757 2022-23 = 14,910 2023-24 = 16,063 2024-25 = 17,216</p> <p>Units: Number of customers, to zero decimal places</p>

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>Water softening</p> <p>PR19SES_A.5</p>	<p>P10 performance levels</p>	<p>N/A</p>	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we form our own estimates of P10 performance based on judgement. We take this approach because this performance commitment has undergone substantial definitional change since it was set at draft determination, and therefore the company's previous P10 estimates can no longer be applied.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 10 2021-22 = 10 2022-23 = 10 2023-24 = 10 2024-25 = 10</p> <p>Units: The average number of milligrams per litre of Calcium by which water treatment works fail to meet the fortnightly target reported to zero decimal places.</p>

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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