December 2019

PR19 final determinations

South East Water – Delivering outcomes for customers final decisions

Ofwat

www.ofwat.gov.uk

PR19 final determinations: South East 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 'PR19SEW' denotes South East Water.

For all other documents related to the South East 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: South East 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
Water Quality Compliance (Compliance Risk Index) PR19SEW_A.1	Caps, collars and deadbands	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): 2020-21 = 2.00 2021-22 = 2.00 2022-23 = 1.50 2023-24 = 1.50 2024-25 = 1.50 Unit = Compliance Risk Index Score	The company proposes deadband levels different to those in the draft determination. It proposes levels of 3.70 in all years. Its proposed levels are based on what it considers observed volatility in the confirmed 2018 CRI data which ranges from 0 to 16. It highlights the disproportionate impact for the company from a single failure amounting to twice the draft determination deadband value for first two years and three times the deadband in year's three to five. Therefore, it states that it does not feel appropriate that a single failure would result in a material underperformance payment.	Change for the final determination. We amend the deadband on the CRI 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. Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change. Analysis of the company data from 2016, 2017 and 2018 shows that the median for all companies for these years respectively is 2.83, 2.58 and 2.09. This suggests that	The following is a sector wide change to the draft determination. We set a revised standard deadband for all companies. The deadband profile for the Compliance Risk Index is: 2020-21 = 2.00 2021-22 = 2.00 2022-23 = 2.00 2023-24 = 2.00 2024-25 = 2.00 Unit = Compliance Risk Index Score

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
			It acknowledges our allowance for the deadband for the first two years, due to variance from metaldehyde, but considers that this deadband should extend to all five years of 2020-25 due to the over-turned ban on the use of metaldehyde. It proposes that to reflect the variance that is driven by the lack of a metaldehyde ban and to ensure that companies only face underperformance payments for material and consequential failures.	a deadband of 2.00 is appropriate and the data suggests an improving trend. A deadband set at the levels we are proposing allows for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures. The CRI definition was set in collaboration with the industry and the Drinking Water Inspectorate, with no exceptions being identified as affecting a particular company for any aspects outside of the company's management control. Companies with a higher number of smaller assets will experience a diversity of issues and challenges (operational and asset maintenance) compared to companies owning a smaller number of larger assets, where the uniformity of operational conditions makes it relatively smooth for them to comply with regulations. Compliance Risk Index identifies which part of water supply chain or asset the companies should focus on more.	
Water Quality Compliance (Compliance Risk Index) PR19SEW_A.1	ODI rates	At draft determination we intervened to set the underperformance rate at the industry average of the reasonable range. We set the underperformance rate at -£0.522m, the average of our reasonable range	The company states that our approach to averaging the two proposed values (the upper and lower bounds of our reasonable range) is not consistent with the approach used elsewhere to intervene on ODI rates. The company does not agree with our reasoning. The company states that it does not have poor performance issues on comparative measures such as mean zonal compliance The company explains in its representation that it reduced its underperformance rate in its April business plan following a review of the costs it included for delivering service improvements. It notes it did not fully explain this in previous submissions. The company states that our usage of water quality contacts performance as a proxy for performance on the Compliance Risk Index is not appropriate. It states the two performance commitments are based on different datasets, and that the Compliance Risk Index incorporates a much wider range of regulatory parameters	No change for the final determination. Our intervention at draft determination was not related to poor performance and was instead due to insufficient evidence from the company to explain the change in its ODI rate from its September to April business plan. We set the company's rate at the average of the reasonable range, in line with our methodology. We agree with the company's statement that the use of water quality contacts performance as a proxy for performance on CRI is not appropriate. This measure was not used to assess companies' past performance for our draft determination. The company does not provide any specific evidence in its representation for the change in ODI rate further than the statement that it reviewed its costs of delivering service improvements. It does not provide any specific details of the change in assumptions of marginal cost.	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
			than those likely to impact customer contacts. It also claims that it does not have performance issues on the Compliance Risk Index, or the Mean Zonal Compliance, which it states is more appropriate proxy as it is calculated using a subset of the Compliance Risk Index dataset. It provides data showing that several companies are worse performers on Mean Zonal Compliance, and it is one of eight companies to have not dropped below 99.95% for any of the past seven years. The company proposes that the underperformance rate should be set back to its April business plan proposal of -£0.349m.		
Water supply interruptions PR19SEW_B.1	ODI rates	Our draft determination set the outperformance and underperformance rates to £0.197m and -£0.237m per minute per property, respectively, compared to +/- £0.098m in the company's April business plan.	The company states its customer research has persistently shown its customers value reducing supply interruptions less than other companies' customers, and that we stated we did not identify any concerns with its underlying customer valuation research. The company provides information to explain how it will deliver good performance in the 2020-25 period, including an integrated smart water network which is currently being trialled in North Kent, proactive leakage optimisation, and improved operational logistics such as relocating depots and improved shift working patterns. In the context of water supply interruptions, the company states that our approach of using the average and standard deviations of company data is inappropriate, as the sample size is small and so these statistical parameters are no more robust than the individual data points. This is because the sample size is not large enough to dilute the impact of outliers on the average. It states it is therefore inappropriate to use the average to determine outliers and to apply the industry average to those outliers.	Change for the final determination. The company has not provided any further evidence to refute our assessment of poor past performance. The proposals for improving future performance are less relevant for our assessment of poor past performance, which we used to judge whether there might be a credible incentive to understate rates. As such, we consider setting the underperformance rate by triangulating the company's proposed rate in its April business plan with the industry average (rather than the lower bound) and its rate for the 2015-20 period is still appropriate. We receive representations from several companies stating that the median and interquartile range is a more appropriate basis on which to construct the ODI reasonable range. We use the reasonable range to benchmark companies' proposed ODI rates and as a data input for setting a revised rate where a change to the company proposal is necessary. We consider this carefully for all performance commitments where we use the reasonable range as part of our testing. Based on our assessment as set out in our 'Delivering outcomes for customers policy appendix', we do not use the median to define the reasonable range for this performance commitment.	We change the underperformance payment rate to -£0.190m per minute per property, and the outperformance payment rate to £0.190m per minute per property.

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
			The company proposes to revise its ODI rates to +/- £0.133m per minute per property, the same as used in the 2015-20 period, to provide additional protection compared to its April business plan proposals whilst maintaining a direct link to customer valuations.	We are updating the outperformance rate by £0.007m, to £0.190m, due to using the latest available data. 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'.	
Water supply interruptions PR19SEW_B.1	Caps, collars and deadbands	Our intervention at draft determination was to set the collars as follows: 2020-21=: 00:21:36 2021-22= 00:21:36 2022-23= 00:21:36 2023-24=: 00:21:36 2024-25= 00:21:36 Unit = Hours:minutes:seconds (HH:MM:SS) per property per year We intervened to set the caps as follows: 2020-21= 00:04:39 2021-22= 00:04:04 2022-23= 00:03:31 2023-24= 00:02:58 2024-25=: 00:02:24 Unit = Hours:minutes:seconds (HH:MM:SS) per property per year	The company states that its original collar was accepted in our initial assessment of plans (IAP) but has now been revised and this goes against customer support. It states that it does not agree with the amended collars but is not challenging them as it has no further evidence to submit. It considers that if there is no change in the collars and it will be more exposed to potential downside and will remove its enhanced compensation scheme.	Change required for the final determination. We do not consider that customer's views on maximum underperformance payments should be definitive on where collars should be set. While important, it is also necessary to consider whether the levels provide appropriate incentives. Where the collars proposed by the company suggest a tight range of underperformance we consider that this would not give sufficient incentive for the company to adequately prepare for high impact low probability events. The company has not addressed this issue in its response to the draft determination. We therefore consider that the collar the company proposed does not give sufficient incentive and propose to continue to set the collar on a multiple of the service level as set out in the 'Delivering outcomes for customers policy appendix'. We also address in this document the response around the overall ODI package. The company's collar levels have changed because of the change in performance commitment levels and also the change in the multiplier. Our normal approach when setting caps is to do this at the estimate of P90 performance. We generally adjust the estimates that companies provided in their business plans by any changes in the service levels. South East Water had originally proposed service levels that reduced to 3 mins by 2024-25 and P90 performance that reduced to 2.4 minutes by 2024-25. If we increased this in consequence of our change in service level, that is the increase by 2024-25 from	We set the underperformance collar to the following level: 2020-21= 00:22:45 2021-22= 00:22:45 2022-23= 00:22:45 2023-24= 00:22:45 2024-25= 00:22:45 Unit = Hours:minutes:seconds (HH:MM:SS) per property per year

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
				3 minutes to 5 minutes, the P90 estimate of performance would increase to 4.4 minutes by 2024-25, which would be more pessimistic than most other companies. In this case we keep the caps as at the draft determination and do not adjust them by the change in the service level. However we adjust the P90 estimates of performance in our ODI Return on Regulatory Equity (RoRE) analysis.	
Per Capita Consumption (PCC) PR19SEW_E.1	Performance commitment levels	The intervention we made at draft determination was to set the performance commitment percentage reduction levels to the following values: 2020-21 = 1.3% 2021-22 = 3.2% 2022-23 = 5.0% 2023-24 = 6.5% 2024-25 = 8.0% Units: Percentage reduction from 2019-20 baseline using a three-year average (%)	The company proposes a change to the draft determination. Its proposed values align to its original submission, which are: 2020-21 = 1.3% 2021-22 = 2.5% 2022-23 = 3.8% 2023-24 = 5.0% 2024-25 = 6.3% Units: Percentage reduction from 2019-20 baseline using a three-year average (%) The company does not agree with our view that it has the highest level of per capita consumption in England and Wales. The company provides evidence to show that 15.9% of the population in England and Wales has higher per capita consumption based on Water Resource Zone analysis. The company states that only 30% of its total proposed reduction is based on proven potential water savings and 70% is wholly reliant on the delivery of new, innovative, and largely untested or proven initiatives that attract a higher level of uncertainty and risk of failure. The company considers that one cannot simply add up the potential savings, but that it does not have a quantifiable chance of success for these projects, and so it is not able to do this calculation. The company states that the assumption that all innovative projects will work removes the company's potential chance to outperform on this performance commitment. This is inconsistent with incentive based regulation, and if a number of projects are	Change for the final determination. The company proposes an alternative methodology for comparative analysis of per capita consumption at a Water Resources Zone level which is not defined in the PR19 methodology or subsequent publications. We consider that assessing per capita consumption at a company level is reasonable as it measures the overall performance across its entire household customer base for the company. We consider that the company should take action and implement appropriate measures in its Water Resources Zones, which will in turn reduce its overall company-level per capita consumption proportionally. On this basis we conclude that the company had the highest per capita consumption. The company does not provide sufficient evidence of the reasons why its performance commitment levels are not at or lower than its Water Resources Management Plan. We typically expect the actual reported performance to be lower than the corresponding Water Resources Management Plan values, as the Water Resources Management Plans are developed for planning purposes and are based on forecast dry year annual average demand, when demand for water is at its highest before water use restrictions are imposed. In contrast, our per capita consumption guidance is for reporting purposes and is based on a different methodology which accounts for weather variations through annual reporting of three year average values. On average not all three consecutive years will be dry years and some can reasonably be expected to be normal years. The uplift factors from a normal to dry year are considered by individual companies when developing their Water Resources Management Plans and they vary but are typically in the 1% to 5% range. The company's Water Resources Management Plan 2019 performance	We set the performance commitment percentage reduction levels to the following values: 2020-21 = 1.1% 2021-22 = 2.9% 2022-23 = 4.6% 2023-24 = 5.8% 2024-25 = 7.2% Units: Percentage reduction from 2019-20 baseline using a three-year average (%)

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
			successful, then in that scenario, it might be able to deliver reductions in per capita consumption beyond what it has committed to achieving. If this happens, the company recognises that it would receive outperformance payments and considers that this would be entirely appropriate and it will be able to share important knowledge with the industry.	commitment level is 140.2 l/p/d on a three-year average basis. The company does not provide new evidence but provides a further clarification that it estimates the savings to be in the 6.3% to 8% range and that the 8% reduction assumes full achievement of the upper bound of potential savings which is uncertain due to an innovative nature of the options. We consider the company's explanation is sufficient but do not consider its selection of the lowest estimate to be appropriate and consider that a more challenging percentage reduction performance commitment level is more appropriate. We change the company's performance commitment levels by setting the 2024-25 performance commitment level at a 7.2% reduction from the 2019-20 level, which represents a mid-point between the estimated savings range of 6.3% to 8%.	
Leakage PR19SEW_D.1	Performance commitment levels	No intervention at draft determination.	The company does not represent on leakage performance commitment levels, but does revise its baseline 2019-20 position from 87.5 to 87.1 Ml/d.	Change for the final determination. We consider that the company's performance commitment levels are appropriately stretching, however the revision of the 2019-20 forecast causes a minor misalignment with our funding approach. This is because the company is receiving funding for 12.6 Ml/d reduction on annual basis, while the draft determination performance commitment level achieves a reduction of 12.3 Ml/d, based on the latest data from the September 2019 query response. We consider that, where we are allowing enhancement funding for leakage reduction, the performance commitment levels should be consistent with our funding. This is consistent with our treatment of performance commitment levels for other companies receiving leakage enhancement allowances. Therefore to align funding and levels we revise the final determination performance commitment levels to a profile which marginally revises the company's performance commitment levels in the last two years, which results in a reduction of 12.6 Ml/d on an annual basis.	We set the performance commitment levels to the following values: 2020-21= 0.2 2021-22= 0.4 2022-23= 2.0 2023-24= 5.0 2024-25= 9.7 Unit = Percentage reduction from 2019-20 baseline using 3 year average (%)

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 PR19SEW_D.1	ODI rates	We intervened at draft determination to decrease the company's underperformance payment rate to -£0.454 million per Mld. We also intervened to set an additional tier 1 underperformance rate at -£1.899m/ Mld to recover enhancement funding.	The company states that it accepts our draft determination rate for the standard 'tier 2' underperformance incentive rate. However it claims that our 'tier 1' rate, which recovers enhancement funding if performance benefits are not delivered to customers, creates perverse incentives. In particular, it claims that it needs to spend £25m to deliver the improvements required to meet the performance commitment levels, however we have allowed it only £4m. Consequently, it could spend an amount between £4m and £25m, and fail to meet is performance commitment levels, resulting in not only spending the enhancement allowance but also having to return the funding to customers through the 'tier 1' ODI rate. It states this is inappropriate, as it would have performed at its best but not delivered leakage performance levels to the required standard due to a lack of funding. It claims it is inappropriate for us to materially disallow enhancement expenditure and then also set an ODI rate to effectively disallow the allowed expenditure should it not achieve the performance commitment levels.	Change for the final determination. The company does not provide sufficient evidence to change our view that if a company is granted extra funding to reach its performance commitment level, this funding should be returned to consumers if it fails to deliver the performance levels. We recalculate the associated Tier 1 underperformance rate to align with updated cost allowances and cost sharing ratios. The Tier 1 rate 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'. It does not include an element of foregone marginal benefit as we are extending the company's performance commitment level beyond that which it proposed, and because the company is already performing above the upper quartile. If the company achieves leakage performance at or worse than its 2019-20 level, then it will incur a Tier 2 underperformance rate for the performance gap between its actual performance and the 2019-20 level, and then the Tier 1 rate for the performance gap from the 2019-20 level to its performance commitment level.	We recalculate the Tier 1 underperformance rate on the basis of the enhancement allowance granted by cost assessment. We set the company's tier 1 underperformance rate at -£0.663m/ Mld. The rate will apply between the company's performance commitment level each year and a performance level of 0% reduction from the 2019-20 baseline.
Leakage PR19SEW_D.1	Caps, collars and deadbands	Our intervention at draft determination was to set the collars as follows: 2020-21= -5.0% 2021-22= -5.0% 2022-23= -5.0% 2023-24= -5.0% 2024-25= -5.0% Units: Percentage reduction from 2019-20 baseline using three-year average (%) At draft determination we set cap levels to:	The company does not agree with our amended collars, which we have moved further away from its performance commitment level without amending the level of the cap. It argues this makes the risk/reward balance uneven, as it exposes it to more potential downside but does not allow more potential upside. The company does not agree with this change, and would have challenged this amendment at the initial assessment of plans (IAP) stage, if this is how it had been presented then. The company proposes that the caps and collars are set back at the P90 and P10 performance levels, as originally expected, as this is balanced and continues to provide customers with some additional protection.	Change for the final determination. We consider that a cap and collar are necessary because the performance commitment is financially material. We address the company comments about the overall balance of the ODI package in our 'Delivering outcomes for customers policy appendix' where we also explain how we set the level of caps and collars in the final determination. We retain the collar levels as at draft determinations. The levels for the outperformance cap are based on estimates of the P90 performance, which has changed. Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.	We set cap levels to: 2020-21 = 4.7 2021-22 = 5.0 2022-23 = 6.7 2023-24 = 9.7 2024-25 =14.3 Units = %

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
		2020-21 = 4.7 2021-22 = 5.0 2022-23 = 6.7 2023-24 = 9.8 2024-25 = 14.1 Units = Percentage reduction from 2019-20 baseline using three-year average (%)			
Mains Repairs PR19SEW_B.2	Performance commitment levels	The intervention we made at draft determinations was to set the performance commitment levels to the following values: 2020-21 = 152.6 2021-22 = 152.6 2022-23 = 152.6 2023-24 = 152.6 2024-25 = 152.6 Units: Number of mains repairs per 1,000km	The company proposes a performance commitment level at 182.7 (mains repairs per 1,000km) in all years, which aligns with its September 2018 business plan proposal. The company considers that the requirement to significantly reduce the number of mains repairs as a quantitative service outcome is not consistent with the objective that regulated activities are carried out economically and efficiently as it goes beyond what is reasonably necessary to maintain networks assets and perform statutory duties. The company states it is not possible for it to achieve the draft determination level. The company states that it has driven down leakage since 2010 (beyond its Economic Level of Leakage) which has led to an increase in mains repairs. It states that in order to reduce leakage even further in the future it will need to conduct more pro-active mains repairs. The company also states that it has used many other techniques to reduce leakage and provides a table which lists those techniques and the expected leakage benefits, but does not provide a figure for the expected leakage benefits from pro-active mains repairs. The company disagrees with our approach of setting the performance commitment level based on three of its best historical years as not being	Change for the final determination. The company provides some new data which shows that pro-active repairs have increased over the last 5-6 years as its leakage has reduced. However the data also shows that reactive mains repairs have also reduced over the same period (except for a peak in 2016-17). It does not set out the expected benefit from additional pro-active mains repairs. The company discusses weather impacts but does not provide any empirical evidence. The company discusses how in some years extreme events often lead to an increase in leaks and therefore an increase in mains repairs, but also that some years have seen a reduced repair rate as smaller variations in temperature, less flooding and consistent rainfall reducing ground movement and overall demands meant less leakage. The company does not provide convincing evidence at a detailed level, but it provides reasonable evidence to demonstrate a high level correlation between mains repairs and weather. Based on the data and evidence provided by several companies, our conclusion is that there is a link between increasing pro-active mains repairs and reducing leakage. However, the data is too inconsistent and inconclusive on reducing reactive repairs to enable quantification of the future impact on leakage levels by conducting additional mains repairs. 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	We set the performance commitment levels to the following values: 2020-21 = 173.9 2021-22 = 171.5 2022-23 = 169.1 2023-24 = 166.7 2024-25 = 164.3 Units: Number of mains repairs per 1,000km

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
			representative, primarily due to weather patterns. The company considers its proposed performance commitment level does not represent a deterioration in asset health as combined with materially reducing leakage, investing in mains replacements, improving network resilience, improving our interruptions performance and improving our unplanned outage show its commitment to its statutory duty of maintaining a stable serviceability.	in the earlier years to use proactive mains repairs to reduce leakage. Our intervention at draft determination uses the company's own historical performance to set levels going forward, therefore we consider that this is within the capability of the company to perform at this level. However, at final determination, we amend the base levels of mains repairs (before the leakage allowance is added) to an average of the best five years performance. We now consider the use of best five historical years to set the forward looking base level provides a more representative performance commitment level (than three years) and ensures companies maintain good performance to improve the overall health of the assets over the longer-term. Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change.	
Mains Repairs PR19SEW_B.2	ODI rates	Our draft determination increased the company's underperformance rate from -£0.083 due to issues of past performance. We set the underperformance rate at the upper bound of our reasonable range (-£0.101m per 1,000km of mains).	The company states that it disagrees with our view that it has been a poor performer on this measure, and therefore disagrees with the intervention on its underperformance ODI rate. The company states that a comparative assessment is not appropriate for this performance because this is an asset stability measure, and therefore is intrinsically linked to a company's given network and the performance levels achieved on related performance commitments. The company further claims that we appear to agree with this view, as it has not set performance commitment levels on a comparative basis. It states that its performance on mains repairs is broadly stable. The company states that it has seen slight increases in its performance because it has delivered material leakage reductions resulting in more proactive mains repairs and that it has experienced more extreme weather events in the last couple of years.	Change for the final determination. The test for past performance that formed the basis of our intervention at draft determination is not based on a comparative assessment. It is a test to determine how the company has performed against its performance commitment levels in the past, and so may have a credible incentive to understate or overstate its ODI rate. As set out in our 'PR19 draft determinations: Delivering outcomes for customers policy appendix', the company has been identified as a poor performer on this measure and does not sufficiently explain the reasons behind its poor performance, stating only that it was due to its increased proactively detecting leaks. The company failed to meet its performance commitment levels for 2017-18 and 2018-19 and has had deteriorating performance for these years compared to previous years. The company's statement that we do not set performance commitment levels based on a comparative analysis is true; however, we do use comparative analysis to identify industry outliers that we should intervene on. We then set performance levels based on historical performance.	We change the underperformance rate to -£0.070m/ number per 1,000km of mains.

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
			The company proposes that we set its rate to the level proposed in its April business plan.	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 at the normalised (per household) industry average on mains repair to provide a more balanced spread of incentives and risks across the company's performance commitments. 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'. Therefore we recommend to retain our intervention at draft determination based on poor past performance and poor comparative performance.	
Unplanned Outage PR19SEW_B.3	Performance commitment levels	The intervention we made at draft determination was to set the performance commitment levels based on a linear profile from the company's forecast 2019-20 value (4.70%) to the industry median value of 2.34% by 2024-25. We set the performance commitment levels to the following values: 2020-21 = 4.15 2021-22 = 3.70 2022-23 = 3.24 2023-24 = 2.79 2024-25 = 2.34 Units: percentage of peak week production capacity (%)	The company proposes the same reducing profile as its original business plan submission, these values are: 2020-21 = 4.60 2021-22 = 4.50 2022-23 = 4.40 2023-24 = 4.30 2024-25 = 4.20 Units: Total unplanned outage (%) The company also changes its 2019-20 forecast from 4.6 to 4.7. It states that because the measure is new and reporting guidelines are still evolving, there is a considerable amount of variability and uncertainty with the data and industry wide comparisons cannot be made. The company states that there is a material amount of unquantifiable uncertainty and volatility, and that it is not possible for it to commit to a level of performance that is more stretching than this because this level of commitment already exposes it to a material amount of downside risk. It also notes that there is no outperformance ODI	No change for the final determination. Our analysis of performance data from 2017-18 and 2018-19 demonstrates a convergence, with 2018-19 values showing a smaller divergence in performance. We consider that this suggests increasing reliability and reflects the industry's progress in the adoption on the common definition. 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. The company does not provide any company specific evidence on why this more stretching performance commitment level cannot be achieved. For unplanned outage, there is not enough historical data to base a projection on, so we use the median value (2.34%) from the 2024/25 forecasts as the 'good' level as using median eliminates the impact of outliers on the average.	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
			on this performance commitment so its customers are entirely protected from any uncertainty around service levels.	Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change. For South East Water, this means retaining a reducing profile from its forecast value of 4.6% in 2019-20 to the 2024-25 median of 2.34%.	
Risk of severe restrictions in a drought PR19SEW_G.1	Performance commitment levels	The intervention we made at draft determination was a sector wide action: The company should provide a full set of intermediate calculations (at a zonal level), for the underlying the risk calculation (both baseline levels and performance commitment). The company should confirm that its performance commitment levels are reflective of their water resources management plan position. This should include the potential that they will have access to drought orders and permits The company should confirm which programmes of work will impact its risk profile forecasts.	The company states that figures included its in April submission were not measuring performance for the year 2019-20; they were instead measuring baseline performance across the whole 25 year period 2019-20 to 2044-45. The company has confirmed it expects to report a performance of zero risk for 2019-20. The company also confirms that a performance commitment level of zero risk will be delivered from year 1 to year 5 under both average and peak demand conditions without the need for any new interventions. The company confirms alignment with its Water Resources Management Plan and that it will have access to drought orders and permits as set out in its Drought Plan. The company references Appendix 7 of its business plan submission which covers the programmes of work which will impact its forecasts.	No change for the final determination. We note the confirmation of zero for 2019-20 and beyond, which we consider is consistent with the company's Water Resources Management Plan. The zero risk is appropriate given the evidence provided. We retain our draft determination performance commitment levels, as this is supported by the additional evidence provided.	N/A
Water Quality Customer Contacts: Appearance of tap water PR19SEW_A.2	ODI rate	At draft determination we intervened to increase the underperformance rate to the industry average of -£2.554m per contact per 1,000 population.	The company states that its performance has been improving since 2012, and provides data on discolouration contacts to support this claim, with contacts per 1,000 population almost halving between 2013 and 2018. The company claims that it is undertaking additional activities in the 2020-25 period to further improve	No change for the final determination. We remain concerned that the company's actions focus only on discolouration which is only one sub-element (other sub-elements include particles, animalcules, general conditions etc.) of the total measure for which the performance has deteriorated. The company does not evidence it understands the drivers for the measure as a whole. It does	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
			performance, such as increased flushing of network mains. The company states that we should use the ODI rate proposed in its April business plan, or at a minimum also adjust the outperformance rate (using the 1.2 multiplier) in a similar way to the underperformance rate for a better balanced incentive. The company provides information setting out how it is proceeding to improve its performance in water quality (appearance). The measures it sets out relate to discolouration, introduced in 2012, with evidence of improvements in performance.	not provide further evidence in its representation to convince us that our assessment of past delivery should change. The company does not provide sufficient evidence that it is appropriate to adjust the outperformance incentive rate. We intervened on the underperformance rate at draft determination solely due to past delivery concerns. The intention of increasing the underperformance rate is to provide additional incentives against further underperformance. We therefore do not consider that it is appropriate to increase the outperformance rate above that implied by customer valuations.	
Greenhouse gas emissions PR19SEW_H.4	Performance commitment level	No intervention at draft determination.	This representation is not linked to an intervention at draft determination. The company states that its proposed performance commitment levels at draft determination were developed in consultation with a range of carbon experts, including the Carbon Trust. However, the company states that since the draft determination it has gained new evidence on the additional time required for some enabling works and to set up commercial arrangements with third parties. It proposes an alternative delivery profile which takes this into account for the first two years but it commits to more stretching performance commitment levels for the third and fourth years of the 2020-25 period. The company states that its proposed approach should deliver performance benefits in later years from the early learning in the first two years. It states that the cumulative performance commitment level for 2024-25 will remain at 57.6 kgCO2 per Ml. In a response to a query from us where we asked the company to find out if it would consider changing reporting carbon emissions from absolute figures to changes from a 2019-20 baseline such that this could accommodate any	Change for the final determination. The company provides sufficient and convincing justification that the performance commitment levels it proposes following the draft determinations are appropriate. While we have some concerns that it initially set its levels without carrying out sufficient investigation, we are satisfied that the company now proposes a more realistic delivery profile which is based on new information on procurement timetables. The company provides sufficient evidence that it will achieve the greatest reduction in greenhouse emissions through Corporate Power Purchase Agreements and that these will not be in place until 2020-21. It is also not seeking to deliver less carbon emission reduction across the 2020-25 period than in the draft determination. The measure is reputational, so there is no concern over minimising underperformance payments. We consider that the company provides sufficient justification that the change in performance commitment levels is required to meet procurement timetables, and that the reduction by 2025 is unchanged. Furthermore any potential future change to performance commitment definitions following changes in the UKWIR	We change the performance commitment levels to: 2020-21 = 152.3 2021-22 = 119.9 2022-23 = 81.8 2023-24 = 64.7 2024-25 = 57.6 Units: kg CO_2e per megalitre

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
			forthcoming changes to the United Kingdom Water Industry Research carbon accounting workbook methodology. The company states in its response that its original performance commitment was developed with the understanding that the United Kingdom Water Industry Research carbon accounting workbook tool would remain a consistent reporting application. It claims that it was aware that the tool was changing in presentation to facilitate easier or logical input but the calculation and methodology would remain consistent to report scope 1, 2 and 3 greenhouse gas emissions as appropriate under Defra guidelines. The company sought confirmation from Ricardo who are developing the carbon accounting workbook tool on behalf of United Kingdom Water Industry Research, that this is the approach being taken. It states that Ricardo has confirmed that calculation of greenhouse gas emissions will remain identical and comparable to historically calculated. Given this confirmation from Ricardo the company considers that the performance commitment as submitted in its draft determination response remains appropriate.	carbon accounting workbook will need to follow the process outlined in annex 2 of the 'South East Water - Outcomes performance commitment appendix'.	
Protecting wildlife and increasing biodiversity PR19SEW_H.2	Performance commitment level	Our intervention at draft determination was to set performance commitment levels for earlier years. We set performance commitment levels to: 2020-21 = 292 2021-22 = 584 2022-23 = 876 2023-24 = 1,168 2024-25 = 1,460	The company accepts the introduction of annual performance commitment levels and agrees that the financial incentive will only apply in 2024-25. It does, however, propose an alternative delivery profile which takes into account its 2019-20 forecast based on ongoing (i.e. within the current period) work on this measure. The 2024-25 cumulative performance commitment level remains at 1,460 hectares. The company states that it takes at least two years to survey and agree sign-off for a biodiversity plan, which is why its 2020-21	Change for the final determination. The company stated in its September 2018 business plan that this was a new performance commitment with no historical information. The starting point for the performance commitment levels in 2020-21 was therefore assumed to be zero. We assessed the level of stretch on this basis; that the company would deliver 1,460 hectares by 2025 and applied no interventions on the overall level of stretch at draft determination. Utilising the profile provided by the company in its representation, the year one starting performance	We revise the performance commitment levels to: 2020-21 = 1,166 2021-22 = 1,218 2022-23 = 1,268 2023-24 = 1,343 2024-25 = 1,460 Units: Hectares of company land.

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
		Unit: Hectares of company land. The financial incentive still only applied for service delivery in 2024-25 as the performance commitment is cumulative and underperformance or outperformance should only be applied once.	performance commitment level should be the same as the 2019-20 level. The performance commitment levels the company proposes are: 2020-21 = 1,166 2021-22 = 1,218 2022-23 = 1,268 2023-24 = 1,343 2024-25 = 1,460 Units: Hectares of company land.	commitment level is significantly higher at 1,166 hectares compared to 292 hectares in our draft determination profile. Due to the revised starting position, we assess the level of stretch again in line with our draft determination methodology. South Staffs Water and Severn Trent Water have broadly similar performance commitments. When comparing the proposed levels by the company with the companies above, we find that the updated level of stretch information provided by the company is broadly comparable to other companies with related performance commitments. In response to a query regarding its customer research, the company confirmed that when the performance commitment was tested with customers through willingness to pay and attribute valuation research, it was made clear to customers that there was already current activity going on in this area and that the starting position was not zero. We consider the company provides sufficient and convincing evidence for us to revise the performance commitment levels in line with its proposal.	
Protecting wildlife and increasing biodiversity PR19SEW_H.2	Caps, collars and deadbands	No intervention at draft determinations.	The company does not agree with the draft determination intervention to set a cap on this performance commitment. In the draft determination we stated that without a cap the company might be incentivised to focus on this performance commitment at the expense of others and we intervened to set a cap based on the company's estimate of P90 performance at 1,671. The company states that while it is particularly keen to deliver service improvements because this is an area of importance to its customers, there is no risk that it would focus on this performance commitment to the potential detriment of others. It states that the estimated potential upside at the P90 level is £1.25m or 0.04% in return on regulatory equity terms. The company states that this is insignificant in comparison to the potential scale of some of its other ODIs.	No change for the final determination. The company has discretion in this area and there is possible uncertainty for customers. The company has not provided evidence that this discretion could not lead to it focusing on the performance commitment in a way that may exceed customers' interests and therefore we consider that it is appropriate to have an outperformance cap to provide protection for customers. In addition, we consider that the performance commitment is financially material.	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
Company sites protected from risk of flooding PR19SEW_B.4	Performance commitment level	Our intervention at draft determination was to set performance commitment levels for earlier years. We set performance commitment levels at: 2020-21 = 18 2021-22 = 36 2022-23 = 55 2023-24 = 73 2024-25 = 92 Units: Cumulative number of sites protected. The financial incentive still only applied for service delivery in 2024-25 as the performance commitment is cumulative and underperformance should only be applied once.	The company disagrees with our proposed annual delivery profile set at draft determination and states that delivery across the final three years of the 2020-25 period represents a more optimised programme that provides less disruption to customers. The company states that the optimisation activities will continue throughout this year and into 2020-21 so it cannot commit to annual performance commitment levels at this stage. It further states that years one and two of the next period will be used to optimise the programme, complete site surveys and designs and commence delivery. In the representation the overall level of stretch remains unchanged at 92 sites by 2024/25. The company states that the flood resilience programme protects customers from low probability high consequence events (a 1-in-1000 flood event) and is primarily to address future climate risks rather than short term flood protection. It states that of the 92 sites proposed, only 20 (the most critical sites) have undergone detailed scoping, the remainder have been assessed at a high level only and require further detailed sites visits and scoping. The 20 critical sites also still require design finalisation and programming (some sites will need to be removed from service to complete the work). The company provides five key areas where it plans to focus on increasing efficiency and productivity across its plan (e.g. consideration of modular off-site design and programme batching) including extracts from its 'capital efficiency toolbox' that specifically considers the range of efficiencies achievable through front end enabling works. However, the company also states that it recognises the benefit to customers of being able to measure and monitor performance of the flood resilience programme so it is proposing to publish, via its 2020-21 annual performance	Change for the final determination. It is standard industry practice to scope and cost large programmes of work at varying levels of granularity for business planning purposes rather than relying on detailed estimates for each output which would potentially lead to abortive work and can be costly to produce. Prioritising the detailed scoping for the most critical sites first is therefore an appropriate engineering approach for a programme such as this. As the company states, this will potentially create a requirement to do additional detailed scoping work at the start of the 2020-25 period before work on site can commence. The company is, through a performance commitment in the current period, on track to protect 55 sites from 1-in-200 flood events. There is therefore already a level of protection provided to customers for low probability high impact events so any front end enabling works at the start of the 2020-25 period should not put customers at increased flood risk. For this performance commitment, the delivery profile does not impact the timing of financial incentives; underperformance payments only apply in 2024-25. There is a risk that the delivery profile set in our draft determination could incentivise the company to deliver 'easy' or inappropriate projects early, since it utilises an arbitrary linear profile forcing the delivery of a fifth of the programme in year one. The additional site visits detailed by the company in its representation alone could represent a full year of enabling activity. We consider the company has provided sufficient and convincing evidence to change the delivery profile for this performance commitment. However, we consider that interim milestones should apply wherever possible in order to ensure early delivery of benefits and to protect customers from late delivery of flood protection. Taking account of the company representation, we re-profile delivery over the last three years of the 2020-25 period.	We revise performance commitment levels to: 2020-21 = 0 2021-22 = 0 2022-23 = 31 2023-24 = 61 2024-25 = 92 Units: Cumulative number of sites protected.

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
			report, the proposed programme of schemes. It commits to then track delivery progress against this baseline until the programme is complete. The company's representation therefore reverts the performance commitment back to an end of period, five year performance commitment with no interim milestones.		
Engaging and working with abstractors to improve catchment resilience to low flows PR19SEW_H.6	Performance commitment level	Our intervention at draft determination was to set performance commitment levels for earlier years. We set performance commitment levels to: 2020-21 = 4 2021-22 = 8 2022-23 = 12 2023-24 = 16 2024-25 = 20 Units: Percentage (%) of relevant abstractors engaged with.	The company states that it cannot commit to annual delivery profiles for this performance commitment given the level of uncertainty it has on the expected profile of the work. The company states that this a new and untested measure in which it does not have a baseline to start its work on. It proposes that in the first two years of the period it will work with the Environment Agency to fully define the measure, carry out enabling work and establish the baseline from which its cumulative 20 percent engagement measures will be measured. The company proposes that years three to five of the programme will be used to commence work with identified abstractors. Rather than company-wide implementation, the company is running the project in two pilot (high risk) catchments because it is an untested approach. It will utilise river monitoring to measure mean river residual flows to determine success and quantify benefits as well as measuring the engagement in itself.	Change for the final determination. The performance commitment has support from the company's environmental focus group (EFG) and we raised no actions during the initial assessment of business plans stage. We consider there is some evidence to suggest that the performance commitment is innovative; there are no similar performance commitments from other companies focusing purely on engaging with abstractors to improve surface water flows and manage water efficiency. Therefore there is some evidence to suggest that enabling works will be required at the start of the period, though we note that other companies also have performance commitments focused on partnership working and engagement that do have annual delivery milestones profiled across the 2020-25 period. We consider that any delivery profile already protects customers in terms of ensuring benefits are delivered and reported accurately. This is due to the definition set at draft determination that included an agreement with the Environment Agency in terms of the abstractors used and the company also having to ensure that abstractors have taken up activities before counting to the performance commitment. However, the company's representation effectively reverts the performance commitment to being end of period with a single year five cumulative performance commitment only and no interim milestones. We consider the company provides sufficient and convincing evidence to change the delivery profile for this performance commitment. The company has already completed some enabling activities in order to develop the performance commitment definition itself, define the activities involved and identify the pilot catchments in	We revise performance commitment levels to: 2020-21 = 0 2021-22 = 0 2022-23 = 7 2023-24 = 13 2024-25 = 20 Units: Percentage (%) of relevant abstractors engaged with.

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
				question. We consider therefore that while the performance commitment may require some further enabling activity, some of this has already been completed and the company should be able to provide some interim milestones over the five year period. We consider that interim milestones should be applied wherever possible in order to ensure early delivery of benefits and to protect customers from late delivery. We therefore reprofile delivery over the last three years of the 2020-25 period.	
Water industry National Environment Programme (WINEP) PR19SEW_H.3	ODI timing	We did not intervene on the timing of the company's ODI at draft determination.	The company states that although it will report its progress annually, yearly incentive payments are inappropriate due to a number of factors out of its control which would affect the delivery profile. It proposes an underperformance payment only for the final year of the period (2024-25) and states that this will mirror the approach with its other environmental measures.	No change for the final determination. The company provides insufficient evidence to suggest that its proposal to remove in-period incentives will sufficiently incentivise it against delivery delays. The majority of its schemes are programmed to be delivered in 2021-22 and it does not provide sufficient justification why an end of period incentive is more appropriate. The company compares its approach with other environmental measures, however these measures have different drivers of performance.	N/A
Water Industry National Environment Programme (WINEP) PR19SEW_H.3	Definition and performance commitment level	We intervened at draft determination to update the definition of this performance commitment to only include schemes classified as 'Green' by the Environment Agency as of the 1st April 2019. We intervened at draft determination to set a delivery profile based on the Environment Agency's target completion dates for the company's 'Green' schemes.	The company states that it is prepared to set provisional annual performance commitment levels for this performance commitment. However, it states that it needs to retain flexibility in its Water Industry National Environment Programme performance commitment levels due to the fact that the programme of work is subject to change in agreement with the Environment Agency. The company also proposes an alternative annual delivery profile which is based on the current Water Industry National Environment Programme which reflects changes made after 1 April 2019. The total number of schemes remains at 60 including the Bewl amber scheme, but the company expects the remaining five amber schemes to turn green during the 2020-25 period.	Change for the final determination. There are a number of disadvantages to changing the performance commitment definition during the price control period, including the risk of it leading to a disconnect between the cost/service package specified at the start of the period and that which is delivered, the fact that costs will remain fixed and so should the service package, the additional complexity of in-period changes, and the risks that companies may focus on convincing regulators to change performance commitment levels rather than delivery. We stated at draft determination that if performance commitments are not well specified or become outdated because of significant new information there will be a process to update them, but this will be by exception. The company provides sufficient evidence that we should change its delivery profile for this performance commitment. We therefore make an amendment to the performance commitment levels to accommodate changes made after 1 April 2019. We do not allow the company to retain flexibility in its Water Industry National Environment Programme to make changes in-period.	We change the delivery profile for this performance commitment to the following: 2020-21 = 0 2021-22 = 43 2022-23 = 43 2023-24 = 44 2024-25 = 60 Units: Cumulative number of schemes

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
Strategic main Wellwood to Potters Corner PR19SEW_H.7	New performance commitment	N/A	The company proposes to connect Wellwood Service Reservoir to Potters Corner Service Reservoir via a new 15km long and 400mm diameter water supply main to provide an alternative supply. The new main will release 8 megalitres surplus water in Water Resource Zone 6 to support Ashford's growth. Two separate schemes funded by growth will replace the Godmersham Water Treatment Works to Potters Corner section of the existing trunk main with a larger main and provide an additional new supply reservoir (Addlington) which will balance with Potters Corner. The scheme cost is split across 2020-25 and 2025-30. The company expects the following profile which it provides in response to a query: 2020-21 = 0 2021-22 = 6 2022-23 = 18 2023-24 = 30 2024-25 = 42 2025-26 = 54 2026-27 = 60 Units: Cumulative number of months	Change for the final determination. We consider that customer protection via an underperformance payment is required in order to ensure the company's customers are protected for late delivery or non-delivery. The company argues that it cannot complete the scheme in the 2020-25 period due to various factors. However we consider that outperformance payments for cost recovery are appropriate in order to incentivise the company to deliver the scheme in the 2020-25 period. The annual performance commitment will be the number of months difference from 31 October 2026 that the schemes are expected to be commissioned. Early delivery and therefore outperformance is represented by a negative number and late delivery is represented by a positive number. The ODI is end of period and only applies to the year 2024-25 and is calculated by the cost divided by the number of months and multiplied by the cost sharing factor. We state both underperformance and outperformance ODI rates as negative numbers. The company is to provide assurance at PR24 from an external third party with relevant expertise on the expected date of commissioning. The efficient costs of the scheme are £10.843m. As per South East Water's programme, we are funding 60% of this to be completed in 2020-25 with an allowance of £6.506m. The remaining 40% of funding £4.337m should be requested in the 2025-30 period. However, we are setting an outperformance payment so that the company can deliver this expenditure early. We assume expenditure will be incurred throughout the 2020-25 period, 60 months, and so we divide the efficient cost by 60 months and then apply the relevant cost sharing to find the underperformance rate to recover expenditure if the scheme is delayed. Equally we divide the remaining efficient cost by the expected delivery time in the 2025-30 period, which is 18 months, apply the relevant cost sharing which provides the appropriate outperformance rate if the company can accelerate delivery.	We adopt the new performance commitment for this scheme. We set outperformance and underperformance payments based on performance in 2024-25 only. We set the underperformance rate at -£0.0413m per month delay. We set the outperformance rate at £0.1492m.
C-MeX PR19SEW_C.1	All	We set a common performance commitment for all companies	All representations from companies and other stakeholders are summarised and assessed in the ' Customer measure of experience (C-MeX)	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of	See 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.

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
		regarding residential customer satisfaction.	and developer services measure of experience (D-MeX) policy appendix'.	experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	
D-MeX PR19SEW_F.1	All	We set a common performance commitment for all companies regarding residential 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'.

Table 2: South East 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
CCWater	Non-performance commitment specific	ODIs	N/A	CCWater conducts additional customer research, finding that 77% of South East Water'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.	No change for the final determination. We note the results of CCWater'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.	N/A
Business Stream, UK Water Retailer Council	Non-household void sites	Performance commitment definition	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	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. 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. 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.	Change for the final determination. 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. 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. It is possible that, at some time during the 2020-25 period, a common financial incentive on gaps and/or voids is 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	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.

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
					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. We discuss this topic in more detail in 'Business retail market representations'.	

Table 3: South East 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.	Change for the final determination 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. 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. 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 South East Water – Outcomes performance commitment appendix.	We change ODI rates where the underlying data used to calculate the rate has been updated, or an error has been identified.
Water Quality Compliance (Compliance Risk Index) PR19SEW_A.1	Caps, collars and deadbands	No intervention at draft determination.	Change for the final determination. As we explain in the 'Delivering outcomes for customers policy appendix' we consider that the water quality Compliance Risk Index (CRI) is uncertain and all companies should have a collar set in line with our standard approach. In the appendix we also explain how we set the level of the collar in the final determination.	We set the underperformance collar to the following level: 2020-21 = 9.5 2021-22 = 9.5 2022-23 = 9.5 2023-24 = 9.5 2024-25 = 9.5 Unit = Compliance Risk Index Score
Water supply interruptions PR19SEW_B.1	Performance commitment levels	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 Units = Hours:minutes:seconds (HH:MM:SS) per property per year	Change for the final determination. 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. Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change.	The following is a sector wide change for the final determination. We set revised performance commitment levels to the following values: 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 Units = Hours:minutes:seconds (HH:MM:SS) per property per year

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
Leakage PR19SEW_D.1	Performance commitment definition	No intervention at draft determination.	Change for the final determination. 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.	We amend the wording of the performance commitment definition to the following: '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.'
Voids – household properties PR19SEW_L.2	ODI rates	Our intervention at draft determination was to change incentive rates. Marginal costs of £30, a cost sharing factor of 50%, and residential property numbers as provided by the company. We set ODI rates at: Underperformance: -£1.435 million per 1% Outperformance: £0.779 million per 1%	Change for the final determination. 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. 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. We also allocate this performance commitment 100% to the retail price control.	We revise ODI rates to: Underperformance: -£0.851m per 1%. Outperformance: £0.851m per 1%. We allocate this performance commitment to the retail price control (100%).
Voids – household properties	Caps, collars and deadbands	We did not set a collar or cap in the draft determination.	Change for the final determination. 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	We set collar levels to: 2020-21 = 2.60 2021-22 = 2.60

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
PR19SEW_L.2			all companies should have caps and collars. We also explain how we set the level of caps and collars. We do not change the company P10 and P90 estimates of performance.	2022-23 = 2.60 2023-24 = 2.60 2024-25 = 2.60 Units: % We set cap levels to: 2020-21 = 1.60 2021-22 = 1.60 2022-23 = 1.60 2023-24 = 1.60 2024-25 = 1.60 Units = %
Water industry National Environment Programme (WINEP) PR19SEW_H.3	ODI rates	We intervened at draft determination to set the underperformance payment rate for this performance commitment to -£0.0722m/ unit	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 -£0.0650m per unit.
Water Industry National Environment Programme PR19SEW_H.3	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 = 43 2022-23 = 43 2023-24 = 44 2024-25 = 60 Units: Cumulative number of schemes completed each year to zero decimal places
Greenhouse gas emissions PR19SEW_H.4	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	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
			exporting to the grid for consumption by others. It considers that it will therefore report its net electricity consumption to include this self-generated energy. 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. Please see the 'Yorkshire Water - Delivering outcomes for customers final decisions' document for the full assessment.	
Unplanned outage PR19SEW.B3	Caps, collars and deadbands	We did not set a collar in the draft determination.	Change for the final determination. 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).	We set collar levels to: 2020-21 = 8.46 2021-22 = 8.46 2022-23 = 8.46 2023-24 = 8.46 2024-25 =8.46 Units: Percentage of peak week production capacity (%)
Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration PR19SEW.H1	Caps, collars and deadbands	We did not set a collar or cap in the draft determination.	Change for the final determination. We apply caps and collars because we consider that the performance commitment is material. We explain how we assess this in the 'Delivering outcomes for customers policy appendix' and also explain how we set the levels of caps and collars.	We set collar levels to: 2020-21 = N/A 2021-22 = N/A 2022-23 = N/A 2023-24 = N/A 2024-25 = 9,500 Units: hectares We set cap levels to: 2020-21 = N/A 2021-22 = N/A 2022-23 = N/A 2023-24 = N/A 2024-25 = 17,358 Units = hectares

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
Priority services for customers in vulnerable circumstances PR19SEW_J.1	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
Appearance of tap water PR19SEW_A.2	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 formed our own estimates of P10 performance based on judgement. We take this approach because we do not consider that applying our standard approach, which involves adjusting the P10 performance levels the company provided in its business plan for changes in performance commitment levels between business plan submission and final determination, leads to estimates which are credible for an efficient company.	We estimate P10 performance levels as: 2020-21 = 1.57 2021-22 = 1.49 2022-23 = 1.42 2023-24 = 1.34 2024-25 = 1.27 Units: Number of consumer contacts per 1,000 population, reported to two decimal places
Strategic main - Wellwood to Potters Corner PR19SEW_H.7	P10 and P90 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. To estimate P90 performance levels in this case, we apply judgement based on the likelihood of early delivery.	We estimate P10 performance levels as: 2020-21 = 0 2021-22 = 0 2022-23 = 0 2023-24 = 0 2024-25 = 0 We estimate P90 performance levels as: 2020-21 = 0 2021-22 = 0

Performance commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
				2022-23 = 0 2023-24 = 0 2024-25 = 0 Units: Cumulative number of months to zero decimal places

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

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

December 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