

June 2021

**Consultation on changes to the
Environmental Performance Assessment
Methodology – our decisions on
performance commitment reporting and
ODI calculation from 2021-22 (year 2
onwards)**

Consultation on changes to the Environmental Performance Assessment Methodology referenced in two PR19 common performance commitments – our decisions on performance commitment reporting and ODI calculation from 2021-22 (year 2 onwards)

Background

Some of the performance commitments we set in the final determination in December 2019 reference the Environmental Performance Assessment (EPA) [version 3](#), which was released in November 2017. We set out in annex 2 of each company's PR19 final determination performance commitment appendix that – if following final determination, a company considers that any changes to third party documents should be reflected in our assessments of company performance against performance commitment levels and consequential ODIs – we would consider incorporating changes to third party materials referenced in performance commitment definitions.

In October 2020 and December 2020 respectively, the Environment Agency and Natural Resources Wales released an updated EPA Methodology [version 8](#). We did not identify differences in each methodology which would result in different impacts on reporting performance commitments for companies operating in England or Wales.

In January 2021, we [consulted](#) on proposals to update the references in two common performance commitments to version 8, effective from 1 April 2021 for 2021-22 (year 2) onwards. Our consultation was prompted by a company that suggested we update the reference to version 7 in for 2020-21 (year 1). In response to our consultation, two other companies suggested that we should update the reference to the EPA for 2020-21 (year 1) performance commitment reporting and outcome delivery incentive determination. In March 2021 we published a [decision document](#) detailing our specific proposals; respondents' views, and; our assessment and decisions on changes to performance commitments for 2020-21 (year 1). In this document we detail the specific proposals in our consultation relating to 2021-22 (year 2) onwards; respondents' views, and; our assessment and decision on changes to performance commitments for these years.

Our January 2021 consultation

In our January 2021 consultation, we proposed that:

- References to the EPA methodology in the treatment works compliance and pollution incidents common performance commitments should be read as relating to version 8.

- The effective date for the proposed changes should be 1 April 2021, meaning that performance for the full 2021-22 charging year would be based on EPA reporting for the 2021 calendar year.
- Reported performance for the charging year 2020-21 would remain based on the methodology specified in EPA version 3.

Compared to version 3, we identified that version 8 of the EPA contains the following relevant changes:

- References to environmental laws – version 8 replaces explicit reference to the Environmental Permitting (England and Wales) Regulations 2010 with explicit reference to the Environmental Permitting (England and Wales) Regulations 2016.
- Sewer lengths – version 8 updates companies' sewer length to the lengths reported for 2017-18. The differences in sewer lengths are provided in annex 1 of this document. They are significant for some companies.

Changing the reference in the methodology has no impact on sewage treatment works compliance and therefore the reporting of the treatment works compliance performance commitment. For pollution incidents, we consider it appropriate for companies to use the updated sewer lengths because it improves the accuracy of reporting, permits comparison between companies and is consistent with the Environment Agency's and Natural Resources Wales' monitoring of the sector's performance. We also consider that the proposed change is consistent with the intention of the common performance commitments, which is to be comparative and consistent with the methodologies of external stakeholders where appropriate and, for pollution incidents, to be representative of incidents from all types of sewer. If we do not make a change then companies must report the same metric in multiple ways for their various stakeholders. This is complex and likely leads to confusion, especially with customers.

We also identified that each company that provides wastewater services (with the exception of Thames Water and Yorkshire Water¹) has a bespoke performance commitment that references version 3 of the EPA methodology in relation to satisfactory sludge use/ disposal (see annex 1). However, because the satisfactory sludge use/ disposal metric is suspended by the Environment Agency and Natural Resources Wales, version 8 contains no relevant information for reporting these PCs. We noted that explicit reference to the Environmental Permitting (England and Wales) Regulations 2010 in EPA version 3 has been replaced with explicit reference to the Environmental Permitting (England and Wales) Regulations 2016 in version 8. However, because companies must operate in accordance with the laws which apply to them, this drafting change has no substantive impact on sludge use/ disposal compliance and therefore the reporting of these performance commitments. Therefore, we did not propose to change the reference to EPA version 3 in sludge use/ disposal performance commitments.

¹ Our consultation document incorrectly omitted an explicit statement that Anglian Water does not have a bespoke performance commitment in relation to satisfactory sludge use/ disposal.

We also requested that companies, and wider stakeholders, identify any performance commitments which we might have omitted from our consultation, which also referenced EPA version 3 and should also be updated.

Changes since our January 2021 consultation

In response to our consultation, Yorkshire Water identified that its 2017-18 length of sewer in EPA version 8 is overstated by 29 km in comparison to its annual performance report (APR). The company obtained our agreement of the revised figure and informed the Environment Agency, which corrected the figure through release of [EPA methodology version 9](#) on 6 May 2021. EPA version 9 applies for the 2021 calendar year and therefore the 2021-22 (year 2) charging year.

EPA version 9 also clarifies treatment of performance reporting in the Environment Agency's EPA report for regions where some water and sewerage companies provide only water services. It advises that for performance commitment reporting, companies should refer to Ofwat's reporting requirements, which may differ to the EPA.

Although they are minor, the changes between versions 8 and 9 improve accuracy, consistency and transparency of reporting. We therefore consider that we should update the references to the EPA methodology in the pollution incidents and treatment works compliance PCs from version 3 to version 9 for companies operating mainly in England (ie Anglian Water, Northumbrian Water, Southern Water, Severn Trent Water, South West Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water).

EPA version 8 remains applicable for companies operating predominantly in Wales (ie Hafren Dyfrdwy and Dŵr Cymru) and Natural Resources Wales does not anticipate any imminent updates to its methodology. For Hafren Dyfrdwy and Dŵr Cymru, we consider that the references should be updated from version 3 to version 8 as originally proposed. All changes should be effective for 2021-22 (year 2) reporting.

On 18 May 2021 we contacted all companies which provide both water and wastewater services via email seeking views on our revised proposal for companies operating mainly in England. We summarise respondents' views and our decision in this document.

Respondents' views

Regarding our original consultation, we received responses from all eleven companies which provide both water and wastewater services.

Changes to the pollution incidents common performance commitment

Regarding the pollution incidents common performance commitment, nine companies – Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Northumbrian Water, Severn Trent Water,

South West Water, Southern Water, Thames Water and Yorkshire Water – agree with our proposal to change the reference to version 8 for 2021-22 to 2024-25 performance reporting and ODI reconciliation.

While it agrees with our proposal, Thames Water notes that EPA version 8 reports performance on pollution incidents per 10,000 km of sewer to 0 decimal places while the common performance commitment is reported to 2 decimal places.

Wessex Water supports the drive for consistency in reporting of performance to companies' various stakeholders but it considers that performance commitment definitions should remain as agreed at the time of the PR19 final determinations. The company considers that this provides clarity and consistency for the entire price control period. However, it noted that if changes are made to the performance commitment then they should ensure that the same metric is reported each year for the EPA and the common performance commitment, i.e. using version 7 in 2020-21 and version 8 from 2021-22 (we provided our assessment and decision of using version 7 in 2020-21 in our [decision document on 2020-21 \(year one\) reporting](#)).

United Utilities considers that updating the EPA reference without also changing pollution incidents performance commitment levels would be inconsistent with our statements that companies should commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment. The company also considers that updating the reference:

- 1) results in the inclusion of additional incidents, from transferred assets and private rising mains adopted in 2016 and exclusion of incidents from 'satisfactory combined sewer overflows (CSOs)', in reported performance. In particular, it advises that there is no agreed definition for a satisfactory CSO or an agreed methodology on how to calculate the resultant pollution incidents from unsatisfactory CSOs;
- 2) would result in material detriment to the company's reported performance and associated outcome delivery incentive payments; and
- 3) could potentially lead to an unstable metric that undermines comparative reporting over the short term as companies make inconsistent adjustments based on their own preferred interpretation of a methodology which is still being drafted.

United Utilities recommends that version 3 should be retained for the purpose of calculating ODI payments while version 8 could be used for performance reporting. However, it considers that if an update is made, then prior to updating the reference from version 3 to version 8, there should be a robust methodology for the inclusion of satisfactory CSOs in reported performance. Secondly, that the company's outcome delivery incentive rates should be adjusted so that the original balance of risk and return is retained as a result of this change.

Changes to the treatment works compliance common performance commitment

Regarding the treatment works compliance common performance commitment, ten companies – Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Northumbrian Water, Severn

Trent Water, South West Water, Southern Water, Thames Water, United Utilities and Yorkshire Water – agree with our proposal.

United Utilities and Thames Water note that EPA version 8 reports treatment works compliance rounded to 1 decimal place and this differs from the performance commitment, which is reported to 2 decimal places. The companies recommend that the performance commitment levels are therefore amended to 1 decimal place in order to align the measures precisely.

Wessex Water supports the drive for consistency in reporting of performance to companies' various stakeholders but it considers that performance commitment definitions should remain as agreed at the time of the PR19 final determinations. The company considers that this provides clarity and consistency for the entire price control period. However, it noted that if changes are made to the performance commitment then they should ensure that the same metric is reported each year for the EPA and the common performance commitment, ie using version 7 in 2020-21 and version 8 from 2021-22 (we provided our assessment and decision of using version 7 in 2020-21 in our [decision document on 2020-21 \(year one\) reporting](#)).

Changes to the sludge use/ disposal bespoke performance commitments

On sludge use/ disposal performance commitments, Dŵr Cymru agrees that we should not change the reference to the EPA while the metric is suspended from use in the EPA.

Wessex Water considers that if the reference to the EPA is updated in the common pollution incidents and treatment works compliance performance commitments then, for consistency, it should also be updated in the bespoke sludge use/ disposal performance commitments. It also considered that while the sludge disposal metric is suspended, reporting against associated bespoke performance commitments should also be suspended.

Responses from remaining companies do not comment on the reference to the EPA in bespoke sludge use/ disposal performance commitments.

Update to EPA version 9 for companies in England

Northumbrian Water, Thames Water, United Utilities and Yorkshire Water responded to our request for views on our proposal to update the reference to the EPA methodology in the pollution incidents and treatment works compliance PCs from version 3 to version 9 for companies operating mainly in England. Each agrees with our proposal.

Our assessment and decisions

We have considered views from all respondents and we set out our decisions and reasoning below on performance commitment reporting and ODI determination for pollution incidents, treatment works compliance and sludge use/ disposal performance commitments from 2021-22 (year 2 onwards).

Reporting and ODI determination for pollution incidents and treatment works compliance from 2021-22 (year 2 onwards)

We maintain our position to update the reference to the EPA from version 3 for performance reporting and ODI determinations from 2021-22. Effective from 1 April 2021, we will update the references to version 8 for companies operating mainly in Wales (ie Hafren Dyfrdwy and Dŵr Cymru) and to version 9 for companies operating mainly in England (ie Anglian Water, Northumbrian Water, Southern Water, Severn Trent Water, South West Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water).

Only two companies did not support this change in their consultation responses. We have considered these companies' concerns about the implications of this change. Specifically, consistency of reporting over the price control period; consistency with our PR19 final determination policy position on changes to performance and implications for ODI payments; and consistency of reporting between companies as a result of the exclusion of satisfactory CSOs.

Firstly, the final determination makes provision for changes to be made in relation to updates to third party references in annex 2 of companies' PR19 final determination outcomes performance commitment appendices. We set the expectation that we would consider updates in cases where indices or other measures are expected to move over time, like the updates to the EPA methodology. In this instance, the change prevents companies from needing to report metrics in multiple ways for their various stakeholders. This reduces complexity and so we consider it represents an improvement. Consequently, in making this change, we are applying one of the uncertainty mechanisms set out in the 2019 final determination. We also note that companies update components of other common performance commitments, e.g. connected properties used in supply interruptions or length of sewer used in sewer collapses.

Secondly, in comparison to version 3, versions 8 and 9 include incidents arising from all transferred assets and rising mains adopted in 2016 and normalise those incidents by the length of sewer from which they arise. A very small number of incidents arise from these assets, however, the update results in more representative reporting of companies' impacts on the environment. It is therefore an improvement to the performance commitment which is in the interests of customers and the environment. We made provision for such changes to performance commitment definitions in annex 2 of companies' PR19 final determination outcomes performance commitment appendices; annex 2 does not provide for changes to performance commitment levels or ODI rates.

Finally, we discussed the concerns raised about consistency of reporting of satisfactory CSOs with the Environment Agency. We are satisfied that there are sufficient mitigations in place to ensure consistent exclusion of satisfactory CSOs. To mitigate risk of over-reporting, the Environment Agency and Natural Resources Wales collects information on the causes and impacts of all pollution incidents. For CSOs, it subsequently determines whether the CSO should be classed as a pollution incident and to which category it should be assigned. To mitigate risk of under reporting, the

Environment Agency and Natural Resources Wales incentivise high levels of self-reporting in the EPA and so if companies inappropriately exclude satisfactory CSOs then there is a risk to their self-reporting metric. Additionally, to further ensure companies are not dis-incentivised to report incidents from satisfactory CSOs the Environment Agency and Natural Resources Wales first consider the need for remediation and investment rather than enforcement action.

During our consultation process we have had constructive discussions with Wessex Water and United Utilities about their specific concerns regarding the proposed update. During this time, each company has agreed to us updating the references in the pollution incidents and treatment works compliance performance commitments.

Two companies commented in their responses that treatment works compliance and pollution incidents are reported to different decimal places in performance commitment definitions and EPA version 8. This is also the case in EPA version 9. The common performance commitments for pollution incidents and treatment works compliance are reported to two decimal places. EPA version 3 did not specify the precision to which these measures should be reported. EPA versions 8 and 9 specify that pollution incidents should be reported to zero decimal places and treatment works compliance should be reported to one decimal place. The same performance will be reported for Ofwat, the Environment Agency and Natural Resources Wales, however Ofwat requires a figure of greater precision. We do not consider that differences of precision are a significant barrier to stakeholders' understanding of performance. Consequently, we do not intend to change the precision to which the performance commitment levels are specified or companies must report.

Changes to sludge use/ disposal performance commitments

We maintain our position to retain the reference to version 3 of the EPA for the sludge use/ disposal performance commitments. One company agreed explicitly to this proposal, while most companies did not comment.

One company – Wessex Water - suggested that we should suspend reporting and determination of incentive payments for its sludge use/ disposal performance commitment. In 2018 the Environment Agency undertook an in-depth assessment of sludge use and disposal which identified practices that suggested the metric was not being interpreted and reported consistently between companies. The Environment Agency subsequently suspended its comparative reporting in the annual EPA report. Whilst the EA has raised concerns about inconsistency of reporting and interpretation of the version 3 methodology between companies, we note that: 1) each company is expected to interpret and report its performance consistently year-on-year and 2) these are bespoke PCs that are not intended to be compared across the sector. We therefore do not consider it necessary to suspend sludge use/ disposal performance commitments. We also note that the sludge/ use disposal metric was suspended prior to the PR19 draft and final determinations and we would have expected companies to raise material issues with associated performance commitments during that time.

We will consider updates to the references in the sludge/ use disposal performance commitments should the Environment Agency and Natural Resources Wales introduce a revised sludge metric in the EPA. In deciding whether a change should be made to performance commitments we would follow the process and apply the considerations set out in Annex 2 of companies' PR19 outcomes and performance commitment appendices.

Next steps

We will publish an updated change log for each company on our [PR19 Outcomes performance commitments – changes and corrections](#) website. The change logs will contain the changes to performance commitment definitions as specified in annex 2 of this document. Once published, these changes will be effective from April 1 2021, i.e. from the start of the charging year 2021-22.

Annex 1

Table 1: Comparison of estimates of kilometres of sewer in EPA version 3 (2012-13) and version 8 (2017-18) for companies operating mainly in Wales or version 9 for companies operating mainly in England

| Company | Sewer length in Km (EPA v3) | Sewer length in Km | | % Change between versions ² |
|-----------------------------|-----------------------------|--------------------|---------|--|
| | | EPA v8 | EPA v9 | |
| Anglian Water | 71,598 | 76,437 | 76,437 | 7% |
| Northumbrian Water | 29,425 | 30,026 | 30,026 | 2% |
| Southern Water | 39,600 | 39,729 | 39,729 | 0% |
| Severn Trent Water | 92,243 | 93,525 | 93,525 | 1% |
| South West Water | 15,593 | 17,440 | 17,440 | 12% |
| Thames Water | 109,475 | 108,980 | 108,980 | 0% |
| United Utilities | 77,914 | 77,339 | 77,339 | -1% |
| Wessex Water | 33,413 | 34,944 | 34,944 | 5% |
| Yorkshire Water | 52,093 | 52,292 | 52,263 | 0% |
| Dŵr Cymru | 35,881 | 36,249 | - | 1% |
| Hafren Dyfrdwy ³ | - | 502 | - | - |

Table 2: Performance commitments that reference version 3 of the EPA methodology

| Performance Commitment | Unique References |
|---|---|
| Pollution incidents (applies to the 11 water and sewerage companies) | PR19ANH_8, PR19HDD_E2, PR19NES_COM09, PR19SRN_WWN02, PR19SVE_F02, PR19SWB_PC F1, PR19TMS_ES01, PR19UUW_C01-WWN, R19WSH_En3, PR19WSX_E2, PR19YKY_30 |
| Treatment works compliance (applies to the 11 water and sewerage companies) | PR19ANH_14, PR19HDD_C4, PR19NES_COM15, PR19SRN_WWN05, PR19SVE_C01, PR19SWB_PC B6, PR19TMS_CS01, PR19UUW_C02-CF, PR19WSH_En1, PR19WSX_E1, PR19YKY_32 |

² Differences are calculated between version 3 and version 8 for companies operating mainly in Wales (Hafren Dyfrdwy and Dŵr Cymru) and between version 3 and version 9 for companies operating mainly in England.

³ The area boundaries of Severn Trent Water and Dee Valley Water were modified on 1 July 2018, on which date, Dee Valley Water was also rebranded as Hafren Dyfrdwy and became a water and sewerage appointee.

| | |
|--|---|
| Bespoke performance commitments on sludge use/ disposal (called bioresources disposal compliance or recycling biosolids by some companies) to which no changes will be made as versions 8 and 9 contain no relevant information. | PR19WSH_En8, PR19HDD_C3, PR19NES_BES22, PR19SVE_C05, PR19SRN_BIO02, PR19SWB_PC B9, PR19UUW_C09-BR, PR19WSX_E8 |
|--|---|

Annex 2

We include below the changes we are proposing to make in each relevant company’s PR19 final determinations – Outcomes performance commitment appendix document. These changes will be effective from 1 April 2021.

Pollution incidents

In the ‘Performance commitment definition and parameters’ table for:

| | |
|--|--|
| Detailed definition of performance measure | <p>Pollution Incidents is defined in the following guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 3). Published November 2017 by the Environment Agency.</p> <p>https://www.ofwat.gov.uk/wpcontent/uploads/2017/12/WatCoPerfEPA_methodology_v3- Nov-2017-Final.pdf</p> <p>The total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length for which the company is responsible in a calendar year.</p> |
|--|--|

Read:

| | |
|--|---|
| Detailed definition of performance measure | <p>From 1st April 2021, for companies operating mainly in England (ie Anglian Water, Northumbrian Water, Southern Water, Severn Trent Water, South West Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water) pollution incidents is defined in the reporting guidance for Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology version 9 released by the Environment Agency in May 2021.</p> <p>EPA version 9 is published on our website here: Environment Agency water and sewerage company Environmental Performance Assessment (EPA) methodology (version 9) for 2021 to 2025 – Ofwat</p> <p>From 1st April 2021, for companies operating mainly in Wales (ie Hafren Dyfrdwy and Dŵr Cymru) pollution incidents is defined in the</p> |
|--|---|

| | |
|--|--|
| | <p>reporting guidance for Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology version 8 released by Natural Resources Wales in May 2021.</p> <p>EPA version 8 is published on our website here: https://www.ofwat.gov.uk/publication/environment-agencys-epa-methodology/%C2%A0</p> <p>Pollution incidents is reported as the total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length for which the company is responsible in a calendar year. In comparison to EPA version 8, EPA version 9 contains a minor update to the sewer lengths of one company operating in England. The methodologies are otherwise equivalent with regards to reporting of pollution incidents.</p> |
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Treatment works compliance

In the ‘Performance commitment definition and parameters’ table, for:

| | |
|---|---|
| <p>Detailed definition of performance measure</p> | <p>Treatment works compliance is defined in the reporting guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 3). Published November 2017 by the Environment Agency.</p> <p>https://www.ofwat.gov.uk/wpcontent/uploads/2017/12/WatCoPerfEPAmethodology_v3- Nov-2017-Final.pdf</p> <p>The discharge permit compliance metric is reported as the number of failing sites (as a percentage of the total number of discharges) and not the number of failing discharges.</p> |
|---|---|

Read:

| | |
|---|---|
| <p>Detailed definition of performance measure</p> | <p>From 1st April 2021, for companies operating mainly in England (ie Anglian Water, Northumbrian Water, Southern Water, Severn Trent Water, South West Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water) treatment works compliance is defined in the reporting guidance for Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology version 9 released by the Environment Agency in May 2021.</p> <p>EPA version 9 is published on our website here: Environment Agency water and sewerage company Environmental Performance Assessment (EPA) methodology (version 9) for 2021 to 2025 - Ofwat</p> <p>From 1st April 2021, for companies operating mainly in Wales (ie Hafren Dyfrdwy and Dŵr Cymru) treatment works compliance is</p> |
|---|---|

| | |
|--|--|
| | <p>defined in the reporting guidance for Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology version 8 released by Natural Resources Wales in May 2021.</p> <p>EPA version 8 is published on our website here: https://www.ofwat.gov.uk/publication/environment-agencys-epa-methodology/%C2%A0</p> <p>There are no differences between methodologies which result in different impacts on reporting of treatment works compliance performance commitments for companies operating in England or Wales.</p> <p>The discharge permit compliance metric is reported as the number of failing sites (as a percentage of the total number of discharges) and not the number of failing discharges.</p> |
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