

November 2021

PR24 and beyond: Performance commitments for future price reviews

About this document

This discussion paper sets out our emerging proposals for performance commitments in PR24. Performance commitments are the metrics that we use to measure the service that water companies deliver for customers and the environment as part of the price control. We will next specify performance commitments as part of setting price limits for the 2025–2030 period (PR24). This paper follows our recent consultation, '[Creating tomorrow, together](#)', and further engagement with the sector.

We will consider any responses and engage further with stakeholders ahead of our draft methodology for PR24 being published in summer 2022.

Responding to this discussion document

We would welcome any comments on this document. Please email them to PR24@ofwat.gov.uk.

The closing date for this consultation is 13 January 2022. If you wish to discuss any aspect of this consultation, please contact Peter Jordan by email at peter.jordan@ofwat.gov.uk.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Executive Summary

Our “[Time to Act, Together](#)” strategy sets out that we want to see more companies achieving and sustaining sizeable improvements in their delivery for customers, communities and the environment. The UK and Welsh Governments’ strategic priorities for Ofwat, and relevant UK and Welsh Government policy, also emphasise the need for us to drive water company performance.¹

We use the outcomes regime to drive performance within the price review. This sets out what improvements we expect companies to deliver for customers and the environment as well as the incentives to meet and exceed these goals.

This discussion paper sets out our emerging proposals for performance commitments in PR24. Performance commitments are the metrics that we use to measure the service that water companies deliver for customers and the environment as part of the price control. They are the cornerstone of our outcomes regime.

We are focusing on outcomes in three areas: excellent service for customers, environmental outcomes, and operational resilience. We are aiming to streamline our choice of outcomes measures in each of these categories by focusing on:

- common performance commitments;
- key outcomes which we will maintain in the long-term; and
- performance commitments suitable for financial incentives.

Based on this, our emerging expectations for customer service and environmental performance common performance commitments for the PR24 period from 2025–30 are set out in Table 1. We will consider asset health and operational resilience performance commitments in detail following the completion of the UKWIR project 'Future Asset Planning' in December 2021.

We expect the common performance commitments to cover the key areas of companies' performance. There may be reasons why bespoke performance commitments are appropriate, either because there is an issue of specific local importance, or a company is providing poor service on an issue which is not a key concern in other areas. However, this

¹ The UK Government's [draft strategic policy statement](#) states that we should drive water companies to be more ambitious in their environmental delivery, push them to provide a better and fairer water service for all and challenge the sector on resilience. This provides strategic direction for how we carry out our duties and functions in relation to English water companies. We refer to the draft UK Government SPS in this document as we expect that this will, when finalised, be in force for PR24. The current Welsh Government's [strategic policy statement](#) sets out that we should incentivise water companies to deliver what customers want alongside other priorities such as affordability, resilience and sustainable management of natural resources. The Welsh Government intends to revise its SPS in the near future. We will consider any changes we need to make when governments provide new SPSs, before PR24.

would be by exception and we expect there to be far fewer bespoke performance commitments than in PR19.

We will continue to refine our work in this area in advance of publishing our draft methodology in June/July 2022. In particular, we plan to test our proposed common performance commitments with customers. We will also take account of the final UK and Welsh Government SPSs as well as further work by the sector in this area.

Table 1: Potential common performance commitments in PR24

| | Water and wastewater | Water only | Wastewater only |
|---|--|--|---|
| Customers receiving excellent service everyday | <p>C-MeX (residential customer measure of experience)</p> <p>Possibly D-MeX (developer measure of experience)</p> <p>Possibly B-MEX (business customer measure of experience)</p> <p>Possibly R-MEX (retailer measure of experience)</p> | <p>Water supply interruptions</p> <p>Compliance risk index (CRI) measuring drinking water quality compliance</p> <p>Customer contacts about water quality</p> <p>Possibly Event risk index (ERI) measuring impact of drinking water quality problems</p> | <p>Internal sewer flooding</p> <p>External sewer flooding</p> <p>Possibly we could combine the above two as companies are developing a measurement of the impact on customers from flooding</p> |
| Environmental outcomes | <p>Biodiversity</p> <p>Operational GHG emissions</p> <p>Possibly embedded GHG emissions</p> | <p>Leakage</p> <p>PCC (per capita consumption)</p> <p>Business demand</p> <p>Possibly these could be combined to report distributional input</p> | <p>Pollution incidents</p> <p>Discharge compliance</p> <p>Storm overflows</p> <p>Possibly Environmental Performance Assessment star rating in addition or instead of above 3</p> <p>Bathing water quality</p> <p>Possibly river water quality</p> |
| Asset health and operational resilience | <p>We will consider these following the findings of the UKWIR project 'Future Asset Planning' expected in December 2021.</p> | | |

Contents

| | |
|---|----|
| 1. Introduction | 5 |
| 2. Categories of outcomes | 8 |
| 3. Principles for setting performance commitments | 10 |
| 4. Proposals for performance commitments for PR24 and beyond | 15 |
| 5. Next Steps | 38 |
| Appendix A: Description of PR19 Common performance commitments | 40 |
| Appendix B: Summary of PR19 bespoke performance commitments | 46 |
| Appendix C Draft common performance commitment for bathing waters | 48 |

1. Introduction

This discussion paper sets out our emerging proposals for performance commitments (PCs) in PR24.

PCs are the metrics that we use to measure the service that water companies deliver for customers and the environment. They are the cornerstone of our outcomes regime which aims to focus water companies on delivering the things that really matter to customers and the environment. Common PCs apply to every company in England and/or Wales, while bespoke PCs target the needs of a specific company's customers.

This section provides further background to this paper and an overview of the outcomes regime. The remaining sections of the paper consider the following issues:

- Section 2 considers the **broad categories of outcomes** that the price review should cover, namely customer service, environmental outcomes and operational resilience. It suggests we distinguish these from more output-based commitments designed to fund particular improvements, which we term "Price Control Deliverables".
- Section 3 looks at how to **streamline the choice of PCs** within these broad categories. It suggests we focus on common PCs, on key outcomes and on PCs suitable for financial incentives.
- Section 4 provides a discussion on **potential common PCs** that might be appropriate in England and in Wales, focusing on those PCs that measure **excellent service for customers and environmental outcomes**. We will consider PCs that measure asset health and operational resilience outcomes following the UKWIR project 'Future Asset Planning' that is developing asset health indicators, which is due to complete in December 2021.
- Section 5 outlines our **next steps**.

1.1. Background to this paper

This paper follows our recent consultation on the high level design of PR24, '[Creating tomorrow, together](#)', which reinforced our commitment to use the outcomes regime in future price reviews and considered how we could improve it. Since publishing our consultation, we have continued to meet with stakeholders through our Outcomes Working Group² to further develop our policy on the outcomes regime. The approach set out in this paper takes account of the comments received in these meetings, as well as the stakeholder responses to [Creating tomorrow, together](#) and further submissions to our Future Ideas Lab.

²The Outcomes Working Group is a group of stakeholders that includes CCW, other regulators and representatives from water companies.

We have also signalled our intention to do further work in this area. In particular, our October 2021 paper on the approach to the [collaborative customer research](#) explained that we would test the extent to which the common PCs that we propose in this document correctly reflect the key service attributes of interest to customers and whether any gaps in coverage exist.

We also need to act in accordance with the UK and Welsh Government's Strategic Policy Statements (SPSs), which emphasise the need for us to drive water company performance. Both the UK and Welsh Governments are in the process of updating their SPS. The [UK Government's draft SPS](#) states that we should drive water companies to be more ambitious in their environmental delivery, push them to provide a better and fairer water service for all and challenge the sector on resilience. The current [Welsh Government's SPS](#) sets out that we should incentivise water companies to deliver what customers want alongside other priorities such as affordability, resilience and sustainable management of natural resources. .

We expect to provide a discussion paper covering PCs that measure asset health and operational resilience outcomes, which are not covered in detail in this paper, in early 2022. This will allow us to take account of the UKWIR project 'Future Asset Planning' that is developing asset health indicators and is due to complete in December 2021.

We have also committed to publishing further documents on related aspects of our outcomes regime. In particular, in January 2022 we plan to publish a further discussion document exploring how we expect to set outcome delivery incentives.

We will provide our proposed set of common PCs in our draft methodology due to be published in June/July 2022.

1.2. The outcomes regime in context

The outcomes regime is one of the three main price review building blocks alongside risk and return and cost assessment.

Figure 1: The three key building blocks of the price review



There are important links between these building blocks. For example, in **risk and return** we aim to align the interests of companies and their investors with those of customers, so that the sector is attractive to investors, but companies only earn high returns from great performance. This is aligned with our outcomes regime which links returns and performance through out and underperformance outcome delivery incentives (ODIs). In **cost assessment**, we aim to ensure customers only pay what they ought to for the service levels that we set in the outcomes regime.

There are also strong links between our outcomes regime and our **monitoring regime**. For example, most PCs require companies to report annually on how they have performed against them, and we adjust company revenues according to performance during the price control period. Through the monitoring regime, we also request information from companies on financial resilience. We produce the Service Delivery Report and the Monitoring Financial Resilience Report to provide transparency and reputational incentives.

2. Categories of outcomes

In '[Creating tomorrow, together](#)' we proposed that outcomes should fall into three categories:

Customers receiving excellent service every day: Outcomes in this category provide a direct benefit to customers, such as reliable water supply, preventing sewer flooding and great customer service.

Environmental outcomes: These include outcomes that help protect the environment, such as encouraging water efficiency, or enhancements to the environment where these are delivered as part of core water company services. It also includes any wider environmental outcomes, such as reducing greenhouse gas emissions.

Asset health and operational resilience: These track a company's ability to continue to perform its functions for the benefit of customers, the environment and wider society now and in the future. These outcomes help demonstrate whether a company's stewardship of its assets is adequate and levels of resilience are sufficient.

Our regime aims to focus on outcomes, rather than the outputs required to deliver these outcomes, as far as possible. This gives companies flexibility to innovate to deliver more for customers and the environment for less. It also protects customers if an output does not deliver the expected benefit. But we recognise there may be a need to link funding to certain scheme specific outputs at PR24, for instance, where the benefits of significant investment cannot be easily monitored. In PR19, we had scheme specific PCs which tracked whether such schemes were delivered. For clarity, we will now refer to these as **Price Control Deliverables (PCDs)** to reinforce our focus on PCs measuring key outcomes across price reviews.

We expect companies to propose price control deliverables to protect customers against the risk of non-delivery of significant investment where they are not protected through PCs. We will consider company proposals for price control deliverables as part of our cost assessment process in PR24 and adjust allowances at PR29 if there is non-delivery. We will set out our proposed policy on price control deliverables in full in our draft methodology.

2.1. Stakeholder views

All stakeholders agree that we should have customer service and environmental outcomes, but views are more mixed on the need for asset health and operational resilience PCs. For example, some responses to '[Creating tomorrow, together](#)' (including from the Drinking Water inspectorate, Natural Resources Wales, Hafren Dyfrdwy, Severn Trent and Southern Water) consider asset health and operational resilience PCs are important. But others (Northumbrian Water, Wessex Water) considered the first two categories are sufficient because they overlap

with asset health in that where the risks materialise, they impact on customers and the environment.

We consider that all three categories are required to protect the interests of customers and secure the resilience of companies both in the short and the long term. We are concerned that companies may take a short-term approach in which case direct customer service and environmental outcome measures may not fully incentivise long-term resilience and stewardship of assets. We are doing work to promote good asset health and long-term focus,³ in and outside the price control, but are not yet clear that these will be sufficient to remove the need for asset health PCs. We therefore consider that all three categories are required to protect the interests of customers and secure the resilience of companies both in the short and the long term.

Most water companies supported the distinction between outcomes and price control deliverables, although wanted further details of how these would be set. Some said the number of price control deliverables should be limited; be defined in terms of the intended outcome as far as possible to provide flexibility for companies to innovate; and we should not return to the detailed output regulation before PR14.

We agree that where possible we will hold companies to account through PCs and so limit the number of price control deliverables. We will set out criteria of when price control deliverables should be set in the draft methodology, considering how we can retain flexibility for companies to innovate while ensuring customers receive the benefits of the investment included in price limits.

³ For instance see our papers on ['Asset management maturity assessment – insights and recommendations'](#), September 2021 and ['Long-term delivery strategies and common reference scenarios'](#), November 2021.

3. Streamlining performance commitments

In '[Creating tomorrow, together](#)', we set out a number of proposals to streamline the outcomes regime including, in particular, the number of PCs. We proposed to have fewer PCs, to focus on common PCs as far as possible, and to have financial incentives on all PCs. We expand on these proposals below.

3.1. A greater focus on common PCs

At PR19, most PCs were bespoke to each company: in the 2020–25 period, water and sewerage companies have 15 common PCs, but up to 35 bespoke PCs. Likewise, water only companies have 10 common PCs and up to 28 bespoke PCs.⁴ Appendix A provides a list of Common PCs set at PR19 and appendix B considers the bespoke PCs.

While customer views on the relative priority of outcomes may differ between companies, it is not clear that the outcomes of interest would differ so substantially between areas. Indeed, as shown in appendix B, many of the bespoke PCs included in PR19 reflect outcomes likely to be relevant to all or many companies but measured in different ways. This includes PCs such as greenhouse gas emissions, biodiversity, and bathing water quality. Setting aside output-based scheme delivery PCs, only a very small number of bespoke PCs were focused on measuring outcomes that were not applicable to other companies. Measuring such outcomes in different ways makes them difficult to compare, and so harder to benchmark companies against each other and set appropriate PC levels.

In PR24, we will therefore increase our focus on common PCs. We will also consider if the same common PCs are appropriate across England and Wales, or if there should be any country specific PCs.

There may be reasons why bespoke PCs are appropriate. However, this would be by exception, and we expect there to be far fewer bespoke PCs at PR24 than in PR19, although we do not propose set a specific limit on the number of these. Bespoke PCs may be appropriate for the following reasons:

1. The company has a local circumstance that does not apply to most companies, which requires a PC to provide appropriate incentives. For instance, SES Water has specific legal obligations to soften water that are likely to require a bespoke PC.

⁴ A full description of current PCs can be found on our [website](#). Northumbrian Water had leakage PCs for two different regions and so technically had 16 common PCs. Likewise South Staffs had leakage and per capita consumption PCs for two different regions and so technically had 12 common PCs.

2. A company provides poor service on a common issue where other companies' performance is such that it is not a priority for their customers. For instance, Affinity Water has by far the highest number of properties at risk of low pressure in the industry. It has a bespoke PC to reduce this to a level on a par with most other companies by 2025. If it is not on track to do this by PR24 we would expect it to continue to have a bespoke PC until it achieves this. In such cases, we will use a standardised definition, and we may ask other companies to report on these metrics as part of our monitoring regime so that we have comparable information across all companies.

3.2. Focus on key outcomes which we will maintain in the long-term

We want companies to focus their attention on the key outcomes for customers and the environment, and to invest to improve these outcomes in both the short and long term.

In a recent discussion paper, we set out our expectations for long-term delivery strategies as part of the business plan submission at PR24.⁵ As part of this, we expect companies to set out the outcomes they expect to deliver up to 2050, as well as the key investments and activities that will likely form the most appropriate way to deliver them, taking into account future uncertainties, customer views and fairness between current and future customers.

We therefore propose to commit to retaining key outcomes in PR24 into the future. We propose to deprioritise outcomes within the price control that contribute to, or overlap, with these and for which financial incentives would provide limited additional value. For example, in the 2020-25 period some companies have bespoke PCs on customers' views on value for money, but this PC provides limited additional value over and above the more fundamental objective of customer satisfaction. Other companies have bespoke PCs on sewer blockages, but the impact on companies reducing blockages is largely captured through the impact on internal sewer flooding and pollution incidents within a relatively short period.

The exact way that we measure key outcomes may adapt over time, as metrics that better reflect the end outcome are developed. And we may also continue to ask companies to monitor metrics which overlap with, and inform, the PCs included in our price review, to help understand company performance more fully. For example, as discussed in section 4.2.3 below, we are considering whether distribution input would measure the key outcome of sustainable water use better than separate components of leakage and PCC. But even if we were to make this change, we may still want to monitor the separate components to understand the changes in distribution input.

⁵ Ofwat, '[PR24 and beyond: Long-term delivery strategies and common reference scenarios](#)', November 2021.

3.3. Apply meaningful financial incentives to all PCs

In PR19 and PR14 we had both financial and reputational PCs. However, we consider that reputational PCs and the lower value financial PCs may have less impact on company behaviour, whilst also creating additional complexity during the price review process.

Consequently, at PR24 we expect PCs, whether common or bespoke, to have meaningful financial incentives attached to them. For a metric to be suitable for financial incentives, it is particularly important that:

- it should not significantly overlap with other financial PCs which could lead to double counting;
- we can set a PC level that reflects stretching performance for an efficient company, with reasonable confidence;
- companies have an appropriate degree of influence over the outcome so that it limits the impact of external events on companies' financial exposure - although it does not need to be fully in company control for it to be worth incentivising company action;
- changes in the metric, over time, are sufficient to indicate an impact in the outcome being measured; and
- the metric is objectively measurable and can be verified by others.

These criteria will be more easily met if we focus is on key common PCs. This is because common PCs are more easily benchmarked and focusing on key PCs will reduce the number of overlapping PCs.

We will use tools outside the price control to incentivise performance in areas that are not included in the outcomes package, including through leveraging reputational incentives, licence conditions, charging rules and enforcement action. These tools can allow us to be flexible and responsive, particularly in areas where significant additional funding is not required. We will use our monitoring regime to support these tools and may continue to monitor metrics previously included in the price control. For instance, we are considering a new principles-based licence condition to provide clarity on the requirements for water companies to provide support to vulnerable customers, similar to those in place in other regulated sectors. This may be more appropriate than considering vulnerability within the price control, although we may still want to monitor the number of customers on the Priority Services Register.

3.4. Stakeholder views

Most stakeholders considered that a more focused incentive package would lead to improved outcomes for customers. Yorkshire Water considered that the current volume and complexity of PCs was unwieldy and confusing to customers and stakeholders. Others noted that financial incentives led to greater management attention (Blueprint for Water, Anglian Water,

Dŵr Cymru) or agreed that reputational incentives could be considered outside the price review process (Hafren Dyfrdwy, Severn Trent, United Utilities). Southern Water noted that some areas required a more nimble approach than a five-year price control allowed, such as affordability. Other stakeholders also noted the need for flexibility within price control periods, particularly as not all issues should be prescribed in detail in the price control (CCW, Portsmouth, South East Water, South Staffs Water).

Anglian Water and Affinity Water questioned how mechanisms outside the price control would be agreed and noted the need for companies to understand requirements to accept price controls. Bristol Water considered that our proposals risked resulting in a lack of clarity in the price control and could increase the regulatory burden. We agree that companies need to be clear of their obligations when we set price limits. We consider that this clarity is provided by the broader context of the company's statutory and licence requirements for service delivery. The price control is not the only mechanism we use to fulfil our duties and we will use other mechanisms where appropriate. We do not consider this will increase the regulatory burden – proposals such as increasing standardisation and streamlining the price control should reduce it. Where we adopt approaches outside the price control we will reflect the principles of best regulatory practice.

South West Water and Yorkshire Water said that metrics that measure factors which they consider to be outside company control should not be fall within the price control, particularly where financial incentives are applied. Companies are able to put in place measures to respond to and mitigate exogenous factors. For example, although weather events can affect outcomes, companies need to take such factors into account in order to provide the resilient services that their customers expect. Therefore, we consider that there are instances where it may be worth incentivising company action in relation to exogenous factors. Companies also need to consider how to work in partnership with customers and stakeholders to achieve long term outcomes. This will be particularly important in responding to current challenges such as reducing greenhouse gas emissions and responding to the impacts of climate change.

A number of water companies cautioned against limiting bespoke PCs. They considered these were needed because outcomes can be difficult to measure through a single metric; it was important to reflect differing views between customers of companies; and to allow companies to progress at different rates so that they can adapt to different and changing circumstances. They also considered limiting bespoke PCs could stifle innovation if it limits companies' ability to seek new ways of measuring and managing performance. Natural Resources Wales urged that our regulation allows existing or emerging environmental issues (such as micro-plastics in sewage sludge) to receive due and timely prioritisation. Tideway also noted the need for bespoke PCs for major projects.

We agree a company's service should reflect the views of its customers. Our collaborative research will help set ODI rates for common PCs in line with customers' priorities, which may be different across regions. PCs may also be set at different levels, reflecting customer

priorities within a certain area. But, for the reasons above, we think we should limit bespoke PCs to where there are specific local issues. Price control deliverables will allow bespoke scheme delivery where this is necessary.

4. Proposals for performance commitments for PR24 and beyond

This section sets out the common PCs that we are considering for PR24. We focus on those PCs that measure excellent service for customers (section 4.1) and environmental outcomes (section 4.2), exploring the impact that the proposals above may have on these areas, and building on the discussion we have had with the Outcomes Working Group.

We will refine these metrics over coming months, taking account of responses to this consultation and further work by the sector. We will also take account of the research set out in our October 2021 paper on our approach to collaborative customer research for PR24, that tests the extent to which the common PCs that we propose in this document correctly reflect the key service attributes of interest to customers across England and Wales and whether any gaps in coverage exist.⁶

We will consider PCs that measure asset health and operational resilience outcomes after we have understood the findings from the UKWIR project, 'Future Asset Planning', which is developing asset health indicators and due to complete in December.

4.1. Direct customer service outcomes

This section considers the outcomes relating to customer service. It first considers whether any changes to the PCs which were included in the PR19 common PC package are appropriate in light of the discussion in section 3. It then looks at whether commonly used financial bespoke PCs should be included as common PCs. Finally, it considers further proposals for common PCs proposed by stakeholders.

4.1.1. Changes to existing PR19 common PCs

Table 4.1 sets out the common PCs at PR19 that measure direct customer service outcomes. These are described more fully in appendix A. We have included business customer satisfaction which we did not refer to as a common PC at PR19, but which both Welsh companies report in the 2020–25 period.

⁶ Ofwat, [Collaborative customer research for PR24, October 2021](#)

Table 4.1 PR19 direct customer service common PCs

| | Water and wastewater | Water only | Wastewater only |
|---|---|---|-------------------------|
| Customers receiving excellent service everyday | C-MeX (customer measure of experience) D-MeX (developer measure of experience) Priority Services Register (reputational PC) Business customer satisfaction (Wales) | Water supply interruptions Compliance risk index (CRI) measuring drinking water quality requirements | Internal sewer flooding |

We have discussed PR19 common PCs with the Outcomes Working Group and there is consensus that **water supply interruptions, CRI and internal sewer flooding should remain as PCs using the same definitions**. We will test customers' views on this through customer research. We discuss our proposals in more detail for the various satisfaction PCs and the priority services register PC below.

Customer Satisfaction

The draft UK Government's SPS sets out an expectation that we will incentivise water companies to improve their customer service and improve the timeliness and quality of responses to household and non-household customer complaints, including those raised by retailers on behalf of their business customers. The current Welsh Government's SPS also expects us to have a strong customer focus.

We have made use of metrics based on customer satisfaction since 2010 to help transform company performance for customers. Measuring satisfaction puts the onus on companies to understand what customers want and to deliver this.⁷ We are likely to maintain some form of customer satisfaction metric at PR24. At PR19 we introduced two new metrics, the Customer Measure of Experience (C-MeX) that covers the experience of residential customers, and a separate measure for developer customers (D-Mex). We only have one years' full reporting for these PCs. We will consider how these are working after two years (ie in summer 2022) before we propose the approach for PR24.

We are also considering the incentives water companies have to improve their service to business retailers and business customers. At present, there are no common PCs relating to business customer satisfaction in England. This is because eligible business, charity and

⁷ We do not solely depend on customer experience measures that focus on the satisfaction of a broad range of customers as this is unlikely to adequately capture high impact/low probability events that only a few customers face. We also have PCs that reflect these events including water supply interruptions and internal sewer flooding.

public sector organisations can choose their supplier of water and wastewater retail services. Retailers buy wholesale services from the companies that we set price limits for (referred to as 'wholesalers' in the business retail market) and offer a package to sell to eligible customers. Wholesalers must work with retailers in order to deliver the right outcomes for business customers. The business retail market's Market Performance Framework (MPF) has introduced the [Retailer Measure of Experience \(R-MeX\)](#) metric which measures the experience that retailers have with the wholesalers which in turn should lead to improved outcomes for business customers. R-MeX currently provides reputational incentives for wholesalers but we expect that, in the future, it will also have financial incentives.

A potential development of the metric may arise from the introduction of [a bilateral hub](#), which will automate and standardise retailer requests of wholesalers (the first set of processes went live in September this year). This hub presents an opportunity to collect much more granular data from retailers, which could support the evolution of R-MeX. Market participants are also [working together](#) to develop a metric, B-MeX, to capture the business customer experience with a wholesaler.

In response to 'Creating Tomorrow, Together', Business Stream, Everflow and MOSL suggested that PR24 needed to better consider incentives for wholesalers and retailers to work together to deliver outcomes. Waterscan considered that aspects related to business customers should be dealt with through mechanisms outside the price control.

At the beginning of November, the business retail market operator MOSL published a [call for inputs](#) on reforming the business retail MPF. We will consider this work and, where appropriate, make changes to the price review to support improved outcomes for business customers in England. This includes consideration of whether B-MeX and possibly also R-MeX should be included as common PCs in the price control.

Businesses, charities or public sector organisations currently served by a wholesaler whose system is wholly or mainly in Wales are eligible to choose their water retailer only if they use more than 50 million litres of water a year. Consequently, most of these organisations are not able to choose suppliers, similarly to residential customers and need the protection of the price control. Therefore, the two Welsh companies have financial PCs that measure business customer satisfaction in Wales. **We propose to retain this common PC in Wales.**

Priority services register

This is a reputational PC to increase the number of people that companies identify as requiring specific assistance for their needs and add to their priority services register (PSR). It includes an expectation of the proportion of the population that would be added to the PSR as well as the proportion of people that would be contacted to check their needs had not changed.

We introduced this PC for the 2020–25 period to address the low numbers of people on a PSR in the water sector relative to the energy sector. Increasing the number of people on PSRs is an important first step in ensuring service to vulnerable customers. But, going forward, it is important to consider other factors such as the service provided to those people on those registers.

We will consider progress by the sector in bringing PSRs up to reasonable standard and how we can better ensure companies serve vulnerable customers, including looking at other levers to improve performance outside the price review. We will work with CCW to consider the appropriate metrics that companies should report to build on the progress companies will make if they meet the levels in the PR19 PCs for the 2020–25 period.

We propose not to include these as common PCs at PR24. We consider that not defining these as part of the price control will allow a more flexible approach to keeping companies accountable for progress in this area.

4.1.2. PR19 bespoke PCs

In addition to the PR19 common PCs, many companies also have bespoke PCs on customer service in the 2020–25 period that have wider applicability to other companies. It may be appropriate to convert some such PCs into common PCs.

To consider this, we have looked at bespoke PCs that are the same or similar and are applied across more than a quarter of applicable companies at PR19. We wanted to focus on PCs suitable for financial incentives, so we considered those with financial incentives. These are set out in table 4.2 and considered in turn below.

Table 4.2 Frequently occurring financial bespoke PCs for direct customer service

| Measure | Number of PCs |
|------------------------------|---------------|
| Water specific: | |
| Water quality contacts | 21 |
| Low pressure | 11 |
| Lead pipes | 9 |
| Metering | 7 |
| Wastewater specific: | |
| External sewer flooding | 9 |
| Water and wastewater: | |
| Unbilled properties | 31 |

Source: Ofwat analysis of PR19 PCs

Water quality contacts

All companies have financial bespoke PCs measuring the number of customers contacting them about water quality in the 2020–25 period. Some companies had two PCs, one that measured complaints about taste and odour and a separate PC measuring the appearance of water, that is whether it was cloudy or discoloured. Other companies measured this in a single PC.

Measuring the number of contacts helps to identify problems where, although water is safe to drink, it is not acceptable to customers. This complements the compliance risk index (CRI) which measures the safety of drinking water and which, as set out in 4.1.1, we propose to keep. The Welsh Government's SPS specifically highlights the need for us to work with the Drinking Water Inspectorate to regulate companies to encourage and incentivise them to maintain the current high standard of public drinking water quality for the long-term, including customer acceptability as well as wholesomeness.

We consider that water quality contact PCs provide additional value to CRI as they help to drive improvements in how satisfied water customers are about their water, over and above its safety. **We therefore propose to have a common water quality contacts PC covering taste, odour, and appearance for future price reviews.**

Low water pressure

Eight companies have a bespoke PC based on a standard definition of pressure that has been reported since privatisation. This is the total number of properties in the company's area over the year that received, and are likely to continue to receive, a pressure or flow below the

reference level.⁸ This is also reported for all companies on the sector wide performance dashboard [DiscoverWater](#).

Severn Trent Water has two bespoke PCs, one that measures the number of low pressure days for properties with persistent low pressure problems (properties which have experienced more than 25 low pressure days within a five-year rolling period). The second is the percentage of low pressure complaints that are resolved before a further issue occurs. Welsh Water also has a bespoke PC that measures the number of customers that received poor service that includes properties that receive low pressure below the reference level of service for 3 years or more.

At privatisation this was an area that all companies needed to improve, with nearly 2% of properties at risk of low pressure. However, most companies now offer a much improved service and by March 2020 the percentage of properties under the standardised definition had reduced to less than 0.03% which is fewer than 7,000 properties. This will reduce further by 2025 if companies meet their PR19 PC levels. Most companies therefore only have a small number of properties that are at risk. We expect that companies will continue to steadily address this issue, but for most companies it means a net change of only a few properties each year. There is also a guaranteed service standard payment (GSS) if there are low pressure incidents below the statutory standard, so that customers receive direct payment for the poor service they receive.⁹

Maintaining the existing high standards of water pressure remains important and we expect all companies to continue to report the metric currently reported on DiscoverWater on an annual basis. The Outcomes Working Group considered whether the PC based on the standard definition, or other PCs that measure pressure, should be used as a common PC. However, as the vast majority of companies are delivering high levels of compliance with the statutory standard, there are already GSS payments for customers that receive poor service and, to some extent, companies have incentives to provide good service through other PR19 PCs such as C-MeX, there was consensus that there was not a need to develop a common PC.

Given the expected improvements over the 2020–25 period and continuing transparency from companies we are minded not to have a common PC for water pressure at present. But we will test customer views through our customer research. If individual companies perform significantly worse than other companies, this may be an area that is appropriate for a bespoke PC (see section 3.3).

⁸ The reference level of service for a single property is a flow of 9l/min at a pressure of 10m head on the customer's side of the main stop tap. Where the customer owned side serves more than one property, the flow assumed in the reference level is increased to take account of the total number of properties served.

⁹ Customers are entitled to guaranteed minimum standards of service, as set out by Secretary of State and the Welsh Ministers. If customers do not receive these levels of service they are entitled to a payment. There is a [summary](#) of both the minimum standards of service and the payments on our website.

Metering and lead pipes

For the 2020–25 period there are seven PCs that monitor the delivery of metering programmes, including smart meters, and nine PCs that monitor replacing lead pipes. These focus on output rather than outcomes. This raises a question of whether they are needed in addition to outcome measures and, if so, whether they should be monitored through price control deliverables.

The main benefit of metering is to reduce customer demand. It is possible that we can incentivise metering by setting appropriate PC levels on reduced water consumption in PR24 and future price reviews. If we consider customers need greater certainty that any specific metering scheme that is funded is undertaken, we would specify any scheme specific requirements using a price control deliverable.

Reducing lead in water can lead to health benefits. The statutory level of 10µg/litre that companies must deliver is one of the parameters that is assessed as part of CRI. There is evidence that the benefits of the investment to further halve lead in water could outweigh the costs, but this could require replacing lead pipes within customers' houses.¹⁰ We expect that investment in the 2025–30 period is more likely to be focused in specific local areas or specific buildings such as schools which would not necessarily make a clear difference to the level of lead for most customers in the short term. It would therefore be difficult to measure the overall benefit to customers through a PC. Therefore, where we need to ensure investment is delivered to protect customers interests we may specify any scheme specific requirements using a price control deliverable.

External sewer flooding

Nine out of the eleven water and wastewater companies have PCs for the 2020–25 period which aim to reduce the impact on customers of sewage leaking on the ground outside of properties.

The PC is a standard definition that measures the escape of wastewater from a sewerage system, irrespective of the extent of the leak. It includes flooding anywhere within the grounds of a building, unless it is already classed as an internal flooding incident. It does not include public roads and open spaces.

External sewer flooding incidents are more than seven times more likely to occur than internal incidents.¹¹ While internal incidents will normally have a more significant impact on

¹⁰ DWI, [Long-term Strategies to Reduce Lead Exposure from Drinking Water](#), 2021

¹¹ For instance, in 2019–20 [DiscoverWater](#) shows that there were 3,713 properties that flooded internally and 27,127 areas that flooded externally.

customers, some external sewer flooding can also have a significant impact, for example if the flooding impacts the same customers repeatedly.

A group of companies is considering if the sewer flooding metrics can be evolved to allow us to take better account of the consequence of sewer flooding to customers, and so better target the worst impacts of sewer flooding. This could involve combining the internal and external sewer flooding metrics. It's likely we would not be able to make a decision on this until companies are able to report information for at least one year and therefore we may not be in a place to make a final decision until our draft determination.

We propose that, in the absence of a combined metric, that external sewer flooding is a common PC alongside internal sewer flooding.

Unbilled properties

At PR19 we asked all companies to consider PCs for gaps and voids. A gap site is a property where water and/or wastewater services are provided, but the property is not on a water company's system and is therefore not billed. Voids are properties classed by water companies as being vacant; however, some voids are actually occupied, so are erroneously not billed. It is in customers' interests for water companies to have accurate records of occupied properties, as the correct billing of all properties helps to reduce average bills across customers.

It is difficult to directly measure the number of properties which are actually occupied but wrongly classified as void. In the 2020–25 period void PCs for most companies are based on the proportion of residential properties that water companies record as void. At PR19 we compared the proportion of properties that companies reported as void, that is empty, with the latest figures on the proportion of empty properties recorded by government sources. Where company figures were higher than government figures we considered this provided evidence the company had properties it had reported as void when they were in fact occupied. In these cases, we set PCs at levels expecting companies to identify houses that are occupied and so reduce the proportion of properties they identify as void. However, if the actual number of empty properties increases it will directly act to increase the true level of void properties and so the metric is affected by wider economic and social factors. At PR19 we took this into account in setting less stretching PC levels and reduced incentive rates. For instance, in 2018–19 United Utilities recorded that 7% of its residential properties were void, but data from local authorities in its area suggested that the percentage of empty homes was closer to 3%.¹² Its PR19 PC levels expect it to make progress throughout the period so that by 2024–25 the void rate will reduce to 5%.

Going forwards we will consider if we can develop a metric that better targets companies identifying all occupied properties, that is less subject to wider economic and social factors.

¹² UK Government, '[Dwelling stock \(including vacants\)](#)', May 2019.

We invite stakeholders to suggest options for such a metric. For instance, a metric could compare company records on empty properties with those recorded by government sources. If the number of actual empty homes increase both the government figures and company figures should legitimately increase, but we expect the percentage difference between the two would remain broadly the same, all other things equal. We could use this as a common PC or to identify poor performance for which more bespoke approaches may be taken either within or outside the price review process. We will consider this area further for the draft methodology.

Companies also included bespoke PCs to provide incentives to correctly identify business void and gap properties. In England this is the responsibility of retailers, rather than wholesalers, but all customers benefit as the majority of water bills are for wholesale charges that both residential and business customers pay and which reduces the more bill payers there are. The incentive helps encourage an appropriate interaction between wholesalers and retailers leading to the desired outcome that everyone receives and pays a correct bill.

For wholesalers in England we will consider if such incentives are still required alongside other potential changes in the Markets Performance Framework. In Wales providing retail services to most businesses, including providing accurate bills to properties that are using services, is the responsibility of Dŵr Cymru and Hafren Dyfrdwy. So we propose to take a similar approach for business and residential properties in Wales.

4.1.3. Further changes to common PCs

In this section we consider any further changes that may be required based on responses to our consultation, submissions to our Future Ideas Lab and the discussions in our Outcomes Working Group.

Event Risk Index (ERI)

Four companies have ERI as a bespoke PC, but only Northumbrian Water has financial incentives. ERI is a metric which has been reported to the DWI since 2017 and measures the impact on customers of drinking water events.¹³ It includes the severity of the event, the population and duration that the event affects and a measure of how the company responds.

The metric overlaps to some extent with CRI and water quality contacts. The DWI also considers prosecuting companies for some events. Moreover, as several factors are multiplied together for each event, it can lead to the measure being volatile, and the metric is not always proportionate to the impact on customers. This makes it less suitable for financial incentives.

¹³ Drinking Water Inspectorate, [DWI EVENT RISK INDEX](#), August 2018.

The DWI has proposed that this is added to the package of common PCs. We would like to further understand the additional benefit that the measure would add to CRI and drinking water contacts and how we can apply meaningful financial incentives given the volatility of the measure to date. We note that the DWI has well developed enforcement approaches that clearly result in companies changing their behaviour. This is demonstrated by ERI scores reducing since it has been introduced, without most water companies having ERI as a PC.

We will work with the DWI to gain greater understanding of the issues. We propose to use ERI as a common PC if it is clear that it adds sufficient value to the other two drinking water common PCs and the issue with the inherent volatility of this measure can be overcome.

4.1.4. Summary of potential direct customer service PCs

Table 4.3 Potential future direct customer service common PCs

| | Water and wastewater | Water only | Wastewater only |
|---|---|---|--|
| Customers receiving excellent service everyday | C-MeX (residential customer measure of experience) Possibly D-MeX (developer measure of experience) Possibly B-MEX (business customer measure of experience) Possibly R-MEX (retailer measure of experience) | Water supply interruptions Compliance risk index (CRI) measuring drinking water quality compliance Customer contacts about water quality Possibly Event risk index (ERI) measuring impact of drinking water quality problems | Internal sewer flooding External sewer flooding Possibly we could combine the above two as companies are developing a measurement of the impact on customers from flooding |

4.2. Environmental outcomes

This section considers the outcomes relating to water companies' impact on the environment. It first considers whether any changes to the PCs which were included in the PR19 common package are appropriate. It then looks at whether commonly used financial bespoke PCs should be converted to common PCs. Finally, it looks at further suggestions for common PCs in this area.

We have been mindful that there is different legislation and policy in England and Wales. Legislation specific to Wales includes the Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Act 2016. In England key differences will arise from the Environment Act 2021, which has now received royal assent. This includes new duties for

water companies in England to demonstrate progressive reductions in the adverse impacts of sewage discharges from storm overflows as well as further requirements to report on the storm overflows that do occur.¹⁴ Differences might mean it's appropriate to have some different common PCs in the two countries, although there are advantages to having common PCs across all the companies we regulate as it helps benchmark companies PCs and incentive rates. We will therefore aim to have common PCs across all companies wherever this can deliver against the legislation and policy in both countries.

4.2.1. Changes to existing PR19 common PCs

Table 4.4 sets out our starting point which is the PR19 common PCs that measure environmental outcomes. These are described more fully in appendix A.

Table 4.4 PR19 environmental common PCs

| | Water and wastewater | Water only | Wastewater only |
|-------------------------------|----------------------|--|---|
| Environmental outcomes | | Sustainable use of water: Leakage PCC (per capita consumption) | Environmental water quality: Pollution incidents Discharge compliance |

We propose to continue to have financial incentives for both sustainable use of water and environmental water quality but, as we set out in section 4.2.3, we may adapt the PCs that we have to encompass some of the bespoke PCs used at PR19.

4.2.2. PR19 bespoke PCs

We first consider if there are financial bespoke PCs that were the same or similar across more than a quarter of applicable companies that measure environmental outcomes. These are set out in table 4.5. We consider if each of these should be a common PC in future price reviews.

Table 4.5 Frequently occurring financial bespoke PCs for the environment

| Measure | Number of PCs |
|---------------------------------|---------------|
| Water specific: | |
| Abstraction Incentive Mechanism | 14 |
| Catchment Management | 5 |

¹⁴ Some of the relevant provisions are expected to come into effect in January 2022.

| Wastewater specific: | |
|---------------------------------|----|
| Bathing Waters | 8 |
| Safe treatment of bioresources | 10 |
| Surface water entering sewers | 4 |
| Water and wastewater: | |
| Biodiversity | 12 |
| River Water Quality | 10 |
| National Environment Programmes | 8 |

Source: Ofwat analysis of PR19 PCs

Abstraction Incentive Mechanism (AIM)

The abstraction incentive mechanism (AIM) encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce. We provided [guidance](#) that was used at PR14 and PR19. In the 2020-25 period 14 companies have AIM PCs that cover 48 sites or sources.

We are carrying out an evaluation of this mechanism and considering if it can be improved, including whether it could be amended to better protect chalk streams. The recent chalk stream strategy set out that the current definition of AIM may lead companies to reduce flows too late to prevent harm to chalk streams.¹⁵ We invite stakeholder views and evidence on how the current PCs are helping to avoid environmental harm and/or suggestions of how to improve AIM.

We do not consider that AIM is appropriate for a common PC, as the mechanism requires detailed information for each site that is included and therefore the definition is not the same for each company. We will consider its role as a bespoke PC for future price reviews.

Catchment Management

Five companies have financial PCs to incentivise working with farmers and other landowners to manage land in a way that protects water quality, especially where a risk has been identified to raw water quality. Catchment management improves the water environment and where water is abstracted it requires less treatment, saving money, especially if it avoids the need to improve treatment works. This is encouraged by the draft UK and Welsh Government SPSs.

¹⁵Catchment Based Approach, [Chalk Stream Restoration Strategy 2021 Appendices](#), p. 12.

We expect water companies to pursue catchment schemes where this represents the best value approach. However, we want to encourage outcomes as opposed to how companies achieve these results. Catchment management has a range of benefits including increasing biodiversity and reducing greenhouse gas emissions. As we are exploring new common PCs for these, as well as more broadly considering how we can better support such approaches, we do not consider that a specific common PC on catchment management is also required, as it would duplicate incentives.

Bathing water quality

Seven of the eleven water and wastewater companies have bespoke PCs measuring the proportion of designated bathing waters that are classed as good and/or excellent.

Areas can be designated as bathing waters by UK or Welsh Governments following an application, where a large number of people are expected to enter waters to paddle or swim. The Environment Agency and Natural Resources Wales monitor the quality of designated bathing waters during the bathing season (15 May to 30 September) for intestinal enterococci and E.coli. These are faecal indicator organisms which can be from pollution from sewage, livestock, or urban sources such as misconnected drains. Bathing waters are classified as 'excellent', 'good', 'sufficient' or 'poor'.

Some companies' bespoke PCs measure the proportion of bathing waters that are excellent, while other companies use PCs that measure the proportion of bathing waters that are good or better. One company has different PCs for excellent and good bathing waters.

Bathing water status has improved over time. Table 4.6 shows the number and status of bathing waters by nation and by English regions in 2019. 2019 is the last year available in both England and Wales as there were reporting problems due to COVID-19 in 2020 in England. There are significant differences between regions in England. In some areas, such as Devon, Cornwall and the Isles of Scilly, the percentage of bathing waters with excellent status is as high as 83%.¹⁶ In others, such as Cumbria and Lancashire, the figure is as low as 32%.

Table 4.6 Bathing water status by area, 2019

| Area | Number | Excellent | Good or better | Sufficient or better |
|--|--------|-----------|----------------|----------------------|
| Wales | 105 | 79% | 95% | 100% |
| England | 300 | 71% | 93% | 98% |
| Cumbria and Lancashire | 25 | 32% | 84% | 100% |
| Devon Cornwall and the Isles of Scilly | 150 | 83% | 97% | 99% |

¹⁶ In some areas, such as the East Midlands and Thames, the status of all bathing waters is classified as excellent, but these areas have the lowest number of bathing water areas (1 and 2 respectively).

| | | | | |
|--|----|------|------|------|
| East Anglia | 32 | 59% | 84% | 97% |
| East Midlands | 1 | 100% | 100% | 100% |
| Greater Manchester Merseyside and Cheshire | 4 | 75% | 100% | 100% |
| Hertfordshire and North London | 4 | 50% | 75% | 100% |
| Kent South London and East Sussex | 39 | 64% | 95% | 100% |
| Lincolnshire and Northamptonshire | 9 | 67% | 100% | 100% |
| North East | 34 | 74% | 97% | 97% |
| Solent and South Downs | 52 | 73% | 94% | 100% |
| Thames | 2 | 100% | 100% | 100% |
| Wessex | 50 | 76% | 88% | 96% |
| Yorkshire | 18 | 44% | 89% | 94% |

Source:

Natural Resources Wales, [Wales bathing water quality report 2019](#)

Environment Agency, [England bathing water class summary 2019](#)

We propose that we have a common PC in this area for future price reviews, as we expect that customers will see it as an important area. We will test this in our consumer research. We propose to measure the proportion of bathing waters with excellent status, as this will provide the greatest scope for improvement. Companies would have different PC levels reflecting different levels of investment provided in the past to achieve this status. We set out a suggested definition for a common PC in appendix C.

Safe treatment of bioresources

Most companies have a bespoke PC relating to safe disposal of bioresources, also known as sewage sludge. This is based on a metric formerly reported to the Environment Agency and Natural Resource Wales as part of the environmental performance assessment (EPA). 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 environmental regulators subsequently suspended this comparative reporting. Companies continue to report PR19 bespoke PCs as comparative reporting is not necessary for bespoke PCs. The Environmental Agency intends to reinstate the metric (with a revised definition) as soon as possible in the future.

Sludge was previously considered a waste product; however it is now being seen increasingly as a valuable resource. It is used in two main ways; conversion to renewable energy as part of the treatment process, and the solid products being spread to land as fertiliser as part of the disposal process. We want companies to maximise the value of this resource, while making sure that their activities do not harm the environment.

We are seeking how to maximise the economic and environmental value through a [bioresources market](#). The Environment Agency and Natural Resource Wales ensure that the environment is protected. Our understanding is that the risk of companies not complying with requirements is relatively low. We therefore question the need for significant financial incentives for this area and consider that the incentives provided by reporting in the EPA,

once reinstated, should be sufficient. **We propose not to convert this to a common PC.** If there is a high risk of a specific company having non-compliance this could be set as a bespoke PC. We consider further how we could incentivise water companies to improve environmental performance to meet environmental regulators requirements in the section on Environmental Performance Assessment in 4.2.3.

Surface water entering sewers

Four companies have PCs in the 2020-25 period to reduce the amount of surface water that enters sewers. Reducing the amount of surface water in sewers through such approaches as sustainable drainage systems (SuDS) is important for a number of reasons including reducing sewer flooding, especially in a long-term context. It is also encouraged by the UK and Welsh Government SPSs where it is justified by sound evidence and is appropriate.

We expect companies to increase their use of nature-based solutions, such as SuDs as these can be effective ways to provide resilient solutions that also increase biodiversity and help to reduce greenhouse gas emissions. We are considering how nature-based solutions can be promoted and incorporated into our approach to cost assessment at PR24. We also consider below, how we introduce new PCs to increase biodiversity and help to reduce greenhouse gas emissions. This would be in addition to the incentives provided by existing PCs such as sewer flooding. As we want PCs focused on these higher-level outcomes where possible, we do not propose to set requirements for stopping surface water entering sewers, as this would duplicate these incentives. Providing incentives for delivering outcomes, as opposed to delivering particular types of solutions, also helps to deliver government objectives to deliver SuDs, where justified by evidence. If companies propose significant investment and we consider it is important to specify the reduction of surface water in the sewerage system, we will set this as a price control deliverable.

Biodiversity

Eleven out of seventeen companies have PR19 PCs measuring biodiversity. There is a growing understanding of the need to address biodiversity loss as highlighted in the Dasgupta Review.¹⁷ Water companies in Wales have a legal duty to seek to maintain and enhance biodiversity in the exercise of functions, and in so doing promote the resilience of ecosystems so far as consistent with their functions. Water companies in England have a similar duty to have regard to conserving biodiversity, so far as consistent with their functions. This will be broadened to a duty to conserve and enhance biodiversity once the relevant section of the Environment Act 2021 has been commenced.

We are collaborating with stakeholders to consider the most appropriate way to introduce a common PC that improves biodiversity. This includes options that measure biodiversity on company owned land, as well as options that would extend to include land on

¹⁷ HMT, [The Economics of Biodiversity: The Dasgupta Review](#), 2021.

which they are working in partnership as part of their statutory functions. We will consider the findings from this collaboration as part of our draft methodology.

River Water Quality

Water industry investment has delivered significant environmental benefits and has contributed to the water environment being in a better condition than it was 30 years ago. However, there is a clear gap between the environment we would like and its state today. In England only 16% of surface waters were at good ecological status in 2019.¹⁸ In Wales 40% of surface water bodies, and groundwater bodies, achieved good or high overall status in 2019.¹⁹ There has been little change in the overall number of surface water bodies in the UK awarded high or good ecological status since the indicator was first prepared in 2009.²⁰

The current PR19 common PCs for discharge compliance and pollution incidents measure compliance with environmental regulation on environmental water quality. While it is essential for water companies to demonstrate progress against these, they do not help us to fully understand progress on river water quality – although discharge compliance remains high and pollution incidents are reducing, there is nevertheless widespread concern about the state of the water environment.

Ten companies have bespoke PCs intended to measure improvements in river water quality for the 2020–25 period. However, these are mostly based on delivering schemes that are expected to improve river water quality, rather than measuring if river water quality actually improves. If we need to specify scheme specific requirements in the future we will use price control deliverables.

We are collaborating with stakeholders to consider if there are further options for PCs or, more widely, information that companies could report publicly, that would better demonstrate progress on how water companies are limiting adverse impacts on the water environment and associated ecosystems and how they are contributing to tangible progress towards good ecological status of water bodies as part of their statutory functions. For instance, the main pollutants from wastewater companies are nitrogen and phosphorus and it may be possible to monitor how one or both reduce over time. We are interested in both options that can be implemented in time for 2025–30 period and those that could only be implemented at a later date. We will consider the findings from this collaboration as part of our draft methodology.

National Environment Programmes

¹⁸Defra, [Outcome Indicator Framework for the 25 Year Environment Plan: 2021 Update \(publishing.service.gov.uk\)](https://publishing.service.gov.uk), page 38.

¹⁹ [Wellbeing of Wales: national indicators | GOV.WALES](https://gov.wales)

²⁰ [UKBI – B7. Surface water status | JNCC – Adviser to Government on Nature Conservation](https://jncc.gov.uk)

At PR19 companies had PCs to demonstrate how they were delivering the water industry national environment programme (WINEP) in England and national environment programme (NEP) in Wales. At PR24 we hope to use outcome focused PCs to measure delivery of these programmes where possible, such as improvements in river water quality. Where we need to set scheme specific requirements, we will use price control deliverables.

4.2.3. Further changes to common PCs

In this section we consider if any other changes are required to better focus companies' incentives to deliver outcomes over both the short and long term, reflecting discussions in the Outcomes Working Group.

Greenhouse gas (GHG) emissions

The UK Government is committed to a legally binding target of net zero emissions by 2050, with tightening emissions budgets supporting the pathway. Water companies have an important role to play in this. They have already started considering potential approaches for their operational emissions as part of the Public Interest Commitment 2030 net zero work.²¹ Embedded GHG emissions also need to be considered to help ensure the 2050 requirement can be met. We consider that common PCs are warranted to measure companies' progress.

Eight companies have operational GHG PCs for the 2020–25 period, although most without financial incentives. All companies will report operational GHG emissions for the 2021–22 reporting year on a standard basis in their annual performance reports. The [methodology](#) for this is set out in the Regulatory Accounting Guidelines and is built upon data collection that has been ongoing in the UK for more than ten years.

Only 2 companies have PR19 PCs for embedded GHG emissions and there is as yet no standardised methodology to report these emissions. But we have set out in our regulatory accounting guidelines how companies can report embedded emissions in a more standard way for the 2021–22 reporting year, with the aim of introducing a form of mandatory standardised reporting on embedded emissions for 2022–23, subject to consultation.

We intend to introduce a common operational GHG emissions PC at PR24 with the same definition as the regulatory accounting guidelines. We will also look at the practicality of introducing a common PC for embedded GHG emissions, building on companies reporting in their annual performance reports. We expect companies to have plans to reduce both operational and embedded GHG emissions both to 2030 and beyond to 2050.

²¹ This was one of goals that the sector in England committed to as a whole in [April 2019](#), with companies contributing appropriately given their specific circumstances.

Sustainable use of water

Climate change threatens resilience of water supply. We're already seeing drier summers, more frequent and intense rainfall, more variable river flows and biological changes in water bodies. In Wales, the projected reduction in summer rainfall by 2050 significantly exceeds the projected increase in winter rainfall.²² In England, it is estimated that there is a 25% chance of the worst drought in recorded history within the next 30 years, without action.²³

Water companies need to face these challenges, while also trying to increase supply resilience for customers. This must not come at the expense of the water environment. These challenges mean that all water companies need to reduce their use of water where possible for the foreseeable future and share water more effectively. In particular, we are concerned that there has not been enough focus on raising awareness of, and helping customers to reduce, their water demand. For example, some water companies have not installed the water meters that were agreed at PR19. We expect companies to deliver metering and to identify what more can be done; for example, sharing learning from application of behavioural science thinking and randomised control trials and delivering a collaborative and sustained multi-channel water efficiency campaign.

The UK Government's draft SPS expects us to challenge and monitor progress of companies to meet their commitment to halve leakage by 2050 and hold companies to account for their contribution towards reducing per capita consumption (PCC) to 110 litres of water per head per day (l/h/d) by 2050. It also expects us to work with water retailers, incumbent water companies and other stakeholders to contribute to the delivery of the Industry Action Plan to improve water efficiency in the business sector. The Welsh Government SPS expects us to encourage companies to reduce leakage and consumption where it is cost effective to do so.

In PR19 we incentivised sustainable water use through leakage and PCC PCs. In the run up to PR19 we worked with the industry to produce consistent methodologies to report leakage and PCC and for companies to shadow report to achieve consistent reporting. It is therefore disappointing that there was not full compliance for the 2020-21 reporting year. We expect all companies to be reporting full compliance with the leakage and PCC methodology for the 2021-22 reporting year. Where companies change how they report, we expect them to quantify the impact of any changes and we will consider how we should take account of this in making future determinations.

It is also important to incentivise reductions for business customers. The April 2017 expansion of the business retail market in England was expected to help business customers manage and reduce their consumption, as retailers offered water efficiency and leakage reduction

²² Welsh Government, '[Future Wales: The National Plan 2040](#)', February 2021, p. 45.

²³ National Infrastructure Commission, '[Preparing for a drier future: England's water infrastructure needs](#)', April 2018, p. 5.

services as new competitive offerings. Both water supply retailers and wholesale companies also have statutory duties to promote the efficient use of water by customers. Therefore, at PR19 we did not include any specific commitments for water companies to work with business customers.

We are concerned that the increase in water efficiency has not materialised. For instance, of the business customers who switched retailer in 2019-20, only around 6% reported receiving new water efficiency or leak detection devices as a result of switching – rising to 23% for large customers. In a joint letter from Ofwat and Environment Agency in March 2020, we challenged retailers and wholesalers to take further steps to improve water efficiency in the business sector. [Retailers and wholesalers](#) have, in response, published an action plan which they are currently implementing. Work includes understanding the issues and proposing how to address them. As well as working with market participants to drive improvements to data quality and to remove other barriers to improved water efficiency, we may also need to consider changing PCs..

We need to ensure that there are appropriate incentives to improve water efficiency amongst business customers. We cannot conclude on the appropriate course of action until we have a better understanding of the barriers facing wholesalers, retailers and customers in motivating and achieving better water efficiency in the business sector, and the scope for improved market functioning to deliver better water efficiency.

We have, nonetheless, discussed options for this with the Outcomes Working Group, but found very little consensus. In our discussions we were clear that leakage and PCC are well-established metrics which we expect to endure in water resources management planning and for monitoring progress towards proposed longer term water use targets. Regardless of the PCs that we set, water companies must continue to improve their understanding of how water is used and report measures annually, including leakage and PCC, and be ready to explain how these fit with expectations in their long-term water resource management plans.

There are three issues that arise: whether we use an outcomes or outputs approach; the treatment of the largest business users; and if we should set a standalone PC for business customers or combine it with other existing PCs. We consider each in turn.

1. Outcomes vs outputs approach

In discussions at the Outcomes Working Group some stakeholders suggested that a PC that tracked the activities which water companies deliver would be preferable to an outcomes based approach. This would mean the PC focuses on only what a water company can clearly control. Potentially activities could be weighted according to assumptions of the amount of water they save to target incentives. These weightings could even be updated as better information arises. Proponents also consider this could be applied to both residential and business customers.

Although companies need some control over outcomes to include them in the price control, we do not think full control is required. Moreover, we are concerned that an outputs-based approach would focus on activities that are easily tracked and reduce incentives for innovation, including programmes of work that focus on long term changes.

2. Excluding the largest customers from PCs

Around 1% of businesses use around 50% of water in the business sector and around 20% of businesses use around 90% of it.²⁴ This means changes in the behaviour of the largest users, such as expanding or reducing production, could dwarf the impact of water efficiency of smaller businesses in overall business use measures. Further these large users may already have strong incentives and comparatively greater resources to pursue how to improve water efficiency. Therefore, we would be minded to exclude larger non-household customers (such as those consuming >50 mega litres per annum) from any PC.

3. Whether to set a new PC or combine with existing PCs

We could set a separate PC for business customers, or we could combine the PC for business customers with that of residential customer consumption or even leakage. One reason to combine residential and business consumption is that there could be an issue with setting PCC and business PC levels due to the Covid-19 pandemic. PCC has increased over the last two years as it measures residential use, and there has been greater residential use and less business use as people have worked and studied at home. If behavioural changes persist to 2023-24, it may be difficult to know if these will continue as permanent changes in consumption patterns. This would make it difficult to know what the balance of residential and business use is in the 2025-30 period. If we set a PC that covered both residential and business customers it would avoid this problem.

Alternatively, companies could measure distribution input which is the water they abstract, treat, and put into supply. Reporting distributed input is more robust than reporting individual components of residential consumption, business consumption and leakage.²⁵ It would also avoid issues where companies re-evaluate these components due to new information. Such information may be revealed as companies increase metering, particularly smart metering. Where companies have better information, we want them to make use of it, but if this changes the assumptions they use when reporting separate components it impacts incentives. We then need to make adjustments to make sure that incentives are fair, which can complicate matters. We would avoid such problems if we used a broader PC.

Moreover, if our only focus is to reduce water demand, then a broader PC which allows companies to maximise reductions where a company is most effective could make sense.

²⁴ Source: MOSL. Data relates to 2019 and excludes around 250,000 zero consumption supply points.

²⁵ We could deduct water delivered to large users from distribution input. We consider the information on water to delivered to large users is robust and would not lead to similar issues.

However, this would put leakage reductions on an equal footing with reductions in consumption, disregarding the impact that reductions in consumption may have on customers. Additionally, it can be difficult to decide on the most appropriate way to compare companies for any component. It could be more difficult to choose the method to normalise distribution input.

We will continue to explore these issues and welcome views. We will engage with relevant stakeholders including through the Outcomes Working Group. We will set out our proposed approach in the draft methodology.

Storm overflows

The Welsh Government's SPS expects us to encourage and incentivise companies to maintain and enhance the resilience of ecosystems and the benefits they provide in the delivery of their functions. The UK Government's draft SPS is explicit that it expects us to incentivise water companies to significantly reduce the frequency and volume of sewage discharges from storm overflows. The Environment Act 2021 includes a new duty for each sewerage company in England to secure a progressive reduction in the adverse impacts of discharges from the company's storm overflows as well as further requirements to monitor and report on the discharges that do occur.

We will consider the new framework for storm overflows in the Environment Act and work with the environmental regulators to consider the appropriate PCs in England and in Wales for the 2025-30 period.

Environmental Performance Assessment (EPA)

The Environment Agency in England and Natural Resource Wales have developed the EPA. For 2021 this is an overall assessment of 6 metrics that set out how the 11 water and wastewater companies comply with specific obligations that environmental regulators enforce. These metrics are:

- Discharge compliance
- Total pollution incidents
- Serious pollution incidents
- Proportion of pollution incidents that are self-reported
- WINEP scheme delivery
- Supply Demand Balance Index

The resulting assessment is a rating between one and four stars. At PR19 we used two of the EPA metrics, total pollution incidents and discharge compliance, as common PCs. In addition South West Water adopted the overall star rating as a bespoke PC.

The draft UK Government SPS expects us to incentivise water companies to improve environmental performance to meet Environment Agency requirements in the EPA. The Welsh Government SPS refers to how we work closely with Natural Resources Wales. Companies must meet environment legislation and the price limits we set are sufficient to allow companies to do this.

The environmental regulators will update their EPA methodologies in advance of the 2026–2030 period. For instance, the Environment Agency is considering adding a metric for storm overflows. We are working with the environmental regulators to help ensure consistency between how they use their metrics and those that we adopt as common PCs. We do not consider that all the metrics included in the EPA necessarily require a separate common PC. Having a separate pc for each EPA metric would not be a targeted approach. Instead we propose to consider how the package of common PCs complements the EPA.

We could adopt the EPA star rating in full as a common PC for consistency with environmental regulators. However, if we were to set the EPA as the only common PC, replacing pollution incidents and discharge compliance, the star rating would lead to blunter financial incentives. This could encourage all companies to increase to the minimum standard for each EPA metric, but it may stifle incentives if a company knows it will struggle in a particular area and may not be able to improve its star rating. It may also be harder to take customers' views into account, as the EPA covers a range of metrics, some of which customers may be willing to pay more for in terms of improved performance, but others may have less support.

If we were to set the EPA as a common PC in addition to pollution incidents and discharge compliance, there would be a duplication of incentives. However, this could mean that there was a financial consequence for a range of metrics that would otherwise not be covered by common PCs. The financial ODI for an EPA PC would be lower, to reflect the duplication, and reflect the higher value that customer put on pollution incidents and discharge compliance in particular.²⁶

We will continue to work with the environmental regulators to understand the metrics that are likely to be part of the EPA for the 2026–30 period. We will decide as part of the draft methodology if an EPA PC could provide extra value instead of, or in addition to, using individual EPA metrics.

²⁶ For instance, South West Water had poor performance on pollution incidents in 2020 and, as a consequence, will pay back £13.8 million as a result. This also led it to receive a relatively poor two star assessment under the EPA resulting in the return of an additional £1 million via its bespoke PC.

4.2.4. Summary of potential changes for environment PCs

Table 4.7 Potential future environmental common PCs

| | Water and wastewater | Water only | Wastewater only |
|-------------------------------|---|--|---|
| Environmental outcomes | <p>Biodiversity</p> <p>Operational GHG emissions</p> <p>Possibly embedded GHG emissions</p> | <p>Leakage</p> <p>PCC (per capita consumption)</p> <p>Business demand</p> <p>Possibly these could be combined to report distributional input</p> | <p>Pollution incidents</p> <p>Discharge compliance</p> <p>Storm overflows</p> <p>Possibly Environmental Performance Assessment star rating in addition or instead of above 3</p> <p>Bathing water quality</p> <p>Possibly river water quality</p> |

5. Summary and next steps

Following the discussion in '[Creating tomorrow, together](#)', we will consider outcomes of three broad categories: excellent service for customers, environmental outcomes, and operational resilience. Within these categories, we will streamline our choice of outcomes measures. In particular, we propose to apply the following principles to PCs:

- focus on common PCs;
- focus on key outcomes which we will maintain in the long-term; and
- apply meaningful financial incentives to all PCs.

Based on these principles, we have considered our emerging expectations for the package of common PCs for PR24 2025-30 period. These are shown in table 5.1. In addition, companies should consider further bespoke PCs where there are specific local issues important to customers and the environment or where the company provides a poor level of service compared to other companies. However, such PCs should be proposed by exception and so there should be far fewer bespoke PCs than in PR19.

Table 5.1: Potential Common PCs in PR24

| | Water and wastewater | Water only | Wastewater only |
|---|---|---|---|
| Customers receiving excellent service everyday | C-MeX (residential customer measure of experience) Possibly D-MeX (developer measure of experience) Possibly B-MEX (business customer measure of experience) Possibly R-MEX (retailer measure of experience) | Water supply interruptions Compliance risk index (CRI) measuring drinking water quality compliance Customer contacts about water quality Possibly Event risk index (ERI) measuring impact of drinking water quality problems | Internal sewer flooding External sewer flooding Possibly we could combine the above two as companies are developing a measurement of the impact on customers from flooding |
| Environmental outcomes | Biodiversity Operational GHG emissions Possibly embedded GHG emissions | Leakage PCC (per capita consumption) Business demand Possibly these could be combined to report distributional input | Pollution incidents Discharge compliance Storm overflows Possibly EPA star rating in addition or instead of above 3 Bathing water quality Possibly river water quality |
| Asset health and operational resilience | We will decide these following the findings of the UKWIR project 'Future Asset Planning' expect in December 2021. | | |

We have already signalled our intention to do further work in this area. In particular, in our October 2021 paper on the approach to the collaborative customer research to inform certain aspects of companies' PR24 business plans and our PR24 determinations, we explained that we would test the extent to which the common PCs that we propose in this document for PR24 correctly reflect the key service attributes of interest to customers across England and

Wales and whether any gaps in coverage exist. We will also take account of the UK and Welsh Governments' Strategic Policy Statements (SPSs).

We will continue to liaise with the Outcomes Working Group and in particular will work in the task and finish groups to consider options for common PCs that measure biodiversity PC and river water quality. We will work with environmental regulators in considering the interactions between common PCs and environmental performance assessments. We will work with the Environment Agency to help ensure that water companies in England progressively reduce the adverse impacts of discharges from storm overflows.

We expect to provide a discussion paper on PCs that measure asset health and operational resilience outcomes in early 2022. This will take account of the ongoing UK Water Industry Research (UKWIR) project, Future Assets Planning, that will seek to consider the most appropriate asset health metrics. We will review the outcome of this project and consider if there are better metrics available.

We have also committed to publishing further documents on related aspects of our outcomes regime. In particular, in January 2022 we plan to publish a further discussion document exploring how we expect to set outcome delivery incentives.

We will provide our proposed set of common PCs in our draft methodology due to be published in June/July 2022. We will continue to engage with stakeholders on these issues ahead of then and welcome any further thoughts on these issues.

Appendix A: Description of PR19 Common performance commitments

This appendix describes each of the PR19 common PCs. These are focused on three areas: improving customer service, the environment and operational resilience.

Customers receiving excellent service everyday

Customer Measure of Experience C-MeX

The customer measure of experience (C-MeX) is designed to incentivise water companies to provide an excellent customer experience for residential customers.

We define it. It is based on two surveys. The first is a customer service survey of residential customers who have recently contacted their company in relation to that recent contact. The second is a customer experience survey of random members of the public in relation to their experience of their water company.

Each company can receive outperformance payments or incur underperformance payments based on how it scores compared to other companies. The top three water companies can receive greater outperformance payments if they also compare well against other sectors and have lower than average residential complaints for a water company.

This PC was introduced for the 2020–25 period as an evolution of a previous metric that focused mainly on customers that had to contact their water company, whereas C-MeX also surveys the wider customer base.

Developer Measure of Experience D-MeX

The developer services measure of experience is designed to incentivise water companies to provide an excellent customer experience to developer services customers, including small and large property developers, self-lay providers and those with new appointments and variations (NAVs). These customers can also include residential customers that have new mains connections installed.

We define it. It comprises a qualitative element which is a survey of developer services customers who have recently completed a transaction with their water company and a quantitative element which measures performance against a set of Water UK developer services level of service metrics. A company can receive outperformance payments or incur underperformance payments based on how it scores compared to other companies.

Business customer satisfaction (Welsh companies only)

Business customer satisfaction is designed to incentivise water companies to provide an excellent customer experience for business, voluntary and public sector organisations.

It measures the average customer score out of five from customer satisfaction surveys. A score of five for a very satisfied score down to a score of one for a very dissatisfied score.

At PR19 we did not refer to this as a common PC, but both Dŵr Cymru and Hafren Dyfrdwy have a PC for the 2020–25 period.

Priority Services Register

This is a reputational PC to increase the number of people that companies identify as requiring specific assistance for their needs and add to their priority services register (PSR).

We define it. It includes an expectation of the proportion of the population that would be added to the PSR as well as the proportion of people that would be contacted to check their needs had not changed.

This PC was introduced to address the low numbers of people on a PSR register in the water sector relative to the energy sector.

Water supply interruptions

This PC is designed to promote reliable water services and incentivise companies to minimise the number and duration of supply interruptions.

We define it. It is the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.

Compliance Risk Index (CRI)

This PC is designed to promote high quality tap water. It incentivises companies to fully comply with statutory obligations and to mitigate any issues affecting the quality of drinking water. CRI increases with the number of compliance failings.

It is defined by the Drinking Water Inspectorate and the measurement includes elements relating to: the significance of the parameter failing the statutory standards; the cause of the failure; the manner of the investigation of the failure by the company; any mitigation put in place by the company; and the proportion of the company's customers affected. A company has perfect compliance if it has a score of zero, although this is very hard to achieve in practice.

CRI measures performance based on the calendar year, whereas we set PCs based on the April to March financial year. For the purpose of our requirements, we therefore use the environmental regulators' last reported year and so, for example for 2021-22, companies will report performance from the 2021 calendar year for PCs that use other regulators' metrics. A benefit of this is that it allows time for any issues between companies and environmental regulators to be resolved before companies report their performance in annual performance reports.²⁷

Internal sewer flooding

This PC is designed to incentivise companies to reduce the impact on customers of sewage leaking into properties.

We define it. We measure the escape of water from a sewerage system, irrespective of size, which enters a building or passes below a suspended floor. To be able to compare companies the number of incidents is divided by the number of properties the company serves.

Environmental outcomes

Leakage

This PC is designed to incentivise companies to reduce water leaking from water networks as part of progressing towards sustainable abstraction over the long term.

We define it, although it is also used in water resource management plans. It is the estimated loss of water from water company distribution assets (mains and service reservoirs) plus customer supply pipe leakage. The PC shows the percentage reduction in the 3-year average leakage from the baseline period which was 2017 to 2020. We use 3-year averages to minimise the impacts from changes in the weather.

Per capita consumption (PCC)

This PC is designed to incentivise companies to help residential customers reduce their consumption as part of progressing towards sustainable abstraction over the long term.

We define it, although it is also used in water resource management plans. PCC is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population. The PC shows the percentage reduction in the 3-year average PCC from the baseline period which was 2017 to 2020. We use 3-year averages to minimise the impacts from changes in the weather.

²⁷ This is also the case for the Environment Agency's and Natural Resources Wales metrics total pollution incidents and discharge compliance.

Pollution incidents

This PC is designed to incentivise companies to promote improved water bodies by reducing the number of times untreated wastewater impacts on them.

The Environment Agency and Natural Resources Wales define this metric in their Environment Performance Assessment (EPA). It is the number of pollution incidents emanating from a wastewater asset that have a negative impact on the water environment. These can be reported by water companies or members of the public to the Environment Agency or Natural Resources Wales. The financial incentive primarily targets more minor pollution incidents that is would not be proportionate for the environmental regulators to seek prosecution through criminal courts, as they do for more major incidents. To be able to compare companies the total number of pollution incidents is divided by the length of sewers.

The Environment Agency has proposed that the number of pollution incidents should reduce by a further 30% by 2030 from the levels expected in 2025.

Discharge Permit Compliance

This PC is designed to ensure that companies contribute to improving river water quality. It incentivises companies to operate and maintain treatment works so that discharges into rivers meet strict parameters and rivers can improve to good ecological status.

The Environment Agency and Natural Resources Wales define this metric in their Environment Performance Assessment (EPA). It measures the number of failing sites, not the number of failing discharges, as a percentage of total sites. At PR19 we referred to this PC as treatment works compliance, but in this document use the same title as the environmental regulators.

Asset health and operational resilience

An UKWIR project on 'Future Asset Planning' is developing asset health indicators. This is due to complete in December and we will consider the findings before deciding if any changes are required to the PR19 asset health and operational resilience PCs that are listed below.

Mains repairs

This PC is designed to incentivise the company to maintain and improve the below ground water mains network.

We define it. It is the number of physical repairs to mains from which water is lost. While repairing a main is necessary, the increasing need to do this over time indicates the company

is not managing its network appropriately such as replacing or relining its mains. To be able to compare companies the total number of mains repairs is divided by the length of the company's mains.

Unplanned outage

This PC is designed to incentivise the company to maintain and improve its above-ground water assets.

We define this metric. It measures the unplanned loss of peak week production capacity (PWPC) and reports this loss as a percentage of the overall company peak week production capacity.

Drought resilience (reputational)

This PC is designed to help prevent turning off the supply to customers taps in serious droughts.

It measures the percentage of the customer population at risk of experiencing severe restrictions in a 1-in-200 year drought, on average, over 25 years. We developed this PC for the 2020-25 period and it uses concepts from water resource management planning (WRMP).

Sewer collapses

This PC is designed to incentivise the company to maintain and improve the wastewater assets below ground.

We define this metric. A sewer collapse is where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. To be able to compare companies the total number of sewer collapses is divided by the length of sewers.

Sewer flooding in a storm (reputational)

This PC is designed to prevent sewer flooding. It incentivises companies to better understand flood risk in their region and utilise this knowledge to reduce the risk of sewer flooding over the long term.

It is measured as the percentage of the region's population at risk from internal hydraulic flooding from a 1 in 50-year storm, based on modelled predictions. We worked with the sector to develop this PC for the 2020-25 period.

A Water UK group is currently considering how this metric could be improved and is expected to conclude this autumn.

Appendix B: Summary of PR19 bespoke performance commitments

| Category | Bespoke PCs that could only apply to one company | Bespoke PCs that could apply to all companies | Bespoke PCs with standard definitions | TOTAL Bespoke PCs | Bespoke PCs that are financial |
|-------------------------------|--|---|---------------------------------------|-------------------|--------------------------------|
| Direct customer service PCs: | | | | | |
| Gaps and voids | 0 | 16 | 15 | 31 | 26 |
| Contacts about water quality | 0 | 0 | 21 | 21 | 21 |
| Low pressure | 0 | 3 | 10 | 13 | 12 |
| External sewer flooding | 0 | 0 | 9 | 9 | 9 |
| Lead pipes | 1 | 8 | 0 | 9 | 9 |
| Metering (inc smart meters) | 0 | 7 | 0 | 7 | 6 |
| Customer service | 0 | 13 | 0 | 13 | 4 |
| Education | 0 | 5 | 0 | 5 | 4 |
| Visible leaks | 0 | 4 | 0 | 4 | 4 |
| Water interruptions >12 hr | 0 | 3 | 0 | 3 | 3 |
| Social Capital | 0 | 4 | 0 | 4 | 2 |
| Welsh specific | 0 | 2 | 2 | 4 | 2 |
| Water restrictions | 0 | 0 | 3 | 3 | 2 |
| Drinking Water | 0 | 2 | 0 | 2 | 2 |
| ERI | 0 | 0 | 5 | 5 | 1 |
| Water softening | 1 | 0 | 0 | 1 | 1 |
| Odour | 0 | 1 | 0 | 1 | 1 |
| Water supply interruptions | 0 | 1 | 0 | 1 | 1 |
| Sewer Flooding - repeats | 0 | 1 | 0 | 1 | 1 |
| Sewer Flooding - Public | 0 | 1 | 0 | 1 | 1 |
| Sewer Flooding - Awareness | 0 | 1 | 0 | 1 | 1 |
| Value for Money | 0 | 12 | 0 | 12 | 0 |
| Trust | 0 | 4 | 0 | 4 | 0 |
| bad debt | 0 | 3 | 0 | 3 | 0 |
| English specific | 0 | 2 | 0 | 2 | 0 |
| Environmental PCs: | | | | | |
| AIM | 0 | 15 | 0 | 15 | 14 |
| Biodiversity | 0 | 15 | 0 | 15 | 12 |
| River water quality | 0 | 11 | 0 | 11 | 11 |
| Bioresources | 0 | 4 | 7 | 11 | 10 |
| WINEP and NEP | 1 | 7 | 0 | 8 | 8 |
| Bathing Waters | 1 | 7 | 0 | 8 | 8 |
| Catchment Management | 0 | 8 | 0 | 8 | 5 |
| Water efficiency | 3 | 6 | 0 | 9 | 4 |
| Operational GHG emissions | 0 | 0 | 8 | 8 | 4 |
| Surface water entering sewers | 0 | 4 | 0 | 4 | 4 |
| Renewables | 0 | 4 | 0 | 4 | 2 |

PR24 and beyond: Performance commitments for future price reviews

| Category | Bespoke PCs that could only apply to one company | Bespoke PCs that could apply to all companies | Bespoke PCs with standard definitions | TOTAL Bespoke PCs | Bespoke PCs that are financial |
|---------------------------|--|---|---------------------------------------|-------------------|--------------------------------|
| Valuing wider benefits | 0 | 3 | 0 | 3 | 2 |
| Pollution incidents | 0 | 3 | 0 | 3 | 2 |
| CSO | 1 | 2 | 0 | 3 | 2 |
| Delivering in partnership | 0 | 2 | 0 | 2 | 2 |
| Water Resources - supply | 1 | 1 | 0 | 2 | 2 |
| Natural Capital | 2 | 3 | 0 | 5 | 1 |
| Water resources - overall | 0 | 2 | 0 | 2 | 1 |
| Reducing wider flood risk | 0 | 1 | 0 | 1 | 1 |
| Water resources - demand | 0 | 1 | 0 | 1 | 1 |
| EPA | 0 | 1 | 0 | 1 | 1 |
| WINEP and NEP Delivery | 0 | 0 | 14 | 14 | 0 |
| Capital GHG emissions | 0 | 2 | 0 | 2 | 0 |
| Compliance | 0 | 2 | 0 | 2 | 0 |

Appendix C Draft common performance commitment for bathing waters

Purpose: The purpose of this performance commitment is to incentivise the company to improve water quality to ‘Excellent’ status at the beaches and in-land waterways designated for swimming within its region.

Benefits: By encouraging the improvement of bathing water quality, this performance commitment will enhance coastal and in-land water environments, whilst also supporting the continued development of the leisure and tourism industries in the company’s region.

Performance commitment definition and parameters

| | Description |
|---|--|
| Detailed definition of performance measure | <p>The percentage of bathing waters in the company’s region that attain ‘Excellent’ status, as designated by the environmental regulator, based on an average of four years results.</p> <p>Calculated as: the number of bathing waters designated ‘excellent’ based on the four-year average divided by the number of designated bathing waters on 31 March 2024, expressed as a percentage.</p> <p>New bathing water designations during the 2025-30 period will not be included in the reporting against this performance commitment. If a bathing water is de-designated during the period, it will not be counted and will reduce the potential for the company to perform.</p> <p>If a bathing water is closed for sampling or sample collection is not possible for another reason, the company will use the most recent classification as reported by the environmental regulator. For example, if 2025 samples are not available, then 2024 should be used in its place to determine the four-year average.</p> |
| Additional detail on measurement units | <p>To assess water quality at designated bathing waters environment regulators undertakes regular monitoring. For companies in England this is the Environment Agency and Natural Resources Wales (NRW) for companies in Wales. A minimum of four samples is taken at each designated Bathing Water throughout the Bathing Season (1 May to 30 September).</p> <p>A statistical representation is determined, this provides the quality rating of either Excellent, Good, Sufficient or Poor. This data is summarised in Defra’s ‘Annual Bathing Water Compliance Report’ for companies in England and in NRW’s ‘Bathing Water Quality Report’ for companies in Wales.</p> <p>The relevant assessment period is a four-year assessment from the environmental regulator unless there have been fundamental changes to a bathing water.</p> |
| Specific exclusions | NA |
| Reporting and assurance | No specific requirements |
| Frequency of reporting | Annual, on a calendar year basis. For example, performance assessment for 2025-26 will be based on the calendar year 2025, whereas 2029-30 will be based on the calendar year 2029. |

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