

December 2022

Creating tomorrow, together:
Our final methodology for PR24

Appendix 7

Performance commitments

About this document

This appendix sets out further detail on our proposals for **performance commitments for the 2024 price review (PR24)**.

It builds on submissions to our Future Ideas Lab, the discussion documents covering performance commitments that we published in November 2021 (['PR24 and beyond: Performance commitments for future price reviews'](#)) and April 2022 (['Operational resilience discussion paper'](#)), discussions with the [Outcomes Working Group](#) and the draft methodology published in July 2022.

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1. Introduction

Performance commitments 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 performance commitments apply to every company in England and/or Wales, while bespoke performance commitments target the needs of a specific company's customers.

This appendix sets out further detail on performance commitments for the 2024 price review (PR24). It has four sections which set out:

- our approach to choosing performance commitments;
- our common performance commitments to incentivise excellent service to customers every day;
- our common performance commitments to incentivise protecting and enhancing the environment; and
- our common performance commitments to incentivise maintaining and improving asset health.

In each section, we set out our approach and then explain why we consider this appropriate, having considered stakeholder views on the approach and alternative propositions that were provided in response to the draft methodology we published in July 2022, which in turn built on discussion papers from November 2021 and April 2022.¹

The scope of the common performance commitments is set out in this appendix; the definitions are set out on our [website](#). This contains the latest definitions and their status. We have not yet set out definitions for those PCs where we intend to consult further, i.e. operational greenhouse gas emissions, C-MeX, D-MeX, BR-MeX for England and the performance commitment for business customer experience in Wales, as well as detailed guidance for the approach to biodiversity in Wales that will be produced by Natural Resources Wales. Further detail on our plans for these definitions are provided in the relevant sections of this appendix. Final definitions will appear on the webpage when they are complete.

¹ Ofwat, '[PR24 and beyond: Performance commitments for future price reviews](#)', November 2021, and '[Operational resilience discussion paper](#)' April 2022.

2. Our approach to choosing performance commitments

In this section, we explain that we will focus performance commitments on:

- key outcomes of importance to customers (which are also likely to be important in future price control periods);
- metrics that are suitable for financial incentives; and
- outcomes that are common across companies, with limited company specific measures.

We also explain how we take account of external factors that may influence an outcome when we select and define performance commitments.

Finally, we discuss our approach to changing performance commitments during the 2025–30 period.

2.1 Focus on key outcomes

At PR19, we had around 675 different performance commitments, that covered a wide range of aspects of company performance.

2.1.1 Our final methodology policies

We will have performance commitments that reflect key outcomes that are important to customers and the environment, taking account of our statutory duties and the need to act in accordance with priorities and expectations set out to us in the UK government's strategic policy statement (SPS) and the Welsh Government's SPS. This includes performance commitments and associated financial incentives to support compliance with other regulators' regulations where enforcement alone does not provide sufficient incentives to comply.

We intend to incentivise these outcomes in future price control periods, although the exact way that we incentivise and measure key outcomes may evolve over time, for example as metrics that better reflect the end outcome are developed.

We will minimise duplication between performance commitments and will focus performance commitments on outcomes not outputs. As discussed in [Appendix 9](#) (setting expenditure allowances), price control deliverables (PCDs) will be used to ensure funding is fully returned where defined outputs are not delivered. This is when the investment is material and the

delivery of benefits cannot be easily or directly linked by a performance commitment and outcome delivery incentives.

We also want our performance commitments to support a more outcomes focussed WINEP/NEP. We are working with the Environment Agency to develop this approach to WINEP in PR24, in line with Action 1 from the WINEP Roadmap.² This includes issuing a joint letter with the EA inviting English companies to submit proposals for Advanced WINEP (A-WINEP) alongside standard WINEP submissions.³ Proposals submitted as part of A-WINEP should be those that would not be possible within the standard WINEP framework for PR24 and yet clearly offer greater environmental value. A core aim of this work is to establish the management and governance frameworks necessary to operationalise this outcomes-based approach more widely in PR29 and beyond.

In Wales, we are keen to continue discussing with Natural Resources Wales whether an outcomes-based approach would be appropriate to elements of the NEP. This is consistent with Welsh Government's strategic objectives to adopt an outcomes-based approach.

We expect that the PR24 common performance commitments will cover the key areas of focus of an outcomes-based approach to WINEP such as river and bathing water quality. However, if necessary, we will consider whether any further performance commitments are required to support this approach.

2.1.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

2.1.3 Stakeholder views

A large proportion of stakeholders agreed with our proposal to focus on key outcomes.

Northumbrian Water and United Utilities requested evidence to demonstrate that the common performance commitment package was focussed on the things that customers value. Wessex Water said that it fully supports the use of outcomes, but that our performance commitments for PR24 focus more on inputs and outputs. The Environment Agency questioned whether the performance commitments will drive the intended behaviours and outcomes.

² UK government, [Water industry national environment programme \(WINEP\) roadmap](#), May 2022.

³ Joint Ofwat & EA letter issued to all English companies in September 2022.

2.1.4 Our final decisions and reasoning

In line with many stakeholders,⁴ we do not think streamlining the number of performance commitments within price control will significantly reduce the benefits delivered to customers and the environment.

The key outcomes will remain covered:

- Around 50 of the PR19 performance commitments related to tracking of outputs. We think it is clearer to refer to these as PCDs and retain the term performance commitment for outcomes.
- Other PR19 performance commitments underpin higher level performance commitments. For example, some companies had a performance commitment focused on reducing sewer blockages, but we consider that a continued focus on reducing higher level outcomes such as sewer flooding and pollution incidents will ensure a focus on reducing sewer blockages.
- Other PR19 bespoke performance commitments will be covered by the new common performance commitments – including biodiversity, bathing water quality, river water quality and operational greenhouse gas emissions.⁵

We consider streamlining the number of performance commitments will also help to incentivise companies to invest for the long term, as it is clear that these key outcomes will also matter at PR29 and that companies' future returns will depend in part upon the extent to which they perform in these areas.

Our April 2022 collaborative customer research report indicated that people agree that the common performance commitments being considered for PR24 reflect what is important to them.⁶ We consider that this provides the reassurance that we are focusing on the outcomes that matter to customers.

We disagree with Wessex Water that the focus of our performance commitments is on inputs and outputs. We acknowledge our asset health measures are not direct customer outcomes but they measure the operational resilience of the network which is important to customers. We welcome the continued engagement with Wessex Water in the ongoing development of a more outcomes focussed approach to WINEP.

The Environment Agency questioned the continued use of performance commitments as it considers that financial incentives do not work; however, we consider the move to an outcomes regime has delivered improvements for both customers and the environment.⁷ We

⁴ Dŵr Cymru, Yorkshire Water, Bristol Water and South West Water, Affinity Water, SES Water, Drinking Water Inspectorate, Future Water and Waterwise.

⁵ See Appendix B of our [November discussion document](#).

⁶ [Research on customer preferences](#), A joint report by CCW and Ofwat, April 2022.

⁷ Ofwat, [PR14 Review](#), January 2022.

have consulted widely on the development of our performance commitments and consider these represent the best measurements we have at present and are preferable to having no measures at all. In cases where they do not fully capture a companies' outcomes, we will also use price control deliverables to track the underlying investment required. We will evolve the performance commitments to better reflect the outcomes they seek to measure where possible in future price reviews, and we will work with other regulators to achieve this. For instance, we expect to consider the impact of storm overflows as well as the number of spills. This will require appropriate equipment to be in place to measure the level of harm, such as equipment which may be needed to meet the monitoring obligations set out by the Environment Act 2021.

2.2 Focus on financial incentives

At PR19, some performance commitments had financial incentives, but others were reputational-only and had no financial incentives attached to them. At PR24, we want a simpler but powerful outcomes framework that works alongside our wider regulatory tools to incentivise performance.

2.2.1 Our final methodology policies

We will have meaningful financial ODIs for all performance commitments at PR24.

2.2.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

2.2.3 Stakeholder views

There were a limited number of responses addressing our intention to apply financial incentives to all performance commitments. There were suggestions from Northumbrian Water and South East Water that specific performance commitments, such as biodiversity, would be more suited to a reputational incentive given either their complexities or perceived lack of company control.

The Money and Mental Health Policy Institute considered that we should rely more on financial rather than reputational incentives to affect company behaviour as there is a limit as to whether performance against performance commitments is noticed or understood by customers.

2.2.4 Our final decisions and reasoning

We agree that the price review should focus on performance commitments suitable for significant financial incentives. This is in line with the view of the Money and Mental Health Policy Institute.

Including reputational performance commitments creates additional complexity during the price review process and our wider tools outside of the price review may be more appropriate. These tools are more suitable for areas where significant additional funding is not required and where performance is very difficult to specify in advance for a five-year period through a fixed measure. This includes, for example, vulnerability and affordability. Our wider tools include reputational incentives, licence conditions, charging rules and our enforcement powers. We will collect further information through our monitoring regime, including our proposed integrated monitoring framework for operational resilience,⁸ to support our use of these tools. Companies should also collect, develop and report further metrics for their internal decision making and to communicate with their customers and other stakeholders.

Respondents that suggested that particular performance commitments should be reputational did not explain why tools outside the price review would not be effective. We address their points on particular performance commitments in the relevant sections.

2.3 Focus on common performance commitments

During PR19, most performance commitments are bespoke to each company – water and sewerage companies have 15 common performance commitments, but up to 35 bespoke performance commitments each. Likewise, water only companies have 10 common performance commitments and up to 28 bespoke performance commitments. The same common performance commitments applied in England and in Wales.

2.3.1 Our final methodology policies

We will increase the focus on common performance commitments and have fewer bespoke performance commitments in PR24.

We have taken account of differences in both policy and law between the UK and Welsh Governments in coming to the package of common performance commitments. The performance commitments for business satisfaction are different in the two nations reflecting differences in the structure of the business retail market. The guidance for the biodiversity performance commitment is different for England and Wales, taking account of differences in legislation and also the differences in the habitats in the two nations. We also

⁸ Ofwat, '[Operational resilience discussion paper](#)', April 2022.

take account of differences in policy and law between the UK and Welsh Governments in setting outcome delivery incentive rates (see [Appendix 8](#)) and in setting performance commitment levels (see [Appendix 9](#)).

Bespoke performance commitments are appropriate where:

1. there are local circumstances that do not apply to most other companies and there is compelling evidence that a performance commitment is required to provide incentives to drive benefits for customers, communities and the environment; or
2. a company provides poor service on a common issue where other companies' performance is generally adequate and the risk of performance deteriorating is low -such a performance commitment is likely to have underperformance payments only.

We will also consider other cases where a company has compelling evidence that there are company-specific circumstances which mean a bespoke performance commitment will lead to significant additional benefits for customers and the environment that are unlikely to be realised without it. These circumstances could result from responding to strategic steers on long-term outcomes and priorities from the collaborative approach in Wales.

As with common performance commitments, bespoke performance commitments should be suitable for financial incentives.

We expect at most two or three bespoke performance commitments per company at PR24. In response to stakeholder comments, we clarify that this is not a hard limit if the above tests are satisfied. However, based on our experience from previous price controls, we would not expect this to be the case. Where possible, we intend to use standardised definitions.

Companies should provide an early submission for bespoke performance commitments. This is to enable companies to take account of feedback on their draft definitions and include fully developed proposals for any bespoke performance commitments in their business plan submissions. Companies should provide any proposed definitions for bespoke performance commitments by 14 April 2023. This should include any evidence of the additional benefits to customers and the environment. The definition of the performance commitment should measure the level of service provided for the particular outcome and be clear, unambiguous, complete and as concise as possible. Companies should demonstrate that the scope of the definition will help to provide appropriate incentives to deliver for customers, communities and/or the environment.

We intend to provide feedback on draft bespoke performance commitment definitions in July 2023. Companies should take this into account in their business plan submissions. We will not provide feedback on performance commitment levels or ODI rates.

2.3.2 Changes from our draft methodology

The only change from the proposals outlined in our draft methodology is that we do not expect that companies will need to report performance on common performance commitments in other nations in order to benchmark performance.

2.3.3 Stakeholder views

The majority of stakeholders were supportive of the move to more common performance commitments and fewer bespoke. Southern Water said that overall the number of performance commitments was unmanageable at PR19 and others (Anglian Water, CCW, Blueprint for Water, Wales Environment Link and Waterwise) viewed the addition of environmental common performance commitments as a positive development. Some companies wanted the combined package of price control deliverables (PCDs), common and bespoke performance commitments to be validated against customer and stakeholder priorities.

There was a mixture of views in relation to our proposals for bespoke performance commitments. Some companies agreed with the proposal to reduce the number and to stipulate the circumstances where a bespoke performance commitment may be relevant. Other stakeholders, including Wessex Water, agreed with the proposal to move to a greater number of common performance commitments, as long as these were outcomes rather than outputs focused.

However, the limits placed on the number of bespoke performance commitments was seen as too restrictive by several companies and the RSPB suggested that the environmental measures should be bespoke rather than common performance commitments. Other stakeholders suggested that bespoke measures could also be employed for industry-leading activity or used to trial future performance commitments. There were mixed views around the suitability of using price control deliverables (PCDs) as an alternative approach to performance commitments.

2.3.4 Our final decisions and reasoning

We consider many of the outcomes that matter to customers are shared by all customers. Indeed, setting aside output-based scheme delivery performance commitments, only a very small number of bespoke performance commitments at PR19 were focused on measuring outcomes that were not applicable to other companies.⁹ Many relate to common outcomes and were measured in different ways, including greenhouse gas emissions, biodiversity, and bathing water quality, which we are setting as common performance commitments at PR24 –

⁹ See Appendix B of our [November discussion document](#).

see Section 4. We consider that it helps to streamline the price review and improve benchmarking if we measure and incentivise these outcomes in a common way, driving better results for customers and the environment. Common performance commitments also help stakeholders to compare company performance, as recognised by both Southern Water and SES Water.

In PR19 the same common performance commitments applied to all companies. Our April 2022 collaborative customer research report indicated that customers in England and Wales are likely to have the same overall views about the most important areas of company performance.¹⁰ Most common performance commitments are the same for companies whose systems are mainly in England or in Wales. This also helps benchmark companies across nations. However, there are differences in both policy and law between the UK and Welsh Governments and this can lead to different common performance commitments and changes in guidance between English and Welsh companies. We have considered the detailed issues for each performance commitment and have differences in definitions between England and Wales for two performance commitments. The performance commitments for business satisfaction is different in the two nations reflecting differences in the structure of the business retail market. The guidance for the biodiversity performance commitment is different for England and Wales which takes account of differences in legislation, but also because there are differences in the habitats in the two nations. However, the high-level definition remains the same, so we consider it a common performance commitment for all water companies.

Hafren Dyfrdwy raised the issue that its small size can be problematic when using common performance commitments. We recognise this point but consider it is best addressed by how we set incentives (see [Appendix 8](#)) or performance commitment levels ([Appendix 9](#)).

Southern Water, Affinity Water, SES Water, and the Environment Agency agreed with our proposal that bespoke performance commitments are appropriate where a company has compelling evidence that there are company-specific circumstances which mean a bespoke performance commitment will lead to significant additional benefits for customers that are unlikely to be realised without it. Wessex Water agreed, as long as the common performance commitments were outcomes focused. Jacobs noted the potential for considerable efficiency and standardisation of performance from introducing common performance commitments could be eroded by allowing two to three bespoke performance commitments per company, especially if a large number are agreed. We will only agree bespoke performance commitments where there is a benefit to customers and consider this will outweigh any costs from additional reporting which is only likely to be for the company with the bespoke performance commitment.

Other stakeholders considered that two or three performance commitments will not be enough (Thames Water, South West Water, United Utilities, Severn Trent Water, Hafren

¹⁰ [Research on customer preferences](#), A joint report by CCW and Ofwat, April 2022.

Dyfrdwy, RSPB, SVT Challenge Panel, Tideway). We expect at most two or three bespoke performance commitments per company at PR24. In response to stakeholder comments, we clarify that this is not a hard limit if the above tests are satisfied. However, based on our experience from previous price controls, we would not expect this to be the case. Where possible, we intend to use standardised definitions.

Others suggest what is allowed under local circumstance is too narrow (Northumbrian Water, Blueprint for Water, Sustainability First, Wales Environmental Link) and for instance should include innovation. Wales Environment Link and Wildlife and Countryside also proposed that bespoke performance commitments could also be employed for industry-leading activity.

We do not agree. Instead we aim to provide incentives through common performance commitments for common issues for all companies. This will both provide incentives for all companies to innovate and deliver leading activity, but also shine a spotlight on companies that need to go further.

We also do not agree with United Utilities or the RSPB that we need to set bespoke performance commitments in order to develop new common performance commitments. New common performance commitments have been developed since PR19 that are not based on PR19 bespoke definitions. We encourage companies to develop further measures, beyond performance commitments or price control deliverables, to understand their performance. We also hope to work with companies to further develop definitions for PR29 including better reflecting the severity of sewer flooding. Developing measures that are not bespoke performance commitments means that definitions can be improved over the period, whereas performance commitment definitions remain fixed for each five-year period. We also plan to work with companies outside the price review to develop new measures to monitor and drive operational resilience.

2.4 Managing external factors

2.4.1 Our final methodology policies

We do not generally consider exclusions for factors that are outside company control, such as weather events, are appropriate. We have allowed limited exclusions for external factors where companies cannot manage or mitigate potential impacts on customers and the environment or are outside of their statutory functions. We also consider how clearly the event can be excluded in practice including whether the exclusions would be proportionate or may compromise companies' focus on outcomes for customers, communities and the environment. Where we do provide explicit exclusions, we specify this upfront in each performance commitment's definition.

We may also make limited exclusions in relation to an innovation fund project where there is compelling evidence that this may facilitate the innovation being considered. In these cases we would set out any exclusions in writing and we may require additional steps to protect customers and the environment and/or additional reporting.

2.4.2 Changes from our draft methodology

We have amended our draft methodology proposals in order to mitigate the risk that our outcomes regime could unintentionally block the successful outcome of innovation fund projects.

2.4.3 Stakeholder views

Ten stakeholders responded with comments about exclusions within performance commitments for external factors such as weather – CCW supported our proposed approach while nine water companies disagreed. While Thames Water and United Utilities accepted that companies are better placed to manage external risks than customers, they requested that we factor in not permitting exclusions for severe weather when we set performance commitment levels and associated expenditure allowances.

Affinity Water, Southern Water and Yorkshire Water said that severe weather events are becoming more frequent, with some of them suggesting that we should allow exclusions because companies have limited ability to manage these risks.

South East Water suggested that instead of not permitting exclusions for extreme weather events, we suspend incentive payments and allow companies to recover efficient expenditure associated with severe weather events. This was also recommended in a report by Frontier Economics on behalf of three water companies.¹¹ Northumbrian Water also suggested that companies should be able to reinvest underperformance payments associated with extreme weather events rather than these being returned to customers.

Hafren Dyfrdwy said that severe weather events can have a disproportionate effect on smaller companies.

Anglian Water and Northumbrian Water highlighted that it is possible regulation can be a barrier to innovation and a "regulatory sandbox" that could be considered as part of the innovation fund may be appropriate in order to encourage innovation.

¹¹ Frontier Economics (commissioned by Northumbrian Water, South East Water and Yorkshire Water), '[Managing extreme weather event risk in the regulatory framework](#)', October 2022.

2.4.4 Our final decisions and reasoning

The outcomes we specify relate to companies' functions and so they have significant control over these. External factors may also have an effect but, in many cases, companies can mitigate the impact of external factors, such as weather events, on customers through how they prepare for and respond to such factors, including by working with third parties. We want to incentivise companies to stretch their influence in this way when delivering their functions. We consider this is necessary to meet their statutory obligations,¹² and the expectations and needs of customers and the environment. We therefore do not consider exclusions for such factors are appropriate.

Even if extreme weather risks become more frequent, as suggested by Affinity Water, Southern Water and Yorkshire Water, we consider that companies should manage these risks in line with their regulatory obligations and expenditure allowances. If companies do not bear these risks, they are transferred to customers. It is important that risks lie with those that can best mitigate or bear them, and as customers cannot mitigate these risks, we consider that it is appropriate to have performance commitments to incentivise companies to manage them effectively.

In developing our performance commitments for PR24, we have identified limited exclusions for external factors. These are where companies cannot manage or mitigate potential impacts on customers and the environment or are outside the scope of their statutory functions. For example, we exclude the impacts of internal or external flooding events that are not caused by the water company's assets, such as during very high river floods. This is because water companies cannot mitigate the impacts of these events on customers and the environment and managing them (reducing the risk of river flooding) would be outside of their statutory functions. We also consider how clearly the event can be excluded in practice including whether the exclusions would be proportionate or may compromise companies' focus on outcomes for customers, communities and the environment.

In such cases, we specify this upfront in each performance commitment's definition. This is to provide clarity on what is expected from companies and to minimise examples of companies choosing to interpret and apply exclusions in different ways during the price control period.

We also note that external factors can have positive and negative impacts on companies' performance. For example, if there is a wet summer, per capita consumption will be lower than normal, even without company action, as people tend to water their gardens less. External factors may therefore lead to companies receiving outperformance payments as well as incurring underperformance payments – and as we set out in [Appendix 8](#), we are intending to set symmetrical incentive rates for most performance commitments which will increase the upside potential for companies at PR24. There may be some instances where

¹² For example, sections 37 and 94 of the [Water Industry Act 1991](#).

downside risks are larger than upside risks but, as we set out in [Chapter 5](#) and [Appendix 8](#), we will ensure that companies have a reasonable balance of risk and return on their overall packages using tools other than exclusions.

We do not consider it proportionate or effective to suspend incentive payments and allow companies to fully recover efficient expenditure associated with extreme weather, in the way proposed by South East Water and Frontier Economics on behalf of three water companies. This would risk disincentivising companies from preparing for or responding to such events, undermining the intent of the outcomes framework to deliver outcomes for customers and the environment. Companies can also recover a proportion of any additional expenditure, over and above their expenditure allowances, through the cost sharing mechanism at the end of the period. Instead, where we do provide explicit exceptions, we specify this upfront in each performance commitment's definition. This provides appropriate incentives on companies to manage and mitigate risks. It also recognises companies will likely have asymmetric incentives to only request exclusions when they stand to benefit, which could unbalance the package against the interests of customers and the environment.

Thames Water and United Utilities suggested that we reflect the impact of exclusions in our performance commitment levels and expenditure allowances at PR24. We detail our approach to setting the performance commitment levels funded by our efficient expenditure allowances in Appendix 9. It sets out that we intend to set performance commitment levels at PR24 partly based on historical reported performance, which will include the impact of external factors. Where the definition of an existing performance commitment is revised and has a material impact on historical reported performance, we will ask companies to provide evidence and set out their revised historical performance. Our efficient base expenditure allowances reflect historical expenditure which includes expenditure associated with responding to external factors.

Hafren Dyfrdwy was concerned that smaller companies are most exposed. As set out in [Appendix 8](#), we will consider the risk exposure of individual companies during the determinations phase and make adjustments if necessary.

We agree with Anglian Water and Northumbrian Water that we do not want our outcomes regime to block innovation which could deliver better outcomes for customers, communities and the environment. But broad exclusions for innovation may be ill-defined and hard to monitor, and so lead to worse outcomes. We will however consider performance commitment definitions as part of agreeing projects for the innovation fund (see also Section 3.5 on Water Supply Interruptions performance commitment). This would allow issues to be considered on a case-by-case basis in order to make any exclusions as limited and as specific to the circumstance as possible and agree on any requirements to protect customers and the environment.

2.5 Change control process

We fix performance commitment definitions for the five-year period to provide regulatory certainty so that companies have confidence in how performance will be judged and so have incentives to invest to deliver the best outcomes for customers, communities and the environment.

2.5.1 Our final methodology policies

Where performance commitment definitions include references and/or links to materials produced by a third party, we expect to set performance commitment definitions based on the versions of those materials which are in effect at the date of our PR24 final determinations¹³ The relevant versions of those materials will be published on our [website](#) and should be considered to be authoritative for the 2025–30 period. Where a third party changes a relevant material during the 2025–30 period, we may consider if changes to performance commitment definitions are appropriate. An example of such third-party materials are the environment regulators' Environmental Performance Assessment (EPA) methodologies that set out how pollution incidents and discharge permit compliance are measured. Where a company considers that a change in a third-party material should be incorporated in the performance commitment definitions during 2025–30, we expect the company to explain in full the consequences of making the change and why it should be made. We will consult with stakeholders as appropriate, as to our treatment of (and the timing of) any changes.

Notwithstanding any change made to third party materials during the period, companies should ensure that their outcome delivery incentive payments only relate to real performance changes and not definitional, methodological or data changes in performance commitments.

Apart from correcting unambiguous errors and considering appropriate changes arising from updates to third-party materials, we do not intend to make any other changes.

2.5.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

¹³ We may by express exception incorporate materials as revised from time to time. Examples could include certain accreditations or registrations, certain legislative instruments and certain indices or other measures that are expected to move over time.

2.5.3 Stakeholder views

We did not receive any responses from stakeholders addressing the amendments to how we implement our change control process.

2.5.4 Our final decisions and reasoning

We will implement the outlined amendments to our change control process at PR24. We consider that this will not have a material detrimental impact on customers or companies. There have been no changes to improve common performance commitment definitions other than to update for third party materials or to implement changes that were signalled in PR19 final determinations. Rather, we consider having a clear policy in this area helps simplify our price review process, encouraging companies to focus efforts on delivering against their performance commitments rather than seeking to alter them.

3. Customers receiving excellent service everyday

Table 3.1 sets out our proposals for PR24 performance commitments relating to customer service. Further details of each performance commitment are discussed below.

Table 3.1 – Proposed PR24 direct customer service common performance commitments

Water and wastewater	Water only	Wastewater only
C-MeX (residential customer measure of experience) D-MeX (developer services measure of experience) BR-MeX (business customer and retailer measure of experience) (England) Business customer experience in Wales	Water supply interruptions Compliance risk index (CRI) Customer contacts about water quality	Internal sewer flooding External sewer flooding

3.1 Customer measure of experience (C-MeX)

Measuring residential customers' satisfaction puts the onus on companies to understand the experience of their residential customers, to identify what they want and how the company will deliver this.

At PR19, we used the C-MeX measure to do this. It has been operational since April 2020 in its current form, and in shadow form for one year prior to that. It is a relative performance commitment, ie a company's performance is compared to other companies rather than against an absolute performance level.

It is designed to:

- encourage companies to innovate;
- be simple and meaningful for customers;
- be proportionate;
- be practical to implement;
- measure performance consistently, reliably and fairly; and
- reflect customer behaviour changes and market changes.

3.1.1 Our final methodology policies

We will retain C-MeX at PR24. We will continue to review its effectiveness alongside our wider tools to improve customer service. We will consider the detailed design of C-MeX, working with stakeholders, prior to our draft determinations and update the PR19 approach as appropriate.

3.1.2 Changes from our draft methodology

We will undertake a wider review of C-MeX, working with stakeholders, prior to our draft determinations.

3.1.3 Stakeholder views

Ten stakeholders broadly supported our proposed approach to the C-MeX common performance commitment, and we received no requests to remove it from PR24.

On the **design of C-MeX**, we received the following comments or suggestions that we should:

- Remove or refine the customer experience survey (CES) element of C-MeX because it is encouraging companies to spend on communicating with customers, marketing or awareness instead of improving their service (Anglian Water and Wessex Water);
- Remove the wastewater component from the C-MeX score that determines financial incentives, to enable comparisons between water-only companies and water and wastewater companies (South East Water);
- Introduce new metrics into C-MeX so it better reflects customer service aspects that most matter to customers, such as household complaints, with a 20% weighting (CCW) or call waiting times (Sustainability First);
- Require companies to report how they have addressed reasons for customer dissatisfaction in the C-MeX surveys (CCW), provide clarity on our monitoring approach and how we use customer data from wider sources (Sustainability First and the Money and Mental Health Policy Institute).

In our draft methodology, we proposed reviewing how C-MeX could **adapt to provide better customer service to vulnerable and worst-served customers**. Nine stakeholders broadly agreed, with the following comments or suggestions that we should:

- Use the Priority Services Register as a gateway for higher payments in C-MeX instead of the UK Customer Satisfaction Index (Anglian Water);

- Ensure vulnerable customers are taken account of or sufficiently represented in the C-MeX surveys (Hafren Dyfrdwy, Severn Trent Water and Thames Water);
- Add new metrics into C-MeX relating to worst-served customers, such as the number of repeat customer contacts relating to water supply interruptions, sewer flooding and low pressure issues, or separate reporting of the satisfaction of vulnerable customers (CCW and the Money and Mental Health Policy Institute);
- Consider any changes alongside our wider framework, such as the customer-focused licence condition, a new inclusivity performance commitment or annual mystery shopping exercises (SES Water and Sustainability First).

Six stakeholders disagreed, with the following arguments:

- C-MeX already incentivises better service for vulnerable customers (Portsmouth Water and Yorkshire Water);
- Different mechanisms are likely to be more effective, such as the customer-focused licence condition, separate performance commitments, or regular monitoring and reporting (Bristol Water and South West Water, Dŵr Cymru, Southern Water and Wessex Water).

Affinity Water, Bristol Water and South West Water, South Staffs Water and United Utilities asked for greater clarity on why and how C-MeX could be adapted to improve outcomes for vulnerable and worst-served customers.

We received comments on our [survey and sampling approach](#):

- Thames Water and Wessex Water supported using online panels.
- Sustainability First, Thames Water and United Utilities supported increasing the survey sample size to make it more robust and representative.
- Yorkshire Water suggested that sample sizes should be proportionate to the total number of contacts for each company.
- United Utilities suggested increasing the online correction factor based on the latest evidence on the different scores provided by customers that use voice or digital channels to provide feedback.
- SES Water and South East Water suggested changing our approach to survey quotas or weights to account for higher levels of household affluence or metering, which could create potential biases in survey responses.

We received the following comments on the [number of communication channels offered to customers](#):

- Anglian Water and the Money and Mental Health Policy Institute supported increasing the required minimum number of communication channels, arguing it may increase the

number of contact channels, and be more accessible for customers with mental health issues;

- Thames Water, United Utilities, Wessex Water and Yorkshire Water proposed removing the requirement to have a minimum number of contact channels, arguing companies with an inadequate range of channels will receive lower C-MeX scores;
- Anglian Water suggested equally surveying customers across all channels would incentivise companies to offer more channels.

On our [proposal to remove the check and challenge process](#), Anglian Water and Thames Water agreed, provided there was another form of quality check, with Thames Water stating that the time could be better spent understanding results to inform improvement. Ten water companies disagreed, arguing that mistakes could distort results and undermine the legitimacy of C-MeX. In addition:

- Dŵr Cymru, Northumbrian Water, Bristol Water and South West Water, Thames Water and South East Water suggested that, if the process remained in place, it should also include online survey responses.
- Some companies asked for more assurance and visibility of the quality checks if the process is removed.

3.1.4 Our final decisions and reasoning

We will retain C-MeX as a common performance commitment at PR24. We consider this reflects that stakeholders broadly supported keeping C-MeX as a common performance commitment.

Because this performance commitment has only been fully in operation for two years, we will continue to review its effectiveness. We do not consider the detailed design of C-MeX will affect companies' business plan submissions. Therefore, we will develop the detailed design of C-MeX, working with stakeholders and considering the issues raised in response to our draft methodology, prior to our draft determinations.

In our review, we will consider the high-level ambitions for C-MeX and consider how it relates to our range of regulatory tools to support all customers, including for vulnerable and worst-served customers. We will also consider more detailed survey and process issues, such as alternative surveying and sampling approaches, the requirement for a minimum number of communication channels, our approach to quotas and weights, and any operational efficiencies including the check and challenge process.

We consider that [customer service in the water sector needs to improve – and we expect a step change in customer service](#) for all customers, and especially those who are worst served. The need for this step change is discussed in [Appendix 8](#), where we also set out

our decision to increase the size of C-MeX incentive. At present, we expect this to be $\pm 18\%$ of annual allowed residential retail revenue. We will consider this further when reviewing C-MeX ahead of our draft determinations.

3.2 Developer services measure of experience (D-MeX)

We introduced D-MeX at PR19 in response to concerns that developers were receiving poor service from some water companies. Measuring satisfaction puts the onus on companies to understand what developer services customers want and to deliver this effectively.

D-MeX has been operational since April 2020 in its current form, and for one year prior to that in shadow form. In the PR19 final determinations, and in subsequent amendments, we selected a number of Water UK metrics to be included in the quantitative component of D-MeX relating to services provided to self-lay providers (SLPs) and new appointees, both of which compete with the incumbent water companies in the market for developer services.

3.2.1 Our final methodology policies

We will retain D-MeX at PR24. We will continue to review its effectiveness alongside our wider tools and market developments. We will consider the detailed design of D-MeX, working with stakeholders, prior to our draft determinations and update the PR19 approach if appropriate.

3.2.2 Changes from our draft methodology

We will undertake a wider review of D-MeX, working with stakeholders, prior to our draft determinations.

3.2.3 Stakeholder views

Anglian Water, CCW, Portsmouth Water, Thames Water and Wessex Water broadly supported retaining the D-MeX common performance commitment at PR24, and we received no requests to remove it.

On the **design of D-MeX**, we received the following comments:

- Dŵr Cymru suggested excluding Welsh companies from D-MeX, or changing how it is scored, to reflect different legislative and regulatory frameworks in Wales, which may negatively impact the scores of Welsh companies;

- United Utilities said that the quantitative component is no longer materially differentiating between companies' performance, while Independent Water Networks and the Independent Networks Association proposed revising the definitions due to ambiguity in the agreed service levels;
- Anglian Water, Fair Water Connections, Independent Water Networks and the Independent Networks Association proposed increasing the representation of self-lay providers and new appointees in D-MeX;
- Independent Water Networks argued that if we remove developer services from the PR24 revenue controls, we should change the scope and focus of D-MeX to provide sufficient protections for SLPs and new appointees;
- Anglian Water suggested increasing the prominence of drainage within D-MeX; and
- Wessex Water suggested removing anonymity for survey respondents.

3.2.4 Our final decisions and reasoning

We will retain D-MeX as a common performance commitment at PR24. We consider this reflects that stakeholders broadly supported keeping D-MeX as a common performance commitment.

Because this performance commitment has only been fully in operation for two years, we will continue to review its effectiveness, including taking account of market developments, including our approach to price control regulation of developer services. We do not consider the detailed design of D-MeX will affect companies' business plan submissions. Therefore, we will develop the detailed design of D-MeX, working with stakeholders and considering the issues raised in response to our draft methodology, as well as market developments, prior to our draft determinations.

3.3 Business customer and retailer measure of experience (BR-MeX) for English companies

Our draft methodology proposed a business customer measure of experience as a common performance commitment at PR24 for companies operating wholly or mainly in England. We proposed a composite performance commitment capturing both the experience of end business customers and the experience of business retailers ('**BR-MeX**').

3.3.1 Our final methodology policies

We will include BR-MeX as a common performance commitment at PR24 for companies whose systems are wholly or mainly in England¹⁴. Consistent with our proposal at draft methodology we will develop a composite performance commitment capturing both the experience of end business customers and the experience of retailers as intermediate customers. We will work closely with market participants to design the incentive during 2023, for consultation in the draft determinations in 2024. Ofwat will lead the work to design the BR-MeX incentive, which will be specified in final determinations. Following this, the market operator (MOSL) will fund, collect and publish the performance data with all relevant governance arrangements specified clearly in the market codes. Ofwat will then use this data to assess company performance against BR-MeX.

We will consider the detailed design of BR-MeX, working with stakeholders, prior to our draft determinations. As noted below we intend to run various industry stakeholder workshops throughout 2023 and we intend to provide a more detailed plan to stakeholders in the first of these workshops.

3.3.2 Changes from our draft methodology

In response to stakeholder feedback we are making some minor changes to our position at draft methodology. Many consultation responses included suggestions on the detailed design of the BR-MeX incentive, which we will consider during the design and testing phase next year.

3.3.3 Stakeholder views

We received 25 responses from both water companies and wider stakeholders, including Consumer Council for Water (CCW), the market operator (MOSL) and Strategic Panel¹⁵. Most respondents supported the introduction of BR-MeX in principle. This included the majority of water companies, CCW, Strategic Panel, MOSL, the UK Water Retail Council (UKWRC) and all of the Retailer respondents. Three water companies (Affinity Water, Northumbrian Water and Southern Water) did not support BR-MeX, noting the difficulties customers have with distinguishing between the performance of Retailers and Wholesalers. Northumbrian Water

¹⁴ For clarity, we confirm that BR-MeX will apply only to companies operating wholly or mainly in England, where all business retail services are now provided by Retailers. Our proposed performance commitments for Welsh customers are set out in section 3.4 of this appendix.

¹⁵ The Strategic Panel promotes, challenges and leads the operation and evolution of the business retail market for the benefit of current and future non-household customers. It is also the senior industry group responsible for overseeing the market codes, which govern the market.

suggested the incentive sat better with the Market Performance Framework (MPF) rather than the price control.

MOSL agrees that stronger measures are needed to incentivise improved water company focus and performance in the market. MOSL believes more work is needed to establish the business case for BR-Mex and the evidence of the value it could deliver to the market as well as the costs. It also notes that appropriate funding will need to be included in its business plan to administer the pilot and the final BR-Mex incentive.

3.3.4 Our final decisions and reasoning

We will include BR-MeX as a common performance commitment at PR24 for companies operating wholly or mainly in England. Water companies play a key role in facilitating the delivery of a good business customer experience. Our monitoring of the business retail market, as well as our review of incumbent company support for effective markets (Project RISE), conclude that water companies' support for the market needs to improve and that water companies need a stronger focus on understanding the needs and requirements of their business customers and to tailor their wholesale service offerings accordingly.

Most stakeholders support the introduction of BR-MeX in principle. Several companies noted, a key aspect to developing a robust incentive in this area was to ensure customers could differentiate the performance of the company from the performance of the Retailer. A few companies were of the view that this would not be possible and the incentive instead should focus on Retailer feedback. Companies and other industry respondents noted that given these interactions the incentive should be subject to piloting and a shadow year and they were keen to work with Ofwat and MOSL in the development of the survey. Companies overall tended to be supportive of the use of Retailer feedback, noting that Ofwat should build on the current [R-Mex survey](#). Some companies however raised concerns regarding the statistical reliability of the current survey and other respondents noted concerns that some Retailers are associated under common ownership with Wholesalers.

We agree with respondents that we need to rigorously test and pilot this new incentive and will consider more detailed suggestions on design, as well as the relative costs and benefits, as part of this process. We also agree that we should work collaboratively with MOSL and other market participants to design the BR-MeX incentive and to ensure interactions with the reform of the Market Performance Framework (MPF) are reflected. We recognise some water companies have expressed their support more strongly in relation to a measure based solely on Retailer feedback rather than a mix of feedback from Retailers and business customers, noting that the key relationship with customers predominantly sits with Retailers and not water companies. Whilst Retailers are responsible for managing day-to-day interactions with business customers, this is not inconsistent with water companies having a strong focus on business customers and tailoring their wholesale services accordingly. Wholesale services

comprise ~90% of the final business customer bill and the quality of wholesale services can materially affect the business customer experience. We therefore consider it to be important that business customer feedback contributes towards the BR-MeX incentive.

We intend to run various industry stakeholder workshops throughout 2023 and we will invite expressions of interest to attend these from relevant stakeholders. We also plan to jointly commission a piece of work with MOSL in 2023 to support the design and testing of the business customer survey. Ofwat will retain full responsibility for the design and development of the incentive, however MOSL will need to be involved to help test the design from an operational perspective. MOSL's proposed contribution is included in its draft business plan for 2023/24¹⁶. The survey will draw on the recommendations from the previous [B-MeX working group](#) and the [Europe Economics study](#), which both suggest that a customer survey drawing on specific contacts with the company can help business customers to differentiate between their water company and the Retailer. The governance arrangements to support MOSL collecting and publishing relevant data on company performance will be included in the market codes (via an Ofwat-initiated code change proposal, which we intend to be published shortly).

Some stakeholders were concerned about our proposal to supplement the business customer and Retailer surveys with more granular feedback from the [bilateral transactions hub](#). They thought this might focus too much attention on detailed, operational aspects of company performance at the expense of more strategic aspects. For example, one Retailer noted that data quality was an important aspect of company performance that needed to improve. Feedback from the bilateral hub would not necessarily reflect company performance on this. Having reflected on stakeholder feedback we are not minded to incorporate feedback from the bilateral transactions hub into BR-MeX. Instead we will consider whether other key measures of company performance in the business retail market (e.g. one or more key metrics on data quality arising from the [MPF reform programme](#)) should complement the business customer and Retailer surveys and count towards a company's BR-MeX score.

At draft methodology we stated that ODI payments in relation to BR-MeX should be recovered from business customers only. We noted that in the absence of a business retail control, we proposed to amend the charging rules so water companies can ensure any outperformance or underperformance payments are reflected in charges to business customers only. Responses on our proposal to reconcile BR-MeX payments from business customers only were mixed. Some noted this was the correct route, whilst others stated that it is arguable that some business customers contribute to other performance commitments that only affect households.

We retain our position in the draft methodology and continue to expect companies to reconcile BR-MeX payments from business customers only. On reflection we think that the

¹⁶ MOSL's proposed contribution is consistent with Ofwat funding the design of the survey and MOSL funding the testing of the survey.

requirement for cost reflective charging in the charging rules and the legal requirements for setting charges under section 144 WIA charging schemes for household customers (which only empowers charges to be levied for services provided to those customers) properly applied, require this in any event.

3.4 Business customer experience in Wales

For customers of premises which use systems located wholly or mainly in Wales, only those that consume more than 50 million litres of water a year are eligible to choose their water retailer. The Welsh Government has consulted on increasing the eligibility threshold further, which would lead to more business customers being served by the incumbent water companies.

3.4.1 Our final methodology policies

We will retain the business customer experience measure for the two Welsh companies. We will work with stakeholders in Wales to develop the design of this performance commitment while taking into account learning from the development of C-MeX, D-MeX and BR-MeX.

3.4.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

3.4.3 Stakeholder views

Dŵr Cymru and Hafren Dyfrdwy agreed that the business customer measure of experience should continue as a performance commitment for companies operating in Wales. They had some suggestions as to how this measure could be improved, such as moving to an even split between responses from customers generally and those who have had direct contact with the company, similar to the current approach for C-MeX.

3.4.4 Our final decisions and reasoning

We welcome the engagement from Dŵr Cymru and Hafren Dyfrdwy in relation to this measure and look forward to continuing to work with them and Welsh stakeholders, including through the Wales PR24 Forum, to determine how we can develop this performance commitment further prior to our draft determinations.

3.5 Water supply interruptions

Reducing the number and duration of interruptions to customers' water supply improves the reliability of supply and reduces negative social and public health impacts on customers. At PR19 this was measured as the average number of minutes lost per customer, for the whole customer base, for water supply interruptions that lasted three hours or more.

3.5.1 Our final methodology policies

We will maintain water supply interruptions as a common performance commitment at PR24 but will remove the reference to civil emergencies under the Civil Contingencies Act 2004 from the performance commitment definition that was included at PR19 (see our [website](#) for the PR24 definition).

3.5.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

3.5.3 Stakeholder views

In the draft methodology we questioned whether the current water supply interruptions performance commitment was inhibiting innovation. Ten water companies responded saying that they did not believe that it was, with some suggesting the threshold actually drives innovative thinking around managing interruptions. CCW made the point that the combination of performance commitments for reducing greenhouse gas emissions and reducing leakage should encourage companies to try new techniques to address water supply interruptions. Conversely, seven water companies responded that the three-hour threshold was indeed inhibiting their use and development of innovative techniques.

Companies suggested further refinements to the measure, including:

- the separation of day and night time interruptions;
- the separation of planned and unplanned interruptions;
- enabling of trials funded through the innovation fund; and
- extended threshold for planned interruptions.

No respondent proposed extending the threshold for unplanned interruptions, as companies recognised the impact this would have on customers.

Four companies¹⁷ consider that external factors impact their ability to keep supply interruptions below three hours. A fifth company (Yorkshire Water) was concerned with our proposal to remove the reference to the Civil Contingencies Act 2004 from the performance commitment definition.

The Future Water Association suggested that this performance commitment does not drive the efficient management of a company's water network and can disincentivise maintenance. It suggested a range of performance commitments and other deliverables and recommended that these should span price control periods.

3.5.4 Our final decisions and reasoning

The majority of water companies (Severn Trent Water, Bristol Water and South West Water, Southern Water, Affinity Water, Portsmouth Water, SES Water, Anglian Water, Hafren Dyfrdwy and South East Water) did not consider that the PR19 definition for water supply interruptions is a barrier to their use of innovative techniques. We agree with CCW that concurrent environmental performance commitments (see Sections 4.2 and 4.3) should incentivise companies to trial new techniques, as well as reduce the duration of water supply interruptions. Companies should also benefit through the cost sharing mechanism if the technique is cheaper.

A minority of water companies (Thames Water, South Staffs Water, Wessex Water, Yorkshire Water and Dŵr Cymru) said the definition is a potential barrier to innovation, but only Northumbrian Water submitted a limited example of when it had trialled an innovative technique that may be disincentivised by the current PR19 definition. United Utilities provided more substantial supporting evidence, but this centred around the three-hour threshold and the impact on trench works, as opposed to the application of alternative techniques which may require longer planned interruptions.

Stakeholders (United Utilities, Wessex Water, the Future Water Networks Group and Hafren Dyfrdwy) suggested that the measure could be changed to target unplanned supply interruptions and/or differentiate the time of day that customers are interrupted; repeat incidents; or changing the threshold or timescale of interruptions. We have not seen evidence from the existing performance commitment that there are significant distortions due to the inclusion of all interruptions to suggest that such changes are required. We will therefore collect further information from companies on supply interruptions that will help build our evidence base and be able to identify if a change is required in PR29.

We are also concerned that Dŵr Cymru and United Utilities' suggestion of an extension to the three-hour threshold would not necessarily mean that companies would utilise differing techniques, and so customers could be left with longer outages with no counterbalancing

¹⁷ Anglian Water, Hafren Dyfrdwy, South East Water and Southern Water.

benefit. Our customer research indicates that a loss of supply between three and six hours is viewed as more tolerable than longer events, but it is still seen as inconvenient and shorter interruptions would be better.¹⁸

While we have not seen evidence that a change to the interruption threshold is required, we set out in Section 2.4 that companies can ask for limited exclusions as part of an innovation fund project, if companies are able to provide compelling evidence that without a change there is a likely barrier to the successful outcome of an innovation project. In these cases we would set out any exclusions in writing. We may require the agreement of companies to take additional steps to protect customers and the environment and/or provide additional reporting.

We do not agree that we should exclude supply interruptions linked to severe weather for the reasons set out in Section 2.4. We consider that risks should be borne by those that can best manage or mitigate them and we consider that customers have little control over water supply interruptions. As we identified in our 2018 report 'Out in the cold', we consider that companies should plan for and react effectively to both the individual and cumulative effects of severe weather incidents.¹⁹

For similar reasons, we will remove from the performance commitment definition the reference to companies being able to make a representation to us to consider making an exception in the event of a qualifying emergency. Events that fall under the Civil Contingencies Act 2004 are not necessarily unforeseen, so customers expect companies to plan for them. We consider it appropriate for companies, rather than customers, to mitigate and manage the risk of emergencies, for example from storms, and that removing the reference to the Civil Contingencies Act 2004 will make it clear that we consider companies remain responsible for managing and mitigating such risks.

We consider the appropriate way to manage financial risks associated with the outcomes package in [Appendix 8](#), including, where appropriate, collars.

3.6 Compliance risk index (CRI)

The compliance risk index (CRI) is designed to measure the risk arising from treated water compliance failures. It aligns with the risk-based approach to regulation of water supplies used by the Drinking Water Inspectorate (DWI) and includes an assessment of the action taken by companies in response to the failure. This performance commitment incentivises companies to fully comply with statutory obligations to promote customer confidence in water quality. It was included at PR19.

¹⁸ ['Research on customer preferences – A joint report by CCW and Ofwat'](#), April 2022.

¹⁹ Ofwat, ['Out in the cold'](#), June 2018.

3.6.1 Our final methodology policies

We will retain CRI as a common performance commitment for PR24 based on the DWI's definition.

3.6.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

3.6.3 Stakeholder views

Only two stakeholders responded in relation to the appropriateness and design of this performance commitment, both agreeing that it should be retained. Other respondents made suggestions on the setting of performance commitment levels (PCLs), which we deal with in [Appendix 9](#), and the use of deadbands and the incentive type, which we deal with in [Appendix 8](#).

3.6.4 Our final decisions and reasoning

We agree with the responses from the Drinking Water Inspectorate and the Environment Agency, that this measure remains relevant and has encouraged the right behaviours from companies.

3.7 Water quality contacts

In PR19 all companies have some form of bespoke performance commitment to measure this outcome with financial incentives attached to it. Four companies have two performance commitments, one that measures complaints about taste and odour and a separate performance commitment measuring the appearance of water, that is whether it was cloudy or discoloured. The remaining thirteen companies measure this in a single performance commitment.

3.7.1 Our final methodology policies

We will implement a combined single common performance commitment for water quality contacts in PR24 covering taste, odour, and appearance. To improve consistency of reporting between companies, the type and reporting of water quality contacts will be taken from data

reported to the DWI, collected in accordance with the DWI's guidance included in its Information letter on Annual Provision of Information on Consumer Contacts.²⁰

3.7.2 Changes from our draft methodology

The DWI has revised its information letter on Annual Provision of Information on Consumer Contacts. The revised letter takes account of changes in communications, especially the increased usage of social media. Our performance commitment definition references the revised information letter.

3.7.3 Stakeholder views

We received three responses from stakeholders on this performance commitment. The DWI said that there are proven regulatory benefits and complementary value between regulators in having a separate performance commitment for appearance, taste and odour. It said that while it understood our desire to streamline performance commitments, it considers that doing so loses the detail around the specific measures that it uses as part of its regulatory approach. Yorkshire Water queried whether contacts made through avenues such as social media were included within the measure and Wessex Water did not agree with our proposal that there should be a water quality contacts performance commitment.

3.7.4 Our final decisions and reasoning

We do not agree with the DWI that the different reasons for contact are sufficiently distinct to merit the complexity of separate performance commitments. We consider that the DWI's monitoring of performance against their detailed requirements and their legal powers already incentivises companies to drive performance against the individual components of this measure. We will continue to utilise the information gathered for the DWI in assessing company performance against this measure.

Yorkshire Water asked for clarification whether the performance commitment would exclude contacts made through other means, thereby remaining consistent with their PR19 performance commitment. We confirm that we will incorporate contacts made via social media messages or posts such as Twitter, Facebook and Instagram. This is in line with the revised Information Letter recently published by the DWI.

A concern about duplication and overweighting of incentive rates was expressed by Wessex Water. The company proposed that this measure is an output rather than an outcome and it creates a perverse incentive for companies to provide poor customer experience by leaving

²⁰ DWI, '[Information Letter 4/2022 Revised](#)', December 2022.

the phone ringing in the hope that customers give up. The company contends that customer satisfaction is in any case measured through C-MeX and BR-MeX and the water quality outcome measured through CRI is a double count.

We consider the water quality contacts measure assesses a customer's view of the water being directly supplied to them, as opposed to the broader C-MeX measure, which considers how a company responds to issues and a customer's view of the overall level of service, or CRI where a company's actions are assessed following treated water compliance failures. We further consider that the risk of a company providing a poor customer experience is mitigated through the use of measures such as C-MeX, as well as the inclusion of social media contacts within this performance commitment, offering customers an increasing number of ways to express their satisfaction or lack thereof. Should companies choose not to answer the phone, this is likely to reduce customer satisfaction significantly.

We consider the fact that water quality incidents may also attract other sanctions from Ofwat and other regulators for breach of legal requirements is not a reason to exclude underperformance payments for failing to meet minimum requirements. Our underperformance payments incentivise companies to deliver for customers and the environment.

3.8 Sewer flooding (internal and external)

Sewer flooding has been included within the price review process since at least 1999. Nine of the eleven water and sewerage companies had a performance commitment for external sewer flooding at PR19 and all of them had a common internal sewer flooding performance commitment. Although the external sewer flooding performance commitment was not common to all companies, the nine companies that had it used a standardised definition.

We consider sewer flooding, whether internal or external, to be one of the worst service failures that customers can experience and so recognise the value in continuing to monitor company performance.

3.8.1 Our final methodology policies

We will retain the internal sewer flooding common performance commitment for PR24. We will also include a common performance commitment for external sewer flooding incidents. We will use substantially the same definitions as at PR19, with only minor clarifications to the guidance.

3.8.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

3.8.3 Stakeholder views

There were limited responses to our draft methodology proposals for sewer flooding. Those stakeholders that did respond were supportive of the use of performance commitments for both internal and external sewer flooding.

Some companies that responded advocated for the exclusion of severe weather events, citing the proportion of combined sewers and a lack of investment in assets as reasons for the issue to be considered further. The method for normalisation of the measure was also challenged, with companies considering that the measure would be skewed using the current process if severe weather is not excluded.

Concern was expressed around consistency in the verification and reporting of external sewer flooding incidents.

CCW considered that work should continue to try to include consequence within the sewer flooding measures, so that events with high consequence are given greater weighting. Other stakeholders responded with views that the risk of flooding has been underestimated previously and that both non-household customers and developers could be financially encouraged to make changes which could help reduce that risk.

3.8.4 Our final decisions and reasoning

Thames Water, Southern Water and Wessex Water consider that their historic level of investment around external sewer flooding has not been at the same level as that for internal sewer flooding and they are therefore at risk of underperformance when flooding occurs as a result of severe weather. We consider that companies have always had to comply with their statutory duty under section 94 of the Water Industry Act 1991 to effectually drain their areas and effectually deal with the contents of sewers including their more specific obligations under Regulation 4 of the UWWTR, and companies should consider the long-term impact of any decisions.

As we set out in Section 2.4, we want to maintain incentives for companies to mitigate and manage risks, such as severe weather events and consider exclusions to generally not be appropriate. However, we continue to exclude the impacts of internal or external flooding events that are not caused by the water company's assets, such as during very high river

floods. This is because water companies cannot mitigate the impacts of these events on customers and the environment and managing them (reducing the risk of river flooding) would be outside of their statutory functions.

We set out in [Appendix 9](#) how we take company evidence into account, such as the proportion of combined sewers that they have, in setting their expenditure allowances and/or performance commitment levels. We set out in [Appendix 8](#) how we apportion risk between customers and companies, including mechanisms that limit ODI payments.

Northumbrian Water referred to their previous suggestion for an alternative method of normalisation if severe weather events are excluded, using the length of combined sewer network. A previous Task and Finish Group had suggested this could address the fact that combined sewers are likely to be more at risk of flooding events than separate systems. We consider that a significant drawback of changing from 'per 10,000 sewer connections' to 'length of combined sewers' would be that it would disincentivise the separation of combined sewers. As the normalisation method has been in place since the 1990s, we would require compelling evidence that an alternative method of normalisation would realise additional benefits for customers and the environment before making any changes.

Hafren Dyfrdwy also raised concerns around the normalisation of sewer flooding, suggesting that it would affect them disproportionately as it turns low absolute numbers into comparatively poor performance, but did not suggest an alternative method. We consider that the current methodology reflects the key point that the likelihood of a property flooding increases the more properties there are.

We note Dŵr Cymru's suggestion that there are inconsistencies in verifying reported flooding incidents. The methodology has been applied over several price reviews and we have no evidence that it is being applied in a materially inconsistent way.

We agree with CCW that work should continue to try and include consequence within the sewer flooding measures. We welcomed the proposal by the Water UK working group of how companies could enhance reporting to do this but considered that it could not be developed in time for PR24. We will continue to work with companies to try to develop information on the consequence of sewer flooding for PR29.

4. Environmental outcomes

Table 4.1 sets out our proposals for PR24 performance commitments with a view to reducing the environmental impact of water companies. Further details of each performance commitment are discussed below.

Table 4.1 – Proposed PR24 environmental common performance commitments

Water and wastewater	Water only	Wastewater only
Biodiversity	PCC (per capita consumption)	Total pollution incidents
Serious pollution incidents	Leakage	Bathing water quality
Discharge permit compliance	Business demand	River water quality (phosphorus)
	Operational greenhouse gas emissions - water	Storm overflows
		Operational greenhouse gas emissions - wastewater

4.1 Biodiversity

Both Ofwat and companies have statutory duties with regard to biodiversity.²¹ Water companies can play a critical role in maintaining and enhancing biodiversity. At PR19 eleven companies had bespoke biodiversity performance commitments. In PR24, we want to incentivise companies to improve biodiversity, for example in tandem with delivering nature-based solutions. This will incentivise water companies to embed biodiversity and ecosystem resilience considerations in delivering their core business.

In Wales, this will support water companies' contribution towards protecting and effectively managing at least 30% of land, freshwater and sea for nature by 2030 and also the wellbeing indicators, '[Areas of healthy ecosystems in Wales](#)' and '[Status of biological diversity in Wales](#)'. In England, it will support water companies' contribution towards the long-term Environment Act 2021 biodiversity target or targets that the government expects to set through secondary legislation. Defra previously consulted on three targets. The first was to create or restore in excess of 500,000 hectares of a range of wildlife-rich habitats outside protected sites by

²¹ In addition to general environmental and recreational duties under section 3 of the Water Industry Act 1991, Senedd Cymru and the UK Parliament and have each passed legislation regarding biodiversity. Section 6 of the Environment (Wales) Act 2016 requires that public authorities 'seek to maintain and enhance biodiversity in the exercise of functions in relation to Wales, and in so doing promote the resilience of ecosystems, so far as consistent with the proper exercise of those functions'. Currently, section 40 of the Natural Environment and Rural Communities Act 2006 (NERC) requires that a 'public authority must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity'. When it comes into force, section 102 of the Environment Act 2021 will amend section 40 of the NERC such that 'a public authority which has any functions exercisable in relation to England must from time to time consider what action the authority can properly take, consistently with the proper exercise of its functions, to further the general biodiversity objective'. The "general biodiversity objective" is 'the conservation and enhancement of biodiversity in England through the exercise of functions in relation to England'.

2042, compared to 2022 levels. Creating or restoring wildlife-rich habitats is also essential to deliver a second target proposed by Defra, which was to increase species' abundance by at least 10% by 2042, compared to 2030 levels.²² A third proposed target for biodiversity on land was to improve the England-level GB Red List Index of species extinction risk by 2042, compared to 2022 levels.

Water company actions to support any targets may also need to be specified at a detailed level through NEP and WINEP programmes. Where this is the case, we will add PCDs where appropriate as set out in [Appendix 9](#).

4.1.1 Our final methodology policies

We will base the performance commitment on the biodiversity metric,²³ which is a metric developed in England over the last ten years to assess the quality of a wide range of habitats.²⁴ Natural Resources Wales will set out advice in relation to distinctiveness or condition of habitats for companies to apply to the scoring in Wales.

The performance commitment will measure the change in biodiversity on company owned land and third-party land on which it is working in partnership as part of its statutory functions. Companies will work with stakeholders to consider which land is most appropriate to monitor. In Wales, companies will select land from within areas of Strategic Significance defined and agreed in advance with Natural Resources Wales. Improvements in biodiversity that arise as a result of conditions or obligations relating to other forms of regulation, including planning processes will be excluded from this performance commitment.

Habitats should be assessed by people with relevant experience and qualifications conducting site visits at appropriate times and using the baseline pre intervention assessment for each visit.²⁵ Site visits will be conducted every four-years. A change can only be recorded after the second site visit, four years from the first visit. Companies should start these site visits before 2025 in order to record increases in biodiversity in the 2025–30 period. If companies start site visits in 2023–24, then they could start to measure biodiversity increases/decreases in 2027–28. Rather than all sites being assessed in a single year, we envisage site visits being a rolling assessment across the four-year period.

As well as a performance commitment, we also expect to set price control deliverables (PCDs) to ensure that companies deliver the biodiversity benefits of the WINEP and NEP programmes – many of which will emerge after 2030. We explain our approach to PCDs in [Appendix 9](#),

²² Defra, '[Consultation on environmental targets](#)', May 2022, p.12.

²³ Defra and Natural England, '[Biodiversity metric](#)' July 2021.

²⁴ Defra, '[Biodiversity Terrestrial and Freshwater Targets - Detailed Evidence report](#)', April 2022, p. 24.

²⁵ Natural England, '[Biodiversity Metric 3.1 User guide](#)', April 2022.

including how we expect performance commitment levels in future price control periods to reflect these allowances.

To protect customers and the environment we will also expect companies to provide assurance that overall biodiversity across sites which are not included in the performance commitment is not deteriorating in order to receive outperformance payments. Companies will be able to use a range of information sources and techniques to be able to provide this assurance. For Wales, companies should prepare a “Net Benefits for Biodiversity Report” as part of their annual reporting detailing how the additional biodiversity units they have delivered, or are working towards, are contributing to the maintenance and enhancement of biodiversity and promoting ecosystem resilience.

4.1.2 Changes from our draft methodology

Companies may use their own staff if they have relevant professional accreditation and experience, as well as relevant training on the specific habitat types that they assess. Where possible assessments should be undertaken in the same way on sites over time and companies should put in place processes and capture information to make this possible. We will require independent assurance that the processes to select appropriate personnel to make assessments and record information are in place.

We are also amending the requirement for all sites to have a baseline assessment conducted by 2028. Rather, companies will select the sites that will be assessed for the performance commitment and will provide assurance that the remaining land has not deteriorated. As part of this we expect that companies will work with all relevant stakeholders to choose the sites that are included in the performance commitment and how the wider assurance is delivered. Companies will propose how they will do this in business plans and we may provide further guidance as part of our determinations.

We will work with Natural Resources Wales so that the metric appropriately assesses habitats and takes into account strategic significance in Wales.

4.1.3 Stakeholder views

All respondents agreed with the introduction of a common biodiversity performance commitment but there is a difference of opinion around the suitability of the definition proposed in the draft methodology. Much of the feedback related to the following areas:

- the requirement to baseline all company-owned land;
- selection of surveyors for site visits;
- use of the performance commitment for all companies;

- requirement to survey a site every four years;
- future iterations of the biodiversity metric;
- whether PCDs are required;
- what happens when land is sold; and
- normalisation of the metric.

Welsh stakeholders also emphasised there is a different approach to biodiversity in Wales to that in England, centred around 'Net Biodiversity Benefit', and that the biodiversity metric has been produced for use primarily in England.

We have also gathered views through our continued work with the Biodiversity Task and Finish group which considered options on how to define this performance commitment. This first met in November 2021. It has been comprised of Anglian Water, Bristol Water and South West Water, CCW, Environment Agency, Hafren Dyfrdwy, Natural England, Natural Resources Wales, Northumbrian Water, RSPB, Severn Trent Water, Thames Water, Yorkshire Water, United Utilities, Wildlife Trust and the Wildlife and Countryside Link.

4.1.4 Our final decisions and reasoning

The requirement to baseline all company-owned land

Most stakeholders raised concerns about the proposal in the draft methodology to survey all sites. They pointed to the limited availability of independent ecology experts and the short time frame available in which to conduct biodiversity surveys each year. They said that were we to continue to insist on the use of third parties to undertake the biodiversity surveys the cost to companies and ultimately customers would become too onerous. Stakeholders also asked the size of de-minimis areas that would not need to be included.

Rather than expecting companies to baseline all of their company-owned land, companies will work with stakeholders to consider which land is most appropriate to monitor. In Wales companies will, in particular, work closely with Natural Resources Wales. There will be no de-minimis as companies can identify as large or as small a site as is appropriate – although the extent of potential improvements, and so the potential for ODI payments, will be smaller for smaller areas. Land can be nominated for inclusion in the performance commitment at any stage. However, once the original survey has been completed for the purpose of the performance commitment the company cannot choose to exclude it. We will also include a requirement to provide assurance that biodiversity elsewhere on land that is not included in the performance commitment is not deteriorating overall. This is to guard against a concern that biodiversity improved where there were surveys but declined elsewhere. The assurance process should engage relevant stakeholders (eg wildlife trusts). If companies are unable to provide such assurance, then outperformance payments would not be appropriate.

We will ask companies to propose how they will provide this assurance in business plans. We expect companies will build on existing approaches they have to assure themselves that they are delivering biodiversity requirements and enhance this using further information from a range of sources such as satellites. We expect companies will be able to demonstrate that biodiversity has improved over time, even if it does not provide a precise quantification of the increase. Companies may also identify alternative survey techniques to measuring biodiversity that could be used as part of the performance commitment in the future. We may set out further guidance for companies to follow after considering business plan submissions.

Selection of surveyors for site visits

Having engaged in a range of discussions with the task and finish group, we agree with the view expressed by a number of stakeholders (Anglian Water, Northumbrian Water, Severn Trent Water, United Utilities, South East Water, the Environment Agency, Affinity Water, Dŵr Cymru, Natural Resources Wales and Yorkshire Water) that staff employed by the water companies are able to fulfil this role, assuming that they reach the threshold for competence. Feedback from the Biodiversity Task and Finish Group has highlighted that consistency in approach to how a site is surveyed is important. This includes consistency in the training that assessors receive and using the same parameters for habitat differentiation when comparing the same site over time.

To be competent, assessors must have relevant professional accreditation or very substantial experience and particular experience and relevant training on the specific habitat types that they assess. We expect independent assurance that the company implements appropriate processes in selecting assessors that are appropriate to the habitat being surveyed. Companies must also have processes and collect relevant information so that assessments on each site are undertaken in as similar way as possible across a pair of surveys over time.

Use of the performance commitment for all companies

There were also stakeholders who did not agree with the definition for this metric. South East Water would prefer a bespoke performance commitment. We consider that there is benefit in having a common performance commitment to allow for standardisation in the measurement of biodiversity and that the environmental performance commitments need to be considered as a package in order to deliver more wide-ranging benefits.

Northumbrian Water suggested that the current definition could be a potential barrier to utilising other funding sources. The Councils of Somerset West and Taunton and South Somerset District said they would prefer the definition to include a water company's wider ecological impact. We consider that our approach at the draft methodology continues to be appropriate. The performance commitment definition includes where water companies are carrying out statutory functions on third party land. Where there is other funding, the company can only claim a proportion of the biodiversity gain that is in line with the

proportion of funding that it provided. This will allow water companies to work in partnership while avoiding them being paid twice. We will also exclude biodiversity improvements required through the planning process, or where biodiversity units are sold, so that any outperformance will be in addition to these requirements and avoid customers paying again for such improvements. At the same time it is important that the scope of the performance commitment only includes activities that are related to the relevant water company's statutory functions, as water company customers should not be expected to pay for wider benefits that are delivered outside these

Welsh stakeholders (Dŵr Cymru, Hafren Dyfrdwy, Welsh Government, Natural Resources Wales, Wales Environment Link and Afonydd Cymru) highlighted that the biodiversity metric is designed for English habitats. Natural Resources Wales has agreed to provide advice for how habitats are assessed in Wales. For land in Wales, companies will also initially classify habitats using the Handbook for Phase 1 habitat survey²⁶ and then translated to UK Habitat Classification System in accordance with additional advice issued by Natural Resources Wales for use with the Biodiversity Metric. Natural Resources Wales will also provide supplementary guidance for how to take strategic significance into account in Wales. This will ensure that companies have incentives to respond to the nature emergency declared by Senedd Cymru in June 2021 in relation to Wales. Water companies undertaking biodiversity activities in Wales will need to demonstrate that they are considering all aspects of the DECCA framework²⁷ in promoting ecosystem resilience under the Environment (Wales) Act 2016.

Requirement to survey a site every four years

The rationale behind a four-year cycle was queried by Northumbrian Water, United Utilities, Wessex Water, SES Water and South Staffs Water, who all considered that a longer cycle was more appropriate in some circumstances given the length of time that habitats can take to develop. We have reflected on their views but consider that it is important that the time cycle is fixed in providing a consistent assessment across companies. As Northumbrian Water notes, it surveys sites more frequently when activity has taken place. As companies will not need to include all sites and it is likely that the performance commitment will focus on areas that are actively managed, we consider that the four-year cycle is appropriate.

A number of stakeholders have highlighted the British Standards Institute (BSI) publication BS8683:2021 (Process for designing and implementing Biodiversity Net Gain). This provides a useful framework through which to consider biodiversity maintenance and enhancement but is not designed to quantify improvements in biodiversity. We agree that companies should

²⁶ Joint Nature Conservation Committee (JNCC), "[Handbook for Phase 1 habitat survey – a technique for environmental audit](#)" 2010.

²⁷ Natural Resources Wales, "[Terrestrial and freshwater Resilient Ecological Networks: a guide for practitioners in Wales](#)" March 2021.

consider this in carrying out their functions, but it is not an alternative performance commitment.

Future iterations of the biodiversity metric

We recognise along with stakeholders (Natural England, Thames Water, Anglian Water, Bristol Water and South West Water, Wessex Water, Yorkshire Water and Affinity Water) that the biodiversity metric is still developing and that further iterations will be forthcoming. We consider that the broad basis of the metric is unlikely to change, even if the details do, and therefore expect that surveys undertaken using subsequent versions may still be sufficiently comparable with those completed previously.

However, if there are changes that need to be taken into account in the performance commitment definition then comparisons should be made using the same definition. A company when resurveying an area should collect sufficient information so that it can compare the site on the basis of definition it was surveyed the previous time and also collect information for a new baseline using the latest definition.

We welcome Natural England's view that the biodiversity metric can be refined over the years with the help of the water industry to ensure that it covers the full remit of the performance commitment and that it fully addresses freshwater habitats and species.

Whether PCDs are required

The requirement for PCDs to accompany this performance commitment was queried by Anglian Water, United Utilities and Thames Water. They suggested that when they are applied in parallel with this performance commitment it could lead to double 'penalties' for underperformance. As the work undertaken to deliver biodiversity enhancements doesn't typically span more than one price control period they recommend further consideration is given to whether enhancement investment can be captured through a more stretching PCL. Water companies should consider how to deliver improvements to biodiversity over the long term. Many of the benefits in terms of improved habitat will not be delivered in the 2025-30 period and so we will need to make sure that customers are adequately protected where we allow additional enhancement expenditure to improve biodiversity. Our policy on PCDs is set out in [Appendix 9](#).

What happens when land is sold

Thames Water, United Utilities and CCW asked what will happen if companies sell land. It was CCW's view that companies should not benefit if they are rewarded for taking action on land that they subsequently sell (especially if that means they relinquish control over the quality and use of the land). Where a company sells land and loses control over the management of the land it will not be able to report any increase in biodiversity benefit from the land. Where

it has already reported a benefit, its performance against the performance commitment will therefore reduce, all other things being equal. If there were any outperformance up to that point it would be based on the annual benefit delivered and so customers will only pay for the benefits they have already received.

Normalisation of the metric

The Task and Finish Group were clear that it was inappropriate to try to normalise the metric so that company performance could be compared on a level playing field, without understanding further context. Hafren Dyfrdwy also argued that comparative targets for biodiversity are not appropriate because the scope for gains between companies is so varied. Hafren Dyfrdwy also suggested that basing it on hectares owned was likely to unduly favour companies with small estates relative to the number of customers served and would rather use units of gain (irrespective of land ownership) per 1,000 customers.

We consider that there is merit in normalising the metric. We recognise that there will be different opportunities across companies. However, it is helpful to normalise as a first step to understanding relative performance.

We consider it clear that normalising using area of land, rather than the number of customers, will provide a more meaningful metric as it indicates what proportion of available land a company has actually improved habitats. We acknowledge that there are some parts of company land that have little relevance to habitat creation, such as open water. Companies may also have less opportunity to improve habitats in areas where others have rights on land for access or shooting, or where there are long term tenants. But measures related to land are still nevertheless more meaningful measure than number of customers.

In discussion in the Task and Finish Group, it was suggested that using the geographical area of land that the company provides monopoly services to, rather than land owned, may be the simplest approach. Companies can potentially work anywhere in their monopoly area in partnership with stakeholders to deliver their statutory functions. We ask companies to use this normalisation for business plans. We will also ask companies to provide further information on company land holdings in business plans. This may be a more appropriate normalisation and will also provide context to setting PCLs. However, as this is not currently reported, the data may not be as robust. After we receive business plans we will consider whether the monopoly area still appears the most appropriate normalisation and specify an alternative in our determinations if it is not.

4.2 Operational greenhouse gas emissions

Greenhouse gases are produced during water companies' activities and contribute to climate change. We expect companies to reduce the amount of greenhouse gas (GHG) emissions

generated, with a view to achieving UK government and Welsh Government's interim and final net zero emission targets by 2050.

4.2.1 Our final methodology policies

We will introduce common operational GHG emissions performance commitments at PR24. We will set separate performance commitments for water and wastewater. We will decide on whether companies should present this as a normalised measure or as a percentage reduction in our draft determinations, to give us time to consider the 2023 APRs. Companies should report both in their business plans.

We expect to consult on the Regulatory Accounting Guidelines (RAGs) in early 2023, including expanding our core reporting requirements on annual reporting of GHG emissions. We will consult on scope 3 based reporting as it relates to the use of chemicals, the transfer of waste, as well as fuel and energy-related activities. In addition, our RAGs consultation will consider whether we need to account for the generation of bioresources linked to the transfer of waste to a third party for processing in line with our broader policy to encourage bioresources trading. At the same time, we will also consult on the PR24 GHG emissions performance commitments, in particular whether these should also cover this increased scope 3 reporting. Our RAGs consultation will also focus on optional reporting areas that companies can report on with a view to enabling companies to consistently manage and report on a wider range of emission scopes categories by PR29.

In January 2022, we published our net zero principles position paper.²⁸ In it we clarified our expectations that companies' plans align with UK and Welsh government net zero targets, addressing both operational and embedded emissions in doing so.

In our final methodology we are confirming that, for the purpose of PR24 performance commitments and determining their associated ODI payments, company performance will be assessed using net location-based emissions data. This is to ensure companies are primarily incentivised through the performance commitments to reduce their own physical emissions. Adopting a net location-based approach will allow companies to include emissions reductions arising from the export of renewable energy, and/or a limited use of insets (see below).

Separately, as part of companies' annual performance reporting (and subject to consultation on the RAGs), we are expecting to require companies to report GHG emissions reductions in their APRs using a fixed national grid emissions factor, so we can monitor the impact of company actions using this approach.

²⁸ Ofwat, '[Net zero principles position paper.](#)' 2022.

When reporting their net location-based emissions, companies will not be permitted to include offsets. However, emission reductions achieved as a result of partnership working within a company's value chain, such as that linked to the development of nature-based solutions (referred to here as 'insets'), can be included within the performance commitment. However, for any resultant emissions reductions to be accepted:

- they must be confined to a company's value chain, with any such reductions being clearly linked to the delivery of its statutory functions;
- they may in total not account for more than 1% of a company's gross location-based emissions and must be in proportion to the company's investment in the project; and
- need to be clearly linked to long-term planning on how residual emissions will be managed in line with externally verifiable approaches, such as the Science Based Targets Initiative (SBTi).

4.2.2 Stakeholder views

Stakeholders were supportive of a performance commitment being introduced for operational GHG emissions. As this is a new performance commitment, water companies and other stakeholders provided feedback on a range of issues, as well as requesting clarification for how the performance commitment will be defined. Key issues in company responses were:

- Market and location-based reporting;
- Scope of the performance commitment;
- Offsets and insets;
- Number and normalisation of performance commitments; and
- Bioresources.

4.2.3 Our final decisions and reasoning

Market and location-based reporting

Seven water companies²⁹ in England and Wales provided commentary on the pros and cons of market and location-based reporting, with Anglian Water asking for clarification on the reporting mechanism that would be used. We have carefully considered the issues around how to account for emissions from energy use, including the impact of grid decarbonisation.

Through the performance commitment, we want to encourage innovation in companies' activities and processes that primarily lead to a sustained reduction in companies' own physical emissions, as well as encouraging greater energy efficiency. As a result, the

²⁹ Bristol Water, Dŵr Cymru, Severn Trent, South West Water, Thames Water, Unities Utilities, Yorkshire Water.

performance commitment will be based on a net location-based accounting approach for GHG emissions for energy use. This provides a more accurate picture of companies' GHG emissions, by focusing attention on a company's physical actions and not financial transactions linked to the purchase of energy. This will be particularly important in PR24 given that GHG emissions may rise due to other drivers, such as process emissions, as noted by several companies in their feedback.

In our forthcoming RAGs consultation, we expect to propose that companies continue to dual report in APRs, that is using both market-based and location-based reporting approaches to inform us about their GHG emissions more broadly. We do not consider that incentivising progress against the performance commitments through location-based reporting precludes companies from using a market-based approach to demonstrate progress towards their own or the sector's Public Interest Commitment to net zero, as well as UK government and Welsh Government's net zero targets,

To demonstrate progress in relation to the common operational GHG emissions performance commitments, companies will need to report their net location-based emissions. This will allow companies to include emission reductions achieved through the export of renewable energy. Companies that export renewable energy can count these exports towards their net emissions totals if they retain the appropriate certificates (e.g. REGOs, RGGOs). For companies who engage in sludge trading, further detail is provided below under 'Bioresources'.

Scope of the performance commitment

The DWI, Natural England, Waterwise and Wessex Water wanted to see more embedded type emissions included in our definition to support incentives in this area. These stakeholders considered that having too narrow a focus on operational emissions was not long-term enough and potentially delays embedded emission reductions until PR29.

Several companies and CCW requested further clarity on activities that will be included in the performance commitments; especially on Scope 3, in relation to which they suggested closer alignment with international reporting standards such as the GHG Protocol and the Science Based Target initiative.

Considering the responses to our draft methodology we intend to consult in early 2023 on expanding the reporting scope of our RAGs and what scopes our common performance commitment will include. Table 4.2 provides an overview of the scope categories we envisage the GHG performance commitment will cover and how this compares to our current RAGs.

We consider expanding the scope of the common performance commitment to cover all Scope 3 emissions is not appropriate at this stage, as not all companies can expand their reporting of Scope 3 emissions to cover capital goods, and purchased goods and services for

instance, and which in the past we have referred to as embedded emissions.³⁰ We also recognise that there is uncertainty over the consistent measurement and reporting of embedded emissions that is unlikely to be resolved by PR24. However, at PR29, we expect to include additional Scope 3 emission categories, including but not limited to, capital goods, and purchased goods and services.

Whilst the performance commitment will focus on the reporting of a specific set of GHG emissions, we are of the view that a wider range of GHG emissions could and should be reported on. Companies have also indicated they would like to report on a wider set of emissions data than our RAGs are capturing at present. As a result, we expect to consult further with the sector in early 2023 on the emission scope categories all companies can consistently report on.

Table 4.2 Envisaged reporting focus of the GHG performance commitment (subject to consultation in early 2023).

RAGs 2021-22	GHG performance commitment
Scope 1	
Direct emissions from burning of fossil fuels	Yes. Location-based
Process and fugitive emissions (incl. refrigerants)	Yes
Emissions from vehicle transport (owned or leased)	Yes
Scope 2	
Purchased electricity (location-based)	Yes. Purchased electricity, steam, heating and cooling for own use: purchased electricity (location-based)
Purchased electricity (market-based)	No
Purchased heat	Yes. Purchased electricity, steam, heating, and cooling for own use: purchased heat
Electric vehicles	Yes
Removal of electricity to charge electric vehicles	Yes
Scope 3	
Business travel on public transport and private vehicles used for company business	Yes
Outsourced activities	Yes. Upstream leased assets- outsourced activities (location based)

³⁰ Ofwat, [Consultation of regulatory reporting for 2021-22 – Responses document](#), October 2021

Purchased electricity transmission and distribution (location-based)	Yes. Fuel- and energy related activities (not included in scope 1 or scope 2). To focus on purchased electricity, purchased heat with emissions reflective of extraction, production, transport and distribution (location based).
Purchased electricity transmission and distribution (market-based)	No
Purchased heat transmission and distribution	Yes: see fuel and energy related activities above
N/A	Purchased goods and services: production of purchased chemicals used in operations
N/A	Waste generated in operations: sludge exported, including disposal to land and third parties for processing
Emissions reductions	
Exported renewables (generated onsite and exported)	Yes
Exported biomethane (generated onsite and exported)	Yes
Green tariff electricity offsets	No
Other emissions reductions	Yes. Emissions reductions from use of insets

The use of offsets and insets

Stakeholders asked for further clarity on the use of offsets and insets, with a small number of companies calling for the use of offsets to reduce overall GHG emissions. Wessex Water and United Utilities noted that there may be certain cases where offsets are the most efficient and effective option for customers. Both United Utilities and Yorkshire Water noted that the use of offsets and insets should be a lower priority than reductions in emissions. Severn Trent Water suggested that there should be a cap on maximum potential reductions allowed via offsets.

Our net zero principles position paper³¹ outlines our expectation that companies prioritise the elimination and reduction of GHG emissions before the use of offsets. Similarly, the Science Based Target Initiative (SBTi) asserts that a company can only be considered to have reached net zero if it has achieved an emissions reduction of at least 90-95% by 2050. It is at that point the SBTi approach proposes that a company can use carbon removal to negate residual

³¹ Ofwat, '[Net Zero Principles Position Paper](#)', January 2022.

emissions. This approach has the potential to allow a company to use offsets to negate the last 5-10% of GHG emissions, which cannot be removed on cost or technical grounds.³²

We recognise, in line with the latest iterations of the GHG management hierarchy, that the climate emergency is such that action is required across all hierarchy levels, with action not necessarily following a sequential approach³³. We also recognise that for offsets and/or insets to be used effectively their usage must be planned for and incentivised over the long term.

We are of the view that some insets, rather than offsets, offer a more strategic, innovative, and best value approach for a company to address its residual emissions over the long term. As a result, while offsets should not be included in net location-based emissions totals, we will allow a limited use of insets only where they are linked to the implementation of nature-based solutions and where their use clearly benefits the communities and environments companies operate in. Insets will also only be allowed where they are directly connected to the carrying out of company's statutory water and wastewater functions. Insets can encompass partnership working activities that companies implement via the delivery of their statutory functions and within the context of their supply chain.

To ensure companies maintain the strongest possible focus on reducing physical GHG emissions, companies will only be permitted to claim up to a 1% reduction in GHG emissions (gross location-based) relating to the use of insets up until the end of the price control period. At future price reviews this cap can be increased. This is designed to ensure companies remain focused on innovating to reduce their emissions yet recognising the complexities and challenges involved in reducing GHG emissions over the long term. It is in line with SBTi guidance, which says insets/offsets should not be used to negate more than 5-10% of a company's emissions, and these should be used only where emission cannot be removed for significant cost or technical grounds by 2050.

Where companies want to use insets, they should be clear how their usage fits with their long-term carbon reductions plan and how their impact will be maintained and monitored to ensure net zero is achieved. This should be done in line with externally verifiable approaches, such as the SBTi. Where companies want to use insets to reduce their emissions, such reporting must be subject to external verification. Where the scheme involves partnership working, emissions reductions must be proportionally linked to the scale of company investment.

³² Science Based Targets, [SBTi Corporate Net Zero Standard](#), October 2021.

³³ The [GHG Management Hierarchy](#), as detailed by the Institute of Environmental Management and Assessment (2020 version), is a framework organisations can use to guide the scoping and strategic planning of their energy and carbon management activities.

Number and normalisation of performance commitments

CCW, United Utilities, Wessex Water and the water only companies broadly agreed with the draft methodology proposal to have two performance commitments, one for water and one for waste, that are each normalised using a measure such as the volume of water supplied or treated. Other water and sewerage companies disagreed with our proposal. They either suggested one performance commitment and/or that any performance commitment should be expressed as a percentage reduction, or at least not normalised.

Those in favour of two performance commitments suggested that different performance commitments will provide greater transparency, and that the significant differences between the water and waste business required different performance commitments. This includes that the understanding on wastewater process emissions continues to emerge and that there is significant scope for the wastewater business to generate energy from bioresources.

Reasons for the opposition to two performance commitments included that it may create inefficiencies if it leads to companies targeting reductions between water and wastewater to meet the performance commitments rather than being led by cost benefit analysis. Others considered it simpler to have one performance commitment and there would be no need to split shared assets.

We will have two performance commitments, one for water and one for wastewater. This will better reflect the differences between the water and the wastewater business. We consider that we can mitigate the risk of inefficient investment choices by how we set performance commitment levels and outcome delivery incentives.

Those opposed to normalisation suggested that other factors are required to be considered to properly compare companies. Those in favour considered it important to allow transparency. We further discussed the issue of normalisation at the outcomes working group on 27 September. The conclusion was that volume measures were the most appropriate way to normalise, although most attendees considered that companies could only be properly compared if other factors are also considered. Any normalisation will not be perfect, but we consider that volume measures are the most appropriate way to normalise. There are several ways we consider that reporting guidance can be made more precise and which should lead to greater consistency of reporting between companies. It is difficult to decide on normalisation until companies report in the 2023 APRs. Therefore, we expect companies to provide information in their business plans so that we can normalise based on volume and for the performance commitments to be set as a percentage reduction.

Bioresources

Yorkshire Water and Unities Utilities expressed a concern that any incentivisation on operational GHG emissions could disincentivise bioresources trading between companies, as

treating wastewater sludge impacts the GHG emissions of the company treating the waste. However, it is also recognised that companies are not fully, or consistently, reporting on the GHG emissions that stem from the movement and treatment of waste by third parties.

Poorly developed GHG emissions reporting, as it relates to the transfer and treatment of waste products, could be leading to companies under reporting their GHG emissions in the first instance, which in turn risks distorting the emissions reductions companies can claim when purchasing the renewable energy that can stem from the treatment of their waste by third parties. Therefore, we expect companies to improve their reporting of GHG emissions as it relates to the transfer and treatment of waste by third parties. In our 2023 RAGs consultation, we intend to consult on the improvements we expect companies to make in reporting on the emissions linked to the transfer and treatment of waste.

When setting the performance commitment, we will take into consideration the impact on the bioresources market, and the extent to which it could restrict trading. We will consult on the exact definition of the performance commitment alongside the RAGs consultation in early 2023.

4.3 Water demand (leakage and consumption)

Given the pressures of climate change, all water companies need to reduce the demand for water where possible for the foreseeable future, if not for their own customers, then to allow transfers of water to areas that require it. This will allow abstraction to be reduced to protect the environment, while also allowing sufficient water for customers. It should also help to avoid the need to develop new water resource options that could increase GHG emissions or otherwise cause significant impacts on the environment.

4.3.1 Our final methodology policies

We will set separate performance commitments to reduce leakage, per capita consumption (PCC) and business demand, to ensure that companies focus on reducing leakage and on promoting water efficiency to both residential and business customers. We also expect companies to report on the combined metric. We will include water consumption of very large business customers within the metric.

We expect water companies to demonstrate they have explored options to deliver business water efficiency in collaboration with retailers or other third parties in annual performance reports. Where they do not do this, outperformance payments will not be made.

4.3.2 Changes from our draft methodology

At draft methodology we were undecided on what the appropriate measure(s) were and we invited views on whether we should have either:

- three separate performance commitments to reduce leakage, per capita consumption, and business demand; or
- a combined single water demand performance commitment (the potable water produced by water treatment works, adjusted for water transfers between water companies).

We intended to exclude the water consumption of very large business users.

4.3.3 Stakeholder views

The type of role and level of control that water companies have in delivering water efficiency was questioned by some stakeholders.³⁴ Views expressed by stakeholders around the preferred way to measure water demand included:

- quantifying demand reduction by water company interventions and installation of water efficiency devices
- support for the continued use of separate performance commitments for leakage, PCC and business demand;
- support for the introduction of a single water demand measure;³⁵
- option of two performance commitments – either a combination of PCC and leakage, with business demand separately or a consumption (PCC/ business demand) measure, with leakage on its own; and
- exclusion of business demand as a measure.

A single measure was considered to allow companies to adjust their approach to reducing distribution input in the most cost-efficient way and aligns with the proposed Environment Act target. Stakeholders also considered the single measure to be more robust and to truly be an outcome, rather than the component parts which they identify as outputs.

All stakeholders who addressed the exclusion of large users expressed their concern at missing an opportunity to reduce water demand (Thames Water, Waterwise and MOSL) and at disincentivising water companies from engaging with large users (Yorkshire Water). Natural England were concerned that this would send the wrong message to customers about the

³⁴ Northumbrian Water, Hafren Dyfrdwy, Severn Trent Water, Bristol Water and South West Water, Southern Water, Thames Water, Portsmouth Water and South East Water.

³⁵ Dŵr Cymru, Wessex Water, Bristol Water and South West Water, SES Water, Sustainability First, Natural England and Future Water.

need to reduce water use and CCW considered that it would reduce transparency around this measure for customers.

4.3.4 Our final decisions and reasoning

We consider that water companies have a significant role in water efficiency that includes:

- providing the right metering;
- communicating with customers or providing the right information for others to communicate;
- setting water charges; and
- providing more direct support to help water customers reduce their demand.

While there are simple activities that could be tracked, such as the number of leaks detected or the number of water efficiency devices installed in customers' homes, we consider that tracking them will not be sufficient to deliver the outcomes that companies need to deliver. We recognise that smart metering has a part to play in the continued drive for water efficiency and consumer behaviour change (Everflow, Arqiva, Future Water Association, Wildlife and Countryside Link). In [Appendix 9](#) we set our expectation for companies to consider smart meter solutions as the standard meter installation type for both household and non-household installations. However, we also consider that this is only one of the tools that can be used by companies to encourage a reduction in water consumption.

Research suggests that to achieve long-term water conservation habits, a well-aligned conjunctive use of different techniques is crucial.³⁶ We consider that, over the long term, basing performance commitments on the amount of water customers use provides appropriate incentives for companies to consider innovative and long-term focused approaches to help promote water efficiency.

It is therefore clear that water companies can influence water demand. As set out in Section 2.4, we consider that a performance commitment does not need to be fully in company control for it to be worth incentivising company action to deliver their statutory functions in the interests of customers and that it is in line with our resilience duty and requirements under the UK government's SPS to encourage companies to improve the water efficiency of businesses.

We have taken account of the feedback from water companies and other stakeholders, as well as listening to the views of the wider customer audience which have been expressed during the summer of 2022. As a result, we agree with the majority of respondents in considering leakage as being too important as an individual metric at this time to place in a

³⁶ S.H.A. Koop, A.J. Van Dorssen, S. Brouwer, '[Enhancing domestic water conservation behaviour: A review of empirical studies on influencing tactics](#)', Journal of Environmental Management, Vol 247, 2019, pp. 867-876.

combined water demand performance commitment, irrespective of any requirements about reporting of leakage within such a combined water demand performance commitment. It is clear that customers see leakage and PCC differently and having separate performance commitments will help to drive continuous improvements across all three areas reducing the risk of unequal progress and prioritisation and ensuring greater transparency for customers.

We consider that the decision to incentivise reductions in business consumption through PR24 is consistent with a recent report commissioned by a Retailer-Wholesaler Group Water Efficiency subgroup.³⁷ It recommended a predominantly wholesaler-led approach, and that it is carefully designed to avoid precluding retailers from competing on water efficiency, particularly over the longer-term.

We want to see water companies work collaboratively with retailers as well as other third parties to deliver water savings in the business sector and the best outcomes for customers – now and in the future. Water companies need to comply with their competition law obligations, which do not necessarily prevent them from delivering water efficiency savings in the business sector.

Where water companies do not demonstrate they have explored options to deliver business water efficiency in collaboration with retailers or other third parties, outperformance payments will not be made. In some cases, it may be necessary for water companies to work directly with business customers to deliver water savings; but in many other cases it will be more appropriate and effective over the longer term for water companies to take a more collaborative approach to deliver sustained reductions in water used by business customers.

Our position at draft methodology was that we would exclude larger business customers (such as those consuming more than 50 mega litres a year) from any water demand performance commitment. This was because we were concerned the behaviour of the largest water users, for example due to expanding or reducing production, could dwarf the impact of greater water efficiency of smaller businesses in overall business demand measures. The exclusion of these largest users would reduce the risk on water companies from factors such as closing down or relocating sites outside a water company's area. Moreover, we expected large customers would likely have stronger commercial incentives to manage their own water efficiency, so there would be less need for water companies to have financial incentives to promote water efficiency to these customers.

We reviewed the impact of removing large users in more detail and consider that it is not as significant as initially thought. Taking account of the issues raised by stakeholders we accept their view that the behaviour of large users does not present a risk. We will therefore not exclude large users from the business demand performance commitment.

³⁷ Economic Insight, '[Options for promoting water efficiency in the NHH water market](#)', April 2022.

We expect companies to report against distribution input as well as the three separate performance commitments. Reporting all four metrics will provide transparency and allow companies to show how they are making progress in delivering a 50% reduction in leakage from 2017-18 levels by 2050 and contribution towards reducing personal water consumption to 110 litres of water per head per day (l/h/d) by 2050 as set out in the UK government's SPS. It will also show progress towards the Environment Act 2021 water target. The details of the targets including statutory deadlines, will be set out through secondary legislation.

4.4 Pollution incidents (total and serious)

These performance commitments are designed to incentivise companies to promote improved water bodies by reducing the number of times that harmful substances from water company assets impact them.

4.4.1 Our final methodology policies

We will retain total pollution incidents as a common performance commitment. We will also include a serious pollution incidents common performance commitment for PR24. We will use the same definitions as used in the Environmental Performance Assessment (EPA) by environmental regulators. The EPA defines total pollution incidents as all category 1, 2 and 3 incidents from wastewater assets and the serious pollution incidents as category 1 and 2 incidents from both water and wastewater assets.

We will extend the scope of the serious pollution incidents performance commitment to include category 1 and 2 incidents associated with the water assets from all water only companies.

4.4.2 Changes from our draft methodology

At draft methodology we asked for views on whether we should apply the serious pollution incidents performance commitment to water only companies as well, because this measure includes serious pollution incidents from the water assets as well as the wastewater assets. The responses to this consultation have influenced our intentions moving forward and we will now extend the performance commitment and apply it to water only companies.

4.4.3 Stakeholder views

Total pollution incidents

All respondents, bar one (RSPB) who felt that the measure had at best an ambiguous impact on environmental performance, agreed with the continuation of total pollution incidents as a performance commitment at PR24. There was a suggestion for an alternative method of normalisation for the metric from Dŵr Cymru.

Serious pollution incidents

There was a more mixed set of views around the serious pollution incident performance commitment, but the majority of stakeholders agreed with introducing it as a common performance commitment and with extending it to include incidents originating from the water assets of water only companies. Stakeholders (Wessex Water, SES Water, Environment Agency and CCW) supported the extension to the metric being underperformance only.

There were some caveats to extending the measure as concerns were raised around the consistency of reporting (Bristol Water and South West Water, and Southern Water), specifically that some water treatment works may not currently be reported by water and sewerage companies where they had previously acquired a water only company. There were different views from stakeholders (Severn Trent Water, Anglian Water, Hafren Dyfrdwy and United Utilities) on whether the metric should be normalised. Bristol Water and South West Water's preference would be for the environmental regulator's EPA to be extended so that a single reporting framework is used. They would support the formation of a Task and Finish Group to consider the definition and ensure consistency of environmental assets across the sector.

Affinity Water, South East Water and South Staffs Water disagreed with extending the serious pollution incidents performance commitment to water only companies but did not provide any rationale for this view. Portsmouth Water had concerns about the link between mains repairs and this performance commitment.

Several companies (Wessex Water, Yorkshire Water and Thames Water) rejected entirely the need for a measure on serious pollution incidents, citing concerns about being penalised by both us and environmental regulators for the same failings and an uncertainty as to whether it would enhance company focus on what is already considered a critical area. They did suggest that if the measure was introduced then either it should be extended to water only companies or only the wastewater serious pollution incidents should be counted for water and sewerage companies.

4.4.4 Our final decisions and reasoning

Total pollution incidents

We expect all companies to progressively reduce pollution incidents, and respondents almost unanimously agreed that there should be a common performance commitment for total pollution incidents. We consider that the continued focus on pollution incidents through these performance commitments will lead to improvements and disagree with the RSPB's view that the measure is having an ambiguous impact on the sector. Our PR14 Review³⁸ identified that the move to an outcomes measure had a significant impact in the 2015–20 period, with a sector average reduction in pollution incidents of 36%. We also reaffirm we will use the normalisation per km of sewer, as it is used for the measure in the EPA by environmental regulators. As set out in [Appendix 9](#), companies can provide evidence if they consider their company specific circumstances mean that they will not deliver the same performance as other companies.

Serious pollution incidents

There has been a longstanding expectation that all companies should reach zero serious pollution incidents (category 1 and 2) as soon as possible. This has been reiterated in the UK government's SPS and is consistent with the Welsh Government's SPS that expects water companies to meet the requirements of all environmental legislation. For PR24, we will introduce a separate performance commitment on serious pollution incidents to hold companies to account for this.

We agree with the majority of stakeholders that there is merit in extending the performance commitment to include water only companies. We can see no reason why a water and sewerage company should face a financial underperformance payment when a water only company does not where there has been a serious pollution incident involving water assets. We also agree with stakeholder suggestions that this should be an underperformance-only performance commitment. We consider that the extension of this measure will address concerns around reporting inconsistencies, with all water assets now being included.

The lack of comparability between water only company performance and water and sewerage company performance if normalised was given as justification for splitting the performance commitment by service. However, we agree with United Utilities that it is beneficial to compare companies' overall performance and consider that since the target is zero there is less need for normalisation. The EPA definition for serious pollution incidents that we will use for PR24 is not normalised and so we do not consider there is any reason to set separate water and wastewater performance commitments for serious pollution incidents.

³⁸ Ofwat, '[PR14 review](#)', January 2022.

We agree with the Environment Agency's view, that serious pollution incidents can cause similar harm to the environment whether these relate to water or wastewater. We consider that a Task and Finish Group, as suggested by Bristol Water and South West Water, is not required as water only companies already report any serious pollution incidents to the environmental regulators. We acknowledge the low number of serious pollution incidents occurring due to water assets over the last few years, however, we consider that the extension of the metric to water only companies is the most effective way to regulate against incidents happening and that it gathers all reported incidents together in a single measure.

We note that the number of serious pollution incidents does tend to fall as companies reduce the number of total pollution incidents. However, we observe a stagnation in these reductions for some companies which we consider needs to be addressed and a performance commitment will help to retain companies' focus in this area. We will therefore extend the measure to include all serious pollution incidents arising from both water only and water and sewerage companies.

We consider the fact that pollution incidents may also attract other sanctions from Ofwat and other regulators for breach of legal requirements is not a reason to exclude underperformance payments for failing to meet minimum requirements. Our underperformance payments incentivise companies to deliver for customers and the environment. We will set the ODI rates for serious pollution incidents so that the value reflects the additional harm compared to the ODI rate for total pollution incidents.

In our [2021-22 in-period final determination](#), we asked companies for assurance on how they capture an accurate picture of pollution incidents. We said, where relevant, we will consider company responses in light of the investigation we launched in November 2021 to establish whether companies are complying with their statutory and licence obligations in relation to wastewater treatment.³⁹ It is important that companies are doing everything they can to capture an accurate picture of their pollution incidents and use this to help drive improvements. We will continue to scrutinise company data and reported performance to ensure this is the case. With this in mind, we will keep the pollution incidents performance commitments under review to ensure they remain robust.

4.5 Discharge permit compliance

This performance commitment is designed to ensure that companies contribute to improving river water quality. It incentivises companies to operate and maintain their treatment works so that discharges into rivers meet strict parameters and rivers can improve to achieve good ecological status. It measures the number of failing sites as a percentage of total sites.

³⁹ Further details relating to this investigation can be found on our [website](#).

Following on from our PR24 Draft Methodology question on whether the serious pollution incidents performance commitment should be extended to include water only companies, we subsequently sought views on whether the discharge permit compliance performance commitment should also be extended in the same way.⁴⁰ This is because our current performance commitment definition uses the definitions used by environmental regulators in their Environmental Performance Assessments (EPA). These include pollution incidents associated with water activities as well as wastewater activities for the water and sewerage companies.

4.5.1 Our final methodology policies

We will retain the PR19 performance commitment as a common performance commitment at PR24 but will extend it to include the levels of compliance achieved by water only companies, as well as those achieved by water and sewerage companies. This utilises the definition in the Environmental Performance Assessment (EPA) used by environmental regulators and is reflected in how the current discharge permit compliance measures the failing sites rather than the failing discharges as a percentage of the number of waste water treatment works and water treatment works with numeric limits in permits.

4.5.2 Changes from our draft methodology

At draft methodology we intended only to apply the definition and performance commitment to water and sewerage companies. However, we recognised that there can also be a failure to comply with discharge permits in relation to water assets.

Information supplied by the Environment Agency indicates that there were a number of discharge compliance permit fails for water only companies in 2021. Therefore, following on from the consultation question in the draft methodology on serious pollution incidents, we ran a subsequent consultation on whether we should extend the scope of the performance commitment to include water only companies.

4.5.3 Stakeholder views

We received limited responses to the draft methodology, Hafren Dyfrdwy encouraged us to consider extending the discharge permit compliance performance commitment to water only companies as well as water and sewerage companies. Wessex Water expressed their view that this performance commitment is an output rather than an outcome.

⁴⁰ Ofwat, '[Discharge permit compliance consultation letter](#)', October 2022.

We received a few more responses to our consultation on whether this measure should be extended to include discharge permit compliance from water only companies. All respondents agreed that the measure should be extended to include water only companies. Some of the stakeholders responded that this was the identification of a significant gap and welcomed the incorporation into a performance commitment. There were three alternative methods of implementation suggested:

- separate performance commitments for water and wastewater components (SES Water, CCW and South East Water);
- separate performance commitments for water only companies and water and sewerage companies (Affinity Water, Institute of Customer Service, Dŵr Cymru); and
- combined performance commitment across water and water and sewerage companies (Anglian Water, Wessex Water, Environment Agency and Bristol and South West Water).

4.5.4 Our final decisions and reasoning

We consider that as similar harm can come from both water and wastewater assets, it is important that the impact of both water and wastewater assets are measured. This view was shared by all thirteen stakeholders responding to the consultation. Even Wessex Water, who viewed the measure as an output not an outcome in their draft methodology response, agreed that if the measure remains for water and sewerage companies, then it should be implemented for water only companies as well.

Different views were expressed as to how the performance commitment should be introduced, with transparency and fairness being reasons for creating two separate measures. We see the only potential issue being the smallest water companies will report worse performance if one treatment works fails. For instance, for a company with four treatment works one failure means reporting discharge compliance of 75%, whereas for the largest companies with more than 100 treatment works a single failure leads to compliance that is >99%.

However, this issue still remains even if we have separate water and wastewater performance commitments as most water and sewerage companies have many more water treatment works than water only companies and Hafren Dyfrdwy. While smaller companies' reported performance is likely to be more volatile, ie either reporting 100% or significantly less than 100%, we consider that the overall comparison between companies – the percentage of treatment works that did not meet their discharge permits – is still valid. We consider that volatility risk can be addressed in the design of ODIs (rates, collars, aggregate collars).

Affinity Water suggested that the normalisation of the metric should be based on the percentage compliance of the total industry permits. We do not agree with this suggestion. The number of failures would have the same purpose, but then there would be no

normalisation making it difficult to understand how the assets of an individual company have performed overall. It would also introduce new metrics to the EPA that create a level of unnecessary complexity, without providing additional benefit.

We consider the move to an outcomes regime has delivered improvements to both customers and the environment.⁴¹ We continue to consider how performance commitments can evolve to better reflect the outcomes they seek to measure, reflecting on the value of an extension to this metric to include water assets is one of those evolutions. We agree with stakeholders who suggest that there should be a single, combined measure and will set combined water and wastewater metrics for discharge compliance using the existing EPA definitions.

4.6 Bathing water quality

Many companies had a bespoke performance commitment in this area at PR19. They were based on the Environment Agency's and Natural Resources Wales's classification of bathing waters in company areas. These classifications are made for sites where a large number of people are expected to enter waters to paddle or swim.

Defra's Storm Overflow Reduction Plan includes a headline target that water companies must significantly reduce harmful pathogens from storm overflows discharging into and near designated bathing waters by either: applying disinfection, such as with ultraviolet radiation; or reducing the frequency of discharges to meet Environment Agency spill standards by 2035.⁴² We consider storm overflows further in Section 4.8.

4.6.1 Our final methodology policies

We will include a bathing water quality performance commitment for the bathing waters that can be impacted by a company. The measurement will be a single overall average 'score' for bathing water quality. We will base it on the methodology by which the Environment Agency's and Natural Resources Wales's classify bathing waters, but the performance commitment will also include samples taken when short term pollution is predicted that can be disregarded in this classification if the public are informed about it.⁴³

Each classification will be assigned a weighting - 100% to excellent classification, 66% to good classification, 33% to sufficient classification and 0% to a poor classification. The weightings from all of the company's eligible bathing waters will be averaged, giving a single

⁴¹ Ofwat, [PR14 Review](#), January 2022.

⁴² [Storm Overflows Discharge Reduction Plan](#), published 26th August 2022.

⁴³ S14 [The Bathing Water Regulations](#).

score. An overall average score of 100% would mean that all bathing waters are excellent, whereas 0% would mean all bathing waters are poor.

This measure only covers locations that are designated as bathing sites at the time of our PR24 final determinations. If during the 2025–30 period a bathing water is not classified in a given bathing season, as happened in England in 2020, the previous year's classification will apply instead. If a bathing water were to be de-designated during the period it would continue to be included in the average score, being given a weighting for the last classification it received, normally poor.

4.6.2 Changes from our draft methodology

At draft methodology we committed to continuing the discussion with stakeholders as to the most appropriate metric to be used for this performance commitment. We met with the [Outcomes Working Group](#) on the 1st of September to provide a greater level of detail around the three options proposed for this metric within the draft methodology and have met several times with environmental regulators to discuss the development of the performance commitment for PR24.

4.6.3 Stakeholder views

As a result of our engagement there are two groups of views emerging from the stakeholder responses that we received.

The first, which constitutes the majority of respondents,⁴⁴ consider we should have a performance commitment and that an approach based on weighting the classifications by the Environment Agency or Natural Resources Wales is the preferred option as it supports the focus on companies improving all waters. We had also considered whether all samples taken at bathing water sites, ie those taken during short term pollution events, as well as those taken during abnormal situations, should be included in the performance commitment. The validity of including all such samples in the metric is questioned by Anglian Water, Southern Water and United Utilities. Bristol Water and South West Water would prefer a bespoke performance commitment to reflect local circumstances and strength of support for improvements.

The second questions the requirement for a bathing water quality performance commitment. For instance, Northumbrian Water considered that the performance commitment removes

⁴⁴ Anglian Water, Dŵr Cymru, Severn Trent Water, Southern Water, Thames Water, United Utilities, Yorkshire Water, Wales Environment Link and Better Water Quality Taskforce in Wales.

some funding that would otherwise be available to tackle complex issues such as contaminated groundwater.

Natural Resources Wales asked for clarity on how water company impact on bathing waters would be determined and suggested a higher priority for Wales would be a bespoke performance commitment for Dŵr Cymru in relation to shellfish waters. The Environment Agency is concerned about how water companies may challenge the testing of samples that could lead to reductions in classifications and the subsequent impact on out and underperformance.

Irrespective of whether they support the inclusion of the performance commitment, a concern raised by many stakeholders is that bathing waters are affected by third party actions, and there is a limit as to the ability of water company actions to improve the quality of the bathing water site. Wessex Water cite this as a reason not to have a performance commitment at all.

There are opposing views from companies on whether inland bathing waters should be included within the existing metric or developed as a secondary measure. Differences in classification threshold levels between coastal and inland waters are suggested as reasonable grounds to exclude inland bathing waters by Wessex Water and Bristol and South West Water, while United Utilities and Yorkshire Water consider they should be included.

4.6.4 Our final decisions and reasoning

Since privatisation, the water industry has invested more than £2.5 billion in improvements to bathing water quality.⁴⁵ We consider that a common performance commitment will help to hold water companies to account for this past investment and any further investment. We do not agree that this performance commitment limits companies' ability to tackle complex issues and consider that there are sufficient avenues to access funding for specific requirements.

It is important to include any movement between bathing water classifications within this performance commitment, recognising deteriorations as well as improvements, as all of these are important to customers. We intend to base the performance commitment on the methodology of environmental regulators' classifications (ie excellent, good, satisfactory, poor) but to include the impact of samples relating to short term pollution events, which are excluded in these classifications.

The thresholds between the bathing water classifications (that are used by the Environment Agency and Natural Resources Wales) are from the 2006 Bathing Water Directive, which in turn is based on the statistical relationships between measurements of intestinal enterococci

⁴⁵ Defra, 'Bathing water standards published', November 2012.

and E.coli in bathing waters and bathers becoming ill.⁴⁶ Each year, the Environment Agency and Natural Resources Wales classify each individual bathing water by comparing the statistical distribution of samples taken from it over a four-year period against those thresholds.⁴⁷ They may exclude events for two reasons. First, abnormal situations that are not expected to occur again in a four-year period. Second, when 'pollution risk forecasts' are in place for short term pollution events, which advise the public not to swim in bathing waters at certain times.

Companies consider that the established process for discounting samples which was consulted on by the environmental regulators, is included within the Bathing Water Regulations 2013 and should not be amended. We consider that there is a clear need to include samples taken in 'pollution risk forecasts'. Some bathing waters have pollution risk forecasts, while others do not. These forecasts serve the public by warning them not to swim, but this is still a poor outcome in terms of the quality of bathing water. We consider that, by including pollution risk forecasts in the performance commitment, we increase the incentive for water companies to improve their performance in relation to the pollution of bathing waters that can be anticipated. We recognise that the Environmental Regulators have processes to identify and exclude abnormal situations. These can occur at all bathing waters. We will therefore exclude abnormal situations when these are excluded by the Environment Agency and Natural Resources Wales.

There were calls for bespoke rather than common performance commitments for bathing water quality. We consider that it helps to streamline the price review and improve transparency if we measure and incentivise these outcomes in a common way, driving better results for customers and the environment. We do not consider there to be sufficient differences in local circumstances to warrant a bespoke performance commitment. The assessment of bathing waters is carried out in a standard way. The strength of support for improvements will be reflected in the ODI from the collaborative ODI rate research.

Some water company responses indicated that we would expect all bathing waters to be good or excellent and therefore companies would receive underperformance payments for bathing waters that remained satisfactory. They provided examples of when partnership working had not led to an improvement in bathing water where it was due to third parties' pollution, including diffuse pollution that is difficult to address. At the same time these companies showed that it is important that water companies continue to engage and work towards a better outcome for customers. As set out in [Appendix 9](#) we will base performance commitment levels on historical bathing water performance taking into account where companies have had or will have funding to improve bathing waters. We will not assume that

⁴⁶ Kay, D. et al. (2004) 'Derivation of numerical values for the World Health Organization guidelines for recreational waters', *Water research* (Oxford), 38(5), pp. 1296–1304. doi:10.1016/j.watres.2003.11.032.

⁴⁷ Excellent and good waters are assessed using the log to the base 10 of each parameter of samples taken at the bathing water, finding the 95 percentile assuming the distribution is normal, and considering whether that meets the appropriate threshold. Sufficient waters are assessed at the 90th percentile.

all bathing waters are excellent and therefore when a company outperforms its PCLs resulting in higher quality bathing waters it will result in outperformance payments.

Recognising that in some circumstances (eg an isolated lake), there will be no potential for a bathing water to be affected by the activities of a water company, we will exclude these bathing waters from this performance commitment. We will do this in discussion with the environmental regulators.

Third party activities are an area of concern for many and we recognise that other parties can sometimes impact bathing waters. However, improvement in bathing waters has primarily been driven by improvements in wastewater treatment,⁴⁸ which demonstrates that water company behaviour has significant impact, notwithstanding third-party actions. We expect this to continue to be the case in the foreseeable future. As we set out in Section 2.4, an outcome does not have to be fully in a water company's control to be worth incentivising, especially in an area like this where those incentives could encourage partnership working to achieve environmental benefits. In these circumstances, we consider it is not appropriate to exclude cases which may be affected by third party actions from the performance commitment definition. In addition, attempting to exclude the impact of third parties would introduce significant judgement as to the responsible party, which it is not always possible to distinguish. We consider that this would distract water companies from delivering improved bathing waters and instead they may focus efforts on attempting to establish fault.

By utilising the weighted classification approach, we are able to include inland bathing waters, which are also classified by the Environment Agency and Natural Resources Wales.⁴⁹ Water companies are being encouraged to increase the number of bathing water sites on rivers and some sites have been designated, such as the River Wharfe at Cromwheel in Ilkley in 2021 and Wolvercote Mill Stream in Oxford in 2022. We consider that these bathing waters should be included in the bathing water performance commitment.

4.7 River water quality (phosphorus)

The impact that wastewater has on river water quality is a key environmental concern for customers.⁵⁰ The UK government's SPS expects us to challenge water companies to improve their day-to-day environmental performance to enhance the quality of the water environment and challenge companies to deliver against applicable targets set under the

⁴⁸ European Environment Agency, 'European bathing water quality in 2021', June 2022.

⁴⁹ Defra, Bathing Water Quality (data.gov.uk.)

⁵⁰ ['Research on customer preferences – A joint report by CCW and Ofwat'](#), April 2022.

Environment Act 2021. The UK government expects to set a nutrient target for wastewater under the Environment Act 2021 through secondary legislation.⁵¹

The Welsh Government also wants to see a step change in the health of river ecosystems in Wales. It expects us to challenge water companies to pursue an integrated outcomes-based approach that is consistent with its requirement to achieve the Sustainable Management of Natural Resources (SMNR). The Wales Better River Quality Taskforce is driving a collaborative approach to identifying and then delivering actions to make improvements at pace.

4.7.1 Our final methodology policies

We will introduce a common performance commitment for river water quality that measures the reduction in phosphorus from water company activities. This will cover both:

- the reduction in the amount of phosphorus discharged at wastewater treatment works; and
- the phosphorus stopped from entering rivers from wider partnership working, including by using nature-based solutions and catchment management.

4.7.2 Changes from our draft methodology

In the draft methodology we proposed to have a performance commitment but did not provide a definition. By collaborating with stakeholders through a task and finish group we have set out a detailed definition for this performance commitment in the final methodology.

4.7.3 Stakeholder views

Stakeholders supported the introduction of a performance commitment associated with river water quality but had a range of views as to how appropriate our preferred option in the draft methodology was. There were:

- concerns the measure would encourage the use of solutions using chemicals;
- strong supporters of the measure recognising reductions in phosphorus from nature based solutions and catchment management; and
- some suggestions to extend the measure to include other pollutants, such as nitrates and pesticides, at least in the longer term.

⁵¹ In March 2022, the UK government consulted on a proposed statutory target for water companies to reduce phosphorus loadings from treated wastewater by 80% by 2037 against a 2020 baseline in England, '[Consultation on environmental targets](#)', May 2022.

Since its first meeting in November 2021, we have worked with the river water quality Task and Finish group to consider options on how to define this performance commitment. The Task and Finish group has been comprised of Anglian Water, Blueprint for Water, Dŵr Cymru, Environment Agency, Natural Resources Wales, Severn Trent Water, South West Water, Thames Water, United Utilities and Wessex Water.

As part of the Task and Finish group the Environment Agency has proposed that the performance commitment should measure the percentage of phosphorus removed by what it classes as sustainable methods.

4.7.4 Our final decisions and reasoning

We have considered how we could develop a performance commitment that measures how water companies are reducing loads discharged to rivers more directly. This is the recommended option of the Task and Finish group. Stakeholders such as the RSPB and Natural Resources Wales have proposed that the performance commitment should cover a wider range of pollutants than just phosphorus, with Thames Water suggesting that we should include ammonia, while Southern Water focus on total nitrogen.

Sewage includes a range of pollutants including phosphorus and nitrogen compounds, pharmaceuticals, microplastics and metals. However, phosphorus is the most common reason why a water body fails to be classified as having good status in England.⁵² Most of the phosphorus in the water environment comes from wastewater companies.⁵³ In Wales, in over 60% of special areas of conservation rivers do not meet desirable phosphorus levels. Wastewater treatment is a source of phosphorus in all these catchments and the main source in some.⁵⁴ It is important that all water companies limit discharging phosphorus.

We consider that although it is important that water companies limit all pollutants over the long term, the need to reduce many pollutants will be site specific, while others are not fully understood. Action to tackle these pollutants will be specified through the NEP or WINEP and we set out in [Appendix 9](#) that we will set PCDs where appropriate to ensure investment is delivered.

Where possible, the reduction in phosphorus should be based on directly measuring the concentration in treated wastewater that is discharged into rivers. There may be some partnership work where direct measurement is not possible, such as when this helps to reduce diffuse pollution. Excluding such work from the performance commitment could reduce incentives for water companies to work in partnership. Therefore we consider that in

⁵² Defra, '[State of the water environment indicator B3: supporting evidence](#)', October 2022.

⁵³ For example Defra, '[Water targets Detailed Evidence report.pdf \(defra.gov.uk\)](#)', May 2022, p. 36 and Natural Resources Wales, '[Western Wales River Basin Management Plan 2021 – 2027 Summary](#)', May 2021, p. 25.

⁵⁴ Welsh Government, '[Tackling Phosphorus Pollution in Wales' Special Area of Conservation Rivers Information & Evidence Pack](#)', July 2022, p. 5 and p. 20.

these cases the reduction in phosphorus should be estimated. The method to estimate the reduction in phosphorus from partnership working that can be attributed to the company must be agreed with the Environment Agency or Natural Resources Wales and assurance provided by an appropriately qualified third party.

Companies (United Utilities, Anglian Water, Yorkshire Water) and the Environment Agency expressed a concern that there is a risk the measure will inappropriately incentivise the use of chemicals to achieve phosphorus reductions. The Environment Agency has been clear that they do not support any incentive for companies to go beyond the level in the target the government expects to set under the Environment Act 2021 through secondary legislation.⁵⁵ They are concerned a performance commitment focused solely on phosphorus reduction, rather than the methods through which this is achieved, could lead to increases in chemical dosing. This in turn will increase GHG emissions, produce more sludge that is difficult to treat and it is also concerned about the resilience of the supply chain that provides chemicals.

We have considered other ways of measuring companies' performance in reducing phosphorus, such as incentivising them to proactively approach the Environment Agency to tighten their permits. However, directly measuring the concentration in treated wastewater that is discharged into rivers is the most representative of the outcome that water companies deliver. It will also provide incentives for companies to innovate, including delivering less conventional approaches such as nature based solutions for which companies may have less confidence in the results that will be achieved.

We expect companies to adopt approaches such as nature based solutions whenever they are appropriate and in the interests of the environment and customers, but we accept this may not be possible in all cases. At some works there will not be sufficient land to be able to implement such a solution. At these sites companies need to innovate to reduce phosphorus while also keeping GHG emissions under control. Other approaches such as biological treatment can increase GHG emissions. In each situation companies need to implement best value solutions for customers and the environment. We consider that the package of environmental performance commitments (that includes GHG emissions and biodiversity) will guide companies to the best value approaches over the long term. As well as considering delivering environmental outcomes in long-term adaptive planning, companies also need to consider the holistic impact on their operations such as how difficult sludge will be to treat and the resilience of the supply chain. All of these factors will lead companies to include nature based solutions where appropriate.

We will therefore base the measure on actual loads being discharged by treatment works. To address the concerns raised we will add two requirements. Firstly we will include a requirement that water companies do not reduce phosphorus below the long-term expectations of the environment regulators that may not have a benefit to river ecosystems.

⁵⁵In May, the UK government consulted on a 80% phosphorus reduction level by 2037, "[Consultation on environmental targets](#)", May 2022.

Secondly, we will expect water companies to only report reductions in phosphorus that result from plans that represent the best value long-term approach for customers and the environment, taking into account a wide range of factors including the long-term resilience of the supply chain. Companies will need to receive independent assurance on this to our satisfaction.

Northumbrian Water and the Better River Quality Taskforce in Wales are concerned that the measure doesn't go far enough in considering an integrated catchment approach and the Taskforce advocates that better information is required about discharge quality from overflows and the impact on the receiving water quality. In the future further monitoring around outfalls should mean that it will be possible to measure harm from discharges, rather than what is discharged. This may lead to improved incentives to avoid harm. However, this is not possible for PR24 as comprehensive monitoring is not yet in place.

Dŵr Cymru and Northumbrian Water propose tracking schemes that they consider will improve river water quality. At PR24 we expect to treat such approaches as a price control deliverable (PCD). We will consider the use of PCDs to track the agreed outputs of WINEP/NEP. However, in the absence of performance commitments companies have incentives to deliver at the lowest cost that meets a given specification, as opposed to best value. Performance commitments can improve delivery of investment by giving incentives to enhance solutions at the margins to reduce GHG emissions and phosphorus while improving biodiversity. Performance commitments provide more flexibility to water companies to consider how to deal with the root cause of problems and work with third parties where this will deliver greater value. For example, actions such as establishing riparian corridors, reconnecting floodplains, clean and dirty water separation, sustainable drainage approaches and upland catchment management.

We consider a performance commitment based on phosphorus removal aligns with the UK government's SPS to challenge water companies to improve their day-to-day environmental performance to enhance the quality of the water environment. It also aligns with the Welsh Government's expectations within its SPS for us to challenge water companies to pursue an outcomes-led approach that addresses problems at source, using nature based solutions where appropriate. It will also encourage companies to explore and maximise collaboration and co-funding opportunities with other sectors and organisations to address the reasons that rivers are not at good status and overall improve river ecosystems.

As this is a new performance commitment and we do not yet have a good understanding of companies' historical performance, we will consider the available data in the first quarter of 2023. We understand that the data we require is in the public domain, but if it is not we will need companies to provide it. We may change our approach to defining this performance commitment if necessary as our understanding of the data develops.

4.8 Storm overflows

The impact of storm overflows on our rivers is not acceptable. Companies must be compliant with their legal obligations. They must produce ambitious long-term plans and begin to immediately reduce harm from storm overflows and protect public health and improve people's enjoyment of the environment.

The UK government's SPS expects us to challenge water companies to demonstrate how they will significantly reduce the frequency and volume of sewage discharges from storm overflows⁵⁶, and its storm overflow discharge reduction plan sets targets for companies in England up to 2050.⁵⁷ In Wales, we expect companies to propose storm overflow investments where there is evidence that they will improve river water quality and are not funded through base allowances. These proposals should draw on the work undertaken as part of the Drainage and Wastewater Management Plan (DWMP) process and the work of the Wales Better River Quality Taskforce. Meeting these expectations needs a determined effort from companies to improve operational and maintenance regimes as well as identify and prioritise efficient investments to improve performance.

4.8.1 Our final methodology policies

We will include a common performance commitment to hold companies to account and incentivise them to go further in reducing the average number of spills per storm overflow. It will therefore help to incentivise companies to make quick and efficient progress towards UK government and Welsh Government ambitions.

4.8.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

4.8.3 Stakeholder views

The approach we suggested for this performance commitment was questioned by most of the stakeholders who responded in relation to storm overflows. Overwhelmingly stakeholders expressed a preference for the measure to address the harm caused by storm overflows, rather than the number of spills. Yorkshire Water said it would prefer the focus to be on the causes of the issues, rather than the effects of the discharge.

⁵⁶ Defra, 'The government's strategic priorities for Ofwat', March 2022.

⁵⁷ Defra, 'Storm overflow reduction plan, August 2022.

While several companies acknowledged that they have committed to reduce the average number of spills to 20 by 2025, they called into question the relevance of the average number of spills as a measure moving forward. There are concerns around affordability and benefits associated with the average spills target and that it may drive the wrong behaviours in terms of solutions, create no incentive to “close” overflows and that it double counts (Wessex Water) due to the implementation of the river water quality performance commitment.

4.8.4 Our final decisions and reasoning

Significant reductions in the frequency of storm overflow discharges and their impact need to be achieved. The introduction of a performance commitment for storm overflows is a suitable mechanism to drive water company performance in this area.

Many stakeholders consider that we should measure harm rather than measuring the number or volume of overflows (Thames Water, Northumbrian Water, Wessex Water, United Utilities, Anglian Water, Severn Trent Water). While we agree that the most important aspect to address is the harm to people and the environment, we still consider that water companies must also reduce the scale of overflows that occur. Also, while event duration monitors (EDM) should be in place on all storm overflows in England by the end of 2023, the more sophisticated monitors with which it will be possible to directly measure the environmental harm of spills won't be in place prior to the start of the 2025-30 period.

Therefore, we must look at another way of measuring progress during the interim period. We consider a common performance commitment based on a simple average of spills per overflow is the most transparent measure and the easiest for stakeholders to understand. It is based on a data set that is available, and the best proxy we currently have for environmental harm. When continuous river water quality monitoring, or other similar information, is available we will review this performance commitment for use beyond 2030.

United Utilities, Northumbrian Water and Yorkshire Water expressed concerns that the measure does not consider exogenous factors impacting on the measure, such as the effect of high levels of rainfall on the operation of storm overflows, or the level of investment required to achieve the performance commitment. Yorkshire Water and Sustainability First highlighted the impact of improvements on affordability. We do not consider that these factors should be taken into account in how we measure the outcome. Rather, we will consider evidence about relevant factors in setting expenditure allowances and/or performance commitment levels as we set out in [Appendix 9](#).

Several companies (Thames Water, Yorkshire Water, Northumbrian Water) are also concerned that the focus on reducing the average number of spills will disincentivise the implementation of catchment and nature-based solutions. They consider that it may cause companies to select investment schemes that reduce spills per overflow rather than those

which tackle the greatest ecological impact. We consider that the combination of this performance commitment alongside sewer flooding, river water quality, bathing water quality, operational GHG emissions and biodiversity performance commitments will provide companies with sufficient incentives to implement low carbon solutions with wide ranging benefits for customers and the environment. In addition, as we expect to directly measure ecological impact in the future, companies already have an incentive to consider how they can reduce harm when making decisions about investment.

A further concern expressed was that the spills target could incentivise companies to either retain permits for assets they no longer need or to build new storm overflows which are not required (Anglian Water, Thames Water and CCW). This would be with a view to increasing the denominator in the calculation, making their performance appear better than it truly is. We could fix the number of storm overflows as part of our determinations for each year for each company and so avoid any potential incentive on adding or removing overflows.. However, this would add complexity and we are as yet unsure that this is a significant concern. We will therefore not make any additional adjustments to account for this but we will keep this under review ahead of our final determinations.

We consider, contrary to Wessex Water's view, that this measure does not create a double counting issue with the river water quality performance commitment. The river water quality performance commitment provides an incentive to go beyond the substantial reductions in the amount of phosphorus that the water sector emits from investment being delivered in 2020-25 and expected under government plans. Companies can deliver this either by improving treatment works or by working with stakeholders in joint projects. We are not able to measure the amount of phosphorus emitted by storm overflows and so this will not be included in the river quality performance commitment. However, reducing the number of discharges from storm overflows will also reduce phosphorus entering rivers as well. The two performance commitments complement each other and both are necessary to deliver continued improved environmental performance.

5. Asset health

Asset health performance commitments provide information about operational resilience. We will focus on three key asset health performance commitments, shown in table 5.1.

Table 5.1 – PR24 asset health performance commitments

Water and wastewater	Water only	Wastewater only
	Mains repairs Unplanned outage	Sewer collapses

General stakeholder views on asset health

Stakeholder responses on asset health did not always address specific measures, instead they contained observations on asset health as a whole.

Wessex Water rejected the use of these asset health performance commitments, expressing the view that they are not outcomes but outputs. They do not support a separate overall objective to improve asset resilience and consider they are unnecessary.

Others expressed a desire for the continued monitoring of other aspects of asset health outside of the price control period. It was suggested that this monitoring should be broad and encompass measures that reflect on the asset's life, criticality, repair and replacement rates, as well as network headroom and capacity, as identified by Wildlife and Countryside, Wales Environment Link, CCW, the Environment Agency, Natural England and South East Water. Future Water suggested there should be targets to support and drive network surveys, repair and replacement rates.

Our final decisions and reasoning

We include asset health performance commitments to incentivise operational resilience. Although lack of maintenance may eventually affect customer or environmental facing outcomes, this may not be until well into the future. We are concerned that companies may not place sufficient weight on this. The UK government's SPS expects water companies to rigorously assess and improve their resilience, including existing assets' health, against a full range of hazards. The Welsh Government's SPS noted that the impact of asset health on service for customers and the environment may only become apparent in the longer term and expects Ofwat to challenge companies to monitor their asset health.

Ofwat uses a range of regulatory tools to monitor and address performance in relation to asset health. Wider performance commitments, which measure direct impacts on customers and the environment can also provide insight about a company's asset health, including

leakage, pollution incidents, the compliance risk index and discharge permit compliance. We will also complement our asset health performance commitments with wider monitoring activities such as our proposed integrated monitoring framework for operational resilience.

We may collect further information in the areas identified by Future Water as part of our wider monitoring activities, but do not consider specific annual targets, set as part of performance commitments will deliver benefits for customers as such activities can be delivered ineffectively. Where necessary to protect customers, we could set such factors as price control deliverables (see [Chapter 9](#)), although we consider that greatest benefits will be delivered if companies focus on delivering outcomes.

5.1 Mains repairs

This performance commitment is designed to incentivise the company to maintain and improve the below ground water mains network. While repairing a water main can improve outcomes for customers, the increasing need to do this over time indicates the company is not managing its network appropriately such as by replacing or relining its water mains.

5.1.1 Our final methodology policies

We will include a common mains repair performance commitment for PR24 using the same definition as PR19. This measures the number of physical repairs to mains from which water is lost. To be able to compare companies, the total number of mains repairs is divided by the length of the company's mains.

5.1.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

5.1.3 Stakeholder views

Responses were received from a variety of stakeholders around the continued inclusion of mains repairs as a common performance commitment. A combination of companies and other stakeholders broadly supported the continuation of the measure, although some concerns were raised around the inclusion of company-identified mains repairs with the potential to disincentivise leakage reduction and severe weather events.

5.1.4 Our final decisions and reasoning

We consider that the mains repairs performance commitment continues to be the best available performance commitment for PR24 for incentivising companies to improve the asset resilience of water mains. It incentivises all companies to manage their water networks, target mains to replace and reline, and ensure work is carried out to high standards to reduce the chance of future bursts occurring. Minimising the number of mains repairs also has a positive impact on vehicle and pedestrian delays, disruption to the public and businesses, noise pollution, as well as additional GHG emissions produced during traffic delays. Anglian Water, CCW and the Environment Agency agreed with our proposal to continue to use the measure at PR24.

United Utilities and Dŵr Cymru reiterated their concern about including company-identified mains repairs in the performance commitment, as this would potentially disincentivise leakage reductions. As we set out in our [April discussion document](#), the inconsistent differentiation between customer and company identified mains repairs is one of the reasons why we do not consider that this exclusion is appropriate for PR24. But these companies questioned this view, citing the establishment of an operational resilience industry working group to develop consistency in reporting. While this group has been established, they have not yet been tasked with the development of guidance in this area. We consider that reporting in the 2022 Annual Performance Reports continues to indicate that there is inconsistency between customer and company identified mains repairs.

We recognise there may be a relationship between increasing mains repairs and decreasing leakage. At PR24 we expect to have more data to understand the correlation between active leakage reduction and mains repairs, building on the experience of companies reducing leakage over recent years. This will help to calibrate incentives to prioritise leakage reduction over reducing mains repairs, ie to make sure that reducing leakage would lead to a greater increase in revenue from outperformance payments than the reduction in revenue from underperformance payments from proactively repairing more mains than expected. At draft determinations, we will consider the assumptions about short-term increases in the number of mains repairs related to leakage activities that we made at PR19 to ensure that water companies were not disincentivised from reducing leakage and revise them as appropriate.

What is relevant to asset health is the total number of repairs, not who identifies them. Moreover, we consider that a financial incentive to reduce only the number of customer-identified mains repairs could lead to unintended consequences, such as disincentivising companies from increasing resources at call centres to deal with unexpected issues, and instead identifying the issue themselves. This may particularly apply when companies can anticipate that there will be increases in mains bursts in cold weather and times of drought, with a resulting increase in customers identifying repairs.

While we agree that weather can affect mains repairs we do not agree with South East Water that companies cannot undertake preparations to mitigate this risk. A more resilient network will have fewer bursts when there is cold weather

5.2 Unplanned outage

As a performance commitment this measure provides an appropriate incentive for all companies to ensure that treatment works are maintained to reduce the risk that unplanned outage occurs when capacity is required.

5.2.1 Our final methodology policies

For PR24, we will maintain a common performance commitment that measures the unplanned loss of peak week production capacity and reports this loss as a percentage of the overall company peak week production capacity. However, we remove exclusions relating to raw water quality and severe weather events (see our [website](#) for the definition).

5.2.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

5.2.3 Stakeholder views

The majority of stakeholders that responded agreed with our proposal to retain unplanned outage as a common performance commitment. The Environment Agency considered that the measure was important and that companies should be proactive in maintenance and that maintenance on other assets should also be incentivised such as pumping stations and online storage.

Some companies considered the removal of the raw water exclusion was not appropriate. South East Water noted that the performance commitment was driving borehole maintenance in a way it did not consider either intentional or desirable.

5.2.4 Our final decisions and reasoning

Stakeholders generally agreed with our proposal that this measure continue at PR24.

However, water companies, including United Utilities and Northumbrian Water, advocated we continue to exclude the impact of outages due to raw water quality. They suggested that a deterioration in raw water is not an outage from an asset health perspective (as an asset has not been changed or impaired) and that any change to raw water quality is outside of management control. They also argued that including outages caused by raw water quality issues will significantly impact performance levels due to the processes used at some treatment works, which they considered would create an unfair bias against surface water-dominated companies that operate a flexible system which switches between sources when a raw water event occurs.

The Environment Agency said a company should be able to demonstrate its effectiveness in maintaining clean water assets. We agree with the Environment Agency's view and consider that companies can work with stakeholders through approaches such as catchment management to address raw water quality. Furthermore, even if raw water quality was beyond their control, companies should plan how to mitigate the impacts. The times at which there are problems in raw water quality may be when peak capacity is required which is why the raw water exclusion has been removed from the measure for PR24. Where companies have compelling evidence that the most appropriate approach to mitigate the risk of poor raw water quality is to have spare capacity built in to enable changes to water sources as a raw water event occurs, we would consider this when setting performance commitment levels. Unplanned outages are an important aspect of measuring operational resilience and we consider it is appropriate to incentivise companies to proactively plan for such events.

We do not agree with South East Water's concern about the cleaning of boreholes. While there will be some outage from boreholes it is important that companies manage the impact of this. As long as performance commitment levels are not set so low as to drive inefficient maintenance, companies should be able to make sure that sufficient output from across the company's boreholes is available so that water can be supplied when required.

We plan to work with stakeholders outside the price review to develop new measures for asset health and operational resilience and this could include measures that would cover areas that the Environment Agency propose.

5.3 Sewer collapses

We consider that the sewer collapses performance commitment should continue to be a performance commitment for PR24. It provides appropriate incentives for companies to monitor their networks and proactively resolve problems so that sewers have structural integrity.

5.3.1 Our final methodology policies

We will continue to have a common performance commitment for sewer collapses at PR24 using the same definition as PR19. This measures the number of structural failures to pipes that result in a service impact to a customer or the environment.

5.3.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

5.3.3 Stakeholder views

There were limited responses from stakeholders directly addressing sewer collapses, but general agreement from respondents referencing asset health measures that this should be a performance commitment at PR24. United Utilities continued to promote the use of sewer blockages as an additional performance commitment.

5.3.4 Our final decisions and reasoning

We will retain sewer collapses as a performance commitment for PR24. It provides appropriate incentives for companies to monitor their networks and proactively resolve problems so that sewers have structural integrity.

We remain of the view that it is not appropriate to have a sewer blockage performance commitment. A focus on reducing sewer collapses, sewer flooding or pollution incidents as well as storm overflows, will ensure a reduction of sewer blockages. Adding a common performance commitment would be duplicative. United Utilities did not consider that there would be an overlap and cited that 75% of their blockage incidents in 2020–21 did not result in a further flooding or pollution incident. We assume that it only refers to blockages identified following customer contacts, which are measured under their performance commitment. However, this does not mean that there is no correlation between blockages and sewer flooding or pollution incidents so that higher numbers of blockages increase the risk of sewer flooding or pollution incidents. We consider that companies that focus on reducing sewer flooding and pollution incidents will need to reduce the overall number of blockages and a separate performance commitment is unnecessary.

6. Further stakeholder proposals for common performance commitments

At draft methodology we considered that the range of outcomes or activities proposed through feedback to our November document, explaining that we considered these were not suitable for performance commitments as they were best incentivised in other ways, including in other parts of the price review – or through our wider monitoring and powers. Following publication of our draft methodology, some stakeholders proposed that we look again at our approach to including additional common performance commitments. We have done so within this section.

6.1 Void properties

Voids are properties classified by water companies as being vacant; however, some voids are occupied, and should actually be billed. It is in customers' interests for water companies to have accurate records of occupied properties and bill them correctly, as this helps to reduce average bills across all customers. We expect companies to identify houses that are occupied and so reduce the proportion of properties they incorrectly identify as void.

6.1.1 Our final methodology policies

We do not consider it appropriate to include a common performance commitment relating to either residential or business void premises in PR24.

We propose that we should instead use other policy tools to continue to challenge companies to bill all possible properties. Where there is very limited competition – such as for the residential properties of all companies, and business properties in Wales –this could include, for example, reviews of the accuracy of companies' billing using independent information and challenging companies that are not billing all properties that they should. For business properties in England, we consider the issue is best addressed through reform of the Market Performance Framework (MPF).

6.1.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

6.1.3 Stakeholder views

United Utilities proposed that the performance commitment for both household and non-household void billings be reconsidered. They identified that it was in customer's interests for water companies to have accurate records of occupied properties and bill them correctly. United Utilities proposed that decisions on appropriate non-household void billing incentives be considered against the findings from MOSL's collaborative work on how effective interventions have been in managing non-household voids.

6.1.4 Our final decisions and reasoning

At PR19 we considered it was appropriate to incentivise companies to bill all properties using a performance commitment, based on the number of properties identified as void, as there was evidence that water companies were not billing significant numbers of properties that were using services and we considered the number of void properties identified was likely to be erroneously high. However, it was challenging to set an appropriate performance commitment level. Moreover, as companies address billing issues through the 2020–25 period, there is a risk that any remaining unbilled properties that use services may have relatively low bills – for example due to low consumption levels. This means that there is a greater risk that the incentive payments funded by customers would be larger than the additional revenue from billing, which could result in customers' bills going up not down.

We have considered whether the issue for non-households is best addressed within the market (ie, through the MPF as suggested by CCW, United Utilities, Affinity Water and Thames Water), or through a common performance commitment on void business premises. The MPF can employ a variety of tools (including financial incentives but also including audit, rectification etc) that can be used to understand and tackle the root causes of vacancy in the business retail market. A review of these interventions funded by MOSL's market improvement fund has not yet been published. In addition, there are likely to be significant overlaps and linkages between any incentives on vacancies and other data quality items (eg gap sites) that will need to be reflected in a cohesive performance framework focused on improving the overall quality of market data.

We consider that it is more appropriate to review the accuracy of companies' billing using independent information⁵⁸ and challenge companies that are not billing all properties that they should. We conclude that the non-household issue is best addressed through the MPF. Therefore we will not have a performance commitment in this area at PR24.

⁵⁸ For example, UK government, ['Table 615: vacant dwellings by local authority district: England from 2004'](#) or the central market operating system (CMOS).

6.2 Further affordability or vulnerability performance commitments

At PR19 a number of companies had bespoke performance commitments measuring the support given to vulnerable customers or those that struggled to pay their bills. Since PR19, CCW has conducted an independent review of water affordability, in which we, companies, the UK government, the Welsh Government, and the wider sector were closely involved.⁵⁹ The review recommendations are now playing a major role in prioritising policies and activities in this area.

6.2.1 Our final methodology policies

We outline our approach to affordability for PR24 in [Appendix 1](#). This sets out that we will consider overall affordability when setting our price limits and we are also proposing affordability forms part of the quality and ambition assessment for PR24. But we think issues relating to social tariffs and vulnerability are best dealt with outside PR24, because it allows us to respond more flexibly to changing circumstances.

6.2.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

6.2.3 Stakeholder views

A limited number of stakeholders asked for us to reconsider our approach to vulnerability, with a specific focus on affordability, in light of the cost of living challenge. They suggested that by not including a vulnerability performance commitment within the price review, we risk giving stakeholders the impression that the issue is of less importance. Thames Water Customer Challenge Group suggested that there was scope for Thames Water to have a bespoke performance commitment in this area, as they have unique demographic characteristics. Yorkshire Water asked for the opportunity to contribute to the co-creation of the proposed customer focused licence conditions.

6.2.4 Our final decisions and reasoning

Thames Water and the Severn Trent Water Expert Challenge Panel expressed concern that the importance of supporting vulnerable customers would be downplayed without a

⁵⁹ CCW, [Independent Water Affordability Review](#), May 2021.

performance commitment. We agree that it is important to collect, track and report on consistent metrics on affordability and vulnerability, not least because of the reputational incentives that the reporting may generate. We consider that there is considerable reputational risk for companies who are not seen to regard this as a key issue. In reissuing our guidance to companies on managing customer debt, we have asked companies to submit information by the end of this year on how they are supporting customers in debt, and we have committed to revisiting the information we gather annually on customer debt.⁶⁰ We currently collect certain affordability and vulnerability information as part of the annual performance reports.

We consider that this reporting and tracking is best dealt with outside PR24, because it allows us to respond more flexibly to changing circumstances. We do not propose to have financial performance commitments relating to affordability or vulnerability but are proposing overall affordability forms part of the quality and ambition assessment for PR24. This will ensure that companies' plans to address the issue are given prominence and are subject to sufficient scrutiny.

CCW's affordability review made ten key recommendations, one of which was to introduce a sustainable, single social tariff to eliminate water poverty in England and Wales at the 5% level (whereby households would not spend more than 5% of their disposable income on water bills). The sector is now working with the UK government and the Welsh Government looking to implement this recommendation. Its implementation would necessitate information gathering and reporting water affordability metrics.

The treatment of vulnerable customers also remains a key concern. As discussed in Section 3.1, we are concerned that companies' understanding of the experience of vulnerable customers is limited, which seems to be reflected in the Thames Water Customer Challenge Group's suggestion for a bespoke performance commitment. We have made clear that companies should take forward work to improve their understanding of vulnerable complainants' experiences⁶¹ and invite Thames Water to consider if this is an area where they are underperforming and would benefit from a bespoke performance commitment. If there are indications that vulnerable customers are not being treated fairly, we will consider what further action to take. In doing so, we will consider relevant aspects of the Public Sector Equality Duty. We will also consider how best to monitor companies' future performance in this area as part of our work to introduce a new customer-focused licence condition and recognise Yorkshire Water's desire to engage with the process.

⁶⁰ As part of our '[Decisions on updating our Paying fair guidelines](#)', which are guidelines for water companies in supporting residential customers pay their bill, access help and repay debt, we have asked companies to update their policies and procedures in this area and provide us with supporting information by 31 December 2022.

⁶¹ See Ofwat and CCW, '[Putting things right: household complaints practices in the England and Wales water industry](#)', November 2020.

6.3 Metering

Metering helps to reduce customers' use of water as well as helping companies to identify leakage.

6.3.1 Our final methodology policies

We intend to focus on the end outcomes from increased metering such as reduced water demand. Where we allow additional expenditure for metering programmes, we may use PCDs to incentivise delivery.

6.3.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology regarding inclusion of a performance commitment focused on metering. However, in [Appendix 9](#) we provide further detail of our expectations regarding smart metering and companies' development of their metering business cases at PR24.

6.3.3 Stakeholder views

Stakeholders associated with the business retail market considered that there should be a performance commitment focused on delivering the faster rollout of smart meters to non-household properties.⁶² They saw this as an opportunity to manage water demand, increase efficiency, and play a part in delivering net zero. Business Stream also suggests the use of PCDs or the BR-MeX performance commitment to deliver improved metering.

6.3.4 Our final decisions and reasoning

We agree with Business Stream, Water Plus and UKWRC that the introduction of smart metering will help to improve data quality and availability. As set out in [Appendix 9](#) we expect companies to consider smart meter solutions as the default meter installation type for both household and non-household installations. However, we consider that driving improvements by focusing on the outcomes of lower water demand and leakage will deliver the greatest benefits. This provides incentives for companies to not only deliver more metering, but also to ensure that it is the right technology in the right place, as part of a holistic programme of work to deliver the greatest benefits.

⁶² Arqiva, Business Stream, Future Water Association, MOSL, UK Water Retailer Council (UKWRC), Water Plus and Waterwise.

In addition to helping drive efficiency, Arqiva, MOSL and Waterwise also indicate that a metering performance commitment would play a part in delivering net zero. We consider that just measuring the number of meters could lead to poor quality meters being delivered in an uncoordinated way, which would not improve overall efficiency. Net zero will be achieved through a combination of performance commitments such as operational GHG emissions, biodiversity and water demand, and the actions associated with them. We consider it more appropriate to have performance commitments that encourage long term changes in behaviour, rather than focusing on a single aspect, which is why we will not have a performance commitment for metering.

Rather than introducing a performance commitment, where we allow additional expenditure for metering programmes we may use PCDs as Business Stream suggests, to ensure companies deliver outcomes in future price control periods (see [Appendix 9](#)). We expect PCDs to apply to all enhancement schemes identified in WRMPs, unless otherwise covered by performance commitments. The BR-MeX incentive is being developed in close association with market participants during 2023 and it is possible that this new incentive could also support meter delivery.

6.4 Abstraction licence compliance

6.4.1 Our final methodology policies

This metric has not been developed and we do not consider it appropriate to have a common performance commitment focused on abstraction licence compliance for PR24.

6.4.2 Changes from our draft methodology

This measure had not been considered at the publication of our draft methodology.

6.4.3 Stakeholder views

The Environment Agency supported the introduction of an abstraction licence compliance performance commitment, but that it should be underperformance only. They also suggested discussing a performance commitment to enforce temporary use bans, with the intention of encouraging companies to introduce temporary use bans to help manage drought.

6.4.4 Our final decisions and reasoning

We consider that there may be merit in developing a performance commitment associated with abstraction licence compliance for PR29. However, there is not a current metric that has been subject to consultation that we can adopt. Other environmental performance commitments may impact on water abstraction to such an extent that this measure is not be required.

We consider that the use of temporary use bans should be included within a company's drought management plan and that they should follow the code of practice⁶³ developed by the Environment Agency, CCW and Water UK. We incentivise companies to improve long term resilience to droughts to reduce the risk of temporary use bans being required by incentivising the reduction of water demand including reducing leakage and by funding to provide investment in new water resources to increase supply. We do not agree that the implementation of temporary use bans requires a common performance commitment.

6.5 Catchment or nature-based solutions

Companies work 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 has a range of benefits including increasing biodiversity and reducing GHG emissions.

6.5.1 Our final methodology policies

We do not consider it appropriate to have a common performance commitment focused on catchment management.

6.5.2 Changes from our draft methodology

Having considered stakeholder responses, our policy positions remain as stated in the draft methodology.

⁶³ UKWIR, '[Managing Through Drought: Code of Practice and Guidance for Water Companies on Water use Restrictions – 2013](#)', 2013.

6.5.3 Stakeholder views

Three stakeholders suggested that there should be a performance commitment to incentivise the increased use of catchment- and nature-based solutions, as these are still not yet 'mainstreamed'.

6.5.4 Our final decisions and reasoning

Wales Environment Link, Wildlife and Countryside and Blueprint for Water all suggested that there was a need to separately incentivise the use of catchment- and nature-based solutions. We consider that the introduction of common performance commitments for operational GHG emissions and biodiversity means that there are already incentives for companies to move away from end of pipe solutions and instead work with stakeholders to manage problems at source.

Nature- and catchment-based solutions, should be used where they are effective solutions, which will depend on local circumstances. As set out in Section 2.1, we propose to take an outcomes approach where possible. We consider setting incentives on the benefits these schemes provide, rather than the number of schemes, will push companies to use these approaches where they can deliver benefits.

Catchment management as well as other nature-based solutions will also be supported by our emphasis on best value and taking account of wider environmental and social benefits when assessing enhancement schemes as part of the WINEP and NEP. It will also be supported by a more outcomes-based approach for the WINEP and NEP and therefore we do not consider that a performance commitment is required.

**Ofwat (The Water Services Regulation Authority)
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