

# Updating the storm overflows performance commitment Southern Water's response

26 May 2023



from  
**Southern  
Water** 

# 1. Overview

Thank you for the opportunity to respond to the consultation on updating the storm overflows performance commitment (PC) definition for the PR24 price review (PR24).

Our overall view is that there is potential for large volatility of this PC year-on-year due to weather, which would lead to large volatility of annual financial incentives. To mitigate this, we would recommend Ofwat to consider the following options:

- a long-term average number of spills in AMP8 is preferred to the Ofwat's proposed year-on-year average. This would smooth the year-on-year volatility resulting from dry/wet weather, which is outside management control. The long-term average approach aligns with the DWMP where the EA/Defra/Ofwat national guidance specifies a 3-year average number of spills.
- For future AMPs, a weather-normalised metric would be the preferred option. This will require developing more sophisticated measuring methods which may be worth testing, once developed, in AMP8 as a shadow metric.

We do not agree with Ofwat's proposal of adding 50 spills per unmonitored or unserviceable EDMs per annum when counting the number of total spills to be included in the PC because it would drive the wrong behaviours. We are of the view that Ofwat should adopt the approach followed by the Environment Agency EDM of discounting any EDM less than 90% availability, which reduces the denominator thus increasing the annual average spills and incentivises companies to maintain serviceability.

We also propose that an adjustment for unmonitored and unserviceable EDMs is retained with a deadband of 2 to 4 spills per annum to reflect a reasonable level of outage within which will be no penalties or rewards. This deadband would incentivise companies to ensure monitors are working and serviced without distorting behaviours. Although the PR24 Final Methodology discourages the use of deadbands, we are of the view that this approach would be a valid exception for a new PC and ODI in AMP8.

We respond to each of the consultation responses in turn below.

## 2. Consultation questions

**Question 1 - Do you agree with our proposals to set a performance commitment based on average spills, with financial consequences for companies that do not meet their targets?**

We agree with the proposal of a performance commitment based on average spills with financial outperformance and underperformance incentives. However, we do not agree with the proposed way of measuring the average spills as it does not take into account the year-on-year volatility resulting from wet/dry years, which is outside management control.

Reporting on the average number of spills seems sensible and is what we expected. The assessment is reported on annually with outperformance and underperformance incentives.

However, Ofwat's proposal does not explain how to account for the sensitivity of spills to wet/dry years, which would lead to volatility of the year-on-year spill average. There are a few options to mitigate this:

- a) Using a long-run average, as opposed to year-on-year average, would mitigate volatility due to weather, especially if in the future the measure is adjusted with rainfall in a year. This approach also aligns with the DWMP where the EA/Defra/Ofwat national guidance specifies a 3-year average number of spills.
- b) It may be possible to link the target spill average to a suitable meteorological characteristic of the year. For example, if 2027 is a very dry year, the 'target' number of average spills would be 15; if it is a very wet year, the target average spills would be 17. This approach would uncouple asset performance from weather patterns.
- c) It may be possible to link the spills to rainfall dependant on time of rain, or some other statistical measure through artificial intelligence (AI). This may require further sophistication and would be worth start testing in AMP8.

We are of the view that a long-term average is acceptable in AMP8 but weather-normalised targets would be better in the future. This may require developing sophisticated methods and it may be worth testing such methods, once developed, in AMP8 as a shadow metric.

A 3-year average is specified in the national DWMP framework for the purposes of investment planning on storm overflows. Ofwat storm overflow PC should be consistent with the DWMP risks/thresholds and DWMP data table reporting.

## Question 2 - Do you agree with our proposed approach to unmonitored storm overflows?

We do not agree with Ofwat's proposal of adding 50 spills per unmonitored or unserviceable EDMs per annum when counting the number of total spills to be included in the PC. We have two main reasons for our disagreement:

- EDMs are subject to harsh operating environments and imposing a zero tolerance on unserviceability does not reflect the current technological capability of the units or the operating environment<sup>1</sup>.
- Adjusting to a set level incentivises companies to prioritise serviceability and monitoring over spill reduction and therefore potentially drive the wrong behaviours.

We are of the view that the Environment Agency EDM report already incentivises companies sufficiently by discounting any EDM less than 90% availability, which reduces the denominator thus increasing the annual average. Ofwat should adopt this approach to align measurement across the regulatory landscape, and therefore avoid different methods of reporting performance which may confuse customers.

We also propose that an adjustment for unmonitored and unserviceable EDMs is retained with a deadband that reflects a reasonable level of outage within which will be no penalties or rewards. Historically, the unserviceable monitors would have added an extra 5 to 6 spills to the PC per annum across the industry. Based on this historical performance, we consider that a deadband of 2 to 4

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<sup>1</sup> [Consultation on Continuous Water Quality Monitoring and Event Duration Monitoring \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

spills per annum would incentivise companies to ensure monitors are working and serviced without distorting behaviours. We are aware that the PR24 Final Methodology discourages the use of deadbands, but we think this approach would be a valid exception a new PC and ODI in AMP8.

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**Question 3 - Do you agree with our proposed approach to mid-period changes?**

Yes

**Question 4 - Do you agree with our proposed approach to emergency overflows?**

Yes

**Question 5 - Do you have any further comments on this performance commitment?**

Yes – We are of the view that the following spills should be excluded from the PC:

- Where spills are from a CSO that has biological treatment by a wetland and a permit from the EA (such as an operating technique agreement or OTA), these spills should be excluded from the overall number PC count. By doing so, a continuous discharge permit from a CSO with a linked OTA will not be counted as a reportable spill.

The rationale for this exclusion is that it allows nature-based and natural capital beneficial solutions to contribute to spills reduction. We recognise that the current legislation considers a CSO as a legal entity and considers that any flow from it counts as spill, regardless of the CSO spills treated flow and has an OTA. Until the legislation changes to treat differently CSOs with OTAs that spill treated flow, ensuring that the PC reporting guidance makes this distinction will be a step in the right direction to incentivise the use of nature-based and natural capital beneficial solutions to achieve spills reduction.

We are committed to enhancing the environment across our operating area. We want to tackle storm overflows in a more holistic and integrated way. This means collaborating and working in partnership with other organisations to tackle the rainwater at source using catchment and nature-based solutions and deliver wider multiple benefits. For us, it's about separating rainwater from wastewater, slowing the flow in urban areas, greening cities and helping communities to adapt to climate change and become more water resilient. There are huge opportunities for reducing costs, securing alternative financing, as well as wider benefits. We need time and flexibility to deliver this. We need the performance commitment for storm overflows to give us this, and support and encourage this approach.