July 2025

PR24 final determinations: Delivering outcomes for customers and the environment

Ofwat

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Amendment	Date
On Page 195 in 11.7 Operational greenhouse gases - Water and Wastewater that previously said "Overall, we expect the sector to deliver a 1% reduction in operational greenhouse gas emissions" has been updated to state "Overall, we expect the sector to limit increases in its operational greenhouse gas emissions to less than 2%."	6/02/25
Correction in the units for the performance commitment repairs to burst mains in several sections, citing 'per 10,000 mains length'. This now states 'per 1000 mains length'	6/02/25
Removal of incorrect footnote on page 96	6/02/25
On page 226, correction of the compliance risk index in 2025-26 to 1.83	6/02/25
Adjusted table 9 to account for the changes to Anglian Water leakage and PCC values to reflect latest WRMP.	28/05/2025
DI Value, page 105	11/06/2025
On page 152 in 11.2, Biodiversity – Our assessment and final determinations, update of Hafren Dyfrdwy's ODI rate reduction from "74%" to "61%".	22/05/2025
On page 196 in 11.7, Operational greenhouse gases – water and wastewater, text was updated. In particular, three additional companies are impacted by the deadbands for water operations (Thames Water, United Utilities and Yorkshire Water). Wessex Water has been changed from "all years" to "2025-26. One additional company is impacted by the deadbands for wastewater operations (Dŵr Cymru), and the years impacted have changed for Anglian Water, Severn Trent Water, Wessex Water and Yorkshire Water.	22/05/2025
On page 51, the risk estimate has been updated from -0.20% to -0.17% following the risk model Post-FD changes run. Footnote has been added to explain why the value is different.	14/07/2025
On page 52, the risk skew estimate from draft determinations run has been updated following the WSI calculation correction to the risk model. The P10 and P90 values in the footnote have been updated.	16/07/2025
On page 56, the risk skew value and the P10, P90 and midpoint values in table 8 have been updated following the risk model Post-FD changes run. Footnote has been added to explain why the values are different.	14/07/2025
On page 57, the risk skew estimate from the additive model has been updated following the risk model Post-FD changes run. Footnote has been added to explain why the values are different.	16/07/2025
On page 58, The two graphs in Figure 3 have also been updated following the risk model Post-FD changes run.	16/07/2025

On page 4, our risk estimate for the median efficient firm, based on our monte carlo model, has been updated following the risk model Post-FD changes run.	16/07/2025

Summary

For final determinations, we have considered representations, new evidence, and technical expertise to inform our views about the need to make changes. The availability of 2023-24 outturn data, which gives a more pessimistic view of what performance is likely to be early on in PR24 (2025-30 period), was a significant element of this. We have sought to make changes in line with our PR24 methodology: keeping stretch and strong rates as a default, only adjusting where needed, and minimising the use of caps and collars to maintain incentives. Changes have only been made where they are:

- **evidence driven** - for example, the use of latest performance data that was not available at draft determinations;
- addressing **unintended consequences** at draft determinations, such as disproportionately high ODI rates;
- addressing **outliers** at the extremes of performance;
- consistent with changes across final determinations (for example, on cost allowances) and **aligned with our strategic priorities**; and
- aligning with **longer term requirements** for improvements.

We have also made changes to our risk modelling, including more data and improving the statistical approach used so that it better reflects historical performance. These changes result in a greater range of risk than that from the draft determination models, and reflect the recommendations from an independent review. It also aligns our modelling results more closely with those of companies, investors and other commentators on our draft determinations.

We consider that the proposed package balances financial risk with the need to drive improvements. In particular, we maintain achievable yet stretching performance commitments levels so that the package will continue to drive significant improvement in performance for the benefit of customers and environment. The changes are consistent with our PR24 methodology. We have also engaged with stakeholders more widely, including industry working groups and environmental bodies to gain insights into our changes and how they will impact the sector.

The changes made to performance commitment levels, outcome delivery incentive rates and risk protections – alongside adjustments to our risk modelling approach – produce an outcomes package that we estimate will lead to the median efficient firm achieving -0.17% RoRE over PR24. It is our view that the overall package represents a fair outcome across stakeholders.

Performance commitment levels

We challenge companies to improve their performance at PR24 by setting targets that are achievable yet stretching. In setting these targets, known as performance commitment levels (PCLs), we have sought to best achieve a range of objectives in line with our statutory duties, reflecting consumer, environmental and wider strategic priorities. To do this, we consider a combination of historical performance, econometric modelling, engineering rationales, long-term targets, our efficient cost allowances (both past and current) and companies' own forecasts to set forecasts of good performance for PR24.

Our starting assumption at draft determinations was that companies would meet their PR19 PCLs and that we would only move away from them if there is compelling evidence to support a different approach. For final determinations, we consider that we have received this evidence through latest company outturn performance, stakeholder representations and revised cost allowances. We are therefore making changes to the PCLs we set at draft determination so that the performance profile and level of stretch take these considerations into account. Our changes include:

- moving the **starting point** (2024-25 performance) after taking into account the latest reported performance for two common and thirteen company-specific performance commitments;
- reducing the **end point** (2029-30 performance) for two common-specific PCLs
- adjusting the **end point** (2029-30 performance) for thirteen company-specific PCLs, and hence reducing the sector level end point for twelve and increasing for one in response to latest reported performance and new evidence;
- accounting for compelling **regional factors** and moving United Utilities from common to company-specific PCLs for internal sewer flooding; and
- reducing the stretch for **best performing companies** for four PCs to maintain incentives for these companies to further deliver for customers and the environment.

As part of our assessment at final determinations, we have worked with external engineering specialists and experts in Ofwat's cost assessment team to validate our approach, including that companies have enough funding to deliver performance improvements.

ODI rates

Outcome delivery incentives (ODIs) better align the interests of companies and their investors with the interests of customers and the needs of the environment. They do this by linking performance with expected financial returns and reputational standing. In our PR24 methodology, we set out that we will provide companies with simple and powerful incentives to deliver better performance where it is in the interests of consumers and the environment.

At PR24, we want to provide a more **consistent approach** to setting ODI rates. For most performance commitments, we planned to do this using a 'bottom-up' approach based on customer surveys. Due to difficulties mapping our performance commitment definitions to survey results from service incidents customers could relate to, we were unable to derive robust marginal benefit estimates. Therefore, we moved to a ‘top-down’ approach based on equity return at risk, which we adjusted to reflect customer priorities from our research. In some areas, this led to higher rates or more variable risk impacts at draft determinations than we intended. We have now identified and addressed issues in relation to ODI rates by:

- **making targeted changes** to rates where the general approach creates disproportionately high rates;
- **capping** the difference to starting RoRE allocation for individual rates;
- including **2023-24 data to set ODI rates**;
- adjusting the **company groupings;** and
- setting **a rate 'floor' at PR19 rates** to maintain the strength of incentives.

The impact of these changes has been to reduce ODI rates at final determinations compared to draft determinations for fifteen performance commitments. However, despite these adjustments, for the eleven rates that we can compare across PR19 and at PR24, eight rates are stronger and three are similar to PR19 rates. Considered in the round, the changes we have made to ODI rates result in a more balanced package at final determinations.

Risk Protections

Risk protections on individual performance commitments – such as caps, collars and deadbands – mitigate the effects of extremes in performance on customer bills and company finances. They do however also weaken and distort incentives at the margin. So, we use them in targeted way only.

At draft determinations, we proposed minimal risk protections. Following latest performance data, the submission of new evidence and improvements to our risk modelling, at final determinations we have set more collars and deadbands for performance commitments that were a significant source of net expected negative ODI payments at draft determinations. They include:

- additional or increased **collars** on internal and external sewer flooding, pollution incidents; biodiversity; and

- additional **deadbands** on discharge permit compliance, repairs to burst mains and serious pollution incidents.

Table 1: High level decisions at PR24

Incentive design		PR24 Final determination – Decisions and key updates
Performance commitments	**Common vs bespoke performance commitments**	Common performance commitments: continue to have 23 financial commitments and one reputational performance commitment; material change only to business demand performance commitment relative to draft determinations. Bespoke performance commitments: accepting seven bespoke performance commitments (one less than draft determinations).
Common performance commitments		
ODI rates	**Size of rates**	Rates updated to incorporate latest data and to correct for disproportionately high rates. Broadly consistent approach across performance commitments and at least as strong or stronger than at PR19 across all areas.[1]
	Symmetry	No change from draft determination. Symmetric ODI rates except where the performance commitment is underperformance only.
	Enhanced rewards	Better calibrated to encourage innovation, incentivising improvements beyond sector frontier performance. Re-introduced for per capita consumption.

[1] PR24 ODIs are summarised in Ofwat. 'PR24 final determinations: Key Dataset 1: Outcomes data', December 2024.

	Financial incentives	No change from draft determination. Financial incentives for all but river water quality performance commitment.
PCLs	**Stretch of targets**	Targets updated to reflect latest reported performance. Achievable yet stretching PCLs that push companies to improve performance relative to PR19 levels to a stretch beyond the industry median forecasts and reflect relevant allowances to improve performance.[2]
Risk protections	**Caps and collars**	More caps collars added. Collars apply to almost 80% of all performance commitments and caps apply to 70% of performance commitment at final determinations compared to 60% for both at draft determinations.
	Deadbands	Deadbands apply to all companies for compliance risk index, discharge permit compliance, repairs to burst mains and serious pollution incidents. We have included deadbands for a small number of companies on customer contacts about water quality, bathing water quality, operational greenhouse gas emissions.
	Aggregate sharing mechanism	No change from draft determination. Payment sharing threshold at ± 3% RoRE. Applies to MeX payments (± 0.8 % of RoRE).
	Outturn adjustment mechanism	Adjustment of outturn ODI payments in the event of there being materially different sector performance than expected.

[2] PR24 PCLs are summarised in Ofwat. 'PR24 final determinations: Key Dataset 1: Outcomes data', December 2024.

Contents

1. Introduction

The outcomes framework is a key part of delivering the objectives that matter to customers and the environment in the 2025-30 period and beyond. Our approach gives companies the flexibility to innovate and explore to find the most cost-effective way of meeting these important outcomes. The outcomes package has:

- a more streamlined framework;
- achievable yet stretching targets that drive improved performance for the benefit of customers and the environment and create an appropriate balance for all stakeholders;
- powerful yet simple incentives that align the interests of companies and investors better with consumers and the environment; and
- robust yet sensible risk protections.

While 2020-2024 performance has shown companies making progress in some areas, there are still many areas where performance is either unacceptable or poor with no companies in the 'leading' category and three 'lagging behind' in the latest Water Company Performance Report (2023-24).[3] The sector's pace of improvement in priority areas has been too slow – for example only reducing pollution incidents by 2% to date against a target of 30% for the 2020-25 period and achieving only a 10% reduction in internal sewer flooding to date against a target of 41% for the 2020-25 period. This, alongside a record-low in customer satisfaction measures, points to a clear case for change. We expect that companies, supported by the increased cost allowances set at PR24, should be able to make significant improvements to their performance over the 2025 – 2030 period. We also want to maintain a sector that attracts investment so companies can deliver, innovate, and grow.

We have set the largest ever investment package for 2025-30 (£44 billion) to enable this and the broader changes needed.[4] However, companies must also take ownership of the challenges they face. This will require them to identify and address, where necessary, issues of culture and leadership to drive improvements. Companies will need to be dynamic and agile and take immediate action to improve performance and provide a strong base for continued delivery across the 2025-30 period. Performance targets not only have the benefit of encouraging improvement, but also provide transparency on performance data. This can be used by companies to learn from each other and make informed decisions that focus on key management principles to improve asset health, enhance resilience and deliver environmental improvements.

[3] Ofwat, 'Water Company Performance Report 2023-24', 2023-24.
[4] Ofwat, 'PR24 final determinations: Expenditure allowances', December 2024.

Our performance commitments should not be considered in isolation and it is important that companies continue to meet their legal obligations such as to effectually drain their areas and effectually deal with the contents of sewers including their more specific obligations under Regulation 4 of the Urban Waste Water Treatment Regulations (UWWTR) and maintain an efficient and economical water supply system.[5]

We received feedback to our draft determinations that some of the targets set were not achievable. Some stakeholders stated that the outcomes package put disproportionate financial risk on the sector, which could limit investment, and hence compromise the ability of the sector to implement the changes required. We also heard from non-company stakeholders, such as environmental NGOs and charities, who emphasise the importance of continuing to deliver key outcomes on priority areas for customers and the environment and holding companies to account for their performance. Our final determinations take into account these representations to our draft determinations.

[5] See Sections 94 and 37 respectively of the Water Industry Act 1991 (WIA91).

2. Performance commitments

Performance commitments are the dimensions of performance that are important for customers and the environment. Common performance commitments apply to all companies in England and Wales. Bespoke performance commitments apply only to the specified company.

2.1 Common performance commitments

Before we published our definitions of common performance commitments, we consulted extensively with stakeholders through our PR24 methodology and outcomes working group.[6] In addition to this, companies and stakeholders provided further feedback on the definitions in their business plans and draft determinations representations. In light of this feedback, we have assessed whether there is sufficient evidence for us to change the definitions further to those published at draft determination.

For our final determinations, we consider no material change is required for most performance commitment definitions. For most representations to our draft determinations, we have already considered and responded to similar feedback in our PR24 methodology or draft determinations. Companies or stakeholders have not submitted new evidence that justifies a change. For example, we have explained our general policy position on exclusions in our PR24 methodology and our position remains unchanged.[7] There have also been no changes in the external environment that justify a change.

We are however making the following **substantive changes to the business demand performance commitment to reflect companies' and stakeholders' feedback:**

- instead of using the net aggregate difference between a company's actual outturn and its PCL over the whole 2025-30 period, if it meets the applicable materiality threshold in any single reporting year we will, at the end of the period, consider whether or not the company's PCL should be adjusted and, if so, by how much;
- in relation to the end of period PCL adjustment mechanism, we have reduced the materiality threshold for water-only companies and Hafren Dyfrdwy from a variance of 3% to 2%;

[6] Ofwat, 'Working groups and workshops'.
[7] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance commitments', December 2022, pp.12-15.

- we have provided clarification on collaboration with third parties to deliver water efficiency; and
- we have included void non-household premises as 'relevant premises'.

We are also making **minor changes to 19 common performance commitments**, mainly for clarity and the updating of third-party materials.[8] But we are **not introducing a new severe water supply interruptions performance commitment at PR24**, following our post draft determinations announcement to companies and stakeholders in early August 2024.

Following queries from companies subsequent to publication of our draft determination, we had already updated our **storm overflows** performance commitment to clarify our draft determinations position on **the EDM uptime adjustment** and how ODI payments are calculated. See Section 11.4 for further detail.

Table 2 lists the 24 common performance commitments for PR24.

Table 2: Common performance commitments for PR24

	Water and wastewater	Water only	Wastewater only
Customers receiving excellent service everyday	C-MeX D-MeX BR-MeX (England) Business customer experience (Wales)	Customer contacts about water quality Water supply interruptions Compliance risk index	External sewer flooding Internal sewer flooding
Environmental outcomes	Biodiversity Serious pollution incidents Discharge permit compliance	Business demand Leakage Per capita consumption Operational greenhouse gas emissions - water	River water quality [reputational] Storm overflows Total pollution incidents Operational greenhouse gas emissions - wastewater Bathing water quality
Asset health		Repairs to burst mains Unplanned outage	Sewer collapses

[8] This includes biodiversity; repairs to burst mains; total pollution incidents; serious pollution incidents; discharge permit compliance; sewer collapse; internal sewer flooding; operational greenhouse gas emissions – water; operational greenhouse gas emissions – wastewater; bathing water quality; customer contacts about water quality; storm overflows; leakage; per capita consumption; river water quality; C-MeX; D-MeX; BR-MeX; and business customer experience in Wales.

Our common performance commitment definitions are published on PR24 Performance commitment definitions - Ofwat.[9]

2.2 Bespoke performance commitments

In our PR24 methodology, we stated that companies could propose bespoke performance commitments if they met specific conditions. These specific conditions relate to addressing local or company-specific circumstances or targeting a common issue where a company provides poor service, but other companies' performance is generally adequate.[10] The proposal should also be suitable for financial incentives, with robust monitoring and assurance processes in place, which provide us with confidence that payments are only due when companies' performances justify it. We invited companies to submit early proposals.[11] In our initial assessment of these proposals, we further explained that certain factors would contribute favourably towards our overall final assessment of proposals, such as good evidence of customer engagement.[12]

We developed a framework to assess the bespoke performance commitment proposals based on these criteria:

Table 3: Summary of test criteria conditions and thresholds

Test	Condition	Threshold of progressing
Merits	• Compelling evidence on local or company-specific circumstances that justify a proposal to bring significant additional benefits to customers or the environment. • Poor service on a common issue where other companies' performance is generally adequate and the risk of performance deteriorating is low.	• Must meet either condition.
Suitability	• Suitable for financial incentive. • No overlap with common performance commitments. • Outcome-focused.	• Must meet the conditions overall. • Will consider interventions if needed.
Any other evidence	• Customer engagement evidence.	• Favourable only.

In October 2023, ten companies submitted in their business plans a total of 17 bespoke performance commitment proposals. In our **draft determinations**, we considered

[9] Ofwat, PR24 Performance commitment definitions - Ofwat.
[10] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance Commitments', December 2023, pp.8-12.
[11] Ofwat, 'IN 23/02 Submission guidance for PR24 bespoke performance commitment definitions', February 2023.
[12] Ofwat, 'PR24: Assessment of bespoke performance commitment proposals', July 2023.

eight of them suitable for progressing, subject to the companies being able to address our comments to our satisfaction.[13]

In their representations:

- companies agree with our draft determinations for 11 bespoke proposals;
- companies did not agree to our draft decisions for five bespoke proposals;[14]
- Hafren Dyfrdwy withdrew its bespoke proposals on lead pipes for delivering through enhancement expenditure to be tracked by price control deliverables; and
- Portsmouth Water submits two new bespoke proposals on metering.

For our **final determinations**, we assessed the new evidence submitted by those companies which disagreed with our draft determinations, according to the criteria summarised in **Table 3**. With two new proposals from Portsmouth Water, there are a **total of 19 bespoke performance commitment proposals for PR24, and we are accepting seven of them**. A summary of our decisions is in Table 4. The reasons for our decisions are published in the respective company appendices, and the final definitions for the measures we have accepted are published on our website.[15]

Table 4: Assessment of bespoke performance commitment proposals

	Proposed measure	Company	Assessment
1	Average time properties experience low pressure	Affinity Water	Include the proposal to protect customers
2	Lower carbon concrete assets	Anglian Water	Progress
3	Capital carbon	Severn Trent Water	Progress
4	Embodied greenhouse gas emissions	South West Water	Progress
5	Streetworks collaboration	Thames Water	Progress
6	Embodied greenhouse gas emissions	United Utilities	Progress
7	Wonderful Windermere	United Utilities	Progress
8	Abstraction incentive mechanism	Affinity Water	Reject
9	Whole life carbon	Affinity Water	Reject

[13] These bespoke performance commitments are: average time properties experience low pressure (Affinity Water); lower carbon concrete assets (Anglian Water); number of lead pipes replaced (Hafren Dyfrdwy); capital carbon (Severn Trent Water); embodied greenhouse gas emissions (two proposals, each from South West Water, United Utilities); Streetworks collaboration (Thames Water), and Wonderful Windermere (United Utilities).
[14] Affinity Water considers that we should accept its proposal 'whole life carbon' which we rejected, and withdrew its proposal 'average time properties experience low pressure', which we considered should progress; Severn Trent Water and South West Water consider that we should accept their respective catchment management bespoke proposals, which we rejected; and Dŵr Cymru consider that we should accept its proposal 'storm overflows harm,' which we rejected.
[15] Ofwat, 'PR24 Performance commitment definitions'.

10	Storm overflows harm	Dŵr Cymru	Reject
11	Number of lead pipes replaced	Hafren Dyfrdwy	Reject
12	Metering – Average meter connectivity	Portsmouth Water	Reject
13	Metering – Data completeness	Portsmouth Water	Reject
14	Water softening	SES Water	Reject
15	Frontier catchments	Severn Trent Water	Reject
16	Reducing disruption from our work	Severn Trent Water	Reject
17	Abstraction incentive mechanism	Southern Water	Reject
18	Catchment management	South West Water	Reject
19	Improving water bill affordability for socially important non-household community groups	United Utilities	Reject

3. Performance commitment levels

When making price control determinations, we do so in the manner which we consider is best calculated to meet our duties. To achieve the outcomes customers expect, a particular challenge is to set appropriate performance commitment levels (PCLs) and incentives that stretch companies to deliver performance improvements for customers and the environment while remaining achievable and consistent with the efficient expenditure allowances companies receive. At final determinations, we set PCLs that are **achievable but stretching.**

To set the PCLs, our focus remains on what **an efficient company can deliver** through our expenditure allowances.[16] We continue to apply four key principles, which are aligned with our PR24 methodology.

1. We consider if PCLs should be set on a **common** or **company-specific** basis.
2. We expect companies to challenge themselves to improve their performance over the **long term** and deliver more over time for customers and the environment through their efficient base expenditure allowances.
3. We adjust PCLs to account for performance improvements driven by **enhancement expenditure** where relevant by amending our expected levels of performance from base expenditure.
4. We consider **the overall stretch across cost and service** and account for the performance of efficient companies when setting PCLs. We assess the financial impact from ODI payments of different levels of stretch on PCLs compared to what companies forecast to achieve. We review this in the round to adjust stretch on PCLs.[17]

At draft determinations, to implement this approach, we used the following information to set PCLs:

- efficient expenditure allowances;
- historical performance;
- performance of cost-efficient companies;
- the opportunity for companies to deliver improved performance from efficient allowances based on companies' forecasts and our analysis; and

[16] Ofwat, 'PR24 final determinations: Expenditure allowances', December 2024.
[17] This changed the order of points 3 and 4 from the PR24 methodology. We considered stretch in the round both in terms of performance from base and overall performance from totex. See Sections 5 and 6 for further discussion of risk.

- external targets including relevant statutory obligations, outputs of strategic planning processes and long-term performance targets.

At draft determinations, the key elements of our approach can be summarised as follows:

- to set **common performance commitment levels** across the sector **where possible**;
- to set **2024-25 baselines** aligned with **PR19 performance commitment levels** or use historical performance data where no PR19 PCLs existed;
- to set **performance stretch** expectations at **industry median forecast** for 2025-30 as a minimum where sensible to do so; and
- to **adjust** performance commitment levels expectations to account for improvements delivered through **enhancement expenditure allowances**.

In response to our draft determinations, we received significant feedback from stakeholders about our proposed performance commitment levels. We address these representations for individual performance commitment levels in Sections 9-14. We respond to the overarching themes here.

Representations from companies and investors in response to our draft determinations stated that our performance commitment levels were too stretching. They highlighted the impact of us using PR19 performance commitment levels as a baseline for the 2025-30 period, given the sector's poor performance in the 2020-25 period to date. There was concern that doing so would effectively punish companies twice due to the underperformance payments already applied in the 2020-25 period. These payments have been incurred in the context of companies overspending their base expenditure allowances.[18] Companies also challenged us to develop further the link between expenditure allowances and performance improvements. There was strong challenge in representations about Ofwat's expectations on the delivery of improvements from base expenditure.

An overarching concern from companies and investors was that our draft determinations resulted in excessive underperformance payments for the sector that reduced the likelihood of investors providing funding and limited companies' ability to deliver investment at PR24.

Consumer groups and environmental NGOs were also concerned with historical and current performance levels, which is a theme echoed in our most recent Water

[18] Ofwat, 'Water Company Performance Report 2023-24', October 2024, p. 2.

Company Performance Report.[19] They considered that companies should be held to account to deliver improvements at PR19 and the performance stretch in our draft determinations was not enough to do this.

When making price control determinations, we do so in the manner that we consider is best calculated to meet our duties. To incentivise performance improvements, we need to set appropriate performance commitment levels that stretch companies to deliver for customers and the environment while remaining achievable with the efficient expenditure allowances companies receive.

Setting the baseline

For final determinations, we strike the balance to setting achievable yet stretching PCLs by revising our approach to setting the baseline levels of performance for the 2025-30 period. We do so by **putting greater emphasis on recent performance levels and moving away from the default position of adopting PR19 performance commitment levels.**

This is consistent with our draft determination commitment to consider revising our performance commitment levels in the context of an additional year's outturn performance for the sector from 2023-24. This additional year of data is material for judging the sector's performance against performance commitment levels across the 2020-25 period as a whole because we now have four out of five years of data from which to evaluate trends. Additionally, both companies and Ofwat are now able to make more accurate forecasts of achievable yet stretching 2024-25 baseline performance positions because we only have to forecast a single year ahead. Companies also provide additional evidence across a range of performance commitments in direct response to questions and challenges we raised in our draft determinations. We draw on this extra information to set appropriate baselines.

Baseline changes are most marked for total pollution incidents and internal sewer flooding where the sector as a whole has failed to meet PR19 ambition.[20] While this change represents a less stretching starting point for the majority of performance commitments compared to draft determinations, the performance levels we expect to be delivered in 2025-26 and beyond represent a stretching improvement from current performance levels. This is especially true for companies that are performing poorly compared to the rest of the sector. Those companies will have to deliver significant improvements or face material underperformance payments.

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[19] Including but not limited to customers, groups representing customers, councils, metro mayors, members of parliament and environmental NGOs.

[20] Ofwat, 'Water Company Performance Report 2023-24', October 2024, p. 5.

It is not realistic to set a forward-looking performance challenge based solely upon PR19 ambition that is not being delivered. The outcomes package aims to reward good performance and penalise poor performance. We do so by incentivising companies to aim for their PCLs and go beyond them. If the PCLs are beyond what is achievable by the majority of companies, we are not giving the sector a fair chance to earn rewards from improved performance. This runs the risk that companies might decide it is not worthwhile to the make the effort to pursue their PCLs, which will not benefit customers or the environment. It would also result in the sector being placed at high likelihood of immediate underperformance from the start of the 2025-30 period. This would also not support delivery of the large investment programme required to deliver improvements for customers and the environment over the 2025-30 period and beyond.

For final determinations, we apply less stretching baselines than the PR19 PCL and our draft determinations for over a third of the performance commitments. This is summarised in Table 5 below.

Table 5: Summary of changes to 2024-25 baselines

Performance commitment with PR19 PCL[21]	2024-25 baseline used at draft determinations	2024-25 baseline used at final determinations
Water supply interruptions	PR19 PCL	PR19 PCL
Total pollution incidents	PR19 PCL	Informed by performance 2020-24
Internal sewer flooding	PR19 PCL	Informed by performance 2020-24
External sewer flooding	PR19 PCL	Informed by performance 2020-24 or company forecast, with PR19 PCL retained where appropriate
Customer contacts about water quality	PR19 PCL	Informed by performance 2020-24 or company forecast, with PR19 PCL retained where appropriate
Leakage	PR19 PCL	Informed by performance 2020-24 or company forecast, with PR19 PCL retained where appropriate
Per capita consumption	PR19 PCL adjusted for the ongoing impact of the COVID-19 pandemic on PCC.	PR19 PCL adjusted for the ongoing impact of the COVID-19 pandemic on PCC or the more ambitious of company forecasts or a minimum rate of improvement from 2023-24 outturn.

[21] We have 24 common performance commitments. There are eight performance commitments that are new and therefore do not have PR19 PCLs: serious pollution incidents; river water quality; storm overflows; bathing water quality; business demand; biodiversity; and water and wastewater greenhouse gases. There are three performance commitments that operate on a comparative basis and for which setting the baseline in this way does not apply: C-MeX; D-MeX; and BR-Mex.

Performance commitment with PR19 PCL[21]	2024-25 baseline used at draft determinations	2024-25 baseline used at final determinations
Repairs to burst mains	PR19 PCL	Informed by performance 2020-24 or company forecast, with PR19 PCL retained where appropriate
Sewer collapses	PR19 PCL	Informed by performance 2020-24 or company forecast, with PR19 PCL retained where appropriate
Compliance risk index	PR19 PCL	PR19 PCL
Discharge permit compliance	PR19 PCL	PR19 PCL
Unplanned outage	Informed by outturn performance due to PC definition change	Informed by outturn performance due to PC definition change

The counter-point to the risk of companies being penalised twice for poor performance is the risk of customers paying twice for improvements. This is directly mitigated in some areas such as leakage, where companies receiving enhancement expenditure at PR19 are subject to a claw-back mechanism to return money to customers if outcomes are not delivered.

Where performance improvements are expected to be delivered through base expenditure, it is more difficult to directly attribute expenditure to benefits delivery. However, failure to deliver the PR19 PCLs does, as explained above, result in companies returning money to customers in the form of ODI underperformance payments. And, as noted above, companies have generally overspent their base allowances at PR19.

Delivering improvements in 2025-30

We have set our PR24 performance expectations in the context of the expenditure allowances we have made. Where these allowances have changed from draft determinations, we have assessed the impacts on expected performance. We are holding companies to account for delivering performance improvements by setting the ODI rates at least as high as median PR19 levels with the ODI rates for ten performance commitments stronger at PR24 than PR19. This strengthens the incentives for companies to deliver performance improvements and avoid deterioration.[22]

The scale of the investment to be delivered in the 2025-30 period has continued to grow beyond PR24 draft determination levels to reflect the increased scope of expected improvements.[23] To protect investment and hold companies to account for delivery we

[22] These changes are discussed in further detail in Section 4.
[23] For further details of expenditure allowances see Ofwat,'PR24 final determinations: Expenditure allowances', December 2024.

use price control deliverables (PCDs) as a complementary incentive tool. PCDs encourage companies, where expenditure has been allowed, to deliver schemes and performance improvements in full and in a timely manner. PCDs further help to protect customers from failure to deliver, or late delivery of, these projects and improvements. We discuss PCDs in further detail in 'PR24 final determinations: Expenditure allowances', Section 4.7.2.

Cost–service relationship

As mentioned above, all companies say that we had not sufficiently addressed the link between expenditure and service.

We have drawn on our analysis of historic and forecasts of performance data, considering the overall stretch across cost and service, and accounting for the performance of efficient companies when setting PCLs. We have reflected new information, putting a greater emphasis on recent performance. For example, we have reduced the emphasis we place on companies' forecasts of total pollution incidents performance for our final determinations in the context of companies' recent performance in this area.

In their representations, companies challenge the validity of using their unadjusted forecasts to support the setting of PCLs, where we had not allowed the associated expenditure in full. We draw upon information of drivers of performance where possible including from company submissions and other regulators to form our views about whether companies can deliver improvement through the efficient expenditure we allow.

We consider that we are providing sufficient base and enhancement expenditure for companies to meet their statutory obligations and for efficient companies to deliver our PR24 PCLs on average over time. [24] For example, we are providing significant enhancement funding to enable companies to reduce spills from storm overflows and to enhance water treatment capability to meet Drinking Water Inspectorate (DWI) expectations.

In spite of these changes for our final determinations, companies might have the concerns in their representations about them not enough funding from base expenditure to deliver the performance improvements we expect. However, we maintain our position that both historical outturn and company forecast performance data supports an expectation of performance improvements delivered through base expenditure. This can be achieved by implementing better practices, rather than by

[24] Further details of our expenditure allowances are provided in documents such as Ofwat, 'PR24 final determinations: Expenditure allowances', December 2024.

increasing expenditure. And we do not consider there is a material overlap between outcomes stretch and frontier shift in cost efficiency for the water sector as was suggested in company representations. This view about no material overlap is supported by the analysis undertaken by Frontier Economics, which has not been effectively rebutted by any company.[25]

A key area where we expect statutory obligations to be delivered through base expenditure is total pollution incidents. For this performance commitment, we expect companies to deliver the 30% improvement in performance (as specified under WISER[26]) principally through base expenditure. We consider that this percentage improvement is a clear expectation set by the Environment Agency that companies should be incorporating into their operational planning. However, we consider there is evidence, principally from historical sector performance, to adjust the baseline in this performance commitment and to challenge the credibility of company forecasts. We subsequently set a common PR24 2029-30 PCL based on a 30% reduction from the baseline, which is calculated using 2020-24 reported performance. The performance stretch required varies company to company depending on current outturn performance, where our final determinations require the poorer performers to improve their performance more than the rest of the sector.[27]

Where companies have provided evidence of a valid need for further investment, we have provided additional expenditure allowances. For example, for our final determinations, we are continuing to provide companies with a climate change resilience uplift to address their priority issues relating to flooding and power resilience. We provide such funding in line with our policy approach that companies should manage all external risks, as they are better placed to do so than customers. We expect this investment to support the delivery of our proposed PCLs, including total pollution incidents, serious pollution incidents, water supply interruptions, unplanned outage and internal and external sewer flooding.[28]

Setting PCLs at company or regional levels

In 2021, the owner of South West Water, Pennon Group plc, acquired the owner of Bristol Water. As a result, we made changes to South West Water's licence so that South West Water now serves the Bristol area for water services. As per draft determinations, in our final determinations, we set separate price controls and performance commitment levels for the South West and Bristol areas, in line with the

[25] See further discussion in Ofwat, 'PR24 final determinations: Expenditure allowances' December 2024, and 'Frontier Shift and Outcomes Stretch at PR24', Europe Economics, March 2023.
[26] The Water Industry strategic environmental requirements (WISER), May 2022.
[27] See Section 11.6, total pollution incidents for further detail.
[28] For further detail of the allowances made see, Ofwat, 'PR24 final determinations: Expenditure allowances', December 2024.

undertakings Pennon gave to the Competition and Markets Authority (CMA) as part of its merger inquiry.

For Northumbrian Water and South Staffs Water, we set demand PCLs at a regional level to align with the companies' water resource management plans. See Section 10 for further details.

Summary of final determination approach to setting performance commitment levels

Taking into account the stakeholder feedback and additional evidence provided in representations, our analysis of an additional year of performance data, and in line with our statutory duties, **our final determinations set achievable yet stretching performance commitment levels for the 2025-30 period using the following approach:**

- We continue to set **common performance commitment levels across the sector where appropriate** but use company-specific levels where compelling evidence is provided.
- **When setting 2024-25 baselines we put greater emphasis on the latest reported performance** and consider additional evidence provided when assessing the validity of using 2024-25 PR19 performance commitment levels.
- Where there is **compelling evidence to move away from PR19 performance** commitment levels, we use historical and forecast performance data to set a 2024-25 level of performance that should be **achievable yet stretching**.
- We continue to use historical performance data to inform baseline positions where no PR19 PCLs exist.
- We continue to typically set performance **stretch expectations at industry median forecast for 2025-30 as a minimum** to challenge poorer-performing companies to make significant improvements.
- We continue to adjust performance commitment levels to account for **improvements delivered through enhancement expenditure**.

4. Outcome Delivery Incentives

Outcome delivery incentives (ODIs) **better align the interests of companies and their investors with the interests of customers and the needs of the environment.** They do this by linking performance with expected financial returns and reputational standing. In our PR24 methodology, we set out that we would provide companies with simple and powerful incentives to deliver better performance where it is in the interests of consumers and the environment.[29]

In this section, we cover the feedback and changes we have made to our approach on setting ODI rates. This approach is based on dividing a proportion of equity at risk by an expectation of a wide range of performance that is reasonable based on historical performance. We refer to it as the "top-down approach" in this document.

We also describe specific ODI rate changes relating to individual performance commitments that have been set slightly differently to our general approach. We cover these in more detail in the individual performance commitment sections. The performance commitments affected are:

- Water quality contacts;
- Sewer collapses;
- Unplanned outage;
- Compliance risk index; and
- Discharge permit compliance.

We also summarise our approach to enhanced ODIs, and this is covered in greater detail in the individual performance commitment sections. The performance commitments affected are:

- Water supply interruptions;
- Internal sewer flooding;
- External sewer flooding;
- Leakage;
- Per capita consumption;
- Total pollution incidents.

We have made adjustments to the outcomes package for final determination to balance supporting increased investment while holding companies to account for delivering improvements for the environment and customers.

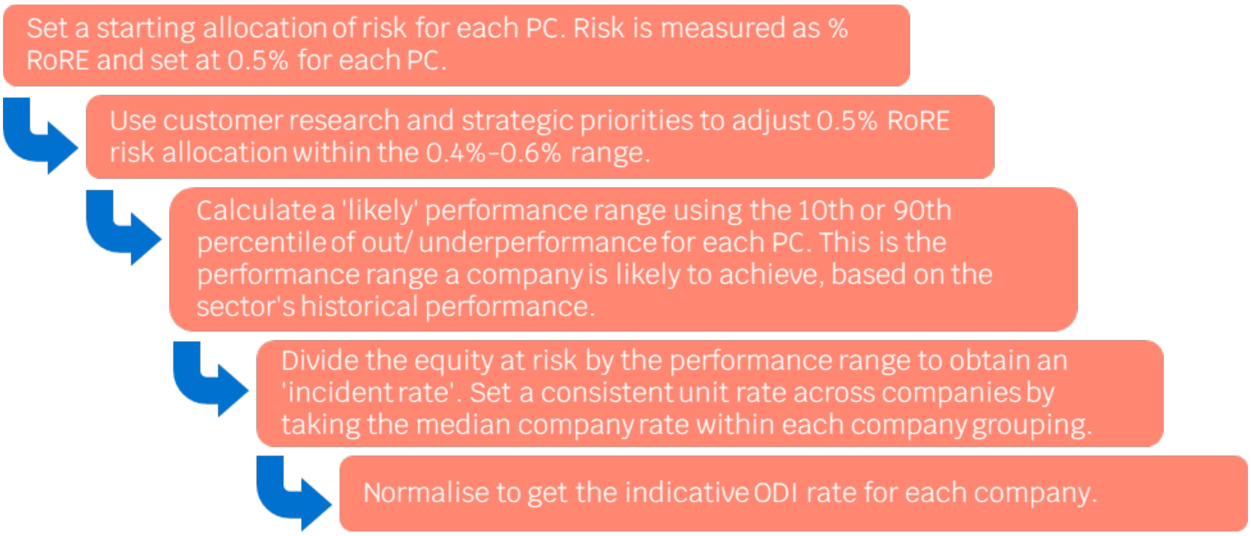
[29] Ofwat, 'Creating tomorrow, together: Our final methodology for PR24', December 2022.

Companies should be clear and transparent with stakeholders regarding their performance, including how any outperformance payments from customers have been used. Where companies are earning outperformance, they should consider customer and environmental expectations and the appropriateness of re-investing outperformance payments in areas where they are expected to continue to drive improvements to deliver long-term targets.

4.1 What we said in our draft determinations

Figure 1 below outlines our top-down methodology as at draft determinations.

Figure 1: Equity return at risk approach to setting ODI rates



In our draft determinations, we introduced several modifications to our top-down methodology as set out in the PR24 methodology and our August 2023 publication.[30]

The key modifications made at draft determinations were:

- **Small RCV (regulatory capital value)** – we categorised companies into two groups based on the size of regulated equity and treated Hafren Dyfrdwy and Portsmouth Water separately from both groups.
- **Demand performance commitments** – we disaggregated the rate calculation for the three demand performance commitments leakage, per capita consumption and business demand.

[30] Ofwat, 'PR24: Using collaborative customer research to set outcome delivery incentive rates', August 2023.

- **Asset health performance commitments** – we removed the manual adjustments made to repairs to burst mains, sewer collapses, and unplanned outage to calibrate the ODI rates to PR19 rates based on whether performance has been improving or not during 2020-25.
- **Greenhouse gas emissions** – we applied the central series BEIS carbon values for 2027 and multiplied this by the 70% benefit sharing factor.
- **Biodiversity** – we took Defra's estimated national average price per biodiversity unit.
- **RCV** – we updated RCVs used to calculate ODI rates from 2022-23 figures to 2025-30 average.
- **Prioritisation of performance commitments** – we updated the starting RoRE categorisation of strategically prioritised performance commitments to 'high'.
- **Repairs to burst mains and water supply interruptions** – we uplifted the median unit rates used to calculate ODI rates for repairs to burst mains and water supply interruptions to ensure rates are at least as strong as PR19.

In our draft determinations, we stated our intention to include **enhanced ODI rates** on four of the six performance commitments initially set out in the PR24 methodology. We chose to exclude total pollution incidents based on the potential for changes to the methodologies used by the environmental regulators during the 2025-30 period. We also chose to exclude per capita consumption based on the impact that COVID-19 has had on historical performance.

We also outlined our methodology for setting the enhanced thresholds, opting for a PCL+X method. We applied a common improvement factor to each PCL based on a measure of past performance beyond PR19 targets.

4.2 General ODI rate methodology

Stakeholder representations

We received a wide range of responses on the ODI rates in the draft determinations from companies and investors. Their feedback was that the ODI rates are too high, posing significant negative financial risk to companies. Their reasoning for this view is described in further detail below.

Outside of investors and companies, the only other stakeholder to comment on ODIs was CCW, which stated its support for our top-down approach, especially the alignment of starting RoRE to customer preferences and strategic priorities.

We break down our analysis and final determinations for the ODI rate methodology in separate sections below.

4.3 Updating performance data

Stakeholder representations

One of the most common requests is to update the historical data used in the calculation of performance ranges and enhanced thresholds by including 2023-24 data that is now available. Companies understand this data was not available to us while we were making our draft determinations.

Our analysis and final determinations

We agree with companies that we should be using the most recent data available to us. Since our draft determinations companies have submitted their annual performance reports and data for 2023-24. We have updated all ODI rate and enhanced threshold calculations for final determinations to include this latest data. This generally lowers ODI rates because performance ranges are wider with the extra year of data.

4.4 Company groupings

Stakeholder representations

Thames Water states that "companies with large RCVs should not be penalised for ODI rate mitigations put in place to protect small RCV companies". It suggests that Ofwat "calculate ODI rates for large companies based on an industry-wide median unit incident rate, while at the same time estimating ODI rates for small RCV companies separately".

Affinity Water suggests removing the grouping of companies and treating each company individually in order to maintain RoRE impact equivalency across the industry.

South Staffs Water states that because of its small RCV, its ODI rates are disproportionately high compared with the other companies.

Our analysis and final determinations

We accept that our use of a median unit rate to calculate the ODI rate means the RoRE impact can vary significantly from the starting RoRE allocation. This variation may put significant financial risk on some companies compared to others, reflecting differences between companies' regulatory capital value (RCV) which is used to set the ODI rate. To address this at draft determinations, we grouped companies together before setting a median ODI unit rate to get a balance between our aim of having standardised ODI rates across companies and limiting the size of risk to any particular group, such as smaller companies. This grouping approach means that a smaller company in a group would be set stronger ODI rates than it would if there were no groupings (and a larger company has weaker ODI rates).

We engaged with companies after draft determinations on changes to the approach to setting ODI rates. Their feedback was supportive of keeping the same per-incident rate across companies as far as possible. However, we acknowledge the different risk impacts of this approach on individual companies. For final determination, we re-assess the company groupings with the intention of minimising any excessive or insufficient ODI risk to any particular company or group.

We analysed a number of options for making this change by comparing the RoRE impact on companies from ODI payments when applying different groupings. The options we considered were:

1. No change in groupings;
2. Group based on WaSCs and WoCs;
3. Group WaSCs and split WoCs into large and small groups; and
4. Group WaSCs and treat each WoC individually.

We determine that Option 3 is the best option because it maintains the size of rates for small WoCs whilst reducing the RoRE impact on the larger two WoCs. The other options produce greater variations in rates instead of less in key areas.

However, option 3 does increase the relative level of ODI rates for WaSCs as the median unit rate is no longer being pulled downwards by the larger WoCs. We considered further refinements to the options to compensate for this, but we rejected them on the basis of extra complexity and distorting incentives across the wastewater and water businesses. We also consider that this increase is mitigated by the overall reduction in rates from other decisions that are described for our final determinations. Our final groupings are listed below:

Table 6: Grouping of companies

Group	Description	Company(s) included
Group 1	WaSCs	All WaSCs except for Hafren Dyfrdwy
Group 2	Large WoCs	Affinity Water and South East Water
Group 3	Small WoCs	Bristol Water, South Staffs Water and SES Water.
Hafren Dyfrdwy		
Portsmouth Water		

4.5 PR19 ODI rate floor

Stakeholder representations

A number of companies criticise our decision at draft determination to uplift repairs to burst mains and water supply interruptions rates based on the average level of the equivalent rates at PR19. Thames Water comments that one of the benefits of the Ofwat general approach to setting ODIs is that we are adopting an internally consistent methodology for each performance commitment. Thames Water asks that we apply this general approach to repairs to burst mains and water supply interruptions too. South West Water also disagrees with the uplift because it questions the reliability of the underlying marginal cost data on which these PR19 rates are based.

Our analysis and final determinations

We set a minimum ODI rate based on PR19 ODI rates to minimise the risk of ODI rates no longer being sufficiently strong to incentivise improvements in performance.

We have reviewed companies' feedback and have made changes to our methodology to apply a PR19 unit rate floor to all common performance commitments as part of the top-down methodology as opposed to overriding the process for specific performance commitments.

The new approach calculates the median unit rates for each performance commitment at PR19 based on the company groupings discussed above. For each company, the unit rate for PR24 is then set at the larger of the PR19 unit rate or the PR24 rate calculated via the top-down approach. This effectively sets a minimum rate for each company at the median PR19 unit rate.

We still consider that the level of incentive at PR24 must be at least as strong as PR19 in order to effectively motivate companies to improve their performance.

4.6 RoRE allocation and ODI rate cap

Stakeholders' representations

A number of companies propose lowering or capping the RoRE strength of ODI rates we set at draft determinations. Companies question the calculation of a median unit rate because they state that the effect of this normalisation is much higher RoRE impacts for certain ODI rates for some companies compared to others. For example, by using the median unit rate on external sewer flooding, Thames Water's ODI rate has a P10

RoRE risk of 1.6%, which is much higher than the remaining WaSCs that average 0.6% RoRE.

Anglian Water and Severn Trent Water suggest capping the RoRE impact at or below the starting RoRE allocation and Southern Water suggests lowering the starting RoRE allocation across all performance commitments.

Severn Trent Water suggests capping the difference between the starting RoRE allocation and the RoRE impact of the final ODI rates.

Yorkshire Water also states that our starting allocation of 0.50% RoRE is not well justified.

Dŵr Cymru proposes setting the RoRE allocation at 0.35% RoRE with variations to 0.4% and 0.3% based on priority ranking of performance commitments. It also proposes a cap on changes to PR19 ODI rates at 25%. Similarly, South East Water proposes a cap on changes to PR19 rates at 20%.

Our analysis and final determinations – starting RoRE allocation

Our methodology for setting the starting RoRE of 0.5% was set out in our August 2023 publication on setting ODI rates.[31]

As stated in that report, the starting allocation of 0.5% RoRE was informed by analysis of payments from common performance commitments during PR19. We calculated hypothetical payments for each common performance commitment or each company and multiplied the performance deviation from the PCL by the underperformance rate.

For final determinations, we update this analysis to include all PR19 performance up to 2023-24. We calculate the upper quartile and 90th percentile of payments in RoRE terms across all performance commitments in all years, which represents payments from a 'stretching yet achievable' level of performance. These are shown in Table 7:

[31] Ofwat, 'PR24: Using collaborative customer research to set outcome delivery incentive rates', August 2023.

Table 7: Range of theoretical annual payments from PR19 common PCs over 2020-24 (% water/wastewater RoRE)

PC type	PR19 average UQ payment per PC	PR19 average P90 payment per PC	Midpoint between UQ and P90
Water PCs	0.50%	1.02%	0.76%
Wastewater PCs	0.28%	0.68%	0.48%

Based on this, our average RoRE allocation per performance commitment of 0.5% remains valid and falls between the upper quartile and 90th percentile payments across all common performance commitments during 2020-24.

We also assess the size of total ODI risk for each company as set out in Section 6. Our risk outputs, even in some of the more extreme scenarios we test, are within the range of ±3% RoRE as set out in the PR24 methodology. We consider levels of risk below this to be suitable. As such, we do not find a reason to reduce the starting RoRE allocation.

We have not considered a cap on difference to PR19 ODI rates. While we understand concerns about having continuity in ODI rates across price control periods, previous ODI rates have been set inconsistently across companies, leading to a wide range of values per unit of service failure. Applying a cap on changes to individual company PR19 ODI rates would mean that these valuations would continue to vary significantly across companies.

Our analysis and final determinations – cap on starting RoRE

By setting ODI rates based on median unit rates, our intention is to set a similar value for each unnormalised unit (for example one sewer flooding incident rather than one incident per 10,000 connections) for all customers across England and Wales. However, in some cases, the use of median rates can lead to significantly different impacts on ODI risk for companies. This is mitigated by using the groupings described above. Nonetheless, the ODI risk is still high when considered on a RoRE basis for some PCs.

To limit large levels of risk exposure from individual ODI rates, we have introduced a cap on the RoRE impact of ODI rates. We tested a range of cap levels and find that a 50% cap strikes the right balance between limiting risk protections and keeping consistent unit rates between companies.

We calculate the RoRE impact of each company's ODI rate by multiplying the ODI rate by the performance range and dividing by the applicable regulated equity. If this is higher than the cap, then the ODI rate is set so that the RoRE impact is at the cap. This means that if the starting RoRE for external sewer flooding is 0.60%, that the cap is set at 0.9% RoRE.

Capping the final ODI rate by the change from starting RoRE allocation means that no individual rate places too high a risk to customers or companies or is too low relative to other rates to incentivise improvement. As this is applied by-exception, a degree of consistency in rates between companies is maintained.

This cap is only applied to performance commitments which have their ODI rates set via the general top-down approach. We also do not apply it to bathing water quality where the ODI rates vary significantly as a result of large differences in the number of bathing waters in company catchment areas.

4.7 Other changes made

Inclusion of price control allocations in setting ODI rates

We have updated the regulated equity value used to calculate ODI rates by taking into consideration the price control allocation (PCA) for each performance commitment between water and wastewater activities. To calculate the regulated equity figure used by each company for each performance commitment, we now take the PCA for water and multiply by the water equity and take the PCA for wastewater and multiply by the wastewater equity value, then sum the two results. This ensures that the ODI rate is based on the actual equity value each company attributes to the activities covered by each performance commitment. The PCA is split across water and wastewater for discharge permit compliance, serious pollution incidents and biodiversity only.

This only impacts WaSCs and has a minimal impact on final ODI rates for most companies and most performance commitments. However, this allocation becomes important for companies with a large discrepancy between the sizes of their water and wastewater businesses such as Hafren Dyfrdwy and Southern Water, especially for performance commitments such as discharge permit compliance.

Changes to ODI rates outside the general ODI rate calculations

There are some instances where the ODI rates generated by our rate setting approach might lead to adverse outcomes. This occurs when the performance range used in the ODI rate setting calculation is too small, leading to a very high ODI rate. Where there is sufficient risk of adverse outcomes, we have taken an alternative approach to setting ODI rates. This has generally been to base ODI rates on the median PR19 ODI unit rate for an unnormalised unit, such as a single sewer collapse, adjusted for inflation and with an uplift of up to 20%. While this is means that rates are set in a less consistent manner compared to draft determinations, we determine that it should lead to better outcomes for customers, the environment and companies. This approach still adopts the same overarching goal of setting consistent ODI rates across companies.

We provide greater detail on the performance commitments this applies to in their respective sections. The performance commitments are:

- Water quality contacts;
- Sewer collapses;
- Unplanned outage;
- Compliance risk index; and
- Discharge permit compliance.

4.8 Enhanced ODIs

Stakeholder representations

Only two stakeholders offer feedback on our enhanced ODI methodology.

Severn Trent Water argues that we should reintroduce enhanced ODIs for both PCC and total pollution incidents, saying that enhanced ODI rates for these performance commitments will push frontier performance. On the other hand, CCW states that they do not support the use of enhanced ODIs for any of the performance commitments.

Our analysis and final determinations

Enhanced outcome delivery incentives aim to encourage companies to **innovate** and to **improve performance** beyond current **industry frontier levels** in order to deliver benefits for all customers in the long term. Companies are required to share information on how they have improved performance beyond the enhanced threshold so that the rest of the industry has the opportunity to apply these learnings to improve performance across the sector. Enhanced ODIs work by allowing companies to earn stronger ODI rates on performance beyond an 'enhanced threshold'. This provides a stronger incentive to allow companies to overcome cost or uncertainty barriers which might limit their innovation.

We have updated our enhanced threshold calculations for each of the four performance commitments included at draft determinations (leakage, external sewer flooding, internal sewer flooding, and water supply interruptions). For each of these performance commitments, we update the calculation of the common improvement factor by adding in data for the 2023-24 financial year.

We also update the calculation which sets the common improvement factors that are applied to the updated PCL values. However, these changes lead to some adverse outcomes for some performance commitments.

For **internal sewer flooding**, we were concerned about the stretch for enhanced ODI rewards for two main reasons:

- it was too strong for the sector as a whole in the latter years of the 2025-30 period; but
- too easy for South West Water as the frontier performer throughout the period.

Therefore, we have adjusted the stretch for the sector in the latter years of PR24 by making the common improvement factor a 33% improvement beyond the PCL in each year. This means that as the PCL becomes smaller (1.57 to 1.23 incidents per 10,000 wastewater connections between 2025-26 and 2029-30) the required improvement beyond the PCL to start earning enhanced thresholds becomes smaller, reflecting that this enhanced threshold will be at the current frontier of performance.

However, we have made it more challenging for South West Water by setting its enhanced threshold at the 2029-30 level for all years. This is to drive innovation and improvement for South West Water customers where current performance is already at the frontier of the sector, while preventing customers from overpaying where performance does not substantially improve further.

For **external sewer flooding**, we find that the enhanced thresholds would not be sufficiently stretching because of the change to the PCLs if we kept the same approach to setting them based on common improvement factors. Therefore, we keep the same absolute performance thresholds as set out in our draft determinations to allow for sufficient stretch. We adjust Yorkshire Water's threshold for enhanced ODI rewards to apply the common improvement factor to the lower of their final determinations PCL and their 2023-24 performance. This adjustment for Yorkshire Water maintains their threshold at a suitable level of stretch compared to how they have performed in recent years. This ensures that there is a benefit to customers and the environment. We are not allowing Thames Water the opportunity to earn enhanced ODI rewards because the lack of robust historical data means that there is considerable uncertainty with its expected level of performance.

We have not made any changes to how we set the enhanced threshold for **water supply interruptions** and **leakage**.

In response to calls from companies, and to allow more rewards for innovation in this area, we are also introducing an enhanced ODI for **per capita consumption**. We set the common improvement factor at 3% improvement beyond the annual PCL value, which is then converted to the 3-year annual average value.

We have decided to maintain our decision to not include an enhanced ODI rate for total pollution incidents because of the potential change in definition during PR29.

In relation to CCW's concerns about enhanced ODI rewards, we consider that these are an effective way of achieving increased levels of performance in the long-term. However, we are keenly aware of the potential impact on customer bills too. For final determinations, we are setting caps on outperformance payments for external sewer flooding (at 1.5% RoRE), leakage and per capita consumption (each at 1% RoRE) to help limit the impact on consumer bills. These caps have been calibrated to find a balance between limiting outperformance payments and allowing for sufficient performance improvements. For internal sewer flooding and water supply interruptions, the potential for outperformance is limited, which means that a cap is not necessary.

4.9 Summary of final determinations

In summary, the changes we have made to ODI rates are:

We have made the following changes to the general "top-down" ODI rate setting approach:

- Updating all historical analysis to include data up to the **2023-24 financial year**.
- Updating company groupings to group WaSCs together and separating WoCs into **two different groups** based on RCV.
- Adding a step to compare unit rates to **PR19 equivalents** and choosing the larger of the two.
- Calculating the equity at risk by using **price control allocations** for each performance commitment and each company.
- Adding a **50% cap** to the difference between the starting RoRE allocation and the final ODI rate RoRE impact.

We have also made **specific changes to ODI rates** beyond the general rate setting approach where there is risk of disproportionate effects.

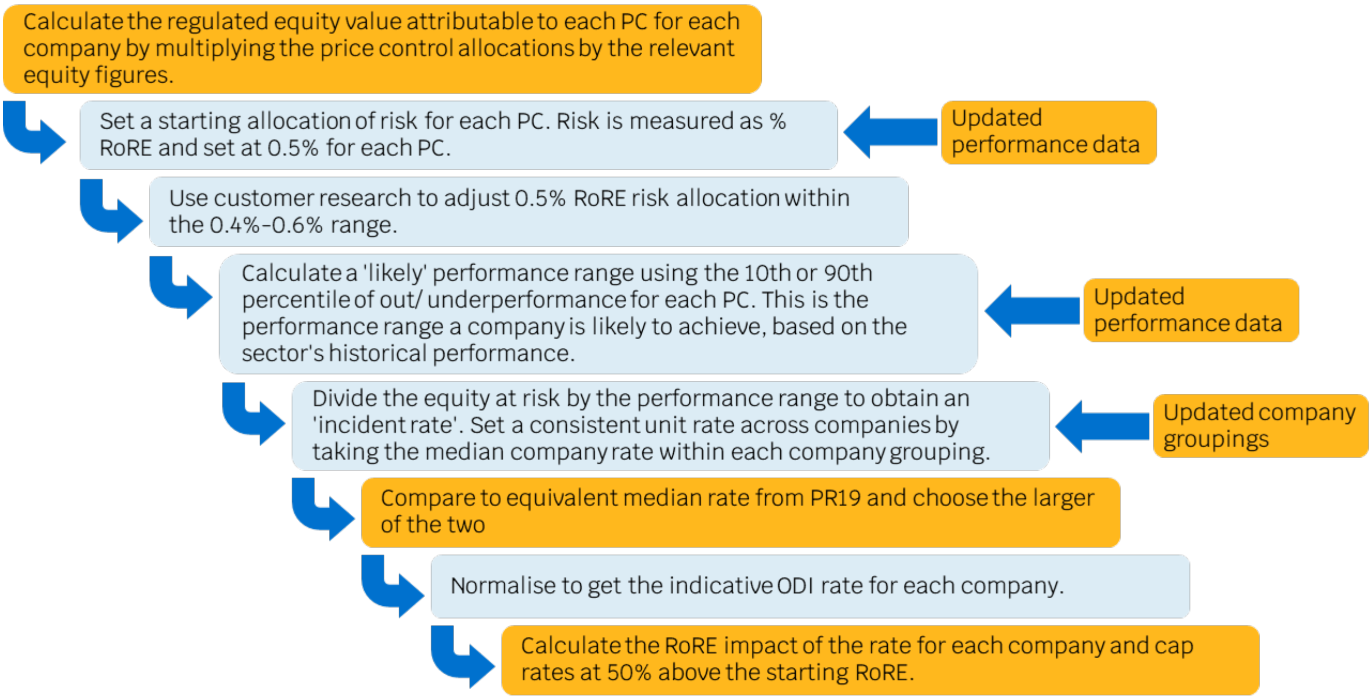
We have introduced an **enhanced ODI payments for per capita consumption**.

We have **made adjustments to the thresholds at which enhanced ODI rates apply** for internal and external sewer flooding to reflect the changes made to PCLs.

For ODI data by company for each performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

The diagram in Figure 2 shows the updated top-down methodology including new steps (in yellow) and indicating where updated data has been introduced.

Figure 2: Updated top-down methodology calculation flow:



5. Managing outcomes risk

ODIs incentivise improvements in performance and in doing so create **financial risk** to both customers and companies. We use a range of protections to limit customer and company exposure to higher levels of financial risk whilst maintaining financial incentives on companies to improve their performance. For our final determinations, in line with the PR24 methodology, we expand the targeted use of **caps, collars and deadbands** to manage risk where there is sufficient reason to do so. The **aggregate sharing mechanism (ASM)** will further limit payments at extreme ranges.

For final determinations, we introduce a new mechanism, the **outturn adjustment mechanism** (OAM), which is designed to adjust the returns of all companies in the event of materially different sector performance than expected. It is intended to trigger in rare circumstances. We consulted on this following draft determinations. We provide details on the consultation responses and our approach for final determinations in 'PR24 final determinations: Aligning risk and return'.

Since draft determinations, we have reviewed the balance of ODI risk in the round across PCLs, ODI rates and risk protections. Our general approach has been to set risk protections symmetrically between underperformance and outperformance payments. This creates a broadly balanced approach, with both companies and customers having similar exposure to positive and negative ODI payments at the extremes. However, in some cases we provide greater protection against underperformance, especially where there is no or limited potential outperformance, because this has the potential to cause significant risk of negative net ODI payments for companies (or 'negative skew').

5.1 Caps and collars

Caps and collars limit the ODI payments companies pay out or receive by restricting additional ODI payments beyond a pre-determined threshold: caps restrict payments on the upside to protect customers, collars on the downside to protect companies. This section focuses on risk protections for common performance commitments, including the measures of experience incentives.

What we said in our draft determinations

We applied caps and collars on an individual performance commitment basis, applying them to all new performance commitments (biodiversity, operational greenhouse gas emissions, business demand, bathing water quality, storm overflows), all asset health performance commitments (repairs to burst mains, unplanned outage, sewer collapses), all bespoke performance commitments, and the business customer experience in Wales performance commitment. We applied a collar only to water supply interruptions and a cap only to leakage.

As set out in our PR24 methodology, we set these caps and collars at a default level of ±0.5% RoRE, with some exceptions noted below. Setting caps and collars at this level maintains strong incentives to improve performance over a wide range around the PCL, while capping payments at extreme levels of performance.

The exceptions to this standard level of caps and collars were:

- Collar set at –0.75% RoRE for Dŵr Cymru on storm overflows;
- Collar set at –1% RoRE for water supply interruptions for all companies except South East Water at –2% RoRE; and
- Cap set at 1% RoRE on leakage for all companies.

Stakeholder representations

In their representations, companies raise concerns about the overall balance of the ODI package where their analysis showed significant negative skew on payments. They propose adding additional collars and tightening existing collars to limit high underperformance payments. No companies propose adding any additional caps to limit high overperformance payments, though WaterUK do.

Severn Trent Water and Thames Water propose adding a collar for external sewer flooding, and Hafren Dyfrdwy and United Utilities propose a collar for internal sewer flooding. Affinity Water and SES Water propose a collar for per capita consumption, while United Utilities also proposes including a collar for total pollution incidents. South East Water proposes introducing a collar on discharge permit compliance for WoCs. Severn Trent Water proposes adding a collar for customer contacts about water quality. Thames Water, Wessex Water and Yorkshire Water propose introducing collars for all performance commitments, equivalent to those on new performance commitments at –0.5% RoRE. Southern Water also proposes consistent use of collars at –0.25% RoRE across all performance commitments.

Companies also propose tightening the existing collars for several performance commitments. Dŵr Cymru, Hafren Dyfrdwy, South East Water, South West Water and Thames Water propose adjusting the collar set for water supply interruptions. Dŵr Cymru, Severn Trent Water and United Utilities propose changing the collar level for storm overflows. Thames Water proposes tightening the collars for bathing water quality and business demand. United Utilities proposes tightening the collars for the operational greenhouse gases performance commitments. South West Water proposes adjusting the methodology used to set the collar for sewer collapses. South East Water and South West Water propose a tighter collar for biodiversity.

WaterUK proposes wider use of caps and collars across more performance commitments to manage the level of risk placed on customers and companies. We did not receive specific feedback on ODI risk protections from other non-company stakeholders.

Our assessment and reasons

We have assessed the inclusion of new caps and collars and the tightening of existing ones. We have done this in two stages:

- Identify performance commitments where there has historically been higher variability in performance and potential for future high variability; and

- Calibrate the level of caps and collars to find the balance between maintaining strong incentives and limiting very high levels of ODI payments on a particular performance commitment for customers and companies. We do this by assessing cap and collar levels against modelled expected performance ranges, historical performance and company forecasts.

As a result of this analysis, we have applied additional collars to external sewer flooding, internal sewer flooding, total pollution incidents and per capita consumption for all companies. We have set these collars at a wider range than the standard -0.5% RoRE. We did not consider that collars were necessary for leakage, customer contacts about water quality, serious pollution incidents and discharge permit compliance as these are either statutory compliance performance commitments or well-established performance commitments.

We did not consider it necessary to tighten the existing cap and collar levels for other performance commitments from the ±0.5% RoRE level set at draft determinations. Tighter caps and collars would overly-restrict the performance ranges where incentives would apply.

We have also assessed caps and collars on an individual case-by-case basis. We provide details of these in the individual performance commitment sections and in individual company appendices.

We introduce caps and collars on **C-MeX and D-MeX** in addition to existing protections on business customer experience in Wales (BCEW) because of **the change to how we set incentives**. We have changed the approach from setting a relative incentive framework to using an ODI rate. To limit this financial risk to customers and companies from this change, we introduce caps and collars. These have been set at the same level as what the best and worst performing companies would have earned under the previous relative incentive approach, ±0.4% for C-MeX and ±0.2% for D-MeX. We do not make any change to BR-MeX, which is still a relative performance measure where payments are limited to ±0.2% RoRE. We provide more detail about our final determinations for these measures of experience in Section 14.

Our final determinations

In line with our PR24 methodology and the analysis undertaken following responses to our draft determinations, we set the following caps and collars for all companies unless stated otherwise:

Caps and collars – General

- ±0.5% RoRE caps and collars on: storm overflows, repairs to burst mains, unplanned outage, sewer collapses, business demand, bathing water quality, operational greenhouse gases and biodiversity;
- -1% RoRE collar on water supply interruptions;
- -0.75% RoRE collar on total pollution incidents;
- -0.6% RoRE collar on internal sewer flooding and external sewer flooding;
- -0.5% RoRE collar on per capita consumption;
- +1% RoRE cap on leakage and per capita consumption;
- +1.5% RoRE cap on external sewer flooding; and
- Caps and collars for all measures of experience performance commitments, set at ±0.4% appointee RoRE for C-MeX and ±0.2% appointee RoRE for D-MeX and BCEW. Payments are limited to ±0.2% appointee RoRE for BR-MeX.

We set the following caps and collars on a company-specific basis:

Caps and collars – Company-specific

- -2% RoRE collar for South East Water on water supply interruptions;
- -1.5% RoRE collar for Hafren Dyfrdwy on internal sewer flooding;
- ±0.5% RoRE cap and collar for Thames Water on external sewer flooding; and
- -1.5% RoRE collar for South West Water on total pollution incidents.

All caps and collars apply to the relevant price control allocation (i.e. 0.5% combined water RoRE, 0.5% combined wastewater RoRE or 0.4% and 0.2% appointee RoRE for the measure of experience incentives).

We maintain all the caps and collars from draft determinations. As a result of the additional collars stated above, there are now targeted collars on 14 of the 19 financial common performance commitments, and targeted caps on 11 out of 19. This excludes the measures of experience performance commitments which also have caps and collars.

For data on caps and collars by company for each performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

5.2 Deadbands

Deadbands are a range of performance around the PCL where ODI payments do not apply.

What we said in our draft determinations

At draft determinations, we only applied deadbands to the compliance risk index performance commitment. This is because it is a risk-based compliance measure rather than an absolute one, which can be impacted by the internal pipework and fittings at customer properties. We decided to avoid the use of deadbands beyond the compliance risk index as they risk weakening incentives on companies to improve performance close to the performance commitment level.

We worked with the Drinking Water Inspectorate to set the deadband on CRI, which follows a glidepath from each company's PR19 deadband level at 2024-25 to a value of 1.0 at 2029-30.

Stakeholders' representations

In their representations, companies propose wider use of deadbands. In total, deadbands are proposed for a further 11 performance commitments. The most commonly proposed deadbands are for discharge permit compliance, proposed by 11 companies, and serious pollution incidents, proposed by six companies. Companies also propose implementing deadbands for bathing water quality, external sewer flooding, leakage, repairs to burst mains, per capita consumption, total pollution incidents, storm overflows, customer contacts about water quality and water supply interruptions.

For discharge permit compliance, nine companies propose including a deadband set at 99% compliance, with Hafren Dyfrdwy and South East Water proposing a deadband set at one failing site due to their smaller number of treatment works compared to large WaSCs.

Six companies propose a deadband for serious pollution incidents, with Affinity Water, Northumbrian Water and South East Water proposing a deadband set at 1 incident per year, South West Water at 2 incidents per year, Southern Water at 3 incidents per year and Thames Water at 5 incidents per year.

Companies also propose changing the deadband level set for the compliance risk index, with Anglian Water, Hafren Dyfrdwy, South Staffs Water, Severn Trent Water and Dŵr Cymru proposing the deadband level from PR19 should be maintained. Southern Water, South West Water, Northumbrian Water and Yorkshire Water also propose changes to the deadband profile proposed at draft determinations.

Our assessment and reasons

As noted above, we said in our PR24 methodology that we did not intend to use deadbands because they can substantially weaken incentives on companies to improve their performance close to their performance commitment level. However, we also recognised that the use of deadbands may take into better account the operational reality for companies where not having deadbands might significantly increase the likelihood of net negative expected ODI payments. We said we would consider the implications of this in the context of companies' overall packages for our final determinations.[32]

We considered the companies' representations with this in mind when making our assessment. We apply deadbands where there is sufficient justification based on whether:

- they reduce net negative ODI payments (or 'negative skew') based on operational reality; and
- there is a low risk of incentives being weakened.

However, we continue to expect companies to be responsible for managing the effects of factors outside their control.

We determine that deadbands are not appropriate for **storm overflows, total pollution incidents, external sewer flooding and water supply interruptions**. We already apply caps and collars to these performance commitments, where adding deadbands too would risk reducing performance incentives further. For bathing water quality, customer contacts about water quality and operational greenhouse gases, we

[32] Ofwat, 'PR24 final methodology – Appendix 8 Outcome delivery incentives', December 2022, p.72.

have introduced company-specific outperformance deadbands, the reasons for which are covered further in the relevant section for each performance commitment.

For **discharge permit compliance**, we consider that there is sufficient reason to include a deadband because of the negative skew resulting from this being an underperformance-only performance commitment. Based on performance at PR19 so far, where a deadband of 99% compliance has been applied, companies have maintained high levels of performance. We consider that a deadband would reduce negative skew while still providing a strong incentive for companies to minimise compliance failures. We set a **deadband at 99% compliance** for large WaSCs, and a deadband of one treatment works failing a numerical permit a year for Hafren Dyfrdwy and WoCs. We still expect companies to achieve 100% compliance against this measure.

For **serious pollution incidents**, we expect companies to invest in, operate and maintain their assets to achieve full compliance of zero incidents. However, having considered evidence in company representations, we include a **deadband of one incident per year for all companies**. This recognises that, with such large networks to operate, there is a chance of a serious pollution incident occurring. We consider it proportionate to introduce the deadband, as one event would represent an improvement for the majority of WaSCs over current performance levels (average of 5 per WaSC a year in 2020-24). It also helps to balance the package as a whole as it would reduce the size of negative expected ODI payments. We do not consider that a deadband of one incident will affect the incentive to improve operation and maintenance of network assets given the small margin of error of one incident and the level of regulatory and public scrutiny in this area.[33] This is also a new performance commitment at PR24, where we do not expect to set a deadband for it at PR29.

We considered setting the deadband on serious pollution incidents at different levels. However, we consider wider deadband diminishes incentives to achieve zero pollution incidents by too much. With a deadband of one, we expect companies to be incentivised to manage and maintain their network to avoid all serious pollution incidents, while providing limited protection to companies for factors outside their control, given the size of water and wastewater networks.

We consider this deadband to be consistent with our strategic steer to challenge water companies to demonstrate how they will achieve zero serious pollution incidents by

[33] The outcomes framework sits in the broader context of a company's statutory and licence requirements for service delivery. Independently of the outcomes framework, each company also has to ensure that it complies with its legal obligations, or risk enforcement action. If a company's performance falls below the level set for a performance commitment (irrespective of the existence of any deadband or collar), we will consider whether this is indicative of wider compliance issues to the detriment of consumers and whether enforcement action, with the potential for remedial and fining measures, is warranted.

2030. Our intention is that there will be no deadband at PR29. We will remove it at the very end of PR24 so that no deadband will be in place for the reporting of calendar year 2030. This will be the basis of our 2030-31 performance assessment. We continue to expect companies to deliver the statutory level of zero as quickly as possible.

We have reviewed the inclusion of a deadband for **repairs to burst mains**. Anglian Water and South West Water propose including a deadband on repairs to burst mains in their representations. South West Water states that this performance commitment is influenced by ground movements caused by certain weather conditions, notably rapid thaws in winter and prolonged periods of hot, dry weather in summer. This can result in large underperformance, which it says companies should not be penalised for as the purpose of this performance commitment is to ensure the long-term health of these assets, rather than deliver single-year targets. The companies say that the CMA took this view at PR19 and added an underperformance deadband for the four appellant companies to minimise downside exposure caused by "poor winter weather conditions".[34] Analysis of company performance at PR19 shows that there was considerable underperformance for all companies in 2022-23 for these reasons, which would lead to increased negative skew. However, we also note recent performance where companies with deadbands have been regularly outperforming the PCL in years not affected by these weather conditions. In terms of performance, our PR24 policy is that we expect companies to have plans in place to manage and mitigate the risks these types of events pose.[35] With regard to ODIs, we consider that a small deadband of 10 repairs per 1,000km mains is appropriate to reduce the size of potential negative skew and does not lead to incentives being weakened in the context of companies' overall outcomes package. Based on our assessment we set a **deadband for PR24 set at 10 repairs to burst mains per 1,000km** below the PCL for all companies.

Companies propose a deadband for **unplanned outage**, which was also set at PR19 for four companies, citing underperformance from external factors. We have reviewed company performance for unplanned outage at PR19 and found that all companies performed well against their PCL with very few instances of companies facing underperformance payments. We are also providing significant cost allowances for raw water quality (£1.2 billion) and asset resilience (£1.3 billion), which will impact positively future performance on unplanned outage. Due to this strong historical performance, the level of stretch on PCL targets and the levels of funding companies are receiving, **we are not setting a deadband for unplanned outage** at PR24.

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[34] CMA, 'Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations – Final report', March 2021, p.666.
[35] Ofwat, 'Creating tomorrow, together: Our final methodology for PR24 Appendix 7 – Performance commitments', December 2022, pp 12-15.

Companies also propose adding deadbands for leakage and per capita consumption. We conclude that potential fluctuations in performance around the PCL can occur in both directions, and performance is smoothed over a rolling 3-year period, which dampens any performance differences. There is insufficient justification relating to reducing negative skew. Additionally, for leakage in particular we consider that any risk of underperformance should be within company control.

Following discussions with the Drinking Water Inspectorate **we have maintained the proposed deadband profile for the compliance risk index** from draft determinations with no changes for any companies.

We provide more information on each proposed deadband in the individual performance commitment sections.

Our final determinations

In line with our PR24 methodology principles and the analysis undertaken following responses to our draft determinations, we set the following caps and collars for all companies unless stated otherwise:

Deadbands: general

We set the following deadbands for all companies:

- **compliance risk index** following a glide path from each company's PR19 deadband level to 1.0 by 2029-30;
- **discharge permit compliance** at 99% for large WaSCs and one site failing a permit for Hafren Dyfrdwy and WoCs;
- **serious pollution incidents** at one incident per year for all companies; and
- **repairs to burst mains** at 10 repairs per 1,000km mains below the PCL for all companies.

Deadbands: company-specific

We also introduce company-specific deadbands for:

- bathing water quality;
- customer contacts about water quality; and
- operational greenhouse gases

We include these to limit outperformance payments for several companies where we have set the PCL at a less stretching level. We explain these in more detail in the individual performance commitment sections.

For data on deadbands by company for each performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

5.3 Aggregate sharing mechanism (ASM)

The aggregate sharing mechanism protects customers and companies from excessive ODI payments by reducing payments beyond certain thresholds.

What we said in our draft determinations

At draft determinations, we set the aggregate sharing mechanism threshold at ±3% RoRE, at which point payments are shared 50:50 between companies and customers. A further threshold of ±5% RoRE shares additional payments at a ratio of 10:90 between companies and customers.

We additionally included the Measures of Experience (MeX) payments in the ASM to ensure that it fully encompasses the ODI risk faced by customers and companies from the Outcomes package. [36]

[36] C-MeX, D-MeX, BR-MeX and business customer experience in Wales.

Stakeholder representations

Companies support including MeX payments in the aggregate sharing mechanism.

In their representations, some companies propose changes to the ASM thresholds and sharing rates. Thames Water proposes tightening the thresholds to ±1% RoRE and adjusting the sharing rate from 50:50 to 20:80 for companies and customers. Affinity Water proposes tightening the thresholds to ±2% RoRE while Southern Water proposes setting the first threshold at ±1.5% RoRE and the second threshold at ±2% RoRE. Dŵr Cymru also said that the thresholds were too wide.

Our assessment and reasons

We assessed the impact of tightening the ASM thresholds from the current levels of ±3% and ±5% RoRE to ±2% and ±4%, and a second scenario with a tighter lower threshold of ±1% for the first two years of PR24 and ±2% for the remaining three years. We found that this would have a small impact on limiting large payment shocks but could lead to a material loss of incentives.

The ASM is a measure designed to limit exposure to extreme events or performance. For final determinations, we prioritise changes to ODI rates and risk protections for individual performance commitments to provide balance to the outcomes package rather than set tighter ASM thresholds.

Our final determinations

We maintain our approach as proposed at draft determinations: at the lower threshold of ±3% RoRE, payments will be shared 50:50 between companies and customers. At the higher threshold of ±5% RoRE, payments will be shared at a ratio of 10:90 between companies and customers.

We provide more details in 'PR24 final determinations: Aligning risk and return'.

6. Analysis of outcomes risk

We model financial risk from ODIs to understand the size and balance of risk in the outcomes package. This modelling has enabled us to make informed decisions at PR24 about:

- the scale of incentives;
- stretch of performance commitments levels; and
- risk protections on individual performance commitments and/or companies.

As stated in our PR24 methodology, we are aiming for a balanced package of incentives across the whole of PR24. This means that there should be an equal opportunity of an efficient company with the notional capital structure to achieve a level of return above and below the base allowed return.

We have aimed to give companies a fair chance of achieving as much outperformance as underperformance if they are efficient, despite the existence of downside-only performance commitments. We also stated that we would aim for there to be a risk range between ±1-3% RoRE (return on regulated equity) to ensure that there are strong incentives on performance.

With the changes we have made to the outcomes package and our updated risk modelling, expected payments from the outcomes package (comprising ODI payments and measures of experience payments) is -0.17%[37] appointee RoRE for the median efficient company with a notional capital structure.[38, 39] Given there is expected positive return from the impact of inflation indexation of new debt of +0.3% RoRE, and expected balance across totex, we have achieved a balanced PR24 package overall, while setting stretching yet achievable targets and strong incentives.

At draft determinations, we stated that ODI risk was generally balanced with small amount of negative skew on the range of payments for the median company. However, in response to feedback we have received, we have adjusted our approach to modelling

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[37] This value reflects changes made to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds since final determinations publication. It also reflects a correction in our risk model regarding the calibration of water supply interruptions performance to ensure consistency with how we made adjustments for other performance commitments. More detail on this correction and updates to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds can be found in the 'corrections log' tab of our republished risk model.
[38] The measures of experience (MeX) comprise C-MeX, D-Mex, BR-MeX and business customer experience in Wales. See Section 14 for more details.
[39] This is calculated as the difference between the P10 payment (representing greatest extent of reasonable underperformance) and the P90 payment (representing greatest extent of reasonable underperformance). The median P10 and P90 are -1.96% and 1.52% RoRE, respectively.

ODI risk to a range of ODI payments that better reflect recent outturn performance. Based on our updated modelling assumptions, the expected payment would have been -1.84% for the median company based on draft determinations.[40,41] Based on these assumptions, companies would have incurred large negative net expected ODI payments, with the P10 triggering the aggregate sharing mechanism.

Further detail on the changes to our modelling for final determinations can be found in the separate appendix document 'PR24 final determinations: Outcomes approach to risk modelling'. We also commissioned Grant Thornton to conduct an independent review of our modelling approach and provide recommendations, which we have implemented.[42]

What we said in our draft determinations

At draft determinations, we modelled ODI expected payments to be -0.2% RoRE. This is the median of each company's midpoint between their P10 and P90 total ODI payments. Given the positive skew on finance risk, our aim to achieve balanced risk overall was met. However, this was based on modelling assumptions that were seen to be **over-optimistic by the industry**.

We modelled risk using a Monte Carlo model. In this model we ran 1,000 simulations of combinations of performance values across all performance commitments for each company. The P10 and P90 were calculated as the 10th and 90th percentiles of the combined payments of each simulation. The performance values for each performance commitment were drawn randomly from a normal distribution around the PCL for each company. This approach assumed that an efficient company achieves the PCL at its most likely level of performance and that the range of outperformance is identical to the range of underperformance.

We also modelled risk using an additive model. This summed the expected 5-year P90 and P10, based on the frequency of a P10 and P90 level of performance occurring across a 5-year period, informed by historical data.

[40] The P10 and P90 are -4.34% and 0.68% RoRE, respectively.
[41] This value reflects a correction in our risk model regarding the calibration of water supply interruptions performance to ensure consistency with how we made adjustments for other performance commitments. More detail on this correction can be found in the 'corrections log' tab of our republished risk model.
[42] See accompanying document 'Grant Thornton - Review of Ofwat PR24 Modelled Risk of the Outcomes Package' on the PR24 final determinations webpage.

Stakeholder representations

Industry risk modelling outputs at draft determinations representations show a large imbalance between under- and outperformance payments from ODIs.

Eight companies (Affinity Water, South East Water, Anglian Water, Southern Water, Wessex Water, Yorkshire Water, Thames Water, South Staffs Water) commissioned KPMG to estimate ODI risk using a Monte Carlo model. This yields a P10 of -3.68% RoRE and a P90 of 0.08% for a WaSC (inclusive of MeX payments), and a P10 and P90 of -3.94% and 0.33% for a WoC. Moody's compare company forecast values against the draft determinations PCLs, which show industry-wide expected underperformance payments of -£2bn across the five years of the price review period from ODI payments.[43] In its report, 'Investabilty at PR24', Oxera conducts similar analysis comparing companies' business plan performance against draft determinations PCLs. Their analysis shows expected payments of -£2.4bn, although £1.2bn could be attributed to data reporting uncertainty on external sewer flooding from Thames Water.[44] A report by First Economics on behalf of WaterUK conducts a similar exercise, showing a negative net payment for 14 out of 17 companies.[45] Individual companies conduct their own risk analysis based on the draft determinations with similar results.

The consensus of feedback from representations at draft determinations covering our modelling approach covers two main topics:

- Many of our **performance commitment levels** are **too stretching**, leading to a large imbalance between outperformance and underperformance payments.
- Our **assumptions** of performance distributions for individual performance commitments are too simplistic and lead to **optimistic** outcomes, including our assumption of companies achieving the PCL at the most likely level of performance is too optimistic.

Companies disagree with our assumption of setting PR24 performance commitment levels as the most likely level of performance over PR24. Their main concern is that this assumption is that it is an optimistic and unrealistic estimate of the **most likely level of performance** (50th percentile or P50). At draft determinations, PR24 PCLs were derived using PR19 PCLs as start-points. As companies have not met their PR19 performance commitment levels across a number of performance commitments at

[43] Moody's, 'Sector in-depth – Regulated Water Utilities – UK', August 2024.
[44] Oxera, 'Investability at PR24', August 2024.
[45] First Economics (on behalf of Water UK), 'A report on performance targets and incentives by First Economics', August 2024.

PR19, they find our assumption to be unrealistic and optimistic in predicting future performance. The KPMG model sets the baseline level of performance (around which the performance range is applied) as an average of historical performance from 2020-24 and company business plan forecasts to provide what KPMG considers to be a more realistic expectation of the most likely level of performance.

Companies disagree with our choice of **performance distributions** in our Monte Carlo model, stating that our approach is too simplistic and leads to optimistic results. We assumed a normal distribution of performance discrepancies from the PCL for all PCs. Most companies are concerned that this risks over/understating skew, as a normal assumption doesn't account for performance commitments with historical performance that follows an asymmetric performance distribution. For example, historical performance data indicates that there is a significant tail of underperformance for water supply interruptions. Companies suggest that our risk modelling should consider different distributions, such as a log-normal distribution. In the KPMG model, multiple distributional forms are used based on how they aligned against outturn performance for each performance commitment. Additionally, Hafren Dyfrdwy and Severn Trent Water use different distributions and calibrated the performance range values using both historical outturn performance and using judgement and engineering rationale.

At draft determinations, we used the maximum number of years of data available in our risk modelling to mitigate against biased outputs from using small sample sizes. Companies say in their representations that **PR19 data** would be a better predictor for PR24 performance compared to data from PR14 or earlier. The KPMG model uses PR19 performance as proxy for PR24 instead of PR14. Companies also encourage Ofwat to use the most recent year of data (2023-24) in our ODI risk modelling.

Some companies suggest that our Monte Carlo risk model's **correlation** assumptions fail to capture the entire scope of correlation over time and across PCs. The KPMG model uses several additional correlations across performance commitments, but these are generally at a lower level of correlation. Hafren Dyfrdwy also uses more correlations across performance commitments as well as with C-MeX scores. They also correlate performance over time, where poor performance in one year leads to poor performance in the following year.

In addition to the representations, we commissioned Grant Thornton to conduct an independent review of our risk modelling approaches. Its main conclusions are:

- the Monte Carlo (as the primary model) and the additive model (as a sense check) are the most appropriate methods of modelling ODI risk, given the complexity and interaction across performance commitments; and

- it is appropriate to adjust the distributions within the Monte Carlo model to a truncated normal distribution. This would limit the extent of outperformance values drawn from the distribution to the natural limit of performance.

We did not receive representations from other stakeholder groups on ODI risk modelling.

Our assessment and reasons

We continue to use the Monte Carlo and additive models to estimate ODI risk, but we have made adjustments to these following feedback from companies and the Grant Thornton report. We summarise these changes here but go into more detail in 'PR24 final determinations: Outcomes risk modelling'.

For both models we use the latest data available to us, which includes performance in 2023-24 and was not available for our draft determinations models.

At PR24, we are allowing for significant increases in cost allowances, including funding for resilience and enhancement expenditure. For the Monte Carlo model, we calibrate performance distributions more closely with companies' historical outturn performance using different statistical distributions. For the additive model, we calibrate the five-year P10 and P90 performance levels against recent outturn performance from 2020-24. However, we acknowledge that we cannot fully capture the impacts on performance of increases in spending based on outturn information.

For the Monte Carlo model, we have considered an increase in the use of correlations in performance between performance commitments. Based on our analysis of annual aggregate performance, we have not made further changes to the correlations we use. However, we have tested the model outputs with additional correlations. Because of the changes we have made to ODI rates and risk protections, this has a minor impact on expected ODI payments, which means the impact of our correlations choices are robust to sensitivity testing.

We have not included correlations across years in the Monte Carlo model. Extreme performance is often affected by weather which varies significantly year-to-year. However, with the recalibrated additive model aligned to 2020-24 performance, we assume an increased level of correlation across years. We find that despite this increased level of assumed correlation, expected payments are still sufficiently balanced for the overall PR24 package to be balanced.

One of the main points of feedback on our modelling approach at draft determinations was that the performance anchor point (the level of performance around which we apply the performance distribution), set at the PCL, was too optimistic. We continue to use the PCL as the model anchor point, but we have made significant adjustments to where the PCLs are set, which align more closely to recent company outturn performance.

As additional checks, we tested the modelling results from using alternative anchor points. These checks included:

- using company forecasts (with adjustments made for to the forecasts where we considered they were overly optimistic or pessimistic);
- the worst performance value between forecast and PCL, and
- the best performance value between forecast and PCL.

With the changes made to PCLs, ODI rates and risk protections at final determinations, there is close alignment between the outputs of the PCL anchor model and the company forecast anchor model. We present this comparison in the risk modelling appendix.

Results

Table 8 shows that, based on our Monte Carlo model of potential performance around the PCL, expected payments are -0.17%.[46]

Table 8: Ofwat Monte Carlo risk model outputs (PCL anchor point, median company % RoRE impact)

Output type	Final determinations
P10	-1.96%
P10/P90 midpoint	-0.17%
P90	+1.52%

We break down the P10-P90 risk ranges for each company, separated by water and wastewater price controls, in Figure 3. This excludes payments from MeX incentives, which would add an additional range of ±0.8% appointee RoRE. The P10/P90 ranges line up with our target of between ±1-3% RoRE, which means incentives are largely balanced.

[46] This value reflects changes made to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds since final determinations publication. It also reflects a correction in our risk model regarding the calibration of water supply interruptions performance to ensure consistency with how we made adjustments for other performance commitments. More detail on this correction and updates to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds can be found in the 'corrections log' tab of our republished risk model.

We reiterate that these modelling results are what we expect for an efficient company or the potential range of ODI payments if a company operates efficiently.[47]

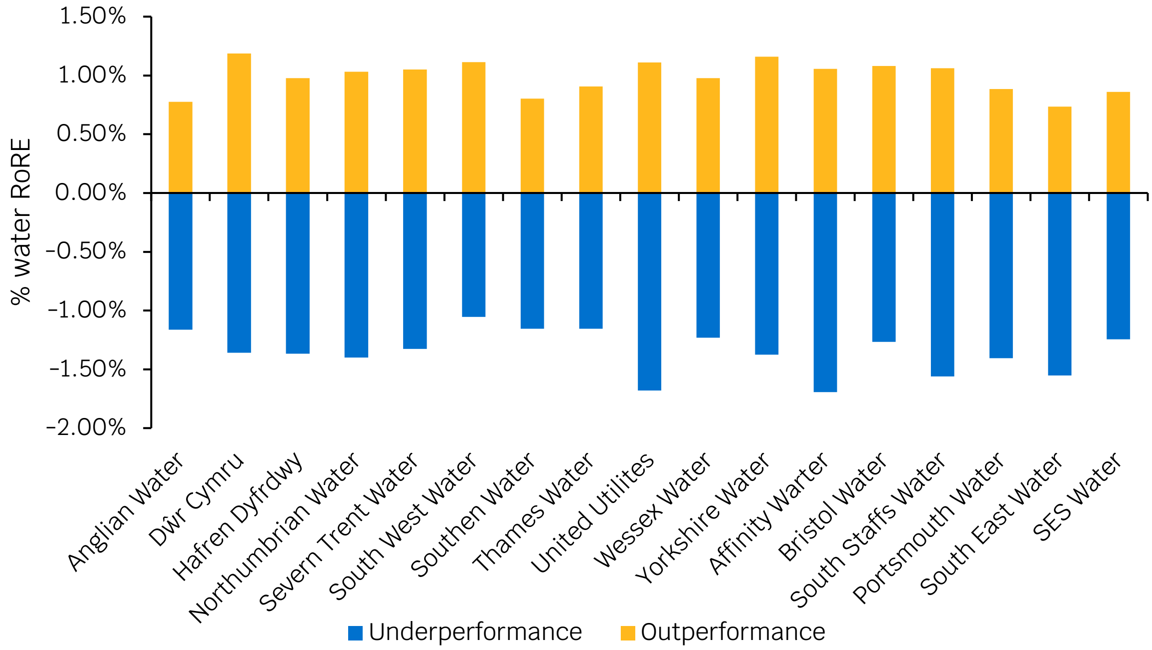
For more information on modelling ODI risk, including modelling risk for the MeX incentives, please visit 'PR24 final determinations: Outcomes risk modelling'.

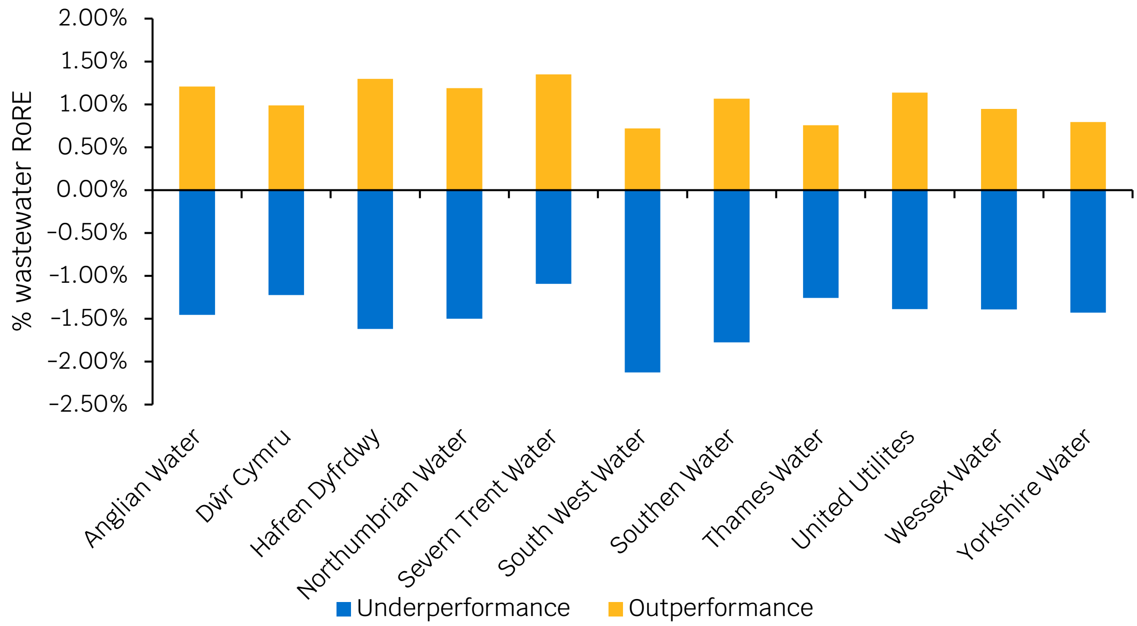
The additive model shows a wider range of payments because it accounts for greater correlation of performance across years. Nonetheless, the median company's expected payment is comparable at -0.10% RoRE.[48]

The drivers of the remaining negative skew across all companies are statutory compliance performance commitments (serious pollution incidents, compliance risk index, discharge permit compliance) where companies cannot make outperformance payments. Water supply interruptions is also a primary driver, where there is greater potential for large underperformance and a limited range of outperformance. For these performance commitments, we have included extra risk protections and adjusted ODI rates at final determinations. However, these changes maintain strong financial incentives for the water sector to improve or maintain high levels of performance at PR24.

[47] Company ranges differ due to the interaction between ODI rates and regulated equity (where a relatively larger regulated equity value compared to ODI rates will lead to a smaller % RoRE range, eg for Thames Water) and due to company-specific differences (eg a greater underperformance range for South West Water to reflect recent performance on pollution incidents).
[48] This value reflects changes made to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds since final determinations publication. More detail on updates to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds can be found in the 'corrections log' tab of our republished risk model.

Figure 3: PR24 final determinations ODI risk ranges calculated as a percentage of regulated equity and split by water and wastewater (excluding Measures of experience payments)[49]





[49] The values in these two graphs reflect changes made to PCLs, company forecasts, ODI rates, deadbands and enhanced thresholds since final determinations publication. It also reflects a correction in our risk model regarding the calibration of water supply interruptions performance to ensure consistency with how we made adjustments for other performance commitments. More detail on this can be found in the 'corrections log' tab of our republished risk model.

7. Implementing ODI payments

This section describes how companies and customers will pay for ODIs at PR24.

7.1 In-period payments

What we said in our draft determinations

We confirmed our intent to apply all ODI payments at PR24 through in period revenue adjustments, so that companies receive these payments closer in time to the performance to which they relate. We consider that this sharpens incentives for companies whilst increasing transparency around company performance for customers and stakeholders.

Following an earlier consultation, we also confirmed that we would not to apply in-period ODI payments through the Revenue Forecasting Incentive (RFI) mechanism at PR24.[50] We said stronger ODIs and more active scrutiny of company performance, it is inappropriate to reduce our oversight of reported figures and payments now.

This is particularly the case given public desire for greater transparency and tangible performance improvements across the sector. However, we expect to revisit the in-period determination process at PR29 when we will understand better the impact of the PR24 outcomes regime on company reporting and compliance with the in-period process.

Stakeholder representations

Southern Water disagrees with this approach, arguing that revenue adjustments should be applied at the end of the period, similar to the totex approach for over and underspending.

Our assessment and final determinations

With the exception of the business demand performance commitment, we consider it is in the interests of customers and the environment for companies to receive payments closer in time to their performance period to which the payment relates.[51] This

[50] Ofwat, 'A consultation on the Revenue Forecasting Incentive', July 2023, p.12.
[51] We changed the type of incentive for business demand performance commitment from in-period to end-of-period at draft determinations following our decision to introduce an end-of-period PCL adjustment mechanism.

approach sharpens incentives for companies while increasing transparency around company performance for customers and stakeholders.

We continue to apply ODI payments through in-period revenue adjustments for all common performance commitments, apart from business demand.

Companies should be clear and transparent with stakeholders regarding their performance. Where companies are earning outperformance, they should consider customer and environmental expectations and the appropriateness of re-investing outperformance payments in areas where they are expected to continue to drive improvements to deliver long-term targets.

7.2 Extending the in-period determination timeline

At draft determinations, we proposed extending the timeline for the in-period determination so that all data and assurance is submitted no later than 15 June with final in-period determinations no later than 15 December (but with the intention of publishing by 6 December). This was an extension from the PR19 timeline, when we required submission of data and assurance by 15 July and published our final decision by 15 November. This extension reflected our intention to increase the scrutiny of ODI performance data, to ensure that customers are receiving the performance that they pay for. Our initial expectation was that the introduction of more streamlined framework with fewer performance commitments would enable companies to submit the required data and assurance at the earlier date.

Stakeholder representations

Affinity Water, South Staffs Water, and Dŵr Cymru are concerned that an earlier submission date would not allow them to pass through the relevant internal processes before submission.

Affinity Water, South East Water and Yorkshire Water believe that giving companies less time to assure data was not consistent with Ofwat's objectives and may lead to poorly assured data.

United Utilities raises concerns around whether external assurance, like the assurance of environmental performance commitments from the Environment Agency and the Drinking Water Inspectorate, would be complete in time for the earlier submission date.

Portsmouth Water and Severn Trent Water believe that an earlier submission date of 15 June would be achievable.

Dŵr Cymru and Yorkshire Water indicate that submission date in late June or early July would be achievable.

Affinity Water, South West Water, Southern Water and United Utilities believe that the proposed timeline changes created potential supply chain issues with the procurement of third-party assurers. They believe that offering assurers less time to assure more work could lead to higher assurance costs, that companies are not funded for at PR24.

Portsmouth Water, Hafren Dyfrdwy and South West Water raise issues with the extension of the final possible date for publication of in-period determinations, citing issues around internal processes and finalising charging for January. Anglian Water, Hafren Dyfrdwy, South East Water, Dŵr Cymru and Yorkshire Water believe that a final determinations date of 6 December was achievable.

Our assessment and final determinations

We appreciate that other regulators' assurance processes may not be complete in time for the earlier submission date. This, along with the procurement of third-party assurers, is likely to raise challenges for companies to meet the proposed earlier submission date of 15 June. For these reasons, we are proposing to revert to the PR19 approach, keeping the submission date for ODI performance data aligned with APR submissions on 15 July.

While we understand companies' concerns with the proposed later publication date of 15 December, it is vital that Ofwat has sufficient time to scrutinise company performance data, given the sums of money available at PR24 with the strengthening of ODI rates relative to PR19. For this reason, we maintain our proposal of 15 December as the latest possible date of publication, but with a view to publishing by 6 December. A number of companies believed this date was manageable, and it will allow us more time to assess company submissions.

Our final determinations are to require submission of assured ODI performance data by 15 July. We will publish our in-period final determinations no later than 15 December. We will consult early in 2025 on a licence modification to implement the change in in-period final determination publication date.

7.3 Reporting and assurance of performance data

What we said in our draft determinations

At draft determinations we said we expect companies' performance data to be high quality and subject to a rigorous assurance process. This provides us and customers with confidence in the levels of performance that are being reported. We use this information to calculate ODI payments for performance commitments with financial incentives. This means that:

- Where companies are reporting a **material change** in performance, they must provide **accurate and comprehensive commentary** supported by high-quality evidence;
- For some performance commitments, we require completion of **RAG checklists** where the company is required to assess compliance with the performance commitment definition across a number of areas, with a 'Green' classification indicating full compliance;[52]
- For some performance commitments, we require **third party assurance** of specific elements of the definition;[53]
- We also expect companies to explain in an **overall assurance report** where and how they have used third-party assurance to scrutinise performance reporting more generally.
- We expect companies to adopt **a proportionate approach**. For example, considering whether more detailed third-party scrutiny is needed where the performance commitments reported are new or for established performance commitments
- where there has been **non-compliance**, the company should explain and demonstrate, including through third-party assurance, that this has **no material impact** on the reported performance.

Where we are concerned about the quality of data, we said we would consider whether we should defer any relevant outperformance payments until these concerns are resolved.

Expectations for independent third-party assurance

ODI rates at PR24 are stronger overall than at PR19. As a result, we revisited our assurance requirements. We considered it necessary, targeted and proportionate to require companies to appoint their third-party assurers in line with our expectations.

[52] For common performance commitments RAG checklists are required for water supply interruptions, internal sewer flooding, external sewer flooding, repairs to burst mains, unplanned outage, sewer collapses, biodiversity, leakage, per capita consumption and business demand.
[53] For example, common performance commitments that require third-party assurance are: biodiversity, leakage, per capita consumption, business demand, operational greenhouse gas emissions (water and wastewater), river water quality and storm overflows.

We set out in detail our overarching expectations of water companies and their assurers regarding independent third-party assurance (including our expectations of lead assurers). Consistent with those expectations, we said we expected third-party assurers to be appointed by companies in such a way that gives Ofwat, as well as the company, an actionable duty of care in respect of the relevant requirements for reporting and assurance that we specified.[54]

Content of assurance reports

We said that companies' assurance reports should explain the scope of third-party assurance across each relevant performance commitment and provide a statement from their assurers confirming that appropriate third-party assurances have been carried out. This report should specify the performance commitments that have been assured, how that assurance has been conducted and the assurance findings and recommendations in each case. Where the company is reporting non-compliance, we said that the assurer should assess the materiality of the non-compliance on the performance reported.

For assurance reports relating to specific performance commitments, we said assurers' statements should provide assurance for each specific area of assurance detailed in the performance commitment definitions. This should include the assurance scope and methodology for each specific area of assurance and detailed findings and recommendations.

Stakeholder representations

Thames Water believes that companies should be able to decide the extent of assurance for individual performance commitments.

Hafren Dyfrdwy, Thames Water, United Utilities and Wessex Water raise issues with uncertainty around the proposed assurance requirements and requested more information.

Our assessment and reasons

We consider that it is necessary, transparent and proportionate that we should have greater scrutiny over companies' performance data, to make sure that customers are getting the levels of service that they expect. We consider that this is needed and proportionate, given the strengthening of final determination ODI rates relative to PR19.

[54] These requirements were set out in Section 1.1 of 'PR24 draft determinations: Expenditure Allowances-Assurance requirement for delivery of enhancement schemes appendix'.

Setting assurance requirements for companies to follow also allows us to compare more easily between companies and reduces unneeded complexity.

Our final determinations

Specific reporting and assurance requirements for each performance commitment are set out in the relevant performance commitment definition.

Where independent third-party assurance is required by a performance commitment our overarching expectations of water companies and their assurers regarding independent third-party assurance (including our expectations of lead assurers) are as set out in Section 1.1 of 'PR24 final determinations: Expenditure allowances – Assurance requirements for delivery of enhancement schemes' and we do not repeat them here.

Consistent with those expectations, we expect third-party assurers to be appointed by companies in a manner which ensures that third-party assurers provide Ofwat with an actionable duty of care (i.e. a legal right of action) directly against the assurer in addition to any duty owed to the water company in respect of the relevant requirements for reporting and assurance.

We will notify companies of any further reporting and assurance requirements that may apply from time to time during the 2025-30 period.

7.4 Managing improvements to reporting methodologies

What we said in our draft determinations

At draft determinations, we considered how to manage company requests to restate and revise performance data during 2025-30. During 2020-25 we received requests to restate performance data due to changes to the reporting methodologies companies used to capture and report APR data. In many cases these affected current and historical performance levels and ODI payments. We said that this made it difficult for stakeholders to understand trends in performance and a company's performance relative to the sector. While we expected stability in reporting methodologies, we recognised the benefits of companies using the best information possible to support the delivery of improved performance to customers and the environment. We sought views on how to manage changes that improved the quality of data reporting.

When outlining the options, we considered two key overriding principles:

- companies are expected to **set reporting methodologies at the beginning of PR24** and that these will not change over that time; and

- **companies should only benefit from real improvements in performance** delivered to customers and the environment and not benefit from methodological or data changes.

In this context, we proposed three potential options to manage changes:

1. **prohibit any changes** to reporting methodology during the 2025-30 period;
2. **reconcile any changes on an annual basis** and use revised figures from this point onwards; or
3. **reconcile the impact of any changes at the end of period** (with the data from revised reporting to continue alongside reporting of data using the original method).

Our preferred option was option 3.

Stakeholder representations

Companies' views on the options are mixed. While **no company supports option 1** (prohibit any changes), **some of the companies support option 2 and some indicate support for option 3**.[55,56]

Companies supporting option 2 say that in-period reconciliation could bring settlement of incentives closer to the time when the performance outcomes were achieved and could incentivise companies to improve the methodology. Some say that option 3 would require duplicated reporting and that the revised methodology would be subject to third-party assurance already.

On the other hand, companies supporting option 3 considered it sensible. United Utilities says that companies should report against the original and revised methodologies so that the impact of the revised methodology is transparent. Some companies do not appear to have strong views on either option 2 or 3. While supporting option 2 to incentivise companies to improve data accuracy, South West Water says that if option 3 is pursued, exceptions should be made to changes triggered by changes in third-party materials. Southern Water says that changes are unlikely to be material, and the choice of option can be considered at the time, taking into account the impact on bills. Yorkshire Water says that recognising changes at the end-of-period seems

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[55] Companies indicating support for option 2 are: Affinity Water, South Staffs Water, Thames Water, Dŵr Cymru and Wessex Water.

[56] Companies supporting option 3 are: Hafren Dyfrdwy, SES Water, Severn Trent Water, United Utilities. South West Water.

reasonable but notes that if it is material and needs parallel reporting, it would be useful to consider earlier adjustment to support bill stability and reduce confusion.

Our assessment and reasons

We continue to consider that option 3 is the better option for managing improvement in reporting methodologies in PR24. We note that neither option 2 nor 3 have the majority support from companies. On companies' views supporting option 2, we consider that through reconciliation end-of-period, option 3 still provides incentives for companies to improve accuracy in their performance reporting. We consider reporting of performance based on both the original and revised methodologies important so that the impact of the revised methodology will be transparent, as pointed out by United Utilities.

Of the two options, option 2 could mean repeated resetting of performance payments but without a clear benefit. Protection to customers and the environment may also be hampered if we do not have sufficient time to consider the annual reconciliation (option 2), particularly in view of the risk that companies may seek to constantly improve the reporting methodologies for the new performance commitments. Option 3 is also more in line with our principle that companies are expected to set reporting methodologies at the beginning of PR24 for application throughout PR24. By reconciling the impact of any changes at the end of the period, option 3 should help mitigate issues experienced in the current period, where companies restated the same dataset in multiple years.

Our final determinations

We proceed with our preferred approach, option 3, in-principle. Therefore, for all performance commitments we expect:

- to reconcile the impact of restatements on performance on ODI payments at the end of period**;**
- for the purposes of reporting performance and ODI payments in the APRs, companies are expected to maintain consistent reporting methodologies during the 2025-30 period aligned with our PR24 performance commitment definitions;
- for the purposes of ODI payments, we would not adjust revenue allowances in period for ODI payments based on revised methodologies. They will instead be based on pre-change methodologies;

- only to make changes during the period to correct unambiguous errors and to reflect changes arising from updates to third-party materials, if appropriate[57] [58] ;
- companies' annual performance reports to set out in the commentary, revised data alongside data using the original method covering the whole 2025-30 period and explaining the expected impact on PCLs, reported performance and ODI payments; and
- companies to provide external assurance in support of the changes, in line with our overarching expectations for water companies and their assurers.[59]

However, as we do now, we will still continue to engage with companies during the price control period on the proposed restatement.

We may also agree, on a case specific basis, to restate data during the control period if the proposed changes require the PCLs for a performance commitment to change. This recognises that PCLs for the package of performance commitments are set differently and that, as a result, the impact of changes to reporting methodologies may vary. It may therefore be in customers' interests to intervene to ensure companies have certainty on what they are expected to achieve.

Regardless of this, we will continue to apply our established policy that companies will only benefit from real improvements in performance delivered to customers and the environment, not from methodological or data changes.

In our final determination, we confirm that we will introduce an outturn adjustment mechanism (OAM) that would adjust equity returns for systematic over- or underperformance against the outcomes package. This will be applied as a one-off assessment each year.[60] We considered the interaction between how we manage the impact of improvements and changes in reporting methodologies and the OAM. We consider that our approach, option 3, is consistent with the application of the OAM.

7.5 Financial Adjustments to payments

What we said in our draft determinations

At draft determinations, in order to incentivise companies to provide the reporting and assurance we ask for at the right time, we proposed introducing a financial adjustment

[57] Ofwat, Creating tomorrow together: Our final methodology for PR24- Appendix 7 Performance commitments, December 2023, P.17.
[58] See Section 8 for our change control process.
[59] Section 1.1 of 'PR24 final determinations: Expenditure allowances – Assurance requirements for delivery of enhancement schemes'.
[60] Ofwat, 'PR24 Final Determinations: Aligning risks and returns', December 2024.

to companies' outperformance and underperformance payments. We proposed a 1% adjustment to the relevant ODI payment, applied by reducing that outperformance payment or increasing that underperformance payment by 1%.

Stakeholder representations

Affinity Water, Dŵr Cymru, South East Water, Southern Water, Severn Trent Water, and Yorkshire Water challenge our proposal, saying that it would contribute to the overall downside risk skew of the Outcomes package.

Portsmouth Water, SES Water, Severn Trent Water and United Utilities support this incentive as being reasonable and fair.

Affinity Water and Severn Trent Water suggest that a reputational incentive would be more appropriate instead.

Our assessment and reasons

While we consider that companies need to improve how they submit of ODI performance data, we appreciate the challenges of implementing such a measure at final determinations. Although we do not implement the proposed adjustment at final determinations, we consider that data submission and assurance is a pressing issue across the work that we do. With the large increase in allowances funded by customers, we consider that improvements in assurance and timely submissions are required to ensure we have sufficient scrutiny over companies' performance.

Consequently, we consider that an incentive is potentially required across all submissions of company data to Ofwat rather than those relating only to ODI payments. As such, we may consult on a wider mechanism after final determinations.

Our final determinations

We will not implement a financial adjustment at now final determinations. We will continue to consider the need for an Ofwat-wide incentive to improve company reporting to ensure we receive accurate information and assurance in a timely manner.

8. Change control process

There are no revisions in our change control process for our final determination, which aligns with our PR24 methodology. For the avoidance of doubt, this means that, apart from considering appropriate changes arising from updates to third-party materials, or where otherwise expressly provided for in our PR24 final determinations, we do not intend to make any other changes.[61]

Where performance commitment definitions include references and/or links to materials produced by a third party, we expect to set performance commitments based on the versions of those materials that are in effect at the date of our final determinations. [62,63] For our final determinations, we have accordingly updated some of these third-party materials. The relevant versions of those materials are set out in the performance commitment definitions and should be considered to be authoritative for the 2025-30 period. Where possible, we have published the relevant version on our website for ease of reference.[64]

Changes to third-party materials could impact upon other aspects of companies' performance commitments, potentially altering the intentions of the PR24 final determination. Where actual or potential impacts on companies' performance could flow from incorporating a change to a third-party material, we may consider resetting relevant aspects of performance commitments, or conclude that there is insufficient reason to make any change at all, to maintain the level of stretch and outperformance payments in line with our intention in our final determination. This includes, but is not limited to, performance commitment levels, ODIs and risk protections. Changes will be set out as part of the change control process.

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 actual and potential consequences of making the

[61] For example we identify in our gated allowances for Thames Water that we may consider as part of the gated process revisions to relevant performance commitments to maintain appropriate levels of risk and reward in line with our intention at final determinations, Ofwat, ' PR24 final determinations: Expenditure allowances - Thames Water gated allowances appendix', December 2024.
[62] Ofwat, 'PR24 final methodology Appendix 7: Performance commitments', pp. 16-17; and Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', p. 42.
[63] 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.
[64] Ofwat, PR24 Performance commitment definitions - Ofwat.

change and why it should be made, providing relevant supporting evidence. We will consult with stakeholders as appropriate, about any changes, including their timing.

9. Final determinations for customer facing performance commitments

9.1 External sewer flooding

This performance commitment measures the number of external sewer flooding incidents per 10,000 sewer connections. For further information see the 'External sewer flooding performance commitment definition'.

For our final determinations

We have changed:

- **The baseline in 2024-25** where we have made adjustments for some companies taking into account the latest reported company performance and company forecasts.
- We maintain and **enhanced ODI rate** but we make **company-specific adjustments to the threshold so that it is sufficiently stretching.**
- We introduce a **collar** at **-0.6% RoRE** and a **cap** at **1.5% RoRE.**

We have not changed:

- The **performance commitment definition**.
- The specificity of PCLs – they continue to be set at a **company-specific** level.
- The approach to determining **stretch over 2025-2030** – this is based on a **common convergence point for all companies in 2032-33**.
- The **ODI rate,** calculated using the **updated top-down approach**, with a starting RoRE allocation of **0.6% RoRE.**

Performance commitment definition

We did not propose any change to the definition at our draft determinations. We received no representation about the performance commitment definition and there have been no changes that require changes to the definition.

For final determinations, we make **no change to the definition**.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set this performance commitment at a company specific level for all companies. We aligned the baseline to the 2024-25 PR19 PCL where companies had an existing PCL. For the level of stretch from total expenditure, we converged all companies to a common level based on the industry median forecast in 2032-33. Where companies' 2029-30 forecast were more ambitious than the glidepath to the 2032-33 value we accepted the companies' forecasts. For Severn Trent Water we took a company specific approach to setting the PCL.[65]

Stakeholder representations

We received representations on our draft determinations from six companies on the PCL.

Severn Trent Water disagrees with the draft determinations approach to setting the PCL for external sewer flooding. The company raises concerns over the fact Ofwat indicated that a PCL will be set at the common level in the PR24 methodology and then used a mixture of common and company specific approaches at draft determination.

The company explains its concern that this approach penalises ambitious companies as they are held to their forecasts while poorer performing companies at higher incident rates receive less stretching targets.

Anglian Water and Dŵr Cymru challenge our proposal to align the baseline for external sewer flooding to their PR19 2024-25 bespoke PCL. Dŵr Cymru outlines that their PR19 targets were overly stretching and proposes that the baseline should be aligned to reported performance. Anglian Water raises that its historical good performance holds it to an unachievable baseline and states that it is inappropriate to hold it to this level given external sewer flooding is moving away from a common PCL.

Thames Water requests that Ofwat reflects its restated performance data for PR19 performance in relation to external sewer flooding to set their PR24 PCL. Based on an

[65] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.111.

extrapolated sample, the company's restatement estimates a historical underreporting of external sewer flooding incidents of 206%. This restatement has been submitted in its annual performance report and was externally assured as part of that process.

Our assessment and final determination

Specificity

The external sewer flooding performance commitment is set on a **company-specific basis** for the 2025-30 period.

We maintain our ambition to achieve a **common level by 2032-33**. We set the level based on the median industry forecast. This represents an appropriate balance for moving towards a common level:

- recognising PCLs were previously set on a company specific basis; and
- sets an achievable level of stretch in the 2025-30 period.

We intend to review this convergence ambition level at future price reviews and based on the sector's actual outturn performance.

Baseline

We have changed our approach to setting the baseline **taking into account the latest reported performance** and companies' representations. For external sewer flooding, we set the baseline based on outturn performance, the PR19 2024-25 PCL or the company forecast for 2024-25. The approach to setting the baseline broadly aligns with the approach we have taken to set the baseline on the asset health performance commitments. We provide more detail in Section 12.

In practice, this means we accept the Dŵr Cymru and Wessex Water's proposed baselines. We maintain the PR19 2024-25 PCL for Northumbrian Water, Southern Water, United Utilities and Yorkshire Water. However, we make company-specific adjustments to Severn Trent Water, South West Water, Thames Water and Hafren Dyfrdwy, which we explain in the company specific appendices.

Performance from total expenditure

We set the 2032-33 convergence point at industry median forecast position for 2032-33 from companies' business plans, excluding Thames Water. We use forecasts from business plans instead of companies' representations to draft determinations because companies have not justified the reduction in their ambition. We continue to remove

Thames Water from this calculation as we have material concerns around the quality of their historical restated and forecast data.

We remove the requirement at final determinations that where companies' 2029-30 forecasts were more ambitious than the glidepath to 2032-33, we accept the company's forecast as its 2029-30 PCL. This more closely aligns with the PR24 methodology proposal to move to external sewer flooding to a common level. As a result, we do not stretch companies beyond the convergence point even if the company is forecasting to do so.

To determine the 2029-30 PCL, we profile a linear line from the baseline (2024-25 position) to the convergence point in 2032-33 for all companies. The intersection of this line at each year, provides us with all the PR24 performance commitment levels, from 2025-26 to 2029-30. We make a company specific adjustment for Yorkshire Water because of its material outperformance at PR19, which is explained in the company specific appendix.

Implementing this approach, sees seven companies forecast to meet or outperform our 2029-30 position. Out of the four remaining companies not forecasting to meet our 2029-30 position, two of these companies (Anglian Water and Hafren Dyfrdwy) have achieved these levels historically.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – External sewer flooding'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set PCLs at a **company specific level** for all companies.
- We **adjust the baseline in 2024-25** for companies to take into account the latest reported company performance and company forecasts.
- We make **company specific adjustments** to the baseline position for four companies and **maintain our convergence point in 2032-33**.

Outcome delivery incentives

What we said in our draft determinations

We set the ODI rate using the top-down rate setting methodology based on data up to 2022-23.

We allowed companies to earn enhanced ODI payments where they achieve the frontier of performance.[66] This was to incentivise innovation to improve performance. We set the enhanced ODI rate at double the standard ODI rate. We set the threshold for earning enhanced ODI payments for external sewer flooding as a constant level of performance beyond the PCL. This performance gap (the common improvement factor) was set as an average of the 95th percentile of performance improvement over the PCL across all companies in each year during 2020-23 to set a level of performance that is achievable but stretching.

Stakeholder representations

We did not receive any representations about our standard ODI rate for the external sewer flooding performance commitment.

Severn Trent Water states that the threshold for enhanced ODI rewards should be set at the industry frontier performance for each year of the 2025-30 period.

Our assessment and final determinations

As with other performance commitments, we have updated our ODI rate calculation by taking into account the latest performance data from 2023-24 and the latest company regulatory capital values. With these updates, the median ODI rate per incident per 10,000 wastewater connections has decreased by 30% between draft and final determinations. This is still a 122% increase on the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

We maintain our position of setting the enhanced ODI rate at two times the standard ODI rate.

[66] We define the frontier of performance as the best level of performance companies have achieved in the past.

We have reviewed the impact of changes to the PCL on the enhanced thresholds, including how stretching they are for companies to achieve. Due to the changes to the PCLs, we consider that without any adjustments to the existing approach to setting enhanced thresholds, the enhanced thresholds would not reflect the frontier of performance for a large number of companies. This could lead to large outperformance payments without improvements in performance beyond the frontier of performance. We tested different options for adjusting the enhanced threshold so that it is stretching but achievable. Options we considered included:

- Increasing the common improvement factor, for example 90th percentile instead of 75th;
- Setting the common improvement factor as a percentage improvement from the PCL (as with internal sewer flooding); and
- Maintaining the thresholds set at draft determinations.

We have decided to **maintain the same thresholds set at draft determinations, but with some company-specific adjustments** to avoid the potential for large outperformance payments. Increasing the common improvement factor (either in a numeric or percentage form) leads to thresholds which would not be achievable for companies. We would have to carefully select the percentile to use to reach a suitable threshold. This is due to the sensitivity of the percentile values as the percentiles change. We decided that it was more appropriate to use the draft determinations enhanced thresholds, which were already established and based on PCLs that were providing high levels of stretch.

We make a company-specific adjustment to Yorkshire Water, where we consider it could perform significantly beyond its PCL based on recent performance. If it performs at its 2023-24 level of performance, it will earn large outperformance payments from exceeding the PCL. To protect customers, we have set the enhanced threshold at the best value between its PCL and its 2023-24 level of performance plus the common improvement factor. This ensures that the threshold remains stretching, such that customers will receive benefits from the company receiving enhanced ODI payments.

Because of our concerns about the poor data quality around this performance commitment for Thames Water, we do not allow this company to earn enhanced ODI payments for external sewer flooding.

For our final determinations

- The **ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% wastewater RoRE**.
- We set the **threshold** for earning enhanced ODI payments at **the same level of performance as at draft determinations for most companies**. We have made company-specific adjustments for Yorkshire Water and do not allow enhanced ODIs to be earned by Thames Water.

Risk protections

What we said in our draft determinations

At draft determinations, we did not include any risk protections as this is a well-established metric for all companies.

Stakeholder representations

We received representations from several companies to include a cap and collar. Severn Trent Water proposes adding a cap and collar at ±1% RoRE as we have for water supply interruptions. Thames Water proposes adding a collar at –0.5% RoRE as it is a new performance commitment for them. Additionally, Wessex Water and Yorkshire Water propose adding a collar equivalent to that on new performance commitments at -0.5% RoRE.

South West Water requests a deadband for external sewer flooding set at of one incident per 10,000 connections. This deadband is reflective of the company's proposal to deliver a step change in performance over the PR24 period and the uncertainty for weather impacts on performance. The purpose is to reduce exposure to water and wastewater companies for factors outside of their control.

Our assessment and final determinations

We reviewed the rationale for including further risk protections due to the likelihood of material underperformance payments arising from this performance commitment across the sector due to external factors such as weather events. We are giving cost allowances to companies for them to improve resilience against external events and we expect an efficient company to be resilient to these factors.[67] Nonetheless, we accept that there should be reasonable and sensible protections for the sector as a whole in the outcomes package to limit the size of negative skew and provide opportunity to earn equal outperformance and underperformance payments. We are therefore adding a **collar at -0.6% RoRE for all companies**, except Thames Water. Based on our analysis of potential P10 underperformance, we find that a collar at -0.5% RoRE would overly limit the performance range where incentives would apply. Instead, a wider collar at -0.6% is more appropriate to mitigate against external factors whilst maintaining incentives to meet the PCL.

To avoid companies receiving very large payments, which would lead to an increase in customer bills, we have **capped outperformance payments at 1.5% RoRE**. This allows companies to push the frontier of performance while maintaining protection for customers.

We are setting a **cap and collar for Thames Water at ±0.5% RoRE** due to the lack of established outturn performance data which has resulted in uncertainty for setting the PCL. The addition of a tighter cap and collar in line with new performance commitments protects the company and customers from high levels of financial risk.

We do not consider that a deadband in addition to the other changes we have made for this performance commitment would be in the interests of customers. A deadband could undermine performance stretch in an area that we consider to be one of the worst service failures that a customer can experience.

We provide more information on risk protections in Section 5 of this document.

For our final determinations

- We are setting **a collar at -0.6% wastewater RoRE**, for all companies except Thames Water.
- We are setting **a cap at 1.5% wastewater RoRE**, for all companies except Thames Water.
- **For Thames Water**, we are setting **a cap and collar at ±0.5% wastewater RoRE**.

[67] 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.

9.2 Internal sewer flooding

This performance commitment measures the number of internal sewer flooding incidents per 10,000 sewer connections. For further information see the 'Internal sewer flooding performance commitment definition'.

For our final determinations

We have changed:

- We have specified in the performance commitment definition **how performance will be measured** for Hafren Dyfrdwy.
- We have adjusted the **baseline performance commitment level** which is now less stretching to take into account the latest reported performance. We then expect a **greater rate of improvement over 2025-30** than at draft determinations
- The performance commitment level for **United Utilities** so is moved from a common level to **company-specific level**
- We maintain **an enhanced ODI rate** but adjust the way we set the **threshold,** so it continues to encourage innovation towards the end of the 2025-30 period.

We have not changed:

- We take a **common approach** to setting the **performance commitment level**, except for Hafren Dyfrdwy and United Utilities.
- The **ODI rate** is calculated using the updated **top-down approach**, with a starting RORE allocation of **0.6% wastewater RoRE.**

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the definition described in our PR24 methodology.

Hafren Dyfrdwy had indicated its support for our draft determinations approach to set its performance commitment level due to the scale of the company. We received no representations on the general definition, and there have been no changes in the external environment that require a change in the definition.

For final determinations, we have included a change to the measurement of sewer connections for Hafren Dyfrdwy.

For final determinations, we propose **no change** to the general definition, except in relation to the measurement of sewer connections for **Hafren Dyfrdwy**.

Performance commitment level

What we said in our draft determinations

At draft determinations, all wastewater companies except for Hafren Dyfrdwy were set a common PCL for internal sewer flooding.[68] The baseline was equal to the PR19 2024-25 PCL (1.34 internal sewer flooding incidents per 10,000 connections). Companies were stretched over the PR24 period to the sector forecast median level of 1.16 in 2029-30.

Stakeholder representations

Nine water and wastewater companies (Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Southern Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water and South West Water) and one other stakeholder (CCW) responded to our draft determination regarding internal sewer flooding PCLs. The key concerns were the alignment of the baseline to the PR19 2024-25 PCL, the 2029-30 target and the specificity of the PCL.

Hafren Dyfrdwy agrees with Ofwat's draft determinations approach of applying a company specific approach. The company does not agree with the PCL of four internal sewer flooding incidents per year, highlighting that it is a 20% stretch beyond its historical average outturn of five incidents per year. Hafren Dyfrdwy also put forward a proposal for an end-of-period PCL. This is to reduce the volatility of customer bills that arise from large changes in performance being caused by the company's low absolute incident rate.

Anglian Water, Southern Water and Thames Water challenge our proposal to retain the baseline for internal sewer flooding at the PR19 2024-25 PCL of 1.34. Companies state that the industry has struggled to deliver the PCL during the 2020-25 period. They request that the baseline reflects outturn performance better. Companies also highlight the risk of forecasts for the 2025-30 period being too ambitious. Ofwat should

[68] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.106.

be careful in using these forecasts to set common PCLs which could lead to targets that are unachievable.

CCW disagrees with the 13% stretch applied by Ofwat, noting that it is less than the 41% stretch applied across the 2020-25 period at PR19. CCW also raises that the stretch is not adequate as it does not account for the benefits companies will see to internal sewer flooding rates from their infrastructure work to reduce storm overflows.

Yorkshire Water, Thames Water and United Utilities request company specific PCLs due to regional specific factors impacting internal sewer flooding performance. Companies suggest that factors such as rainfall, proportion of combined sewers, number of food service establishments and network configuration materially impact performance, and the common PCL is not achievable as a result.

Our assessment and final determinations

Specificity

We consider company requests for company specific PCLs by using the following criteria for our assessment:

- PR19 performance;
- regional specific factors; and
- appropriate standard of evidence in company submissions, including assessment of rationale for change and quality of supporting data.

In practice, this means that companies must provide compelling evidence as to why regional specific factors prevent them from achieving the common PCL. They also need to demonstrate they have made a significant effort during the 2020-25 period to understand the regional issues they have identified and to achieve the common level target.

Following our review of company proposals and supporting evidence, we accept United Utilities' proposal for a company specific PCL. The company has provided compelling evidence of the interaction between high urban rainfall and proportion of combined sewers which is particularly impactful due to the company's large urban population. The company has also demonstrated significant effort to tackle their performance in this area to date in the 2020-25 period. Furthermore, during the 2020-24 period United Utilities has spent beyond their PR19 enhancement allowances. In particular, this relates to 'reducing sewer flooding risk for at risk properties'. Moreover, the company has frontier levels of sewer blockage performance. Yorkshire Water and Thames Water did not provide compelling evidence to support a company specific performance level or to demonstrate their understanding of the issues and that they had made enough effort to improve their performance at PR19 including expenditure of enhancement allowances and improvements in underlying performance. Further detail of these decisions are included in the company specific appendices.[69] [70] [71]

For all other companies, we consider that our base cost models include explanatory variables that cover key exogenous factors that vary between regions that could impact their performance, such as urban rainfall and density. Consequently, some companies receive higher efficient expenditure allowances to reflect the extra challenges they face. Adjusting PCLs for the same regional factors that are accounted for by our base cost models would therefore double count the impact they have and could result in customers paying twice, which is not appropriate.

We therefore retain the common PCL for internal sewer flooding for nine of the eleven wastewater companies. We apply a company specific approach for United Utilities, as explained above, and for Hafren Dyfrdwy, due to the company's scale.

Baseline

Company performance on internal sewer flooding has **failed to consistently achieve the PR19 PCLs**. With companies only outperforming the PCL 34% of the time during the 2020-24 period. Furthermore only 4 companies have historically achieved the draft determination baseline of 1.34 incidents per 10,000 connections during the previous three outturn periods. Therefore, we agree that setting PR24 targets based on improvement from the 2024-25 PR19 PCL is likely to result in unrealistic targets that are too challenging for the sector as a whole.

We set the baseline by focusing on recent performance data. Using outturn performance addresses company concerns on fairness and high likelihood of underperformance raised in representations. It still provides a basis from which to incentivise the sector to improve on existing performance levels.

To set the baseline for final determinations, we take the median of each company' s **average performance from 2020-24** and then apply this value as the 2023-24 baseline as it is representative of performance for the 2020-24 period. We then apply a linear glidepath to the 2029-30 final PCL (see below). Where the glidepath intersects in 2024-25 is the baseline for 2024-25 (1.62).

[69] Ofwat, 'PR24 final determinations: Yorkshire Water – Outcomes appendix', December 2024.
[70] Ofwat, 'PR24 final determinations: United Utilities – Outcomes appendix', December 2024.
[71] Ofwat, 'PR24 final determinations: Thames Water – Outcomes appendix', December 2024.

Performance from total expenditure

While we accept the need for an adjustment to the baseline, we continue to stretch all companies over the 2025-30 period to ensure that companies continue to drive performance beyond existing levels. We make this adjustment by using updated forecasts provided in companies representations to set the common PCL.

For final determinations we set the internal sewer flooding 2029-30 PCL on the basis of expected performance from total expenditure (combined base and enhancement expenditure) because our base cost models include historical enhancement expenditure associated with reducing the risk of sewer flooding (internal and external). As such, companies receive an efficient future allowance based on both base and enhancement expenditure. Setting the PCL from total expenditure also allows us to take account of where companies have identified performance improvements delivered from enhancement expenditure not included in the model. Undertaking this approach at a common level incentivises all companies to maximise the benefits they could deliver from their enhancement programmes.

The common PCL is calculated as the midpoint between the sector forecast median including United Utilities (1.26) and excluding United Utilities (1.19) to give a final PCL of 1.23 incidents per 10,000 connections. We consider that it is appropriate to retain United Utilities in the setting of the common PCL as the company will continue to be stretched towards the common level. We therefore consider it is appropriate to account for United Utilities forecasts performance in the calculation of the common PCL stretch. The updated PCL requires a 24% stretch from the final determinations baseline of 1.62. This required improvement is greater than the 13% stretch we expected at draft determinations as a result of the adjustment to the baseline. We consider this amount of improvement during the period is achievable but stretching. This is evidenced by the fact that it has been delivered historically by six companies over a 5-year period and five companies forecast to deliver the PCL by 2029-30.

Given the importance of internal sewer flooding to customers, we expect all companies to improve their performance on this measure at PR24. In addition to reducing levels of flooding incidents, companies must also strive to respond quickly to incidents when they occur and engage effectively with consumers to solve internal sewer flooding issues. Research into customer experiences commissioned by Ofwat and CCW has found that further improvements are needed to ensure all those affected by internal sewer flooding receive appropriate communications and support. The experience of internal sewer flooding is extremely stressful for customers, who report high anxiety and frustration, with impacts including not being able to sleep at night when it rains and not being able to use parts of their property for extended periods of time. Ofwat and CCW have made recommendations to wastewater companies to improve their service in this area.[72] Ofwat has also announced it will be assessing companies' compliance with licence condition G, which sets out principles of customer care, with respect to sewer flooding.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Internal sewer flooding. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set PCLs at a **common level** for all companies apart from United Utilities and Hafren Dyfrdwy.
- We have **adjusted how we set the baseline** to be more reflective of latest reported performance while then **expecting a greater rate of improvement over 2025-30** compared to draft determinations
- We have **updated the calculation of the final PCL** to reflect updated company forecasts and United utilities moving to a company specific level.
- In addition to improving their operations and maintenance, we also expect all companies to do better on ensuring all customers who suffer internal sewer flooding receive **appropriate communications and support**.

Outcome delivery incentives

What we said in our draft determinations

We set the standard ODI rate using a top-down rate setting methodology, using data up to 2022-23.

We allowed companies to earn enhanced ODI payments where they achieve the frontier of performance. This was to incentivise innovation to improve performance. We set the enhanced ODI rate at double the standard ODI rate. We set the threshold for earning enhanced ODI payments for internal sewer flooding as a constant level of performance beyond the PCL. This performance gap (the common improvement factor) was set based as an average of the 75th percentile of performance improvement over the PCL across all companies in each year of PR19.

[72] Ofwat & CCW, 'Customer experiences of sewer flooding: An update report by Ofwat and CCW', November 2024, p.10.

Stakeholder representations

United Utilities proposes lowering the standard ODI rate for internal sewer flooding, as it believes that the rate proposed at draft determinations creates significant downside risk.

Our assessment and final determinations

As with other performance commitments, we have updated the ODI rate through the top-down calculation by using the latest performance data from 2023-24 and the latest company regulatory capital values. With these changes, the median ODI rate per incident per 10,000 wastewater connections has slightly decreased between draft and final determinations. The rate is still a 55% increase on the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Addressing the representation from United Utilities on the size of negative risk, we have set a company-specific PCL which reflects the characteristics of its network. This will greatly reduce the potential size of underperformance payments that it could receive. This means it is unnecessary to make company-specific adjustments to the ODI rate too.

We have reviewed how we set the enhanced threshold and how feasible it would be for companies to achieve if they perform at the frontier of performance. As performance improves, we expect marginal improvements to be more difficult to achieve. The common improvement factor derived from the draft determinations methodology would lead to a level of performance that would be difficult to achieve for the majority of companies. For final determinations, we are setting the common improvement factor as a percentage improvement on the PCL. This is derived following the same approach, but it is the 95th percentile of percentage performance improvement. As the PCL increases over time, the performance gap to start earning enhanced ODI payments becomes smaller. This will make it more achievable for companies and should incentivise companies to push the performance frontier further. We have conducted checks to ensure that the enhanced threshold is sufficiently stretching and requires companies to reach close to the frontier of performance where only one company has previously been able to perform at.

We apply the same common improvement factor for United Utilities despite it having a company-specific PCL. This incentivises the company to catch up with other companies in terms of normalised performance by the end of the period.

As South West Water is the frontier performer on internal sewer flooding, we set the enhanced threshold at the year five threshold for all years (0.83 incidents per 10,000 connections). This protects customers from large ODI payments from no material performance improvements.

For our final determinations

- The **ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% wastewater RoRE**.
- We set **an enhanced ODI rate** but adjust the way we set the **threshold,** so it continues to encourage innovation towards the end of the 2025-30 period.

Risk protections

What we said in our draft determinations

At draft determinations, we did not include any risk protections as this is a well-established performance commitment.

Stakeholder representations

We received specific representations from Hafren Dyfrdwy and United Utilities to include a collar for this performance commitment. Hafren Dyfrdwy states that because of its small network size, reported performance can vary significantly year-to-year, leading to large variations in ODI payments and customer bills. It proposes a collar at 10 internal sewer flooding incidents, which is equivalent to its recent historical worst level of performance. United Utilities proposes adding a collar at -0.5% wastewater RoRE.

Our assessment and final determinations

We assessed the benefits of including a collar against the principles for risk protections set out in Section 4 and have introduced one at -0.6% RoRE for all companies, except for Hafren Dyfrdwy noted below. We reviewed the rationale for including further risk protections due to the likelihood of material underperformance payments arising from this performance commitment across the sector due to external factors such as weather events. The performance commitment clearly makes provision to exclude flooding that originates from assets which are not part of the company's sewerage system and in relation to flooding events that are outside the company's statutory functions. We are giving expenditure allowances to companies for them to improve resilience against external events and expect an efficient company to be resilient to these factors.[73] Nonetheless, we accept that there should be reasonable and sensible protections for the sector as a whole in the outcomes package to limit the size of negative skew and provide opportunity to earn equal outperformance and underperformance payments.

Given this is one of the worst service failures that a customer can experience, we calibrate the collar level to ensure that companies are incentivised over an appropriately wide range of underperformance. Based on our analysis of the potential range of underperformance, we found that a collar at -0.5% RoRE would overly limit the performance range where incentives would apply. A wider collar at -0.6% RoRE would be more appropriate to mitigate against external factors whilst maintaining incentives to meet the PCL.

The exception to this is Hafren Dyfrdwy, for which we apply a collar at -1.5% RoRE. A small increase in incidents can increase the normalised measure significantly, for example underperforming by four incidents means that they underperform their PCL by 100%. Combined with its small RCV, small variations in performance can lead to large underperformance risk. This issue is unique to this performance commitment and company given the low performance levels at and around the PCL. As proposed in its representations, we are setting a collar which lines up closely with its worst year of historical performance (10 sewer flooding incidents). We set it as a percentage RoRE collar instead of at a level of performance for consistency with the overarching approach to setting caps and collars.

We provide more information on risk protections in Section 5 of this document.

For our final determinations

- We are setting **a collar at -0.6% wastewater RoRE for all companies**, except Hafren Dyfrdwy which we are setting at **-1.5% wastewater RoRE.**

[73] 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.

9.3 Water supply interruptions

The water supply interruptions performance commitment measures the average number of minutes lost per customer for interruptions that lasted three hours or more. For further information see the 'Water supply interruptions sewer flooding performance commitment definition'.

For our final determinations

We have not made any changes in approach for this performance commitment.

We have not changed

- The **performance commitment definition.**
- How we set the performance commitment level at a **common level** of **00:05:00** (hh:mm:ss) across all years of the 2025-30 period for all companies. We expect companies to deliver this from their total expenditure allowances.
- Our approach to setting ODI rates which **uses the PR19 median rate per minute of interruption** as the basis of the ODI rates.
- We maintain **an enhanced ODI rate** and made no adjustments to how we calculate the threshold.
- The Risk protections with a **collar** of -1% RoRE for all companies, other than SEW which is -2% RoRE, and **no deadband.**

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the one described in our PR24 methodology.

In its representations, South East Water says that extreme weather events should be excluded as these are outside an individual company's control and companies are not funded to be resilient to all possible weather events. Thames Water considers that for planned water supply interruptions, a company should only be penalised if it overruns the amount of time it has estimated in advance that water will not be supplied for.

As we stated in our PR24 methodology and draft determinations, our general PR24 outcomes policy is that we do not consider that it is appropriate to have exclusions for factors that are outside a company's control, such as weather events.[74] The current definition does not differentiate whether an interruption is planned or unplanned. Even if an interruption is planned, it will still be in customers' interest for the company to minimise how long it lasts for.

To inform our future regulatory approach for longer interruptions we are keen to collect more information about this performance area from companies over the 2025-30 period.

For our final determinations, there are **no changes to the definition**.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set a performance commitment level that was flat at 00:05:00 mins every year over the 2025-30 period for all companies.[75] This performance commitment was based on **industry median** forecast position at 2029-30.

Our expectation at draft determination was performance improvements should be principally driven through base expenditure. We made no specific adjustments to the performance commitment levels for enhancement expenditure. Nonetheless, we expected companies to optimise their use of funding to meet our proposed targets.

Stakeholder representations

11 companies and two non-company stakeholders provided a representation on water supply interruptions. Several companies challenge our decision to maintain the baseline for PR24 at the PR19 2024-25 PCL of 00:05:00.[76] They argue that the PR19 2024-25 PCL is not achievable as they are not currently meeting targets despite overspending their base allowances that fund common performance commitment levels like water supply interruptions. Therefore, they disagree with setting the baseline at the PR19 level at PR24.

[74] Ofwat, ' PR24 Final Methodology: Appendix 7 - Performance commitments', December 2022, pp. 14-15.
[75] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.101.
[76] Companies include Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Northumbrian Water, Severn Trent Water, South West Water, Southern Water, Thames Water, Yorkshire Water and South East Water.

Some companies said that the PR19 PCL is not even achievable for them at the end of PR24 i.e. 2029-30. While this target was set based on 2029-30 median industry forecast position, companies state that this is upper quartile stretch based on PR19 performance. Companies also say that only a low number of companies have historically met this target.

Thames Water, Yorkshire Water, Southern Water and Anglian Water argue that there are differences between water only companies (WoCs) and water and sewerage companies (WaSCs), such as advantageous local factors and size which helps water only companies perform better.

Yorkshire Water state that companies that have greater network visibility (pressure and flow logger coverage) are penalised because they are made aware of an incident earlier in the incident cycle than companies that do not have good logger coverage, resulting in them reporting more minutes lost compared to other companies. Therefore, under this measure, performance reporting is not necessarily like for like comparison.

Southern Water proposes we should set its PCL on a company specific basis. We discuss this further in the company specific appendix.[77]

Our assessment and final determination

Specificity

For final determinations, we continue to set performance commitment levels **at a common level.** We consider this is appropriate as our base cost models include explanatory variables that cover key exogenous factors that vary between regions such as scale (number of customers the company serves) and population density. Some companies therefore receive higher expenditure allowances than others, in part because of the additional challenges they face in delivering services to their customers. Adjusting performance commitment levels for the same regional factors that are accounted for by our base cost models would therefore double count the impact they have and could result in customers paying twice, which is not appropriate.

We do not consider there is the appropriate standard of evidence to set different PCLs for WaSCs compared to WoCs. As well as the base cost allowances, where companies have set out a well evidenced case that they need additional allowances to meet the common level, we make additional efficient cost allowances. We also note that five WaSCs have either met or outperformed our PR24 PCL of 00:05:00.

[77] Ofwat, ' PR24 final determinations: Southern Water – Outcomes appendix', December 2024.

Baseline

We **maintain the baseline for all companies at 00:05:00**, which is the PR19 2024-25 performance commitment level. For other performance commitments, we have adjusted the baseline position to take into account the latest reported performance. This adjustment his is based on our assessment of the achievability of the performance commitment level for the sector as a whole. Given that eight companies in the 2020-24 period have met or exceeded this performance commitment level for water supply interruptions, we consider it is an achievable but stretching target at final determinations.

Performance from base expenditure

As per our draft determination, for final determination we **maintain the PR24 2029-30 PCL at 00:05:00** from base expenditure. This is equivalent to the median of the industry forecast position from base expenditure. Companies have a range of options to improve performance on the duration of supply interruptions, including:

- better management of the response time to reported interruptions;
- ensuring sufficient availability of teams equipped to restore supply as quickly as possible; and
- better monitoring of the network to more quickly detect and locate pressure losses (for example through flow meters and pressure loggers to send live data to control centres).

In the 2022-23 annual performance report (APR), some companies' own commentary supported the view that more can be done to improve performance. They state that investment in their assets and network calming techniques are working as strategies used to reduce supply interruptions.

In response to several companies noting that the baseline and 2029-30 PCL is too stretching, we recognise that the sector outturn is close to 00:14:00. But when we consider historical performance, companies have been able to reach 00:05:00 in the past. Indeed, in the most recent APR, several companies noted one large event leading to longer supply interruption times. For example, Thames Water's performance was impacted by a power failure in Guildford and Wessex Water suffered a significant burst in the final month of the year. We expect companies to provide resilient services for customers and to understand and manage both current and long-term risks to their supply systems. If these events are more effectively dealt with or proactive measures were taken, interruption times would be significantly lower. From base expenditure, nine companies forecast to meet or outperform the 00:05:00 target. We also note that 14 companies have forecast to meet or outperform the 00:05:00 target by 2029-30 from total expenditure.

It is also important to recognise that we are not stretching companies to go beyond the 00:05:00 over the 2025-30 period. Instead, we push companies to deliver these levels consistently over the period.

Performance from enhancement expenditure

In their representations, several companies continue to put forward enhancement cases they stated will provide benefits to water supply interruptions. We allow these enhancement amounts where they allow companies to deal specific challenges that will mean they are able to deliver the common performance level. For example, we have provided Hafren Dyfrdwy allowances to tackle the Wrexham Ring Main, which the company has identified as the major risk to water supply interruption performance. We have also allowed c.£90m for South East Water to deliver network improvements relating to interconnectors to improve their performance.

Overall, when we consider the increase in allowances since draft determinations, company forecasts over the 2025-30 period and activities companies can undertake to improve performance, we consider the water supply interruption PCL achievable yet stretching for the industry.

Future developments

We welcome the suggestion by Anglian Water and Yorkshire Water to use modelling to set water supply interruption targets. On network loggers specifically, we do not make an adjustment for this at final determinations due to the limited quality of available data. However, we will work with the industry on the water supply interruption performance commitment over the next regulatory period to collect more useful data that will support the forecast of performance and setting of PCLs for the next price review, including those that last for a longer duration.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – water supply interruptions'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set performance commitment levels at **a common level** of **00:05:00 (hh:mm:ss)** for all years of PR24 for all companies.

- We expect companies to deliver this primarily from their **base expenditure allowances** but with **a limited number of companies have additional enhancement allowances**.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations we set the ODI rate for water supply interruptions at the average PR19 unit rate per minute of interruptions. This was because the top-down approach to setting ODI rates led to a rate which was lower than the average PR19 ODI rate, which would have been inconsistent with our intention of ensuring that the PR24 ORI rate was at least as strong as the PR19 one.

We allowed companies to earn enhanced ODI payments where they achieve the frontier of performance. This was to incentivise innovation to improve performance. We set the enhanced ODI rate at double the standard ODI rate. We set the threshold for earning enhanced payments at 2 minutes 36 seconds.

Stakeholder representations

South West Water and Thames Water state that using PR19 rates is not appropriate as they are based on marginal costs proposed by companies, which are individual to the companies and not reliable.

South East Water highlights that their water supply interruptions ODI rate has seen the highest increase since PR19. The company proposed capping ODI rates at no more than the company-specific PR19 rate +20%.

Our assessment and final determination

As mentioned in Section 4 on ODI rates, we have made a number of changes that affect water supply interruptions, including a more systematic use of PR19 median ODI rates as the lower bound of the ODI rate and capping the difference between the initial RoRE allocation and final RoRE impacts. With these changes, the median ODI rate per minute of interruption per customer has marginally increased between draft and final determinations. This is in line with the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Regarding the concerns of South East Water, an aim of PR24 was to apply greater consistency across companies' financial incentives per incident. As a result, some companies have stronger ODI rates compared to PR19 while others have weaker rates. Furthermore, we consider that given their historical performance issues, a stronger ODI rate would provide a stronger incentive for South East Water to resolve them.

We have not made any adjustments to the enhanced ODI rate or the threshold at which they apply.

For our final determinations

- We base the ODI rate on the **median PR19 ODI rate** per minute of interruption.
- We have an **enhanced ODI rate** and maintain **the same performance threshold** for earning enhanced ODI payments.

Risk protections

What we said in our final determinations

At draft determinations we set a collar at -1% water RoRE to ensure that there is a suitably wide range of underperformance where incentives apply. We set a wider collar at -2% water RoRE for South East Water because of past performance issues.[78]

Stakeholder representations

Hafren Dyfrdwy proposes a per-incident collar of 25% to mitigate the risk large underperformance caused by bursts in the Wrexham trunk main and large external events, such as Storm Arwen in 2021-22. This area of the network has caused significant supply incidents when a pipe bursts. An incident caused by a failure to this asset can breach the company's collar by itself. The company states that a per-incident collar would allow incentives to be maintained even in the event of a failure at the Wrexham trunk main. It states that this should be considered if it does not receive a cost allowance to repair the issues with the Wrexham trunk main.

Dŵr Cymru states that the collar should be set at -0.7% RoRE based on double its proposed 0.35% starting RoRE allocation.

[78] Ofwat, 'Ofwat launches investigation into South East Water's supply resilience', 16 November 2023.

South West Water proposes introducing a deadband to protect against stretching PCLs. It also suggests a tighter collar, arguing that -1% is arbitrary and does not align with customers preferences. Thames Water also proposes a tighter collar at -0.5% RoRE.

South East Water does not consider that the wider collar of -2% RoRE has been sufficiently justified and that they would be punished twice as hard as the rest of the sector. It proposes aligning its collar with that of other companies at -1% RoRE.

Our assessment and final determination

We consider the level of the collar in response to the contribution of this performance commitment to the overall balance of risk. We weigh this up against keeping financial incentives on a sufficiently wide range of performance. We determine that ODIs applied to a wide range of performance are required to incentivise companies to avoid incidents where customers are off supply for an extended period of time. In this case, a 1% collar generally translates to an underperformance range of 20 minutes. We determine that a tighter collar as Dŵr Cymru, South West Water and Thames Water propose, while providing more protection to companies against financial risk, would weaken incentives too much at the expense of customers being off supply. Additionally, a tighter collar may lead to situations where a company can hit the collar from one incident and no longer retain a financial incentive to improve performance for the rest of the year.

For South East Water we considered setting the collar at a tighter level than -2% RoRE. However, we maintain our position set out at draft determinations that, given their continuous historical performance issues and low resilience to external factors, a wider collar is required to incentivise the company to make the improvements we expect of it.

For final determinations we **maintain the collar level at -1% RoRE** for all companies, except South East Water. For **South East Water**, we maintain the wider collar of **-2% RoRE**.

In the case raised by Hafren Dyfrdwy, we do not consider it is appropriate to introduce a per-incident collar at final determinations. The company has applied for a cost adjustment claim to fix the issues at the Wrexham trunk main, and we are concerned that a per-incident collar may weaken the incentive to undertake these improvements. With regard to exogenous factors in general, we made our policy clear in our PR24 methodology that companies should be incentivised to mitigate the impact of these on customers.[79]

[79] Ofwat, 'PR24 Final Methodology – Appendix 8 Outcome delivery incentives', December 2022, p.62.

We have reviewed the need for a deadband on water supply interruptions. Part of the reason for having a financial incentive on this performance commitment is to incentivise companies to build resilient networks which minimise interruptions and to have contingencies in place if supply interruptions do apply. We consider that a deadband would lead to a reduction in these incentives and therefore, we do not include a deadband for water supply interruptions.

For our final determinations

- We set the **collar at -1% water RoRE for all companies**, except South East Water which we set **at -2% water RoRE**.

9.4 Severe water supply interruptions (previously proposed as a new performance commitment)

At draft determinations, we said that we were minded to introduce a new performance commitment in PR24 that focused on severe water supply interruptions. We defined this as interruptions that last at or above 12 hours. Following publication of our draft determinations, we consider the development of our approach to longer interruptions would benefit from more time to engage with stakeholders on how best to secure the right outcomes for customers. We informed companies and stakeholders accordingly in early August, but continued to invite their views on how we might incentivise companies to reduce the impact of longer interruptions on customers.

Companies had a range of views. Anglian Water considers that there are merits to consider a new performance commitment for PR29 while Northumbrian Water says that a new performance commitment should not be introduced now. SES Water and United Utilities note that long interruptions are impactful to customers. A number of companies consider that the existing PR24 water supply interruptions performance commitment focusing on interruptions at or longer than 3 hours incentivise companies to reduce interruptions enough. They state that a new performance commitment focusing on longer interruptions, together with the existing 3-hour interruptions performance commitment, would result in double jeopardy.[80]

CCW expresses its support for a new performance commitment to address serious water supply interruptions.

[80] Namely, Anglian Water, SES Water, Thames Water, Wessex Water, Yorkshire Water and Southern Water.

Southern Water says that improving the Government's Guaranteed Standards Scheme (GSS) should be considered. United Utilities suggests that severe interruptions are infrequent events impacting only a small fraction of customers. The company says that a multi-pronged approach combining additional monitoring and improving GSS payments will be more suitable than a new performance commitment.

For our final determinations, we maintain our post-draft determinations position that the development of our approach to longer interruptions would benefit from further consideration. **Therefore, we are not introducing a new performance commitment on longer interruptions at PR24**.

We welcome the UK Government's initiative in updating the Guaranteed Standards Scheme (GSS) for customers in England, which is an important part of the customer protection landscape in the water sector and provides important recognition to affected customers when key standards are not met. Outcome delivery incentives are distinct from GSS payments. They are part of the price review framework of incentives which can result in outperformance or underperformance payments, meaning that customers may pay more, or less, through their bills.

To inform our future regulatory approach, we are keen to collect more performance insights from companies during PR24. We are also keen to explore with the sector how to improve our insights on drivers behind interruptions. Further, we would also like to enhance our understanding on how different types of interruptions affect customers' experience. This information will inform our future policy development, which could involve our wider regulatory toolkit not limited to performance commitments.

9.5 Customer contacts about water quality

This performance commitment measures customer contacts about water quality, relating to taste, odour and appearance. It is reported as the number of contacts per 1,000 population. We expect companies to reduce water quality contacts through effective maintenance and operation of their networks as well as maximising the benefits of their enhancement programmes. For further information see the 'Customer contacts about water quality performance commitment definition'.

For our final determinations

We have changed:

- The **performance commitment definition** to update the reference to the guidance from the Drinking Water Inspectorate.
- The baseline **performance commitment level in 2024-25** for nine companies to take into account the latest reported performance.
- Company specific **stretch from base expenditure by 2029-30**, increasing stretch for ten companies, decreasing for five and continuing to stretch poor performing companies to make good improvement over the 2025-30 period.
- The **performance commitment levels for the best performers** to provide relief from underperformance payments if performance marginally deteriorates but remains materially better than the rest of the sector.
- **Our approach for calculating ODI rates** using an inflation adjusted PR19 rate with a 20% uplift.

We have not changed:

- We continue to set **performance commitment levels** at a **company-specific** level.
- We include performance improvements **from enhancement expenditure and mains replacement activity.**
- There is **no cap or collar** for this performance commitment.

Performance commitment definition

At the draft determinations, we changed our definition for this performance commitment to include the latest guidance from the Drinking Water Inspectorate (DWI) issued in February 2024.

In its representation to our draft determinations, CCW says that we could develop a separate metric in the performance commitment to track repeated contacts from the same customer and/or location for distinguishing between overall contacts and instances a company has failed to respond effectively.

We note CCW's view that we could develop a separate metric. However, our aim is to have a streamlined outcomes framework for PR24, and we consider that there is benefit to align the measurement with DWI's. In the longer term, we may consider how best to enhance our insights using different regulatory tools.

For our final determinations we have made a minor update to our performance commitment definition, to update the reference to the Drinking

Water Inspectorate's guidance to **include the Information Letter 01/2024 (Revised) published by the DWI in August 2024.**

Performance commitment level

What we said in our draft determinations

At draft determinations, we set this performance commitment at a **company-specific level** for the 2025-30 period.[81] For all companies, we aligned the 2024-25 baseline to the PR19 2024-25 PCLs.

From base expenditure we expected companies to deliver the upper quartile forecast level of performance for 2029-30 (0.67 contacts per 1,000 population) or improve towards this level at a minimum rate of 7.2% from their baseline, over the 2029-30 period. We accepted company proposals where they were more stretching.

We adjusted PCLs to account for enhancement expenditure allowances where this delivered a material improvement to taste, odour or appearance. This impacted the PCLs set for United Utilities, Yorkshire Water and the Bristol area of South West Water.

Adjustments were also made to PCLs for the South West area of South West Water and Dŵr Cymru for additional mains replacement activity we expected the companies to deliver, focused upon addressing water quality issues.

Stakeholder representations

We received representations on our draft determinations from ten companies and two non-company stakeholders on the PCL.

All ten companies said that the level of stretch applied to performance from base expenditure is too challenging.[82] More specifically South Staffs Water and SES Water, challenge the PCLs stating that a company could incur underperformance payments despite performing materially better than others. For example, if it currently performs at sector upper quartile or frontier levels and the PCL is set on this basis it may incur

[81] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.115.
[82] Anglian Water, Southern Water, Wessex Water, Yorkshire Water, Portsmouth Water, South East Water, South Staffordshire and Cambridge Water, SES Water, South West Water and Bristol Water.

underperformance payments despite continuing to perform significantly better than other companies.

We received high-level feedback from the Drinking Water Inspectorate (DWI) summarising their engagement with Ofwat during the price review. During the development of our final determinations, we have continued to engage with the DWI to share information and discuss the appropriate performance improvements companies should be expected to deliver.

CCW acknowledge that customers put a high priority on drinking water quality and stated concerns that some improvements to drinking water quality may have been de-prioritised to accommodate other investment programmes. CCW is broadly supportive of the drinking water improvement programmes and welcomes the programmes seeking to address the causes of customer contacts about drinking water quality.

Portsmouth Water proposes the PCL should be set at a **common level for all companies** based on median industry performance because setting company-specific PCLs implies to customers that varying levels of water quality are acceptable depending on their regional water supplier.

Southern Water and Yorkshire Water have expressed concerns that the draft determination baseline is too ambitious and suggested that it should reflect actual performance instead.

Our assessment and final determinations

Specificity

Our view remains that performance is not forecast to converge sufficiently across the sector to set a common performance measure in the 2025-30 period. We therefore continue to set **company specific** PCLs. We stretch relatively poorer performing companies to improve towards the levels delivered by the rest of the sector. This should aid progress to a future level of convergence that could allow a common PCL.

Baseline

Following the draft determinations, eight companies revised their forecasts in the representation data tables, with five companies making significant changes. We have reviewed the 2024-25 baseline forecasts in company representations in the context of these revisions and the latest reported 2023-24 performance.[83]

For our final determinations, the PR19 2024-25 PCL remains an important source of information that we assess the companies forecasts and wider performance against. But we no longer adopt the PR19 2024-25 PCL for our baseline by default. Instead, we intervene where necessary to adjust companies' baseline using our assessment of whether their forecasts are overly or insufficiently stretching. We do this based on historical annual improvement levels delivered at both the company and sector levels taking into account the latest reported performance for 2023-24.

Where we consider the forecast improvement between 2023-24 and 2024-25 is overly stretching, we intervene to set a less stretching target.

Our interventions apply median or upper quartile yearly improvements to company 2023-24 outturn positions to set an amended 2024-25 baseline as follows:

- the upper quartile sector forecast improvement (6.8%) if the company is ranked worse than a lower quartile company; or
- the median sector forecast improvement (2%) if the company is ranked as a lower quartile company or better.

The ranking of companies is based on their 2023-24 level of performance. The annual percentage improvement is based on company forecast performance improvements over the 2025-30 period.

We set the 2024-25 baseline aligned to their PR19 2024-25 PCL for eight companies and adjust the baseline for nine companies.

For our final determinations, we set the 2024-25 baseline at:

- a level less stretching than draft determination for nine companies; and
- the same level as draft determination for eight companies.

Performance from base expenditure

We have discussed companies' current and forecast performance with the DWI and revise our assessment of the opportunities for further improvement from base expenditure while accepting companies' forecasts where they propose a better level of performance or improvement.

[83] Five companies were Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Southern Water and South West Water.

We expect companies to deliver a good level of performance (0.67 contacts per 1,000 population) which is based on the forecast sector upper quartile performance level for 2029-30 in draft determination representation submissions. **This benchmark is unchanged from our PR24 draft determinations,** and the level used at PR19. If companies do not forecast to meet or perform better than this level, we expect them to deliver a minimum level of improvement towards a good level of performance from base expenditure.

For final determinations we revise this minimum level of improvement towards good improvement. At draft determination we expected companies to deliver a minimum performance improvement from 2024-25 baseline performance of 7.2% over 2025-30 period. The performance improvement was based on sector improvement from the 2024-25 baseline to company 2029-30 forecast performance. We set the improvement at the midpoint between sector upper quartile and median performance improvement.

For final determination our interventions apply median or upper quartile improvements to our 2024-25 baseline as follows:

- the upper quartile sector forecast improvement 29.8% over 2025-30 (equivalent to 6.8% per annum) if the company is ranked worse than a lower quartile company; or
- the median sector forecast improvement 9.5% (equivalent to 2% per annum) if the company is ranked as a lower quartile company or better.

The ranking of companies is based on company 2029-30 forecast performance. The annual percentage improvement is based on company forecast performance improvements over the 2025-30 period.

We apply a greater challenge to poorer performing companies expecting, as minimum, upper quartile performance improvement. This level of improvement is deemed achievable and aligns with historical improvements (e.g. 43.9% maximum improvement delivered over 2020-24). Where companies forecast to deliver a greater level of performance improvement over the 2025-30 period than our minimum expectation, we accept this. We have also discussed the scale of opportunity for improvements from individual companies with the DWI.

We adjust to Dŵr Cymru's expected performance from base expenditure to account for performance improvements from mains renewal activity that we expect the company to deliver. At draft determination we made a similar adjustment to South West Water, However, South West Water now proposes a significant improvement from base expenditure that we accept and therefore we do not make any adjustments for final determination.

For our final determinations, we set the **performance level from base expenditure to be delivered by 2029-30:**

- less stretching than the draft determination for five companies;
- more stretching than the draft determination for ten companies; and
- the same level of challenge for two companies.

Performance from enhancement expenditure

For final determinations, we continue to adjust PCLs for three companies where we make enhancement expenditure allowances for activities that will reduce customer contacts for taste, odour or appearance. Bristol Water's PCL's have been adjusted to account for enhancement expenditure to deliver mains renewal and treatment improvements to address water taste, odour and colour. United Utilities proposed PCLs that we have accepted, include improvements associated with the continuation of the Vyrnwy large diameter trunk main project to address discolouration. Yorkshire Water proposed PCLs which we have also accepted, including the improvements associated with trunk mains and treatment investment to address colour.

Company specific deadband

We agree that a high performing company should not be penalised as heavily as other companies where it is still delivering a sector upper quartile performance. Therefore, we intervene to adjust the PCLs set using the below method for 'good' performers. We determine 'good' to be the sector upper quartile, and a good level to outperform this.

Thames Water, Affinity Water, Portsmouth Water, South Staffs Water and SES Water are forecast to outperform our good level of 0.67 (contacts per 1,000 population). For these companies we identify the PR24 PCLs calculated in the previous sections as a 'provisional performance level'. We then adjust the PR24 PCL to be 10% less stretching than this provisional performance level. We make an exception if this would move a company's PCL to be less challenging than the good level and if so, set the PR24 PCL at the good level of 0.67.

We then apply an outperformance deadband between our PR24 PCLs and the 'provisional performance level'. This means the company can only earn rewards by outperforming the provisional performance level, broadly representing current and expected levels of performance, but is relieved of underperformance payments between the PR24 PCL and provisional performance level.

For example, a company currently performing better than our 'good' level at 0.50 and forecasting to remain at this level across the 2025-30 period would have a provisional performance level set as 0.50 for all years. We would then set the PR24 PCL for each year at 0.55 with an outperformance deadband between 0.55 and 0.50. The company would then earn rewards only if it outperformed its current (provisional) performance levels. However, the company receives relief from under performance payments if it deteriorates from its current (provisional) performance level while still outperforming the rest of the sector.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Customer contacts about water quality'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set the PCL on a **company specific basis**.
- We adjust the 2024-25 baseline for **nine companies** to take into account the latest reported performance.
- We adjust company specific **stretch from base expenditure by 2029-30**, increasing stretch for ten companies and decreasing for five.
- We **continue to stretch poor performing companies to make good improvement** over the 2025-30 period.
- We adjust the performance commitment levels for the **best performers to provide relief from underperformance payments** if performance marginally deteriorates but remains materially better than the rest of the sector.
- We include **performance improvements from enhancement expenditure** associated with main renewal activity and treatment improvement to address water taste, odour and colour in the performance commitment levels for three companies.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23.

Stakeholder representations

Affinity Water, South West Water, South East Water, SES Water, South Staffs Water and Yorkshire Water state their concern with the size of the ODI rate compared to the PR19 rate. They mention that the rate is disproportionately high and may create perverse incentives with companies being disincentivised to pick the phone up to customers with water quality issues.

Our assessment and final determination

We understand company concerns about the size of the ODI rate for water quality contacts and we agree with the potential for adverse incentives in having such a high ODI rate for this performance commitment. We have reviewed the strength of the ODI rate relative to other performance commitments. The top-down approach is sensitive to performance inputs and can lead to very high ODI rates where historical performance ranges are narrow. To avoid adverse incentives, we have explored using the alternative approach of basing the ODI rate on PR19 ODI rates.

We set the ODI rate using the median PR19 ODI rate per individual customer contact, based on the company groupings set out in the main ODI rates section. This is adjusted for inflation. We have analysed performance in the period 2020-24 and while performance has generally been strong, some companies have seen a deterioration in performance throughout the period. While the ODI rate is not the only factor, to reduce the risk of companies having insufficient incentive to improve performance, we have included an uplift of 20% on this PR19-based ODI rate. The final determinations ODI rate should appropriately incentivise companies to improve performance whilst not creating adverse incentives. With these changes, the median ODI rate per customer contact per 1,000 population has decreased by 90% between draft and final determinations. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

We have **changed how we set the ODI rate** using an inflation adjusted PR19 rate with a 20% uplift that should sufficiently incentivise companies over the PR24 period.

Risk protections

What we said in our draft determinations

At draft determinations we did not set any risk protections on this performance commitment. This is because it is a well-established metric with only a small amount of variation in performance year-to-year.

Stakeholder representations

Severn Trent Water proposes introducing a wide collar at -1% RoRE. Anglian Water proposes the use of a deadband in response to stretching PCLs which risk penalising companies who are making investments to improve services failing to meet targets. It proposes that a deadband should be set at 10% above the PCL to provide tolerance for factors outside the company's control, for example the commissioning of interconnector mains is expected to increase the number of customer contacts about water quality.

Our assessment and final determinations

We do not agree that a general deadband is appropriate and the example provided of commissioning interconnector mains to justify one is within a companies' control to plan and put mitigation measures in place to avoid increases in customer contacts.

We have set an outperformance deadband for four high-performing companies where the PCL has been adjusted to a less stretching level, so companies are only rewarded for improving from current position as explained in the PCL section above.

For final determinations we have not set caps and collars for water quality contacts.

For our final determinations

- We have **not set caps and collars** for this performance commitment.
- We have set **an outperformance deadband** for four companies as discussed above.

10. Final determinations for demand performance commitments

These demand performance commitments measure the three key components of water demand: leakage, household consumption (per capita consumption) and business demand.[84] These are measured as the percentage reduction in three-year average terms from the 2019-20 baseline.

As per draft determinations, for final determinations we set performance commitment levels (PCLs) for demand performance commitments at company level for all companies with the exception of South West Water, Northumbrian Water, South Staffs Water.

For South West Water, we set separate PCLs for the company's South West area and Bristol area which aligns with the approach taken for all performance commitments.

For Northumbrian Water and South Staffs Water, we set regional PCLs to align with the Water Resource Management Planning process, where both South Staffs Water and Northumbrian Water submit plans for two separate regions.

For Northumbrian Water, these are the company's northern and Essex and Suffolk regions. For South Staffs Water, these are the company's South Staffordshire and Cambridge regions.

Long-term demand reduction targets

The three demand PCLs are set in the context of long-term UK Government targets to ensure sustainability of water supply and recognise the Welsh Government's expectation that Ofwat should encourage and incentivise the sustainable and efficient use of water resources. At an overall demand level, delivery of the PR24 PCLs will mean English companies are on track to deliver the UK Government target of a 20% reduction in distribution input per person by 31 March 2038 (from a 2019-20 baseline).[85] Delivery of the PCLs we are setting at final determinations will result in a distribution input per person reduction of 14.9% by 2029-30, which is ahead of the projected profile position of 12.0% required to meet the target.[86] We consider that setting our PCLs in the context

[84] Distribution input, the amount of water companies put into supply, also includes smaller components covering distribution system operational use and water taken unbilled. Note there is some overlap between water taken unbilled and our business demand performance commitment which we discuss in the business demand section below.
[85] Defra, 'Environmental Improvement Plan 2023', January 2023, p.99.
[86] A reduction of 14.9% amongst English companies and 14.8% across both English and Welsh companies. Please see, Ofwat, 'PR24-FD-CA13-Distribution-Input-Model-V1', June 2025, sheet 'Analysis_Additional', cells K90:K92

of the long-term targets for the sector should provide some reassurance to the non-company stakeholders who raise concerns regarding the ambition of the sector, as we detail in the section below.

2029-30 annual average target levels

At draft determinations, we stated that alongside companies demand PCLs, we would measure delivery against the annual average 2029-30 target level alongside performance against PCLs. This is because water resource management plan (WRMP) targets, our enhancement allowances, our PCLs and UK government long-term targets are linked to delivery of an annual average level.[87]

We include a summary of the annual average targets we will measure against in the tables below.

Table 9: Summary of annual average demand levels companies are expected to deliver by 2029-30.

Company	Leakage (Ml/d)	PCC (l/h/d)	Business demand (Ml/d)
Anglian Water	168.2	114.7	306.2
Dŵr Cymru	172.7	133.7	168.5
Hafren Dyfrdwy	12.8	114.1	15.7
Northumbrian Water	156.3	133.7	276.7
Severn Trent Water	289.7	121.2	370.5
South West Water – South West area	82.3	128.9	147.0
South West Water – Bristol area	29.5	140.5	57.4
Southern Water	66.3	118.7	104.4
Thames Water	407.6	133.3	435.4
United Utilities	330.6	128.9	348.4
Wessex Water	57.9	131.2	74.6
Yorkshire Water	223.8	119.3	281.2
Affinity Water	126.1	132.8	155.6
Portsmouth Water	20.3	141.0	27.2
South East Water	70.5	124.7	92.0
South Staffs Water	61.3	125.0	86.4

[87] Where final WMRPs are not currently published we have used the latest best estimate of company figures based on draft plans, business plan submissions and company query responses.

Company	Leakage (Ml/d)	PCC (l/h/d)	Business demand (Ml/d)
SES Water	17.8	127.0	22.2
Sector	2293.7	2168.7	2969.4

Table 10: Summary of annual average demand levels regions are expected to deliver by 2029-30.

Region	Leakage (Ml/d)	PCC (l/h/d)	Business demand (Ml/d)
Northumbrian Water – Northern region	105.2	134.0	189.2
Northumbrian Water – Essex and Suffolk region	51.1	133.3	87.5
South Staffs Water – South Staffordshire region	50.7	126.5	59.5
South Staffs Water – Cambridge region	10.6	119.6	26.9

10.1 Business demand

This performance commitment measures the percentage reduction of three-year average business demand from the 2019-20 baseline. For further information see the 'Business demand performance commitment definition'.

For our final determinations

We have changed:

- The **performance commitment definition**: instead of using the net aggregate difference between a company's actual outturn performance and its PCL over the whole 2025-30 period, if it meets the applicable materiality threshold in any single reporting year we will, at the end of the period, consider whether the company's PCL should be adjusted in accordance with the end of period PCL adjustment mechanism set out in the performance commitment definition.
- We make an adjustment to the end of period **PCL adjustment mechanism** to reduce the materiality threshold for water-only companies and Hafren Dyfrdwy from a variance of 3% to 2%.

- We make **a clarification on collaboration with third parties** and included void non-household premises as 'relevant premises' in our **definition**.
- We add reference to requirements of independent third-party assurance.
- We have adjusted the **approach to setting the performance commitment levels** by removing the growth trend intervention to align the PCLs over the 2025-30 period with company WRMP forecasts.

We have not changed:

- The specificity of the PCLs, which are at a **company specific level** for all companies.
- The **ODI rate** is calculated using the **updated top-down approach**, with a starting RoRE allocation of 0.4% water RoRE.
- The **cap and collar** for all companies, which is maintained at ±0.5% water RoRE.

Performance commitment definition

What we said in our draft determinations

At our **draft determinations**, we proposed three key changes to the definition: [88]

- introducing an end-of-period PCL adjustment mechanism which would be triggered if the net difference between the outturn performance and the PCL across the 2025-30 period is at or larger than ±3% and meeting certain conditions;
- revising the incentive type to be end-of-period; and
- providing further guidance on the evidence of collaboration that we expected a company to demonstrate in order to be eligible for outperformance payments.

Stakeholder representations

SES Water, United Utilities, Wessex Water and Yorkshire Water consider the threshold for reopening the PCL at end-of-period is too high. They say that the threshold should be lowered or removed, to avoid a company having to tolerate too high a level of increased demand, penalising a company for supporting economic growth, or exposing customers and companies to risk.

[88] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.91.

We received views from various retailer groups around our supplementary guidance on collaboration evidence.[89] Some of these stakeholders:

- consider that the collaboration incentive should apply both upside and downside, which means that a company that fails to submit collaboration evidence could be subject to underperformance payments;
- suggest that we should use or refer to the draft guidance on non-household water efficiency collaboration issued by the Water Efficiency Subgroup under MOSL's Retailer Wholesaler Group issued in June 2024; and
- ask for clarification as to what 'third party' means in our definition.

On a similar issue, United Utilities expresses its support to collaboration on achieving water efficiency but consider that it should not be a gateway to outperformance payments.

Lastly, we received companies' queries around whether void premises are covered in the performance commitment which is not clear in the definition.

Our assessment and final determination

We reflected on companies' views and have conducted analysis on whether the end of period PCL adjustment mechanism provides adequate risk protection to companies and customers.

For our **final determinations**, we consider the need to retain a materiality threshold for adjusting the PCL. Otherwise, it could mean disproportionate efforts from the sector and ourselves to investigate the drivers behind immaterial levels of variance between outturn performance and the PCL. However, for simplicity and greater transparency, instead of using the net aggregate difference between a company's actual outturn and its PCL over the whole 2025-30 period, if it meets the applicable materiality threshold in any single reporting year we will, at the end of the period, consider whether the company's PCL should be adjusted in accordance with the end of period PCL adjustment mechanism set out in the performance commitment definition.

We examined the RoRE at risk for setting the materiality threshold at different levels and found that the original ±3% materiality threshold may potentially expose water only companies to RoRE risk higher than that faced by water and wastewater companies. Therefore, we propose that the materiality threshold for water only companies and Hafren Dyfrdwy be revised downward to ±2%, while retaining the threshold for water

[89] Namely, MOSL Strategic Panel, Business Stream, Everflow, WAVE and UK Water Retailer Council.

and wastewater companies at ±3%. We assess that this change in threshold will ensure similar levels of risk exposure for all companies.

For our **final determinations**, reflecting on the views on collaboration with third parties, we clarify that, for the purposes of this performance commitment, a 'third party' is a person who has entered into an agreement with a business customer to provide water consumption management services to that customer; and 'collaboration' with a third party excludes arrangements whereby the company provides services, advice, equipment, resources or support directly to, or otherwise interacts directly with, the business customer.

We maintain that the collaboration evidence should be kept as a gateway to outperformance payments, instead of imposing underperformance payments to companies for the reason of not submitting collaboration evidence. This would be consistent with our established policy intent to encourage collaboration for delivering water efficiency in business retail market. While we welcome the sector's efforts to develop guidance on collaboration, we consider that the current drafting of the definition has provided adequate clarity and flexibility for different forms of collaboration to happen.

While the number of void non-household premises should not be a significant factor for a company’s performance for this performance commitment, for consistency’s purpose, for our **final determinations**, we include these premises in the definition so that how well a company manages business demand can be more comprehensively reflected.[90]

We recognise that the reporting of business demand for the purpose of this performance commitment will differ from reporting of business consumption elsewhere in regulatory reporting, for example water balance reporting. For reporting of the water balance, water use at void non-household premises will still be included in the 'water taken unbilled' component and excluded from 'business consumption'. In performance reporting for the business demand performance commitment, we expect companies to clearly identify the demand attributed to void non-household premises.

For our final determinations

- At **the end of the period**, we will consider whether a company's PCL should be adjusted, in accordance with the end-of-period **PCL adjustment mechanism**, if the company meets the applicable materiality threshold in any single reporting year during the period.

[90] Based on the values provided by companies in their proformas, the median proportion of unbilled (void) premises by billed premises in annual average terms is 1.34%.

- We keep the materiality threshold for the **PCL adjustment mechanism** set at ±3% for WASCs and reduced the materiality threshold to ±2% for WOCs and Hafren Dyfrdwy to ensure adequate risk protection across all companies.
- We have added **clarification in relation to collaboration with third parties**.
- We have clarified that **demand from void non-household premises** are **relevant premises** for the purposes of this performance commitment.

Performance commitment level

What we said in our draft determinations

We proposed to set company-specific PCLs based on our view of company forecasts.[91]

We set the baseline based on our validated view of company forecasts for 2024-25. We accepted company forecasts for baseline business demand where their expected growth aligned with the company's historical growth. Where forecast growth in business demand exceeded historical rates, we intervened to set companies a more realistic baseline position.

We challenged companies to maintain our proposed 2024-25 baseline from base expenditure, preventing deterioration in performance.

Where possible, we aligned the PCLs to WRMP targets: this was based on whether companies had provided adequate evidence that they had addressed our feedback on draft plans. Where this was not the case, we intervened to set more stretching PCLs based on our view of company ambition. We also intervened to set more stretching PCLs where business demand forecasts did not reflect the historic growth rate for each company.

We expected performance improvements to be delivered from enhancement activities such as metering and water efficiency. We validated the benefits of company proposed activities and intervened to adjust companies' proposed 2029-30 PCLs if they were less stretching than the levels we would expect to be delivered from our view of benefits.

From enhancement expenditure, companies were expected to deliver the most stretching of;

- their revised draft WRMP24 forecasts;

[91] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.93.

- their business plan forecasts; and
- the calculated expected benefits of their metering and water efficiency programmes.

Stakeholder representations

Eight companies (Anglian Water, Northumbrian Water, SES Water, South East Water, South Staffs Water, Thames Water, Wessex Water, Yorkshire Water) and two non-company stakeholders (Market Operator Services Ltd (MOSL) and Water Resources South East) **disagree with our intervention to set the 2024-25 baseline and 2025-30 PCLs** for business demand based on our estimate of growth rates:

- Eight companies and Water Resources South East request that we accept the company forecasts which are aligned to the WRMPs. Three companies and Water Resources South East say these have been derived using the best practice approach for predicting future business demand.[92]
- Five companies and both non-company stakeholders disagree with using historical trends to predict future business demand growth.[93] South East Water points to evidence that pre-COVID-19 pandemic growth is not comparable to post-COVID-19 pandemic growth. Water Resources South East says that the growth trend intervention does not support the government's growth ambitions.
- Northumbrian Water suggests that the end-of-period adjustment mechanism protects customers from a material difference between forecasts and outturn therefore, there is no reason to deviate from company forecasts.
- Wessex Water says that the approach taken to setting the PCLs requires demand reductions from base expenditure which is inconsistent with our stated expectations of no performance improvement from base expenditure.

Several companies (Anglian Water, Northumbrian Water, SES Water, South East Water and Thames Water) and three non-company stakeholders (MOSL, Strategic Panel and Committees, and Water Resources East) **disagree with the level of stretch** applied to the PCL:

- Anglian Water, Northumbrian Water and SES Water consider that the PCLs are too stretching. Northumbrian Water, SES Water and Thames Water disagree with the PCLs being more stretching than is required by the national target for business demand reduction. SES Water argues that the level of stretch makes the PCL unachievable.

[92] Northumbrian Water, South East Water and Thames Water.
[93] Northumbrian Water, South East Water, Thames Water, Wessex Water and Yorkshire Water.

- Northumbrian Water considers that the level of stretch would lead them to seek to restrict growth on activities which would have up to six times as much impact on performance commitments than activities to tackle water efficiency.
- South East Water, South Staffs Water, Thames Water and three non-company stakeholders are concerned that companies are not sufficiently funded to deliver the expected demand reductions.

Two non-company stakeholders (Strategic Panel and Committees and UK Water Retailer Council) are concerned that our approach to setting the PCLs **results in significant variation in demand reduction targets across companies**.

MOSL want to understand whether companies are meeting the 9% reduction target in terms of demand reductions when growth is excluded.

Our assessment and final determination

Specificity

As per draft determinations and our PR24 methodology, for final determinations we will continue to set this performance commitment on a **company-specific basis**.

Baseline

We recognise stakeholder concerns that the growth trend intervention we used to set 2024-25 baselines was based on historical trends in business demand growth which may not reflect future growth. We have considered applying a growth trend intervention which is adjusted on a company-specific basis to account for our view of company ambition to reduce business demand. However, there are challenges in setting this adjustment at the right level and this would introduce additional complexity to setting the PCL.

To simplify the approach to setting the PCL, and improve alignment with the WRMP process, we now consider **it appropriate to remove our growth trend intervention**. This will address stakeholder concerns that the use of historical and pre-COVID data was inappropriate for predicting future growth and did not support the government's growth ambitions. For final determinations, we have accepted company forecasts, which are aligned to the latest best view of the final WRMPs, as the basis for setting the 2024-25 baseline and PR24 2025-30 PCLs. We consider this appropriate given that the end-of-period PCL adjustment mechanism will protect companies and customers from any material difference between the forecast and outturn.

We have only adjusted company forecasts for business demand in the following circumstances:[94]

- To include an estimate of void non-household premises where such premises are not included, to align with the clarification made to the performance commitment definition;[95] and
- To re-profile the annual average forecasts which show an oscillating growth trend (as a result of companies attempting to smooth three-year average figures given a difference between forecast and outturn for 2023-24). We set a linear profile from 2023-24 outturn to 2029-30 which is set at the three-year average level of business demand for 2028-29.[96]

Performance from base expenditure

We do not expect companies to deliver business demand reductions from base expenditure. There is no additional stretch from base expenditure applied for business demand.

Performance from enhancement expenditure

The PR24 2029-30 PCL is in line with final WRMPs or with our current best view of what companies will use for their final WRMP. This means, for final determinations, we have made the PCLs less stretching for nine companies with the level of stretch reducing from 4.5% to 1.3% for the sector. The PCLs now include company estimates of significant growth in business demand, such as growth due to new data centres and hydrogen production plants.

We expect reductions in business demand to be delivered through enhancement activities. At a sector-level this includes 16,804 new meter installations, 795,849 technological meter upgrades, and non-household water efficiency measures resulting in a total demand reduction of 73.9 Ml/d by 2029-30.[97]

For final determinations, we adopt individual company forecasts of the benefits to be delivered from enhancement activities. We no longer take the draft determinations approach of comparing these to our view of validated benefits. However, companies are still expected to report on the delivery of their enhancement activities such as smart

[94] We use the forecasts provided by companies in the proformas submitted as part of the query process post draft determinations.
[95] This adjustment applies to SES Water and South Staffs Water only.
[96] This adjustment applies to United Utilities only.
[97] Non-household water efficiency proposals may cover but are not limited to: water efficiency business audits, targeted media campaigns for businesses, business partnership funds, rainwater harvesting and greywater recycling.

meter rollout and water efficiency and provide evidence of the benefits these activities have delivered. We consider this appropriate given that companies are required to demonstrate their efforts to explore options to deliver water efficiency with retailers and other third parties to be eligible for outperformance payments. For more information, see the business demand performance commitment definition.[98]

Long-term targets

Focusing on long-term non-household specific targets, delivery of the business demand PCLs aligned to the WRMPs will result in a sector level of business demand which is 0.5% lower by 2029-30 than 2019-20 levels. When growth is excluded, the sector is expected to deliver a reduction of 1.3% in business demand by 2029-30 from 2019-20 levels. For reference, an evenly profiled reduction from 2019-20 levels to deliver interim and long-term targets would require the sector to reach a reduction target of 5.0% by 2029-30.[99]

We consider that there are no immediate concerns with companies not meeting the interim target for business demand since the sector is on track to meet the overall UK Government distribution input per capita target which also accounts for PCC and leakage.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Business Demand'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set PCLs at a **company specific level** for all companies.
- The PCLs over 2025-30 period **are aligned with company WRMP forecasts** including demand at void non-household premises.
- We expect companies **to deliver performance improvements from enhancement expenditure** through activities such as meter upgrades and water efficiency measures.

[98] Ofwat, 'PR24 final determinations: performance commitment definitions', December 2024.
[99] These reductions and targets are expressed in terms of annual average leakage figures. For interim targets see HM Government, 'Environmental Improvement Plan 2023' ,2023, p.105. These targets are for English companies however we have included Welsh companies in our calculations as they have also committed to the 50% reduction.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23. Our original approach to setting the ODI rates with the top-down methodology set identical rates for all three water demand performance commitments (leakage, per capita consumption, business demand). At draft determinations, in response to company business plans, we set ODI rates for each water demand performance commitment separately.

Stakeholder representations

Feedback from company representations has focused on the strength of the ODI rate and how that interacts with performance uncertainty. Southern Water says that the RoRE allocation should be reduced because business demand is uncontrollable and highly dependent on customer behaviour. A lower ODI rate would reduce financial risk caused by this variation in performance. South Staffs Water says that there should be no ODI attached to this performance commitment because of the uncertainties in forecasting demand growth. South East Water says that the ODI rate should be revised to the level proposed in their business plan (£0.11m per Ml/d compared to their draft determinations ODI rate of £0.254m).

Our assessment and final determination

As with other performance commitments, we have updated the ODI rate through the top-down calculation by using the latest performance data from 2023-24 and the latest company regulatory capital values. With these changes, the median ODI rate per Ml/d reduction in business demand has decreased by 28% between draft and final determinations. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Addressing company representations, this will lead to a reduction in financial risk from performance variations. We have not made any adjustments to the starting RoRE allocation as we have already assigned it the smallest allocation of 0.4% RoRE. Addressing South East Water's comment, one of our overarching aims of setting ODIs is that the value of the ODI rate for a single unit of performance should be identical or similar between companies. We expect the value of a reduction in water demand from businesses should be similar across companies. Therefore, we have not made company-specific adjustments to the ODI rate. However, with the updates we have made to the ODI rate calculations, its ODI rate has reduced to £0.18m per Ml/d.

For our final determination

- **ODI payments** are calculated using **a top-down ODI rate** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.4% water RoRE**

Risk protections

What we said in our draft determinations

As this is a new performance commitment for PR24, we set a cap and collar for all companies at ±0.5% water RoRE.[100]

Stakeholder representations

Thames Water proposes setting a tighter cap and collar at ±0.4% RoRE in their representations as this would be consistent with the lower priority starting RoRE allocation given to this PC of 0.4% RoRE.

Our assessment and final determination

We consider that with the adjustments to this performance commitment to reduce the level of stretch in the PCL and ODI rates, it is not necessary to tighten the existing risk protections given that we are also allowing an end-of-period adjustment based on a materiality threshold.

For our final determinations

- We maintain **the cap and collar level at ±0.5% water RoRE** for all companies.

[100] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.95.

10.2 Leakage

This performance commitment measures the percentage reduction in three-year average leakage from the 2019-20 baseline. For further information see the 'Leakage performance commitment definition'.

For our final determinations

We have changed

- We make minor textual amendments to the performance commitment **definition** to add reference to the requirements of third- party assurance.
- How we set **the baseline** 2024-25 for this performance commitment and the **profile of improvement** over the 2025-30 period.
- We set 2029-30 PCLs **based on our current best view of the companies' water resource management plans** (where six companies have updated their forecasts since draft determinations).
- The **ODI rate** is calculated using the updated **top-down approach**, with a starting RoRE allocation of **0.6% water RoRE.**

We have not changed

- We set **company specific** performance commitment levels.
- We maintain a cap on **outperformance ODI payments at 1% water RoRE** for all companies.

Performance commitment definition

At draft determinations, we made material changes to company reporting on trunk mains leakage.

We received no representations about the performance commitment definition and there have been no changes in the external environment that require a change in the definition. We make minor textual amendments to add reference to the requirements of third- party assurance.

For final determinations, other than minor textual amendments to add reference to the requirements of third- party assurance, **we make no change to the definition**.

Performance commitment level

What we said in our draft determinations

We set this performance commitment on a **company-specific basis** at draft determinations, as proposed in our PR24 methodology.[101]

For most water companies, we set PCLs using a 2024-25 baseline of the PR19 PCL 2024-25 figure adjusted for any additional improvements funded through conditional allowances, green economic recovery and the accelerated programme. We then expected all companies to deliver the 2029-30 levels proposed in their PR24 water resource management plans and set our PCLs for the 2025-30 period on this basis.

We expected companies to maintain our proposed 2024-25 baseline positions through their base expenditure and we provided efficient enhancement expenditure allowances for delivery of our PR24 2029-30 PCLs.

We expected all companies to deliver the 2029-30 levels proposed in their PR24 water resource management plans and set our PCLs for the 2025-30 period on this basis.

For Dŵr Cymru, we adjusted the baseline position to ensure that customers were not expected to fund recovery from leakage increases that occurred during the period when the company was misreporting leakage figures. We then applied the company's proposed 10% level of stretch from this baseline to set the PR24 2029-30 PCL.[102]

For Thames Water, we expected the company to respond to our draft determinations with a more ambitious proposal for leakage reduction aligned with regulators feedback regarding its final WRMP.[103]

Stakeholder representations

[101] Ofwat, 'Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances', December 2022, p.62, Table 4.1.
[102] Ofwat, 'PR24 draft determinations: Dŵr Cymru – Outcomes appendix', July 2024.
[103] Ofwat, 'PR24 draft determinations: Thames Water – Outcomes appendix', July 2024.

Seven companies (Anglian Water, Dŵr Cymru, Severn Trent Water, Affinity Water, Southern Water, Thames Water, South East Water) and one non-company stakeholder (Environment Agency) provided a representation on the PCL.

Anglian Water and Dŵr Cymru mention that they are not meeting current PCLs while overspending on allowances, which makes the draft determination unachievable for baseline leakage. Most company representations expect Ofwat to update the 2024-25 baseline based on actual 2023-24 outturn data and then an assumed achievable level of reduction from this level to 2024-25.

Dŵr Cymru states that the interventions we have made at draft determinations result in a baseline leakage reduction that is too challenging and unreasonable considering that no additional expenditure is allowed. Specifically, the company mentions that reducing leakage so rapidly before its metering programme is implemented does not represent best value to customers. Dŵr Cymru mentions that Ofwat should retain the company's business plan targets and that the draft determinations PR24 2029-30 PCL is unachievable. Dŵr Cymru also says that underperformance related payments in 2020-2025 should be settled during that period and not lead to penalties in future years. Natural Resources Wales expects Dŵr Cymru to review its leakage strategy and increase its effort in leakage control during 2024-25 alongside assessing the risks of not reaching the starting position for PR24.

Southern Water and Hafren Dyfrdwy comment that they are restating their leakage based on a change in their leakage reporting methodologies, which will result in a different baseline compared to the PR19 2024-25 PCL. Hafren Dyfrdwy and Southern Water also state that changed leakage reporting methodology also will affect their 2029-30 leakage targets.

Anglian Water raises concerns about the 2029-30 PCL due to its position as a frontier company and the relatively greater costs they face in delivering further improvements compared to other companies. Thames Water increases its ambition and proposes a lower leakage level in 2029-30 corresponding to greater reduction across the 2025-30 period in response to our challenge at draft determination.

Portsmouth Water states its intention to revise its approach to leakage reporting to determine a more accurate trunk main leakage figure in its bottom-up leakage calculation. The company are proposing to review this with Ofwat in the first quarter of 2025.

Severn Trent Water, Southern Water, Thames Water, Affinity Water, South East Water and South Staffs Water raise concerns about the PCL glidepath. Most of these companies highlight that changes to the 2024-25 baseline affects the 3-year average figures for 2025-27. Southern Water proposes changes to its PCL glidepath based on amended leakage reporting methodology alongside its amendment to exclude New Appointments and Variations (NAV) leakage from the company leakage calculation. South Staffs Water states that its glidepath should be in line with its updated WRMPs. Wessex Water adds additional stretch to its PCLs due to customer feedback on the importance of leakage.

There are multiple representations from non-company stakeholders regarding the leakage target not being ambitious enough. This is both in terms of concerns regarding the amount of water lost before it reaches customers' taps and the rate at which leakage is being reduced. These include CCW, the London Assembly, Friends of the Lake District, Sussex North authorities, Havant Climate Alliance and Havant Friends of the Earth, Home Builders Federation, the Member of Parliament for Reading West and Mid Berkshire, the London Assembly Liberal Democrat Group, Rowlands Castle Parish Council and the Mayor of London.

Our assessment and final determinations

Specificity

We will **continue** to set this performance commitment on a **company-specific basis** as proposed in our PR24 methodology.[104] This reflects that historical leakage reduction targets have been set based on the relative water stress of individual regions. As a result, companies have received historical expenditure allowances to deliver leakage levels specific to their regions.

Baseline

In setting baseline and PCLs for the 2029-30 period we take into account any revisions to leakage reporting companies have implemented between original business plan submission and their draft determination representations

For our final determinations, the PR19 2024-25 PCL remains an important source of information that we assess the companies forecasts and wider performance against. But we no longer adopt the PR19 2024-25 PCL for our baseline by default. Instead, we intervene where necessary to adjust companies' baseline using our assessment of whether their forecasts are overly or insufficiently stretching. We do this based on historical annual improvement levels delivered at both the company and sector levels taking into account the latest reported performance for 2023-24.

[104] Ofwat, 'Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances', December 2022, p.62, Table 4.1.

Where we consider the forecast improvement between 2023-24 and 2024-25 is insufficient, we intervene to set a more stretching target. Additionally, where we consider the improvement between 2023-24 and 2024-25 is overly stretching, we intervene to set a less stretching target.

Our interventions apply historical company or sector wide median or upper quartile yearly leakage reduction rates to company 2023-24 outturn positions to set an amended 2024-25 baseline as follows:

- the upper quartile company or sector historic leakage reduction if the company is ranked as a lower quartile company; or
- the median company or sector historic leakage reduction if the company is ranked as a non-lower quartile company

The ranking described above is based on the latest reported outturn performance for 2020-24, normalised against mains length, connected premises and distribution input.

We take company-specific approaches for Southern Water, South East Water and Dŵr Cymru, which are explained in the company-specific appendices.[105]

For our final determinations, we set the 2024-25 baseline at:

- company forecast levels for 11 companies;
- a level less stretching than company forecast for 3 companies; and
- a level more stretching than company forecast for 3 companies.

We use our 2024-25 baseline with company outturn performance figures for 2022-23 and 2023-24 to determine the three-year average for 2024-25 and set PCLs in terms of percentage reduction in three-year average leakage from the 2019-20 baseline.

Performance from base expenditure

For final determinations, we expect companies to maintain their forecast baseline positions from base expenditure. Exceptions to this are **Anglian Water, Thames Water and South Staffs Water,** where we consider their forecast 2024-25 baseline is insufficiently stretching and expect companies to deliver the 2024-25 baseline through base expenditure.

[105] Ofwat, 'PR24 final determinations: Dŵr Cymru - Outcomes appendix', December 2024, Ofwat, 'PR24 final determinations: Southern Water - Outcomes appendix', December 2024 and Ofwat, 'PR24 final determinations: South West Water - Outcomes appendix', December 2024.

We expect **Dŵr Cymru** to recover its leakage performance to 191.9 Ml/d from base expenditure. This reflects that the company is the only company to report consistently increasing leakage levels year on year since 2017-18.[106]

Performance from enhancement expenditure

For all companies except for Southern Water and SES Water, we **set the level of performance we expect companies to deliver by 2029-30 according to their published final WRMP or our current best view of companies' proposals** in their final WRMP.[107] We queried companies to understand their final WMRP leakage levels better, where we expect there might be a difference between the draft and final version. Our expectations about differences reflect where we have previously challenged companies to deliver ambitious reductions in leakage for the 2025-30 period through the WRMP.

Where possible, we retain annual year company forecasts for 2027-28, 2028-29 and 2029-30. This means our PCLs in three-year average terms align to company forecasts for the end of period, 2029-30. We only adjust these years if we move materially away from company forecasts. For example, where not doing so would impact the achievability of the 2025-30 delivery profile. For seven companies, we intervene to set an achievable reduction profile in the years preceding 2029-30. For five companies, this reflects where we intervene to change the 2024-25 baseline figure from the companies' forecast. For Dŵr Cymru and Southern Water, this intervention reflects company specific circumstances. These changes affect Thames Water, Southern Water, Wessex Water, Anglian Water, SES Water, Portsmouth Water and United Utilities. They are described further in the company-specific appendices.

Expenditure allowances have been calculated using the 2024-25 baselines from responses to queries sent by Ofwat regarding enhancement funding start positions. In some instances, the expenditure baselines are different to the PCL baselines because we are holding companies to account for delivering their committed 2024-25 levels. The 2029-30 leakage position is the same for the PCL and the calculation of expenditure allowances and aligns with our best view of each company's final WRMP. We set an efficient unit cost for leakage reduction enhancement allowances which reflects the expectation that companies should maximise the benefits they can derive

[106] Ofwat, 'PR24 final determinations: Dŵr Cymru - Outcomes appendix', December 2024.
[107] For detail on the exceptions see Ofwat, 'PR24 final determinations: Southern Water - Outcomes appendix', December 2024 and 'PR24 final determinations: SES Water - Outcomes appendix', December 2024.

from base activities, smart data and networks to efficiently target and deliver leakage reductions.[108]

Long-term targets

We recognise concerns raised by non-company stakeholders regarding the leakage reduction ambition proposed by companies and we set our PCLs in the context of the long-term targets set for the sector. Our leakage PCLs should reduce leakage in the water sector by 31.4% in 2029-30 compared to 2017-18 levels. This indicates companies will be making good progress in delivering their committed 50% reduction from 2017-18 levels by 2050. Our target exceeds what is required to meet a profiled reduction (26%) from 2017-18 level, to be on track to reach 2029-30 and long-term targets.[109]

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Leakage'. See 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set PCLs at a **company specific level** for all companies.
- **We assess taking into account the latest reported performance** if the **PR19 2024-25 PCL** is not achievable because an unrealistic level of reduction is needed from the 2023-24 outturn. Where required we intervene to apply **a realistic amount of stretch** from the 2023-24 level.
- The **PR24 2029-30 PCL** is in line with final **WRMPs** or our current best view of what companies will use for their final WRMP.
- Some **leakage profiles** have been changed if the level of stretch between years is unrealistic.
- The delivery of our leakage PCLs should result in a 2029-30 sector level of leakage **31.4%** lower than 2017-18 levels demonstrating progress towards the sector's commitment to a long-term target of 50% by 2050.

[108] Ofwat, 'PR24 final determinations: Expenditure allowances' & 'PR24 final determinations: Expenditure allowances - Enhancement Cost Modelling appendix' December 2024.
[109] These reductions and targets are expressed in terms of annual average leakage figures. For interim targets see Defra, 'Environmental Improvement Plan 2023', January 2023, p.99. These targets are for English companies however we have included Welsh companies in our calculations as they have also committed to the 50% reduction.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we calculated the ODI rate using a top-down rate setting methodology based on data up to 2022-23. Our original approach set identical rates for all three water demand performance commitments (leakage, per capita consumption, business demand). At draft determinations, in response to company business plans, we set ODI rates for each water demand performance commitment separately.

We allowed companies to earn enhanced ODI payments where they achieve the frontier of performance. This was to incentivise innovation to improve performance. We set the enhanced ODI rate at double the standard ODI rate and set the threshold for earning enhanced ODI payments for leakage at 2% better than the annual PCL target. This common improvement factor compounds each year between 2025-26 and 2029-30. This compounding means that the difference between the PCL and the enhanced threshold increases each year. This reflects that companies retain improvements from the previous year and need to do better again to earn more enhanced ODI payments. The enhanced threshold requires less outperformance to achieve enhanced ODI payments in year 1 but more in year 5.

Stakeholder representations

We did not receive any representations specific to our proposed ODI rate and enhanced ODI for the leakage performance commitment.

Our assessment and final determinations

We have updated the ODI rate through the top-down calculation by using performance data from 2023-24 and the latest company regulatory capital values. With these changes, the median ODI rate has decreased by almost 25% between draft and final determinations. This is still almost a 150% increase on the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Leakage and repairs to burst mains are closely linked. We expect that fixing a burst main will reduce the amount of leakage in a water network. We have compared the ODI rates of these two performance commitments to make sure that companies are not disincentivised from reducing leakage because it could mean an increase in underperformance ODI payments on repairs to burst mains. Our analysis shows that companies would need to make around 80 repairs to burst mains to reduce leakage by 1 Ml/d. Company estimates on the number of repairs required to reduce leakage by

1Ml/d is significantly lower than this. We are confident that the ODI rate for leakage is sufficiently strong to avoid disincentive effects.

For final determinations, we continue to set the threshold for earning enhanced ODI payments at a common improvement factor of 2% beyond the PCL, which compounds in each year during 2025-30.

On the enhanced ODI and performance threshold, we have maintained the same approach as at draft determinations.

For our final determinations

- The **ODI rates** are calculated using **a top-down ODI approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% water RoRE**.
- We maintain **an enhanced ODI rate** with threshold set at a **common improvement factor of 2%** beyond the PCL.

Risk protections

What we said in our draft determinations

At draft determinations, **we did not include a collar or deadband** as this is a well-established performance commitment where there is more certainty in setting the PCL.[110]

We set a **cap on outperformance ODI payments at 1% water RoRE** to prevent companies from earning high payments from the enhanced ODI, which would lead to an increase in customer bills.

Stakeholder representations

We did not receive representations specifically related to setting a cap or collar on leakage.

[110] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.95.

Southern Water proposes including a deadband for the first two years of performance to minimise the potential for downside risk. Wessex Water proposes including a deadband on five performance commitments, including leakage, because of "factors outside of management control". This is to balance the potential for outperformance and underperformance payments.

Our assessment and final determinations

We considered setting a collar for this performance commitment; however, we decided not to as this is a well-established performance commitment and performance is averaged across three years. This averaging mitigates against single-year performance shocks, where a collar may otherwise be needed.

We considered a deadband on this performance commitment according to the approach set out in Section 4. However, on balance, as this performance commitment is important for mitigating against water stress in the long-term, we believe that companies should not receive potentially reduced incentives through applying deadband.

We have set performance targets at companies stated WRMP targets at 2029-30, and where these targets are stretching, we have adjusted the profile of the PCL across 2025-30. This should reduce the potential for greater downside skew in the balance of ODI risk.

We have maintained the cap on outperformance at 1% RoRE to allow for potential enhanced outperformance ODI payments, while protecting against significant customer bill increases.

We provide more information on risk protections in Section 5.

For our final determinations

- We set **a cap on outperformance ODI payments at 1% water RoRE** for all companies.
- We **do not set a collar** or **deadband** on this performance commitment.

10.3 Per capita consumption

This performance commitment measures the percentage reduction in three-year average household water consumption per capita from the 2019-20 baseline. For further information see the 'Per capita consumption performance commitment definition'.

For final determinations

We have changed

- We add reference to the requirements of independent third- party assurance to the performance commitment **definition.**
- Our approach to setting the **baseline 2024-25** for our PCLs based on an updated view of the longer-term impacts of the **COVID-19 pandemic** and taking account of the latest reported performance.
- We remove the **stretch** based on our analysis of **potential enhancement benefits**.
- We introduce **enhanced ODI payments.**
- We set a **collar on ODI payments at -0.5% water RoRE** and a **cap at 1% water RoRE** for all companies.

We have not changed

- We continue to set PCLs at a **company specific level** for all companies.
- The **ODI rate** is calculated using the updated top-down approach, with a starting RoRE allocation of 0.6% water RoRE.

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the definition described in our PR24 methodology.

In its representation, South East Water states that we should provide a mechanism to review the PCL towards the end of PR24 to protect companies from non-delivery of Government initiatives. South Staffs Water maintains the view in its business plan that the performance commitment should be removed because of the lingering uncertainties of COVID-19 pandemic. It states that achievement of national targets would require efforts beyond the water sector.

Per capita consumption is a well-established and understood measure with a relatively stable performance history. This is except for one-off, major incidents like the COVID-19 pandemic for which we made changes to the reporting performance and ODI timing in the 2020-25 period.[111] Further, all companies should have considered initiatives by the Government (for example mandatory water efficiency labelling) in their forecast performance. We have confidence that such government efforts will progress. Therefore, we do not see a need to change the definition to include a PCL adjustment mechanism. We maintain our position at draft determinations that we consider companies have a significant role in water efficiency, such as by providing the right metering and effective customer engagement, and that a performance commitment does not need to be fully in company's control for it to be worth incentivising.[112]

Our final determination on the performance commitment definition

For our final determinations, except for adding reference to third-party assurance, we make **no change** to the definition.

Performance commitment level

What we said in our draft determinations

We proposed to set **company-specific** PCLs based on our view of company forecasts.[113]

At draft determination, the baseline was aligned to the PR19 2024-25 PCL but adjusted for the lasting impacts of the COVID-19 pandemic and additional funding provided through green economic recovery and the accelerated programme. We expected no reduction from baseline to be delivered from base expenditure. From enhancement expenditure, companies were expected to deliver the most stretching of:

- their PR19 PCL with no COVID-19 adjustment applied;
- their revised draft WRMP24 forecasts;
- their business plan forecasts; or
- the calculated expected benefits of their metering and water efficiency programmes.

Stakeholder representations

[111] Ofwat, 'Consultation on changes to per capita consumption performance commitments - our decision on reporting performance and ODI timing', November 2021.
[112] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance commitments', p.53.
[113] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.52.

14 companies (Anglian Water, Affinity Water, Dŵr Cymru , Northumbrian Water, Southern Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water, Portsmouth Water, South East Water, South Staffs Water and SES Water) and one other stakeholder (the Environment Agency) responded to our draft determination per capita consumption PCLs. The key concerns were stretch beyond WRMP targets, the scale of the adjustment applied to the PR19 2024-25 PCL and the use of normal-year annual average.

Anglian Water and **United Utilities** respond that PCLs for per capita consumption should be aligned to their 2024 water resource management plans (**WRMP24**). Their view is that Ofwat's feedback on WRMP24 has already been taken account of through Ofwat's consultation responses to that process. Furthermore, **Wessex Water** and **Dŵr Cymru** state that forecasts included in WRMPs include the expected benefits from their demand management activities to be delivered during the 2025-30 period and that no additional stretch should be applied.

Ten companies believe that the baselines at draft determinations are **unachievable** because they consider the uplift applied for the longer-term impact of working at home post COVID-19 is inadequate.[114] Instead, companies believe that using PR19 PCLs as the baseline puts poorer performers into penalty for too long. They state that PR19 outturn is a more appropriate basis for setting 2024-25 baselines.

Yorkshire Water, Thames Water and **Wessex Water** additionally raise concerns about the use of the Europe Economics estimates as opposed to the Artesia estimates for the ongoing impact of the COVID-19 pandemic on PCC. Further rationale for the continued use of Europe Economics estimates is included in 'PR24 final determinations - Accounting for past delivery'.[115]

Affinity Water, South East Water and **SES Water** raise concerns regarding the use of normal-year annual average values to set the PCL for per capita consumption. Companies state this is not appropriate, as recent weather conditions have seen increased frequency of dry-year conditions. With PCC outturn increasing as a result. Affinity Water requests a deadband between their normal year and dry year forecasts while South East Water believes the average between the two forecasts is an appropriate level for the PCL.

[114] Anglian Water, Affinity Water, Dŵr Cymru, Northumbrian Water, United Utilities, Wessex Water, Yorkshire Water, Portsmouth Water and South Staffs Water.
[115] Ofwat, PR24 final determinations - Accounting for past delivery, December 2024.

The **Environment Agency** are concerned by the overall deliverability and the scale of differences between companies WRMPs and draft determination PCLs. It notes that to deliver their PCLs may require material changes to WRMPs for some companies.

Northumbrian Water raises concerns over the draft determination PCL where it was stated that Ofwat do not expect companies to deliver PCC reduction from base expenditure. As the company has assumed some improvements will be delivered from base expenditure, it does not believe this assumption is correct.

Our assessment and final determinations

Specificity

For final determinations, we will continue to set this performance commitment on a **company-specific basis**. This approach allows us to reflect the relative water stress and historical expenditure allowances of individual regions.

Baseline

For final determinations we continue to use the Europe Economics estimate of longer-term working from home impact post COVID-19 pandemic as the basis for adjustment to the PR19 2024-25 PCL. Further explanation as to the rationale for using this adjustment as opposed to the Artesia estimates is included in the PR24 final determinations - Accounting for past delivery document.[116] The adjustment applied is the *"Ongoing working from home (WFH) impact on PCC in Scenario 2"* included in Table 4.5 of Europe Economics' revised report on the '*Impacts of COVID-19 on PCC"*.[117] This adjustment is estimated at the company specific level except where the estimate of the ongoing WFH impact is less than the 1.8% common uplift applied at draft determinations. Where this is the case, we retain the 1.8% uplift. This approach is aligned to the in-period intervention.

To determine if an adjustment is required to the baseline set at draft determination, we reviewed company 2023-24 outturn alongside the PR19 PCLs adjusted for the ongoing working from home impact on PCC. We did this assessment using three values:

1. the median improvement in litres per head per day (l/p/d) delivered by companies from 2022-23 to 2023-24 (3 l/p/d);
2. the upper quartile improvement in l/p/d delivered from 2022-23 to 2023-24 (6 l/p/d); and

[116] Ofwat, PR24 final determinations - Accounting for past delivery, December 2024.
[117] Europe Economics, Impacts of COVID-19 on PCC – Revised, November 2024, p.56.

3. the company forecast improvement from 2023-24 to 2024-25.

We made the following two adjustments:

1. where companies are forecasting to improve by more than 6 l/p/d from 2023-24 to 2024-25, we limit their expected improvement to 6l/p/d, to prevent an overly stretching baseline being set.
2. where companies are forecasting to improve by less than 3l/p/d, we impose an expected improvement rate of 3 l/p/d, to ensure an achievable but stretching level of ambition is set.

This approach results in three scenarios:

1. Where companies are outperforming their PR19 adjusted 2024-25 PCL, their baseline is set equal to the PR19 2024-25 PCL. This ensures that companies who have delivered their PR19 PCLs retain the benefits at the start of the period.
2. Where companies are failing to deliver their PR19 2024-25 adjusted PCL, their baseline is set equal to the more stretching of their forecasts or their 2023-24 outturn reduced by the minimum improvement factor of 3 l/p/d. Therefore, where companies are not showing sufficient ambition, they are stretched to ensure they continue to progress towards their long-term targets.
3. Where companies forecast reductions from 2023-24 to 2024-25 beyond what is historically achievable, we intervene and set a maximum improvement rate of 6l/p/d, which equals to the upper quartile improvement delivered by companies between 2023-24 and 2024-25. This intervention prevents companies from being held to unachievable forecasts.

For final determination, we have **changed to the baseline for 11 companies** out of 17.

Performance from base expenditure

For final determinations, we do not require companies to deliver PCC reductions from base expenditure. Companies have differing levels of meter penetration, per capita consumption levels and historical expenditure, as a result the reductions from base expenditure can vary greatly.

Where companies have identified potential performance improvements in PCC in their PR24 Business Plans and/or representations to draft determinations, they should continue to deliver them. Further reductions in PCC are delivered through enhancement activities.

Performance from enhancement expenditure

For final determinations, we provide an efficient enhancement expenditure allowance for companies to deliver activities such as smart metering and water efficiency to reduce PCC levels.

For final determinations, we accept individual company forecasts of the benefits to be delivered from enhancement activities and base expenditure. We do not stretch these forecasts further so that they include our analysis of benefits from enhancement expenditure. These benefits from enhancement expenditure are captured by the latest best view of final WRMPs and including them separately resulted in levels of performance that were unachievable based on historical performance. Companies will need to report annually on the delivery of their enhancement activities, such as smart meter rollout and water efficiency, including the benefits these activities have delivered.

For final determinations we remove the requirement for companies to deliver their non-COVID-19 adjusted PR19 2024-25 PCL by 2029-30 as a minimum ambition requirement. This is due to the unachievable additional stretch applied to four companies by the requirement as highlighted in company representations.

For final determinations, for the majority of companies we set the level of performance we expect companies to deliver by **2029-30** according to their published final water resource management plan (WRMP) or our current best view of the level companies propose to include in their final WRMP. Where companies have shown ambition beyond their WRMP forecasts in their representation and/or business plan tables, we accept their updated forecasts.

Long-term targets

Focusing on long-term PCC specific targets, delivery of our PCC PCLs will result in a sector level reduction in PCC of 9.1% from 2019-20 to 2029-30. When compared to 2019-20 PCC levels, these PCLs hold English companies to account for their contribution towards delivering the 122 l/p/d interim PCC target by 2037-38 and the 110 l/p/d long-term target by 2050.[118]

The proposed reductions also set achievable yet stretching targets for reducing per capita household consumption for companies in Wales, requiring a 6.8% reduction in per capita consumption during the 2025-30 period, in line with Welsh Government expectations that we encourage and incentivise the sustainable and efficient use of

[118] Defra, 'Environmental Improvement Plan 2023', January 2023, p.105.

water resources, including by encouraging companies to reduce customer consumption.

We set our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Per capita consumption.' See 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We continue to set PCLs at a **company specific level** for all companies.
- **We assess taking into account the latest reported performance** if the **PR19 2024-25 PCL** adjusted for the longer-term impacts of COVID-19 is not achievable because an unrealistic level of improvement is needed from the 2023-24 outturn.
- The **PR24 2029-30 PCL** is in line with final **WRMPs** or company forecasts where they are more stretching.
- We remove the additional requirements from draft determinations where companies were required to deliver their PR19 non-adjusted 2024-25 PCL and the validated benefits of their enhancement activities by 2029-30.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we calculated the ODI rate using on the top-down rate setting methodology, based on data up to 2022-23. Our original approach set identical rates for all three water demand performance commitments (leakage, per capita consumption, business demand). At draft determinations, in response to company business plans, we set ODI rates for each water demand performance commitment separately.

We removed the potential for enhanced ODIs to be earned for outperformance beyond a threshold of performance beyond the PCL. This was because of historical performance data being affected by changes to household consumption following COVID-19. This prevented us from setting an appropriate performance threshold.

Stakeholder representations

Dŵr Cymru states its support for our decision to disaggregate leakage, per-capita consumption and business demand ODI rates.

Affinity Water proposes setting the equity at risk at P10 performance at 0.6% RoRE in the top-down ODI rate setting calculation.

Severn Trent Water and Hafren Dyfrdwy say that disaggregating per capita consumption from leakage in the ODI rate calculation weakens the incentive offered to companies to deliver water efficiency schemes. They say that this approach would incentivise companies to undertake water demand improvements through leakage over per capita consumption. They say that the two rates should be aligned to allow companies to choose the lowest cost option. Hafren Dyfrdwy proposes lower leakage rates to align with the per-capita consumption rate.

Our assessment and final determinations

For final determinations, we have updated the ODI rate through the top-down calculation by using the latest performance data from 2023-24 and the latest company regulatory capital values. **The starting RoRE allocation remains at 0.6% RoRE**. With these changes, the median ODI rate per l/p/d reduction in per capita consumption has decreased by 10% between draft and final determinations. This is still a c.120% increase on the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Following the feedback from company representations on setting stronger incentives and the evidence of potential for innovation in this area if sufficient funding is given, we have reviewed how we can increase the strength of incentives. We came up with several options, which we engaged with companies on. These were:

- No change;
- Match the leakage ODI rate;
- Match the leakage ODI rate for outperformance only; and
- Reinstate the enhanced ODI.

Feedback we received showed concern about the potential financial risk to both companies and customers from matching to the leakage rate, given the potential for a wide range of performance around the PCL. Due to the potential for innovation in this area and associated potential environmental and customer benefits from reduced demand, we decided to reinstate a threshold for enhanced ODI payments, which would double the size of the ODI rate and provide more funding for innovation.

In terms of setting the **threshold for earning enhanced ODI payments**, we have followed the same approach to other performance commitments where we set a common improvement factor beyond the PCL. With an additional year of data to use since draft determinations, we attempted to set a common improvement factor from outturn performance improvements over the PCL. However, because of the sizeable variations in performance from the impact on consumption habits during COVID-19 and subsequent catch-up in performance, the performance swings are too unreliable to mechanically form a common improvement factor in the same way as other performance commitments.

We explored using the same common improvement factor as leakage. This would be a 2% improvement over the PCL in 2025-26, which then compounds in each year. However, the compounding approach leads to performance levels which would not be achievable for any company. Removing the compounding approach would make the enhanced threshold too easy to achieve for companies. Instead of adjusting this approach, which would increase complexity and decrease the transparency of the approach, we decided to use a simpler approach.

We decide to set a common threshold for enhanced ODI rewards that is calibrated against reasonable historical performance improvements, taking into account the rebound in performance post-COVID. This approach requires setting the common improvement factor at a common percentage improvement beyond the annual PCL, similar to the approach for internal sewer flooding. We set two levels of performance beyond the annual PCL value in total demand in l/p/d, at 3% and 4%. These translate to around 4 l/p/d and 5 l/p/d improvement beyond the PCL in each year, respectively. We decided to use the **3% level** to provide greater chance of funding innovation to improve performance beyond the PCL.

Our final determination

- The **ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% water RoRE.**
- We have set the threshold for earning **enhanced ODI rewards** at a common improvement factor of **3%** beyond the annualised PCL for all companies.

Risk protections

What we said in our draft determinations

At draft determinations, we did not include any risk protections despite because this is a well-established performance commitment, in spite of the issues caused by COVID-19 around data collection and company performance.

Stakeholder representations

We received specific representations from Affinity Water and SES Water to introduce a cap and collar for PCC.

Affinity Water, Thames Water and Wessex Water propose including a deadband to provide more balance to the risk on this performance commitment.

Our assessment and final determinations

Reflecting company feedback and based on our analysis and modelling of potential underperformance, we have set **a collar at -0.5% RoRE**. This will protect companies from large performance variations caused by external factors, as seen by the impact of COVID-19.

As we have reintroduced the enhanced ODI for per capita consumption, we have set a **cap at +1% RoRE** to protect customers from large outperformance payments, while allowing for the potential for innovation. This cap level is identical to the one in place for leakage.

We consider a deadband on this performance commitment. However, as this performance commitment is important for mitigating against water stress in the long-term, we believe that companies should not receive reduced incentives through a deadband, which risks companies not being incentivised to perform up to the PCL.

We provide more information on risk protections in Section 5 of this document.

Our final determinations

- We are setting a **collar on ODI payments at -0.5% water RoRE** for all companies.
- We are setting a **cap on ODI payments at 1% water RoRE** for all companies.
- We are not setting a deadband on this performance commitment.

11. Final determinations for environmental performance commitments

11.1 Bathing water quality

This performance commitment measures the overall 'average' score for bathing water quality, based on the classification given to eligible bathing waters by the Environment Agency and Natural Resources Wales (NRW). It includes bathing waters within a company's area that are affected by its activities. This measure adopts the four-year average required by the bathing water regulations including samples taken while 'pollution risk forecasting' (PRF) is in force. For further information see the 'Bathing water quality performance commitment definition'.

For our final determinations

We have changed:

- The **performance commitment level (PCL)** to include the latest designated bathing water sites, and to account for additional evidence provided by companies to support their forecasts and the latest reported performance.
- We have adjusted the **PCL for the best performers** to reduce risk of penalties if performance deteriorates slightly but remains materially better than the rest of the sector with **a deadband** to make sure receipt of outperformance payments only when performance is a good level.

We have not changed:

- Our **performance commitment definition** apart from confirming the applicable legislation and guidance that apply for the purposes of the performance commitment.
- We continue to set PCLs at a **company specific level** for all companies.
- The **ODI rate** is calculated using the **updated top-down approach**, with a starting RoRE allocation of 0.4% wastewater RoRE.
- The **cap and collar for all companies** at ±0.5% wastewater RoRE.

Performance commitment definition

We did not change the definition at draft determinations.

Responding to our draft determinations, Southern Water states that the measurement should be based on 'in year' results, and that there needs to be an increase in Environment Agency sampling to be reflective of current in year bathing water quality which is what their customers are interested in. United Utilities and Dŵr Cymru consider that it would not be appropriate for the performance commitment to have different rules to Environment Agency and Natural Resources Wales respectively around the discounting of samples.

We consider classification based on a four-year average to be appropriate as it provides a long-term assessment of bathing waters and enables the identification of trends and assessment of typical water quality. We recognise that inclusion of samples taken while 'pollution risk forecasting' (PRF) is in force deviates from the approach taken by the environmental regulators. We remain of the view that these samples should be included, as a recommendation against bathing still represents a poor outcome for customers and the environment.[119]

In line with our PR24 methodology, we set the applicable legislation and guidance that apply for the purposes of the bathing water quality performance commitment based on the versions of those materials which are in effect at the date of our PR24 final determinations.

For our final determinations

- There **are no substantive changes to the definition**. We confirm the applicable legislation and guidance that apply for the purposes of the performance commitment.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set the bathing water quality PCL on **a company specific level, using a bottom-up approach.** We considered the historic and forecast classifications for each site individually, within a company's area, to set site-specific targets which are used to calculate the PCL. Using outturn classifications, we did not

[119] Ofwat,'PR24 draft determinations – Delivery outcomes for customers and the environment', p.96.

allow a site to deteriorate in classification from outturn performance for setting the baseline, without compelling justification and explanation. We also required sites with WINEP / NEP improvement actions that are complete before 2029 to forecast an improvement in classification in the final year of the period, 2029-30. Sites with only WINEP / NEP investigations are not required to show an improvement in classification.

We invited companies to **accept our proposed forecast classifications or provide sufficient and convincing evidence to support an alternative approach**, including evidence of factors outside of a company's control that are impacting a site. We also asked companies to provide forecast classifications for all new sites recently designated within the company's area, following the classification of 27 new sites by Defra in May 2024 and 2 sites by NRW in June 2024.[120]

Stakeholder representations

In response to our draft determinations, we received responses from ten water companies and three non-company stakeholders. All ten companies have provided forecast classifications for all newly designated sites and provided comments and evidence for sites where they disagree with our proposed forecasts. [121]

Seven of ten companies feel that the performance commitment levels set at draft determinations were too stretching, and there should be greater consideration of external factors that cause deterioration from historic performance or inhibit improvement after investment to improve the site.

Eight of ten companies note that newly designated sites are often poor, due to the lack of prior investment. Every company has at least one newly designated site within its area, and so could see a reduction in overall bathing water quality score compared to draft determinations.

Dŵr Cymru and South West Water state that due to the performance commitment level being measured on a 0% to 100% overall score, that high-performing companies with many 'excellent' sites are more likely to deteriorate away from 100% than improve towards it for reasons outside of their control. This is because a site cannot achieve a classification better than 'excellent', so if a change is to occur it would only deteriorate in classification. The companies state that this situation could result in good performers arbitrarily deteriorating below their performance commitment level and being penalised, while still delivering sector upper quartile performance. Likewise, the

[120] Full details of the draft determinations assessment is available in PR24 draft determinations: Delivering outcomes for customers and the environment - Ofwat, Section 8.15.
[121] Bathing water quality is a performance commitment relevant only to WaSCs. However, Hafren Dyfrdwy has no bathing waters in its area, so is not included in the performance commitment.

Severn Trent Water proposes its bathing water quality performance commitment should be reputational as it forecasts a level of 0.0% across the 2025-30 period.[122]

Dŵr Cymru proposes that forecasting on a site level is not appropriate due to the probabilistic nature of site-level forecasts. It states that classifications change year on year, so calculating an overall forecast performance level based on site-specific forecasts is unreasonable. Moreover, the reason for a deterioration in bathing water quality at a specific site may not become apparent for some time. The company suggests instead setting forecasts based on historic average number of bathing waters at each classification.

South West Water highlights that in our PR24 methodology we state that bathing waters not impacted by a company's activities are excluded from the performance commitment, and provide multiple scenarios of outturn and forecast site classifications, including one outlining the sites the company feels should be included or excluded.

South West Water also proposes that the performance commitment should be set at a common level of sector upper quartile performance.

While many stakeholders support the improvement of storm overflows, two non-company representations specifically support improvement of storm overflows near designated bathing waters, and state that the target for improving storm overflows should be set sooner. Havant Climate Alliance and Havant Friends of the Earth stress the need for improving storm overflows and reducing pollution as there are several ecologically significant sites within Southern Water's area. Mete Coban MBE, Deputy Mayor of London for Environment and Energy, stresses that improving storm overflows that impact bathing waters should happen sooner, to enable the Mayor of London's goal to make London's waterways swimmable by 2043.

Our assessment and final determinations

Specificity

We do not agree with South West Water to set the PCL at a common level due to differences in the numbers of eligible bathing waters in a company's geographic area and the varying impact of historically allowed expenditure. Some companies had bespoke performance commitments relating to bathing water at PR14 and PR19.

[122] We discuss this further in the company specific appendix, Ofwat, 'PR24 final determinations: Severn Trent Water - Outcomes appendix', December 2024.

Performance from total expenditure

We remain of the view that it is appropriate to set the bathing water quality PCL using a bottom-up approach by considering each site within a company's area and using these site targets to calculate the final PCL. This allows external factors impacting a site to be considered individually. We agree with companies that the draft determination PCLs were stretching, and so by considering all the evidence now provided we can set bottom-up targets that are more **achievable yet stretching**. We disagree with Dŵr Cymru's proposed approach. The classification groups are not independent, so reconciling changes in classification groups over time with the total number of sites is more complex than considering every site individually.

We have therefore reviewed and considered all comments and evidence provided by companies into our assessment of each site, for both setting the baseline 2024-25 level and stretch over the 2025-30 period. This evidence has been reviewed from a wastewater engineering perspective and has been provided to the appropriate environmental regulators, the Environment Agency and NRW, for review. As for draft determinations, we include cross-reference to WINEP / NEP schemes, including actions to improve storm overflows near bathing waters, and require an improvement to the site classification is due to be complete prior to 2029. Where the company has provided sufficient and convincing evidence as to why it is not possible for the site to meet the baseline or stretch proposed, we accept the company forecast. Where a company highlights the probabilistic nature of improving sites, meaning for example they expect one of two sites to improve, we review recent data and associate the improvement with the better performing site. We note that for some sites, our proposed forecasts at draft determinations were accepted, as companies accepted the ambition.

We include the **new sites** that were designated in 2024. We accept that newly designated sites are likely to be classified as 'poor' due to lack of prior investment, and may not improve until after the 2025-30 period. Where a company has forecasted a site better than 'poor' or forecasted any improvement over the 2025-30 period, we accept this. The full list of sites used for setting the PCL is the latest site list agreed in conjunction with the environmental regulators.

We incorporate the latest reported sample data from the 2023 and 2024 bathing water seasons for English companies, as the bathing water season, 15 May to 30 September, is now concluded. We were unable to obtain recent outturn sample data for Welsh companies due to the difference in data platform and time available, therefore 2023-24 and 2024-25 site classifications for Welsh companies remain as provided in August 2024 company representations. Where recent sample data shows that achieving a forecast classification in a given year is not possible, we do not hold companies to achieve that classification for that site and adjust the site forecast.

Company specific deadband

We agree with South West Water and Dŵr Cymru that high performing companies should not be significantly penalised while still delivering a sector upper quartile performance. Therefore we adjust the PCLs set using the method for 'good' performers set out below. We determine 'good' to be the sector upper quartile, and a good level to be at or above this.

For companies forecasting to perform beyond our good level, we identify the PR24 PCLs calculated in the previous sections as a 'provisional performance level'. We then set the PR24 PCL to be up to 0.5% less stretching than this provisional performance level. [123] We make an exception if this would move a company's PCL to be less challenging than the good level and if this is the case set the PR24 PCL at the good level of the sector upper quartile.

We then apply an outperformance deadband between our PR24 PCLs and the 'provisional performance level'. This means the company can only earn reward by outperforming the provisional performance level but has protection from underperformance payments between the PR24 PCL and provisional performance level.

For a worked example, please see Section 9.5 above on customer contacts about water quality PCL setting.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – bathing water quality'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set this performance commitment level **on a company-specific basis**.
- The PCL is **set using a bottom-up approach, setting the baseline and stretch for each bathing water site individually** to form the final score. We expect sites to maintain historic performance as a minimum and if a site has an enhancement investment to improve the site, we expect to see an improvement in classification.
- Where the company has **provided sufficient and compelling evidence** as to why the above is not possible for reasons outside of the company's control, **we accept the company's forecast for the PCL**.

[123] 0.5% deadband chosen to reflect a change in classification at only a small number of sites, ensuring a company is still penalised should there be a deterioration at a large number of sites.

- We adjust the **PCL for the best performers** to reduce risk of penalties if performance deteriorates slightly but remains materially better than the rest of the sector with **a deadband** to make sure receipt of outperformance payments only when performance is a good level.

Outcome delivery incentives and risk protections

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23.

We set caps and collars on out- and underperformance at **±0.5% wastewater RoRE.**

Stakeholder representations

We did not receive representations specific to the ODI rate for bathing water quality.

Anglian Water proposes the use of deadbands or caps and collars to reflect that some change in bathing water score is outside of company control.

Thames Water proposes setting a tighter cap and collar at ±0.4% RoRE in its representations as this would be consistent with the lower priority starting RoRE allocation given to this performance commitment of 0.4% RoRE.

Our assessment and final determinations

ODI rates have reduced since draft determinations following the inclusion of 2023-24 performance data in the ODI rate calculations for bathing water quality.

In line with other new performance commitments, we maintain caps and collars at ±0.5% wastewater RoRE. This allows sufficient incentives on performance around the PCL, while protecting customers and companies from larger performance deviations.

We have explained our rationale for an outperformance deadband for the best performing companies associated with our decision to reduce stretch in the PCL for good performers in the section above.

For our final determinations

- The **ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.4% wastewater RoRE**
- As this is a new performance commitment for PR24, **we maintain the cap and collar for all companies at ±0.5% wastewater RoRE.**

For PCL and ODI data by company for each performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

11.2 Biodiversity

This performance commitment measures the net change in the number of biodiversity units on nominated land per 100km^2 of land in the company's area, based on the results of surveys completed every four years by companies.

Any reference to company's 'area' in this section, refers to the definition of company's area as defined in the performance commitment definition.[124] For further information see the 'Biodiversity performance commitment definition'.

For our final determinations

We have changed:

- We make minor textual changes to the **performance commitment definition** to remove ambiguities and add reference to the requirements of independent third-party assurance.
- We **update the price control allocations**.
- **We update the ODI rate** from £20,000 to £28,184 per biodiversity unit.

We have not changed:

- The **performance commitment level** is being maintained as common with financial incentives.

[124] The 'company's area' means "the Area" as defined in Condition A of the company's instrument of appointment. It refers to the area for which for the time being the company holds the appointment as water undertaker or, as the case may be, sewerage undertaker.

- Our **approach for setting the base line and stretch PCL** level by 2029-30 when we expect companies to reach the median industry forecast position (0.73 net change in biodiversity units per 100km2 of company's area).
- The **cap and collar** for all companies **at ±0.5% water/wastewater RoRE**.

Performance commitment definition

What we said in our draft determinations

At draft determinations, we updated the definition to reflect the release of the statutory biodiversity metric tools and guides when biodiversity net gain (BNG) became mandatory in February 2024. We incorporated references about the advice issued by Natural Resources Wales to water companies operating in Wales about selection of areas of strategic significance, classification of habitats and assessing distinctiveness for the purposes of the performance commitment.

Stakeholder representations

We received a high number of representations from companies and other stakeholders on the definition, as well as how we set the PCL and ODI for the performance commitment. Several water companies say that the performance commitment should be made reputational, or the PCL should be set on a company-specific basis, on the grounds that room for future improvement for companies which had made improvements previously could be small.[125]

Anglian Water, Dŵr Cymru, Northumbrian Water, South Staffs Water and Southern Water state that they believe the performance commitment should be reputational and not financial to avoid short-term thinking and the establishment of 'quick wins'. They also cite data and methodological difficulties. We have also received a range of views around the timescale for securing improvements that question if the proposed survey interval of four years is too short to capture any biodiversity benefits, or alternatively is too long for companies to capture benefits from this performance commitment. Companies and some stakeholders also express concerns that the performance commitment could risk incentivising 'quick-wins' instead of optimising biodiversity improvements.[126]

[125] Namely, Anglian Water, Northumbrian Water, Sothern Water, South Staffs Water, Dŵr Cymru and South East Water.
[126] Namely, Northumbrian Water, Wessex Portsmouth Water, Southern Water, South East Water, Anglian Water, Natural England, Wessex Watch Catchment panel and Bristol Avon Catchment Partnership.

The following points have also been raised:

- **Exclusion:** Northumbrian Water says that we should provide for a natural disaster exclusion, while Wessex Water said that we should not exclude gain resulting from other forms of regulation.
- **Nominated land:** Dŵr Cymru, Northumbrian Water, Natural England and Natural Resources Wales raise questions on the meaning of 'nominated land' and how performance will be normalised.
- **Level of ambition and stakeholder engagement:** various Wildlife Trusts and Wales Environment Link express concerns about companies' low level of ambition and lack of intention to engage with stakeholders.[127]
- **Applicability to Wales:** Wales Environment Link asks if the performance commitment is applicable to Wales.
- **Baseline**: Wessex Water, Northumbrian Water, Anglian Water and Thames Water raise questions around the 2024-25 baseline for setting PCL.

Our assessment and final determinations

We maintain our position that biodiversity should remain a financial performance commitment. We consider a financial incentive will help incentivise companies to deliver improvements to biodiversity within their company areas while providing robust data. We would encourage companies to nominate land for this performance commitment in the 2025-30 period so that reliable surveys of biodiversity condition may be taken, against which future incentives could be set to encourage long-term biodiversity gains.

As we are setting PCLs for the 2025-30 period, we consider the proposed 4-year survey interval is appropriate as it allows the maximum amount of time within a price review for a company to capture the change in biodiversity units on nominated land. Further, we consider that it is possible that biodiversity initiatives may result in observed changes in biodiversity units within the price control period, for example, those arising from the creation of raingardens or intensive green roofs, implementing Sustainable Drainage Systems and/or pond creation.

While the performance commitment focuses on observed changes in habitat over the 2025-30 period, this does not constrain companies' activities in this area. Some biodiversity improvements only accrue over the longer term and companies must meet their statutory biodiversity duties and environmental obligations in line with

[127] Namely, the Wildlife Trusts, Lancashire Manchester & North Merseyside Wildlife Trust, Warwickshire Wildlife Trust, and Devon Wildlife Trust.

appropriate ecological advice. We would therefore expect there to be a long-term focus aligned to relevant local strategies and stakeholder support.

In the PR24 methodology, we said that we intend to incentivise the PR24 outcomes in future price review periods. The exact way that we incentivise, and measure key outcomes may evolve over time, for example as metrics that better reflect outcomes are developed.[128] In this performance commitment we require the company to repeat surveys every four years once land has been nominated. Without pre-empting the design of future price reviews, it is our prevailing intent that incentives will be based on the change in the number of biodiversity units assessed in the latest survey, relative to that recorded in the initial survey conducted for PR24, discounting any interim biodiversity units already assessed, reported and incentivised between the initial survey and the latest survey.

We do not consider that a change to the current exclusion clause is needed. Our PR24 methodology explains why we do not generally consider exclusions for factors that are outside company control to be appropriate.[129] Nor do we consider it appropriate for customers to financially reward companies through ODI payments for biodiversity improvements that arise as a result of conditions or obligations relating to other forms of regulation, including gains delivered due to biodiversity units associated with credits from the Secretary of State as outlined in Section 101 of the Environment Act 2021.

The performance commitment definition requires a company to undertake and keep under review a comprehensive mapping exercise to identify relevant stakeholders throughout the period. It also requires a company to consult and work with those stakeholders whom it is reasonable to consider would have an interest in the company's activities relating to this performance commitment with regard to activities on the nominated land, monitoring of biodiversity and the scope and methods for conducting surveys. The nomination must be in 'the company's area' which means the 'Area' as defined in the company's instrument of appointment (licence). This can either be company-owned land or other land where habitat is improved in the process of a water company carrying out its statutory functions. Performance is normalised as the net change in the number of biodiversity units on nominated land per 100km^2 of land in the company's area. The performance commitment is applicable to land in Wales and incorporates advice from Natural Resources Wales, as set out above. We are adopting a common PCL for this performance commitment, with the 2024-25 baseline set at zero. We are also updating the third-party material related to Defra's statutory biodiversity metric to the latest version at the time of our final determinations.

[128] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance commitments', December 2022, pp. 4-7.
[129] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance commitments', December 2022, pp. 12–13.

For our final determination

We have **clarified some areas of the definition to remove ambiguities** and add reference to the requirements of independent third- party assurance.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set the **PCL at a common level** for all companies.[130] This was due to there being limited historical data, with some companies still completing site surveys and developing plans.

We set the PR24 2024-25 **baseline position at zero**. Companies can only report biodiversity improvements after completing an initial survey and a follow up survey four years later, which will limit companies' ability to report improvements in the early years of the 2025-30 period.

We expect companies to conserve and enhance biodiversity from both base and enhancement expenditure. We recognise companies may have greatest opportunity to deliver improvements from enhancement expenditure, for example through delivery of nature-based solutions and maximising biodiversity benefits from other projects. We set PCLs from **total expenditure based on median sector performance** (0.73 net change in biodiversity units per 100km^2 company land). Performance improvements have been profiled for delivery in 2028-29 and 2029-30 to allow companies time to complete the initial and follow up surveys.

Stakeholder representations

We received responses from all water companies except for Yorkshire Water. Non-company representations were made by various Wildlife Trusts[131] and Wales Environment Link.

[130] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.123.
[131] Namely, the Wildlife Trusts, Lancashire Manchester & North Merseyside Wildlife Trust, Warwickshire Wildlife Trust, and Devon Wildlife Trust.

Anglian Water, Northumbrian Water, Southern Water, Wessex Water and Portsmouth Water all state that they believe the performance commitment should be set at company specific and not common performance levels.

Anglian Water, Wessex Water, Portsmouth Water, Northumbrian Water and South East Water believe the target set at the median industry forecast is too stretching.

Various Wildlife Trusts and Wales Environment Link express concerns about companies' low level of ambition when engaging with third party stakeholders to improve biodiversity outside of company owned land. RSPB consider that there will be little positive impact as the number of biodiversity units required on company land is relatively small.

Our assessment and final determination

Specificity

There is insufficient evidence in company representations to support reverting our decision to make the performance commitment common. We acknowledge companies' representations that state there are variations in companies' opportunities to deliver biodiversity units due to regional differences in company's areas, but we do not have a sufficient time series of robust individual company data to accept company specific targets across the industry. The performance commitment is normalised by company's area, to accommodate for company specific variations in size.

Although we recognise that the PCLs set at draft determinations are stretching for some, we maintain the position for final determinations that the PCL should be **set on a common basis across all companies.** We consider it remains correct to incentivise companies to maximise the biodiversity improvements they can deliver.

As outlined by non-company stakeholders, with more engagement with third parties, more biodiversity improvements could be undertaken in the 2025-30 period. It is a requirement of the performance commitment that companies engage proactively with external stakeholders so that they can maximise the biodiversity improvements they can deliver.

Baseline

As per draft determinations, for final determinations we continue to set a baseline of zero. This reflects that the net change in biodiversity for a new performance commitment must be zero.[132]

Performance from total expenditure

As per draft determinations, for final determinations **we continue to set PR24 PCLs based on the median sector forecast** from company representations. We expect companies to deliver biodiversity improvements from both base and enhancement expenditure. We consider this is an achievable yet stretching as ten out of seventeen companies forecast to deliver or outperform this level. Performance improvements have been profiled for delivery in 2028-29 and 2029-30 to allow companies time to complete the initial and follow up surveys.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model - Biodiversity'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- The PCLs are set at **a common level** for all companies.
- The 2024-25 **baseline position is zero**
- The PR24 2029-30 PCL is set at the forecast industry median level from total expenditure, which is **a 0.73 net change in biodiversity units per 100km^2** of company's area.

Outcome delivery incentives and risk protections

What we said in our draft determinations

[132] Where an earlier survey of a site is conducted using an earlier version of the biodiversity metric than that stated in the current version of the performance commitment, the next survey must collect sufficient information to be able to calculate: i) the change in biodiversity units between the earlier survey and that next survey in relation to the relevant site; and ii) the new baseline against which future changes in biodiversity units relating to the relevant site will be assessed in accordance with the biodiversity metric stated in the current version of the performance commitment.

We used Defra's estimated national average price for a biodiversity unit (£20,000) to set the biodiversity ODI rate.

We set caps and collars on out- and underperformance at **±0.5% water/wastewater RoRE.**

Stakeholder representations

We received representations from multiple companies on the strength of the biodiversity ODI rate. Thames Water proposes setting a higher biodiversity ODI rate to better reflect the cost of biodiversity improvements in its region. Dŵr Cymru, Northumbrian Water and South Staffs Water propose moving away from financial incentives and setting biodiversity as a reputational ODI. Hafren Dyfrdwy proposes setting its ODI rate based on the minimum per-customer rate on WoCs due to their considerably higher rate compared to other companies.

We received representations from South East Water and South West Water to propose a tighter cap and collar due to the risk profile of this performance commitment and the lower priority placed on it by their customers.

Our assessment and final determinations

We remain of the view that, on balance, we should maintain this performance commitment as a financial incentive and that our risk protections sufficiently limit companies' exposure to high levels of financial risk from this performance commitment.

We reviewed the additional evidence provided by Thames Water which we found did support a higher unit cost. However, we have to weigh this against the national average price of a biodiversity unit derived from the Defra estimates and the requests for setting this as a non-financial performance commitment. We have revised our unit cost to use the higher rate proposed by Defra in their range of £20,000 to £25,000. At draft determinations we had not adjusted this ODI rate for inflation from 2020 prices. For final determinations we have adjusted for inflation to 2022-23 financial year average prices, in line with other ODI rates and company regulatory capital values. This inflation adjustment increases the ODI rate further to £28,184 per biodiversity unit. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

We also reviewed Hafren Dyfrdwy's proposal to scale-down its ODI rate based on the per-customer rate of other companies due to the disproportionate strength compared to their size. We have aligned its ODI rate on a per-customer basis rate with the median of the rest of the sector. This represents a 61% reduction in strength compared to draft determinations and mitigates against excessive risk from this performance commitment.

We have reviewed the likely financial risk of this performance commitment and do not consider it necessary to tighten the existing risk protections with the balance of risk skewed to the upside for this performance commitment. We believe that the existing risk protections in place are sufficient.

For our final determinations

- **We update the ODI rate to £28,184 per biodiversity unit.** This is an increase of 41% from draft determinations.
- We **scale down the ODI rate for Hafren Dyfrdwy**.
- We maintained our caps and collars at **±0.5% water / wastewater RoRE.**

11.3 River water quality

This performance commitment measures the percentage reduction in phosphorus emissions to river catchments relative to a 2020 baseline. These reductions can be the result of water company activities or delivered through partnerships between water companies and other parties like farmers. It can include nature-based solutions and catchment management. For further information see the 'River water quality performance commitment definition'.

For our final determinations

We have changed:

- We add reference to the requirements of independent third-party assessors.
- We align the 2025-2030 **performance commitment levels** for all companies to company forecasts set out in the representations to draft determinations
- We make **company specific adjustments** to the performance commitment level for Northumbrian Water

We have not changed:

- The **performance commitment definition incentive type,** which remains reputational.

- We set the performance commitment level at **a company-specific level**

Performance commitment definition

For the reasons set out in our draft determinations, we decided that the performance commitment would be made a reputational incentive instead of a financial one for PR24. We also said that our position may be revised in future periods.

We receive support from companies on our decision of making the performance commitment reputational.[133] United Utilities, on the other hand, says that the removal of financial incentives and regulation through price control deliverables would weaken the incentives for companies. The RSPB asks why ammonia and nitrates are not included in the performance commitments when they are subject to monitoring.

We explained in our draft determinations that the principal driver for improving river water quality in PR24 will come from delivering of WINEP/NEP programmes which has reduced the need for a financial performance commitment.[134] Responding to the RSPB's representation, as we explain in more detail in our PR24 methodology, the reason the performance commitment focuses on phosphorus is because most of the phosphorus in the water environment comes from wastewater companies and it is the most common reason why a water body fails to be classified as having good status in England, and in Wales, in over 60% of special areas of conservation rivers do not meet desirable phosphorus levels.[135] We do not consider changes to the definition are needed.

For our final determinations

- Other than **adding a reference to the requirements of independent third-party assessors**, there are no changes to the definition and this performance commitment remains reputational, as we proposed in our draft determinations.

[133] Namely from South West Water, Thames Water, Wessex Water and Dŵr Cymru.
[134] Ofwat, 'PR24 draft determinations Delivering outcomes for customers and the environment', July 2024, p. 99.
[135] Ofwat, 'PR24 final methodology: Appendix 7 Performance commitments', December 2024, p. 67.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set the performance commitment at a company specific level. For the performance commitment level, we aligned the 2025-30 values for all companies to the company forecast position.[136]

Stakeholder representations

We received responses from six water companies and five non company stakeholders.

In response to our draft determination, most companies agree with our decision to set the river water quality performance commitment as a reputational only PCL. However, United Utilities proposes to keep this as a financial reward PCL as they state that this will incentivise companies to perform below permitted levels and to deliver environmental improvements quicker.

We received non-company representations from different environment groups and elected officials. Non-company representations are generally more focused on river water quality standards rather than specific PCL issues. For instance, the Wessex Rivers Trust states the scale and areas of cost reduction made by Ofwat do not meet the needs of their rivers or customers' expectations.[137] The Member of Parliament for Reading West and Mid Berkshire strongly supports the greater enforcement action by Ofwat especially given the high measured levels of phosphorous near Compton sewer works.

Our assessment and final determinations

Specificity

As per draft determinations, we set this performance commitment at company-specific levels. We consider this remains appropriate as companies will have different environmental permits for phosphorus removal, dependent upon the requirements for improving water quality and meeting long-term targets in their regions.

[136] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.99.
[137] In relation to Wessex and Southern Waters' areas.

Performance from total expenditure

As per draft determinations, for final determinations we accept company forecast performance levels over the 2025-30 period. Our efficient cost allowances fund companies to deliver solutions to reduce phosphorus levels below permit level.

We have made a company specific adjustment for Northumbrian Water. We have set the PCL, reported as reduction in phosphorous as a percentage of load discharged from treatment works in 2020, for 2025-2026 and 2026-2027 at 0.00%. This is an adjustment from the negative values proposed by the company. We understand that the company has calculated these values based on its assumption that phosphorus discharges will increase from 2020 baseline levels while remaining below permitted levels. The headroom between permit and performance level will reduce. We do not consider it appropriate to set a negative PCL value for this performance commitment as it may be incorrectly interpreted as the company not meeting its permits.

We will consider if we need to provide further guidance on reporting as part of our development of annual performance reporting requirements for the 2025-30 period and future performance commitments in this area for PR29 and beyond.

The long-term UK Government target for English water companies is to reduce the phosphorus loading from treated wastewater by 80% from a 2020 baseline, by 31 December 2038.[138] For final determinations, our PCLs incentivise English companies to reduce the load of total phosphorus from wastewater discharges by 43%. This reduction is driven through companies statutory WINEP programmes to improve river water quality, for which we provide efficient expenditure allowances. The WINEP programme is based upon the delivery of discharges compliant with phosphorus permit levels identified by the Environment Agency. These permits have been developed by the Environment Agency using catchment level modelling. Similarly, for Welsh companies the phosphorus permit levels have been developed by Natural Resources Wales as part of the statutory NEP programmes, for which we provide efficient expenditure allowances. Also to protect investment and hold companies account for delivery we use price control deliverables (PCDs).[139]

We consider that setting our PCLs on the basis of company forecasts for delivery of the WINEP/NEP programmes sector should provide some reassurance to the non-company stakeholders who raise concerns regarding the ambition of the sector.

[138] Defra, 'Environmental Improvement Plan 2023', January 2023, p.99.
[139] Ofwat, ' Expenditure allowances', December 2024, Section 4.7.2.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – River water quality'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- For all companies, we revise performance commitment levels for the 2025-2030 period to take into account **companies' forecasts** as set out in their representations to our draft determinations.
- However, we make **company specific adjustments to Northumbrian Water** for 2025-2026 and 2026-2027 position to set a stretch target of 0%.

11.4 Storm overflows

This is a new performance commitment for PR24. It financially incentivises companies to **continuously monitor and limit** the frequency and volume of their spills. This performance commitment encourages the company to operate and maintain its network and equipment in such a way as to reduce the adverse impacts of storm overflows on public health and the environment. For further information see the 'Storm overflows performance commitment definition'.

For the purpose of measuring company performance we **assume 100% monitoring of all overflows**.

This performance commitment measures the average number of spills per storm overflow. It uses a 12/24 counting method to reflect the duration of a single spill in our definition. This method counts each spill that lasts longer than 12 hours as more than one spill (with each additional 24-hour period counted as one additional spill). For example, a spill event that lasts 60 hours would be counted as three spills – one spill of 12 hours and two spills of 24 hours. [140] For this performance commitment, a company's performance is the combination of its monitored spills (using the 12/24 counting method) and the 'unmonitored storm overflows adjustment' (UOSA). The USOA is designed to incentivise companies to **accurately monitor spills** by assuming that

[140] Environment Agency, 'Water companies: environmental permits for storm overflows and emergency overflows', September 2018.

when an event duration monitor is not working it is spilling at a level well above the industry average. [141] [142]

For final determinations

We have changed

- We add reference to the requirements of independent third- party assurance
- We make adjustments for the better performing companies to how we **profile improvements across 2025-30,** particularly to incentivise improvements from base expenditure.
- We reduce **collar for Dŵr Cymru from -0.75% to -0.5% RoRE to** reflect changes in the PCL that mean it is less stretching.

We have not changed:

- How we will calculate ODI payments in accordance with the **EDM uptime adjustment.**
- The **overall approach to setting PCLs for English companies**, including an assumed 100% EDM monitoring.
- The three tests we apply to determine whether to accept company forecasts of more than 20 spills at 2025-26. These are met by two more companies (Wessex Water and Yorkshire Water).
- That **English** companies need to **achieve a minimum 5% spill reduction from base expenditure** beyond the 20 average spills target for 2025**.**
- We set **Welsh 2025-26 PCLs** taking into account **company actual performance**, accepting **Hafren Dyfrdwy's 2025-26 forecast** and adjusting **Dŵr Cymru** which we consider not credible.
- That Welsh companies should be at least **in the range of 20 to 30 average spills by 2029-30.**
- That we include the **companies' profiles of improvements from enhancement** (reconciled to the WINEP and NEP) and that **stretch from base** for **Welsh and English companies with baselines over 20 spills is profiled across the 2025-30 period.**
- The **target for EDM Uptime** of 97% in 2025-26, rising to 98% in 2029-30.

[141] We increased the level from 50 spills to 100 spills in response to feedback from stakeholders to our consultation on an updated storm overflow performance commitment definition in May 2023. Industry level average spills per overflow is 32.72 in 2021, and 37.46 in 2023 (a very wet year), based on calculations in 'PR24 final determinations: performance commitment model – storm overflows'.
[142] Industry level average spills per overflow is 32.72 in 2021, and 37.46 in 2023 (a very wet year), based on calculations in 'PR24 final determinations: performance commitment model – storm overflows'.

- The **ODI rate** is calculated using the **updated top-down approach,** with a starting RoRE allocation of **0.6% wastewater RoRE**.
- The **caps and collars** for English companies and Hafren Dyfrdwy at **±0.5% wastewater RoRE**.

Performance commitment definition

What we said in our draft determinations

We made three key changes to the definition **in our draft determinations**. The first means that company reporting is more closely aligned with that required by the environmental regulators to improve transparency. This means that each company will report separately:

- its **monitored spills** per total number of storm overflows; and
- the percentage of the reporting period that its event duration monitors (EDM) were working (or **"uptime"**).

The second change stopped outperformance payments where a company's average of monitored spills (without the USOA) does not meet its performance commitment level.

Based on company proposals and outturn performance and because full monitoring of storm overflows has been in place for only a short time, we also introduced a financial adjustment **the EDM uptime adjustment**, a deadband that would apply to the calculation of incentive payments, based on an **EDM uptime target**, discussed in further detail, below.

At draft determinations, we set a common expectation on the EDM uptime target, of 97% in 2025-26 improving to 98% in 2029-30. We considered this stretching yet achievable based on 2023 outturn data and that full EDM coverage has only been in place since the end of 2023.[143]. In the 2023 data reported to the Environment Agency, the sector median was 93.58%, and one company achieved 98.4%.

[143] We also said that we would expect to set a more challenging expectation on uptime performance in future price reviews.

Table 11: Summary of EDM uptime targets 2025-30

	2025-26	2026-27	2027-28	2028-29	2029-30
EDM uptime target	97.00%	97.25%	97.50%	97.75%	98.00%

Companies' **performance** against their PR24 performance commitment levels continued to be measured as the sum of average monitored spills per overflow and the USOA.[144]

In **relation to ODI payments,** we established a deadband that adjusts the payments that would ordinarily flow from the company's performance, by referencing the company's EDM uptime against the EDM uptime target. This has the effect of setting a threshold level of performance at or above which the underperformance payments relating to EDM uptime do not apply. This means;

- if the company's EDM uptime is equal to or better than the EDM uptime threshold, it is relieved of the underperformance payments attributable to the USOA element of its performance; and
- if the company's EDM uptime is worse than the EDM uptime threshold, the company will make underperformance payments relative to the EDM uptime threshold level.

For the avoidance of doubt, it is **not intended** that performance above the EDM uptime threshold can either:

- provide relief from underperformance payments attributable to monitored spills; or
- provide companies with the opportunity to earn additional outperformance payments for uptime performance better than the EDM uptime threshold.

We had already published an updated definition and written to companies and stakeholders clarifying our position. We are now publishing worked examples of how performance is measured and payments calculated for the storm overflows performance commitment alongside the performance commitment definition.

[144] Regardless of the measurement of performance for the purposes of the storm overflows PC incentive, our draft determinations made it clear that we expect companies to be compliant with their legal obligations, such as those under section 94 of the Water Industry Act 1991 as supplemented by the Urban Waste Water Treatment (England and Wales) Regulations 1994 as well as the s.141DA new duty on companies to report on storm overflow spills within an hour of them starting and stopping, when that provision comes into force.

Stakeholder representations

In its representation to our draft determinations, Dŵr Cymru re-submit the bespoke harm-focused performance commitment.

Like Dŵr Cymru, other **stakeholders in Wales** are concerned that a common performance commitment measuring spills should not undermine a primary focus on harm by the company. We provide further information on these representations company specific appendix for Dŵr Cymru.

A number of stakeholders in England and Wales are supportive of nature-based solutions to reduce the frequency and impact of storm overflow spills. CCW, Natural England, and environmental NGOs including the Wildlife and Countryside Link and Friends of the Lake District would like companies to deliver required improvements through nature-based solutions which use less carbon and can provide wider environmental and social benefits. Local government representatives also support nature-based solutions to manage sewer network capacity at the catchment scale.

Yorkshire Water specifically raises concerns regarding the treatment of spills from wetland schemes. The company is concerned that including spills from wetland schemes in the calculation of ODI payments would disincentivise their use.

There was no feedback on the definition other than companies seeking clarification on the operation of the EDM uptime adjustment. In response to those queries we updated the storm overflows performance commitment definition to provide clarity on the calculation of ODI payments.

Our assessment and final determination

We reject Dŵr Cymru's proposal to replace the common spills performance commitment with a bespoke harm-focused measure. Our primary reason is that we do not consider its proposal would give Dŵr Cymru the right incentives to improve performance across all storm overflow assets encouraging the right combination of maintenance, management and investment to reduce their impact. We set this out in more detail in the company specific appendix for Dŵr Cymru.

For our final determinations

Except for adding reference to the requirements of independent third- party assurance, we have made **no changes to the performance commitment definition** and we are proceeding with the common spills PC **for all companies in England and Wales**

Trials of alternative solutions to reduce harmful spills from storm overflows

We support the testing of nature-based solutions such as wetland schemes to determine whether they are effective and efficient methods to reduce harmful spills entering waterways. In England, the use of wetlands as an alternative treatment solution for groundwater induced storm overflow spills are the subject of trials being run by companies that have approval of Defra, the Environment Agency and Ofwat.[145] There are also potential alternative treatment solutions under discussion for surface water spills. Natural Resources Wales are also in discussion with Dŵr Cymru about the technical arrangements for a trial of an alternative treatment solution for storm overflow spills. We do not intend the storm overflows performance commitment to act as a barrier that disincentivises properly controlled regulator-approved trials of green solutions.

The Environment Agency has confirmed that it is obliged to monitor, report and publish all storm overflow spills irrespective of whether they are treated but that it intends to report the numbers separately for untreated and treated spills. This means that the treated spills in trials of wetlands to treat groundwater induced discharges from storm overflows or trialling of aerated rush-beds as a nature based secondary treatment process will continue to be counted as spills by the Environment Agency.

We require companies to **report performance according to the performance commitment definition.** For monitored spills this is the number of spills monitored by event duration monitors over the reporting period from all of the company's storm overflows and we align with the Environment Agency's 12/24 approach to counting spills set out in 'Water companies: environmental permits for storm overflows and emergency overflows' of September 2018. We do not distinguish between untreated and treated storm overflows spills in the storm overflows performance commitment: treated spills are included in the measurement of performance and subsequent calculation of ODI payments that flow from that performance. This is consistent with our approach to

[145] As outlined in a letter from Defra to sewerage companies dated 9 August 2024.

measure all spills through this performance commitment including those that occur under permitted conditions.

In principle, we would not expect companies to be **any better or worse off in terms of performance payments** because they are participating in a properly controlled trial approved by Defra, the Environment Agency and Ofwat.[146] We will therefore consider whether and to what extent it is appropriate to make adjustments so the performance commitment is not a financial disincentive to these trials while making sure customers and the environment remain protected. Although not necessarily determinative, our decision on appropriate adjustments will be informed by matters such as interim and final evaluations of trials and whether the key conditions of the trial have been met.

We will work with the Environment Agency and Defra and other stakeholders to inform our decisions and any further reporting or monitoring protocols that need to be in place.

Performance commitment level

What we said in our draft determinations

At draft determinations, we set the performance commitment levels for storm overflows on a company-specific basis.[147] This approach reflected UK and Welsh government policy, company-specific factors and spill reductions aligned with the scope of the Water Industry National Environment Programme (WINEP) (England) or the National Environment Programme (NEP) (Wales).

As stated in our PR24 methodology, we expected English companies to reach a baseline level of 20 average spills per overflow by 2025. This target level provided an incentive that takes account of companies' existing legal obligations and supports priorities in the UK government's Strategic Priority Statement and the long-term targets in the Storm Overflow Discharge Reduction Plan (SODRP). These targets include that by 2050: no storm overflows will be permitted to discharge above an average of ten rainfall

[146] We would expect companies to run these trials in accordance with operating parameters and conditions approved by Defra, the Environment Agency and Ofwat. In annual reporting, companies will need to be able to demonstrate compliance with such parameters and conditions and to validate any outputs. Independent third-party assurance of reported data will be required.
[147] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, pp.45-46.

events per year and storm overflows will only be permitted to discharge where companies can demonstrate that there is no local adverse ecological impact.[148]

Where a company proposed a level higher than 20 average spills in 2025, we applied three tests to determine whether to accept this higher level:

- has the company provided **evidence** to support a different level of performance and does it propose as a minimum to meet its SODRP target;
- is this evidence **compelling**, such as being supported by hydraulic modelling; and
- does the company commit to achieve **20 average spills** or fewer by the end of the 2025–30 period.

The only company to meet these three tests at draft determinations was United Utilities. We asked Thames Water, Wessex Water, and Yorkshire Water to respond to the draft determinations with compelling evidence if they still forecast a 2025-26 level higher than 20 spills.

We challenged English companies to do more to reduce spills from operations and maintenance activities. We did this by challenging them to reduce average spills by at least 5% less than the 20 average spills level (the equivalent of one average spill) through base expenditure.

For Welsh companies, we accepted company forecast baseline levels but expected both Dŵr Cymru and Hafren Dyfrdwy to reach a level between 20 and 30 average spills by the end of the period. This included a 25% improvement from base, which aligned with the forecast from Hafren Dyfrdwy, and the median rate of reduction proposed by English companies over the 2021-25 period. We asked Welsh companies to work with Natural Resources Wales and the Welsh Government to identify a proposal to reduce the companies' average spill per storm overflow performance levels for 2029-30. We said that in order to achieve this, the companies should consider both whether operational and maintenance solutions could be delivered to reach this target and whether extra enhancement expenditure was needed. We considered that these activities were consistent with prioritising schemes based on which ones reduced harms from spills the most.

[148] Defra, 'Storm Overflows Discharge Reduction Plan (publishing.service.gov.uk)', 2023, p. 11.

Stakeholder representations

11 companies and 29 non-company stakeholders, including environmental groups, local government groups and customers, provided representations on the PCL for storm overflows.

Overall, in their representations to our draft determinations. companies accept our challenge to do more to reduce the number of spills from storm overflows.

United Utilities, Wessex Water, Thames Water and Yorkshire Water still forecast above 20 average spills in 2025-26. Wessex Water, Thames Water and Yorkshire Water provide extra evidence that they consider supports a level higher than an average of 20 spills. Companies provide no significant comment on the three tests we applied to decide 2025-26 levels.

Six of the nine English companies propose to deliver spill reductions from base expenditure. Severn Trent Water and Northumbrian Water propose to exceed our challenge to the English sector of a 5% improvement beyond 20 average spills. Anglian Water and South West Water propose improvement less than 5%, and Southern Water and Thames Water propose no improvement from base expenditure.

Yorkshire Water and Wessex Water propose improvements from base at greater than and less than 5% respectively, although they do not forecast these improvements beyond 20 average spills. United Utilities continues to propose initial improvements from base through a series of 'short term interventions', which would then be removed and replaced with permanent benefits delivered from enhancement schemes.

Southern Water states that our performance expectation for EDM uptime is too stretching and should remain fixed at 97% across the 2025-2030 period rather than increasing to 98% in 2029-30.

Dŵr Cymru provides an updated forecast in representations, incorporating revised improvements from enhancement expenditure, additional enhancement schemes, and improvements from base expenditure. It provides additional evidence that it believes supports a target higher than our draft determination range of 20 to 30 average spills.[149]

[149] For further detail, see Ofwat, 'PR24 final determinations: Dŵr Cymru - Outcomes appendix', December 2024.

Hafren Dyfrdwy also provides an updated forecast in its representations, maintaining its improvements from base and proposing additional enhancement expenditure which outperforms our draft determination range.

Some environmental groups and customers are supportive of the investment and resulting ambition to reduce storm overflow spills in company business plans, particularly where companies propose improvements greater than the industry average.

Other environmental groups, local government groups and customers disagree with the level of ambition. They are concerned that companies should be performing better as part of a well-managed system and from previous investment. Examples include the Yorkshire Forum for Water Customers, Ilkley Clean River Group and Preston Under Scar Parish Council, who consider that poor performance by Yorkshire Water is a result of historical under-investment and a poorly maintained network. This view is reflected from Rowlands Castle and North Mundham Parish Councils, who state that Southern Water has not adequately maintained its sewer network. The Wildlife Trust for Lancashire, Manchester and North Merseyside considers that while the ambition from United Utilities is welcome, it lacks geographical specificity, and the company should target additional high priority sites. The Mayor of Greater Manchester highlights the importance of this issue and supports the approval of enhancement expenditure proposed by United Utilities.

There is general concern about the reliability of EDM monitoring and the importance of using spill data to hold companies to account, with specific representations on this topic in relation to Thames Water. Windrush Against Sewage Pollution, Cotswolds Rivers Trust and the London Assembly Liberal Democrat Group also consider rapid improvement is required on storm overflow spill performance by Thames Water, especially for areas outside of Greater London. Some stakeholders support specific schemes, for example sites in the Upper Coln for Thames Water, and Yorkshire Water's coastal bathing water schemes.

Local government representatives including District Councils highlight the need for this issue to be resolved quickly to support a healthy environment and growing communities. This is echoed by the Home Builders Federation, with concerns around sewer capacity and the potential for negative impact on development.

Non-company stakeholders in Wales, including Afonydd Cymru and Wales Environment Link are principally concerned about reducing environmental harm. Natural Resources Wales said that they wish to see spill numbers reduced but for reductions to be prioritised on a harm first basis.

CCW is supportive of incentives to improve monitoring, highlighting the importance of improving environmental transparency to rebuild trust in the sector.

Our assessment and final determinations – for English companies

We continue to challenge companies on performance and note some companies have increased ambition in response to the draft determinations. We hold companies to account for both performance and monitoring.

We agree that companies should be expected to make significant and efficient progress to reduce the impact of storm overflows on the environment. In the PCL, we include in the delivery of spill reductions associated with the statutory WINEP environmental enhancement programmes and an expectation of further reductions to be delivered through base expenditure.

Specificity

Consistent with our PR24 methodology and draft determinations, for final determinations we set the storm overflows **PCL at a company specific level**.

Our PCL is set assuming 100% uptime of companies' monitors. We adjust company forecasts where companies did not forecast assuming 100% uptime. This affects Southern Water, Thames Water and Yorkshire Water and means we adjust company forecasts and use these revised forecasts to develop our PR24 PCLs.[150]

Baseline

For English companies, we continue to **accept company forecasts for 2025-26** performance, where companies propose to deliver an average spill level at or below 20. This means we accept the proposals of **Anglian Water, Northumbrian Water, Severn Trent Water, Southern Water and South West Water**. We accept material changes in company forecasts from draft determination forecasts for Anglian Water and South West Water.

[150] For further detail, see Ofwat, 'PR24 final determinations: Southern Water - Outcomes appendix', 'PR24 final determinations: Thames Water - Outcomes appendix', 'PR24 final determinations: Yorkshire Water - Outcomes appendix' December 2024.

Where English companies propose a 2025-26 average spill level above 20, we apply the same three tests described above at final determinations. Based on the additional evidence provided by the companies, our final determinations are:

- We **continue to accept** company forecast levels for **United Utilities**.
- We **partially accept the positions of Wessex Water and Yorkshire Water**, setting both companies above 20, but below company forecast levels.
- We **reject the position of Thames Water**, as it has not provided compelling evidence. We set Thames Water at 20 average spills.[151]

Performance from base

Our final determinations are that English companies must achieve a minimum **5% stretch spill reduction** from base expenditure **beyond the 20 average spills level** expected to be reached by 2025. Companies' do not provide the compelling evidence required for us to consider changing our draft determinations decision.

Delivery profile

For **English companies below 20 average spills in 2025-26**, we set the PCL profile by applying:

- enhancement benefit to company forecast 2025-26 position; and then
- stretch from base expenditure in the final year of the period (2029-30).

This provides incentives to deliver maintenance and operational improvements sooner.

We are concerned that Southern Water has forecast to improve its performance more slowly than the rest of the sector prior to 2029-30 without compelling evidence to justify the difference. We have therefore **adjusted Southern Water's PCL profile** to align more closely with the rest of the sector and to incentivise it to reduce spills earlier.[152]

For **English companies above 20 average spills in 2025-26**, we apply:

- enhancement benefits to either company forecast or our adjusted level for 2025-26; and then

[151] For further detail, see Ofwat, 'PR24 final determinations: United Utilities - Outcomes appendix', 'PR24 final determinations: Wessex Water - Outcomes appendix', 'PR24 final determinations: Yorkshire Water - Outcomes appendix', 'PR24 final determinations: Thames Water - Outcomes appendix' December 2024.

[152] For further detail, see Ofwat, 'PR24 final determinations: Southern Water - Outcomes appendix', December 2024.

- stretch from base expenditure across years 2 to 5 to put an extra performance challenge on these companies.

We make an adjustment for Thames Water, which forecasts to reach the 20 average spills target early in the period (2026-27). The company also forecasts to deliver an average of 15.4 spills by 2029-30. This represents forecast performance better than five other English companies. Applying enhancement benefits and base stretch directly onto the adjusted 2025-26 level for Thames Water results in a 2029-30 PCL that risks penalising Thames Water excessively given its ambition relative to the rest of the sector. Instead, **we apply 5% base stretch to the company forecast level in 2029-30**, treating Thames Water more like companies that forecast spills at 20 or below in 2025-26.[153]

The PCLs for English companies in 2025-26 align with UK government targets from the Storm Overflow Discharge Reduction Plan. Considering improvements from the efficiently funded WINEP and additional stretch applied from base expenditure, the English sector level target for 2029-30 is 16.02. Assuming linear improvement from 2025-2050, this means the English sector is ahead of progress required to meet the long-term target of 10 average spills per overflow by 2050.

For our final determinations in England.

- We maintain our overall methodology to setting the PCL, setting on a **company specific basis** and **assuming 100% EDM uptime**. We have accepted forecasts above the baseline target level of 20 in 2025-26 for three companies; Thames Water did not justify a higher forecast. We accept all other companies forecast 2025-26 position.
- For all companies, **we accept company forecast improvements from enhancement** after reconciling with WINEP.
- We maintain our draft determinations approach that English **companies must achieve a minimum 5% spill reduction from base expenditure** beyond the 20 average spills target for 2025.
- We have made **some adjustments to how we profile** the PCL across 2025-30, particularly to incentivise improvements from base expenditure

Our assessment and final determinations – for Welsh companies

[153] For further detail, see Ofwat, 'PR24 final determinations: Thames Water - Outcomes appendix', December 2024.

We efficiently fund the NEP and additional schemes outside of the NEP programme proposed by Hafren Dyfrdwy. Companies have committed to deliver the Wales PR24 Forum strategic steer of 100% of overflows producing low or no harm by 2040 (and interim expectation of 60% by 2030).

Specificity

For final determinations, we set the storm overflows **PCL at a company specific level**, which matches our PR24 methodology and draft determinations.

Baseline

For final determination, we **accept Hafren Dyfrdwy's company forecast levels for 2025-26**. This approach reflects the different policy position in Wales and our assessment of what is achievable in the near term taking into account current performance.

We change Dŵr Cymru's forecast for **2025-26**, by applying spill reductions identified by the company during the 2020-25 period to its 2021-22 outturn performance. This is because Dŵr Cymru forecasts deterioration to 2024-25 which we don't consider to be credible in the context of in the context of its' lower ambition in the 2020-30 period in comparison to others. We use 2021-22 outturn because this represents a 'typical year' of rainfall and reflects performance Dŵr Cymru has achieved.[154]

Performance from base and enhancement

Given the Welsh companies' performance is materially worse than English companies, we consider it reasonable to expect a **greater reduction from base expenditure** for them.

We **accept Hafren Dyfrdwy 's forecasts**, including 22% reduction from base expenditure. When combined with enhancement investment, **Hafren Dyfrdwy** forecast a 2029-30 PCL that **outperforms our draft determination range** of 20 to 30 spills. We accept this increased ambition proposed by the company.

We accept the challenge from Dŵr Cymru that our draft determination reduction from base of 25% may be too stretching. Instead, we are **challenging Dŵr Cymru to a 16% improvement from base** expenditure, which is 5% greater than the company's

[154] For further detail, see Ofwat, 'PR24 final determinations: Dŵr Cymru - Outcomes appendix', December 2024.

forecast level and applied across years 2 to 5 of the period. We accept improvements from enhancement expenditure, reconciled with the NEP which is focused on the reduction of environmental harm.[155]

For our final determinations in Wales.

- We **maintain our overall approach** to setting the PCL, setting on a company specific basis and assuming 100% uptime.
- We **accept Hafren Dyfrdwy's 2025-26 forecast** but for **Dŵr Cymru we adjust from the company forecast level** applying spill reductions identified by the company during the 2020-25 period to its 2021-22 outturn performance.
- We accept the stretch of 22% from base proposed by Hafren Dyfrdwy's and for Dŵr Cymru stretch them further than forecast to 16% to achieve average spills **in the range of 20 to 30 by 2029-30**. The stretch is applied over the 2026-30 period.
- We accept **company forecast of spills reduction from enhancement** after reconciling with the NEP programme.

Our assessment and final determinations – for EDM uptime

We remain committed to incentivising improvements in EDM uptime. This is in line with wider stakeholders' expectations that EDM uptime will be appropriately incentivised to enable accurate monitoring and hold companies to account. We consider the EDM targets in the PCL to be stretching yet achievable. Despite Southern Water stating a level of 98% is too stretching, this level has already been achieved in 2023 by Wessex Water based on outturn data from the Environment Agency.

For our final determinations

We maintain the target for EDM Uptime of 97% in 2025-26, rising to 98% in 2029-30. We consider this to be an achievable yet stretching target for all companies.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Storm

[155] For further detail, see Ofwat, 'PR24 final determinations: Dŵr Cymru - Outcomes appendix', December 2024.

overflows.' For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Outcome delivery incentives and risk protections

What we said in our draft determinations

We set the ODI rate using the top-down rate setting methodology based on data up to 2022-23.

We set a cap and collar at ±0.5% wastewater RoRE. This was to protect customers and companies from high levels of out- or underperformance around the PCL. As this is a new performance commitment, there is less information to reliably set a PCL and there are uncertainties as to how companies may respond to financial incentives. For Dŵr Cymru, we set a wider collar at -0.75% RoRE as a result of the difference between the PCL and their performance target in their business plan, which would have meant they would have been performing beyond the collar if their forecast was true. We did not set a deadband.

Stakeholder representations

Severn Trent Water states that the proposed incentives for storm overflows are not sufficient and would not cover the required marginal cost of improvements. It suggests that the ODI rate should be doubled through increasing the starting RoRE allocation to 1.2%. It proposes introducing an enhanced rate to further increase the size of outperformance incentive. The company also believe that the 0.5% collar is arbitrary and does not align with customer preferences. Instead, they propose a collar at 30 average spills per overflow.

Dŵr Cymru suggests introducing a deadband to control for impacts of rainfall variation and moving the company's collar back in line with other companies at 0.5%. South West Water also propose introducing an underperformance deadband at the 2024-25 baseline forecast for every year in 2025-30 to allow for small variations in performance outside of managements control. United Utilities propose that the cap and collar for this performance commitment should be set at ±30% of the PCL, as opposed to the draft determination position of 0.5% RoRE. Overall, five companies state rainfall or extreme weather influences performance.

Our assessment and final determination

As with other performance commitments, we update the ODI rate through the top-down calculation by using the latest performance data from 2023-24 and the latest company regulatory capital values. These changes see a marginal decrease in the median ODI rate from draft determinations. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

While we agree that this is an area that matters to customers and the environment, we consider that this is not an appropriate time to increase incentives further and that the ODI rate is sufficiently strong to incentivise efficiency improvements for operation, maintenance and monitoring. Companies are also incentivised through other means, including statutory requirements, price control deliverables and reputational incentives. In addition, eleven wastewater companies have either recently received enforcement penalties or are under enforcement investigation for their past performance in this area.

Consistent with our PR24 methodology, we do not in general include risk protections for external factors 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.[156] As such, we have not set a deadband for this performance commitment.

We do not consider that there is sufficient reason to deviate from our general approach of setting caps and collars at ±0.5% RoRE. We have tightened the collar for Dŵr Cymru from -0.75% to -0.5% RoRE so that it is now in line with other companies. This reflects that the company's forecast performance and the PCL are more closely aligned, which means a looser collar is no longer necessary for Dŵr Cymru compared to other companies.

For final determinations

- The **ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% wastewater RoRE**.
- The **caps and collars** for all companies are set at ±0.5% wastewater RoRE.

[156] Ofwat, 'PR24 Final Methodology: Appendix 7 - Performance commitments', December 2022, pp.12-15.

11.5 Serious pollution incidents

This performance commitment measures serious pollution incidents that impact the water environment. It applies to both water and water and sewerage companies. For further information see the 'Serious pollution incidents performance commitment definition'.

For our final determinations

We have changed:

- Update the performance commitment **definition** to confirm the applicable version of the environmental regulators' Environmental Performance Assessment methodology and other relevant external documents, and price control allocations.
- We Introduce **a deadband** at one incident per year for all companies.
- We update **the version of the Environmental Performance Assessment (EPA)** referred to in the definition.

We have not changed:

- The **performance commitment level** which remains at 0 across the 2025-30 period.
- The **ODI rate** is calculated using the **updated top-down approach,** with a starting RoRE allocation of **0.5% water / wastewater RoRE**.

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the one described in our PR24 methodology.

We received no representations on the performance commitment definition.

We have made a minor update to confirm the version of the environmental regulators' Environmental Performance Assessment methodology (EPA) which applies for the purposes of the definition (because this is the latest version that is in effect at the date of our final determinations) and other relevant external documents. We have also updated the price control allocation in accordance with the allocations submitted by companies in their business plan data tables. There are no other changes needed for the performance commitment definition.

For our final determinations

- We update the **definition** to confirm the applicable version of the environmental regulators' Environmental Performance Assessment methodology and other relevant third-party documents, and the price control allocations.

Performance commitment level

What we said in our draft determinations

In our draft determinations, we set this performance commitment at a **common level for all companies.** We expected all companies to reach zero serious pollution incidents as soon as possible. This expectation is identified in the UK Government's SPS as one of the key parts of getting the basics right to protect the environment.[157] It is also consistent with the Welsh Government's SPS expectations that companies should meet all requirements of relevant environmental legislation. The Environment Agency's and Natural Resources Wales' expectations are that companies should reduce serious pollution incidents to zero.

As a result, the **baseline was set at zero serious pollution incidents**, and companies were expected to **deliver zero serious pollution incidents through total expenditure** in the 2025-30 period. [158]

Stakeholder representations

Two non-company stakeholders provided a representation on the PCL for serious pollution incidents (CCW and The Angling Trust). Both strongly support the zero serious pollution incident target.

Eight companies provided a representation on serious pollution incidents. **All eight accept the zero target**, however Southern Water, South West Water and Thames Water highlight that it is challenging given outturn performance. Thames Water states this challenging for a company of its size. Wessex Water states that this target is not achievable through base expenditure.

[9] Ofwat, PR24 Performance commitment definitions - Ofwat.
[157] Defra, 'February 2022: The government's strategic priorities for Ofwat', February 2022.
[158] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.61.

Our assessment and final determinations

Specificity

We set this performance commitment at a **common level for all companies**, as customers and stakeholders should not expect varying level of serious pollution incidents depending on the region they are based in.

Performance from total expenditure

The target of zero serious pollution incidents has already been achieved for over half of the companies in the latest year of performance data.[159] We consider this to be an achievable yet stretching level of performance. This aligns with the current UK Government's and the Environment Agency's expectation that water companies should achieve zero serious pollution incidents, as well as with Natural Resources Wales' expectations that companies should work quickly to reduce serious pollution incidents to zero. It also aligns with our strategic steer to challenge water companies to demonstrate how they will achieve zero serious pollution incidents by 2030.

We set out our calculations for the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – serious pollution incidents. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

We expect companies to **deliver zero serious pollution incidents through base expenditure** throughout the 2025-30 period.

Outcome delivery incentives

What we said in our draft determinations

We set the ODI rate using a top-down rate setting methodology, using data up to 2022-23.

[159] 9/17 companies achieved zero serious pollution incidents in 2023-24. Over the 2020-24 period, zero serious pollution incidents were achieved 47% of the time, this includes some instances of zero incidents for larger water and sewerage companies (Northumbrian Water, Severn Trent Water and United Utilities).

Stakeholder representations

In their representations, Affinity Water and South East Water said that the ODI rates proposed at draft determinations were too strong for water only companies due to how the performance ranges are calculated.

Our assessment and final determinations

As with other performance commitments, we have updated the ODI rate through the top-down calculation by using the latest performance data from 2023-24 and the latest company regulatory capital values. We have not considered any further adjustments to the ODI rate. The median ODI rate has marginally decreased between draft and final determinations but remains a strong ODI rate which will provide a strong incentive on companies to avoid serious pollution incidents. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

> **For our final determinations**
>
> **The ODI rate** is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.5% water / wastewater RoRE**

Risk protections

What we said in our draft determinations

At draft determinations we did not include any risk protections for serious pollution incidents.

Stakeholder representations

We received representations from several companies to include a deadband where ODI payments would not apply. Affinity Water, Northumbrian Water and South East Water propose a deadband set at 1 incident per year, South West Water at 2 incidents per year, Southern Water at 3 incidents per year and Thames Water at 5 incidents per year. Dŵr Cymru highlights significant downside risk from this performance commitment.

Companies propose including a deadband due to the performance commitment not providing any opportunity to earn outperformance payments, leading to negative skew from ODI payments. They also mention that they could face double-penalisation with penalties from the Environment Agency for serious pollution incidents.

We did not receive any feedback in representations specifically against setting a deadband, however this is not something we proposed at draft determinations. As mentioned in the PCL section above, we have received strong support for this measure and for targeting zero serious pollution incidents.

Our assessment and final determinations

We are setting a **deadband at one serious pollution incident for all companies**. Following our strategic steer to challenge water companies to demonstrate how they will achieve zero serious pollution incidents by 2030, **we do not intend to set a deadband on this performance commitment at PR29**.

We provide our justification for introducing the deadband in section 5 of this document.

ODIs are separate to the financial penalties we issue via our enforcement powers. They are part of the price review framework incentives which can result in outperformance or underperformance payments, meaning that customers may pay more, or less, through their bills.

As we said in our PR24 methodology, 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. .[160] Our underperformance payments incentivise companies to deliver for customers and the environment.[161]

> ### For our final determinations
>
> We introduce **a deadband** at **one serious pollution incident** for all companies.

[160] For example, on the storm overflows PC, we have been clear that our performance commitment levels and EDM uptime threshold do not negate other legal obligations, including obligations under section 94 of the Water Industry Act 1991 and the new incoming duty on near-time spills.
[161] Ofwat, 'Creating tomorrow, together: Our final methodology for PR24 Appendix 7 – Performance Commitments', December 2022, pp.33 and 58.

11.6 Total pollution incidents

This performance commitment measures the total number of pollution incidents per 10,000km of sewer length. For further information see the 'Total pollution incidents performance commitment definition'.

For our final determinations

We have changed:

- We **update our definition** to confirm the applicable version of the environmental regulators' Environmental Performance Assessment methodology (EPA) and other relevant third-party documents, and to specify the alternative sewer lengths to be used by two companies.
- The **baseline performance commitment level in 2024-25** which has been set taking into account the companies' latest reported performance.
- We **introduce a collar at -0.75% RoRE for all companies**, except **South West Water where it is set at -1.5% RoRE.**

What we have not changed:

- The **ODI rate** is calculated using the **updated top-down approach**, with a starting **RoRE allocation of 0.6% wastewater RoRE**
- The **30% level of improvement** expected over the 2025-30 period.

Performance commitment definition

What we said in our draft determinations

While proposing no change to the definition, we said that if the Environmental Performance Assessment (EPA) methodologies change during the 2025-30 period, we will consider the impact of those changes on the performance commitment. [162] If we consider there is sufficient reason to do so, we may propose changes. We will manage any changes in accordance with the change control process set out in Section 8 of this document.

[162] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, Section 8.21.

Stakeholder representations

Southern Water, Severn Trent Water and United Utilities expect us to calibrate the target to account for the reclassification of pollution incidents in the new Environmental Performance Assessment (EPA) for 2026-30. Anglian Water, Dŵr Cymru and South West Water say that the performance commitment should not be normalised on sewer length because the source of pollution incidents is not predominately from sewers.

Our assessment and final determinations

For final determinations, we have updated the EPA version in our definition to version 11 of the EPA to reflect this is the latest version. We maintain our draft determinations position that we will consider the impacts of any change in the EPA following the stakeholders' consultation of the Environment Agency and the Natural Resources Wales, and manage the change according to our change control process.

In relation to Anglian Water, Dŵr Cymru and South West Water's concerns on normalisation, we note that the normalisation approach is among the consultation topics in the ongoing consultation of the Environment Agency and Natural Resources Wales.

Except for South West Water and Hafren Dyfrdwy, we expect all companies to report performance using the 2017-18 sewer lengths included in version 11 of the EPA, which is the basis on which PCLs are set at final determinations.

For South West Water, we expect performance to be reported using an adjusted sewer length for 2017-18, which includes the company's revised view of its private sewers. This aligns with the sewer length we have used in our base cost modelling. This length is materially different to that included in version 11 of the EPA. For Hafren Dyfrdwy, we expect performance to be reported using the company's outturn 2023-24 sewer length. Due to the company's small size and potential impact of varying sewer length, we want to fix the sewer length at the most recent outturn value. This is a change from draft determinations, where we fixed the sewer length for the company as those used in 2017-18.

For our final determinations

- We **update** our definition to confirm the applicable version of the environmental regulators' Environmental Performance Assessment methodology (EPA) and other relevant third-party documents, and to specify the **alternative sewer lengths to be used** by South West Water and Hafren Dyfrdwy.

Performance commitment level

What we said in our draft determinations

For draft determinations, we set the total pollution incidents performance commitment **at a common level**, for all companies with the exception of Hafren Dyfrdwy. For Hafren Dyfrdwy, we took a company specific approach to reflect the scale of the company and the number of incidents.

At draft determinations, we aligned the common baseline 2024-25 position to the PR19 2024-25 PCL, **which was 19.50** incidents per 10,000 km sewer length.

For the level of stretch from base expenditure, we set the common **2029-30 position at 13.65**, which was a 30% reduction over the 2025-30 period from the 2024-25 baseline. This stretch aligned with the 30% improvement from current 2025 targets set out by the Environment Agency in the Water Industry Strategic Environmental Requirements (WISER).[163]

For Hafren Dyfrdwy, we set a company-specific PR24 PCL. We set the baseline at four incidents and stretched the company to reach three incidents, which is the average of their 2020-23 performance by 2029-30. We normalised the performance levels using the 2017-18 sewer length for all years over the 2025-30 period.[164]

Stakeholder representations

Ten companies and four non-company stakeholders (the Environment Agency, First Economics (report prepared for WaterUK), Friends of the Lake District and National Resources Wales) provided representations on the PCL.

Nine companies and First Economics say that the proposed baseline of 19.50 (using PR19 targets) is too stretching given outturn performance. They stated that in 2023-24, all companies incurred underperformance payments and using PR19 PCLs for PR24 would unfairly put the sector at risk of underperformance payments in the 2025-30

[163] Gov.uk, Water industry strategic environmental requirements (WISER) - GOV.UK (www.gov.uk), Section 1: WISER, Objective :expected performance and compliance, May 2022.
[164] Full details of the draft determinations assessment is available in PR24 draft determinations: Delivering outcomes for customers and the environment - Ofwat, Section 8.21.

period and create negative skew in the outcomes package. Companies propose that we should use outturn data from the 2020-25 period to set the PR24 PCL baseline, instead of using PR19 PCLs.

Similarly, seven companies say that the 2029-30 PCL is too stretching due to the challenging baseline. However, despite Wessex Water and Yorkshire Water disagreeing with the use of the PR19 PCL as a baseline, they agree with the 2029-30 PCL proposed in our draft determinations.

Northumbrian Water, Severn Trent Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water agree with the 30% performance improvement stretch, noting alignment to WISER.

Northumbrian Water, Wessex Water and Yorkshire Water say that regulatory and guidance interpretation changes and increased monitoring impacted 2020-24 outturn performance and their ability to meet the 2024-25 PCL.

Anglian Water, Dŵr Cymru and Northumbrian Water say that impacts from climate change make it harder to improve performance.

Investors are also particularly concerned about the performance stretch for total pollution incidents across the sector as a whole. A sector in-depth report from Moody's Ratings highlights that this area of performance contributes the most to the sector's penalties based on company forecasts.[165] Its impact is materially greater, contributing almost 21% of the estimated penalties, while the next most significant was almost 12%. Friends of the Lake District say 30% reduction in pollution is a start but ultimately customers and the environment demand no pollution incidents.

The Environment Agency highlights that it is consulting on proposed changes to the Environmental Performance Assessment (EPA) metric definition for 2026-30 reporting, and suggests that we consider how this may affect our PCL setting.

Our assessment and final determinations

Specificity

We consider this that setting this **PCL at a common level**, with the exception of Hafren Dyfrdwy, remains appropriate. This is because pollution incidents are principally

[165] Moody's Ratings, Regulated Water Utilities – UK, 'Ofwat's draft determination increases sector risk', 14 August 2024, p. 6.

caused by issues under company control such as containment and control failures, which can be managed through maintenance and operational interventions.

We will review the revised EPA metric definition and consider whether any changes are required and, if so, what those changes should be.[166]

Baseline

Company performance on total pollution incidents has **deteriorated over the 2020-25 period**. Median performance has deteriorated to 32.5 in 2023-24 from 23.9 in 2021-22 This means the majority of companies are unlikely to meet their PR19 PCL for 2024-25. Therefore, we agree that setting PR24 targets based on improvement from the 2024-25 PR19 PCL is likely to result in unrealistic targets that are too challenging for the sector as a whole.

We set the baseline by focusing on recent performance data. Using outturn performance addresses company concerns on fairness and high likelihood of underperformance raised in representations. It still provides a basis from which to incentivise the sector to improve on existing performance levels. Further information about our reasoning and approach is provided in Section 3.

To set the baseline for final determinations, we take the median of **average performance from 2020-24 for each company**. It is different to the WISER expectation of a 30% improvement from current 2025 targets as the final determinations baseline is less stretching than current PR19 2024-25 targets. However, we consider this is necessary to have a baseline for setting targets that are achievable yet stretching.

For **Hafren Dyfrdwy we continue to take a company-specific approach**. Applying our general approach to a company of this small size would result in a target of zero total pollution incidents over the 2025-30 period due to the normalisation. This would be too stretching for the company, taking into account its outturn performance. At draft determination, we set the baseline (2024-25 position) at four incidents. However, for final determination, we set baseline as the average of the 2020-24 performance. This equates to three incidents.

Performance from total expenditure

[166] We expect this to be in early 2025.

We consider it is appropriate to apply stretch of **30% improvement from our revised baseline** to set the 2029-30 PR24 PCL. This 30% level of performance improvement aligns with the ambition set out by the Environment Agency in WISER.

For final determinations, we have provided sufficient allowances through **base expenditure** to deliver improvements in performance. Typically, companies identified blockages and asset failure as primary causes of pollution incidents. Companies can significantly reduce the number of pollution incidents through effective operational and management strategies. We make no material enhancement expenditure allowances solely associated with reducing pollution incidents.

For Hafren Dyfrdwy, we continue to take a company-specific approach so that the target is stretching but achievable. This is because the company's relatively small size remains the same. We maintain the level of stretch set at draft determinations. The 2029-30 target is 3 incidents. As set out above, for Hafren Dyfrdwy, we normalise the incident level targets at the 2023-24 sewer length. Further details can be found in the company specific appendix for Hafren Dyfrdwy.[167]

We set out our calculations for the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Total pollution incidents. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- The PCL will continue to be set **at a common level for** all companies, except for Hafren Dyfrdwy.
- We have set the **baseline at the median of the companies' average 2020-24 performance**, which represents an 18% improvement from current performance.
- The **2029-30 PCL represents a 30% improvement** across the period from our 2024-25 baseline.
- We principally expect companies to **deliver performance improvements from base** expenditure.
- We set **Hafren Dyfrdwy's company specific PCL taking into account its historical performance levels.**

[167] Ofwat, 'PR24 final determinations: Hafren Dyfrdwy - Outcomes appendix', December 2024.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate using a top-down rate setting methodology based on data up to 2022-23. We did not set an enhanced ODI for this performance commitment due to potential changes to the definition during PR24, which creates greater uncertainty in setting the PCL and potential company performance.

Stakeholder representations

South West Water says that it should not be included in the large RCV grouping in the top-down approach to setting the ODI rate for this performance commitment. It believes this contributes to a significantly higher ODI rate for them relative to PR19. It also suggests that customer preferences indicate that serious pollution incidents are more of a priority to customers than total pollution incidents, so this should be reflected in the relative strength of ODI rates.

Severn Trent Water encourages us to reinstate the enhanced ODI for total pollution incidents, stating that the definition is unchanged now, which means that there is sufficient certainty in performance to set an enhanced ODI. The company suggests setting the enhanced threshold at the draft determination PCL target.

Our assessment and final determinations

We do not consider it appropriate to include South West Water in the smaller RCV grouping for this performance commitment. We want to maintain a consistent unit rate across companies, balanced with the respective risk across companies. We have regrouped large water only companies more generally in our approach to setting ODI rates rather than for this area of performance specifically. However, we do not consider there is sufficient reason to regroup individual water and sewerage companies.

For final determinations, we have not made any specific adjustments to the ODI rate from the top-down methodology for this performance commitment. The use of additional data from 2023-24 leads to a 40% reduction in the strength of the median ODI rate from draft determinations. However, the median ODI rate is still 103% stronger than at PR19. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

We considered reintroducing an enhanced ODI rate for pollution incidents, but we have decided not to implement one at final determinations for the reasons given at draft determinations.

For our final determinations

The ODI rate is calculated using the **top-down approach** (with the changes to the methodology explained in Section 4) with a starting RoRE allocation of **0.6% wastewater RoRE**

Risk protections

What we said in our draft determinations

For draft determinations, we did not set any risk protections on total pollution incidents. The reason for this was to maintain financial incentives from ODIs for companies to improve performance across all levels of potential performance.

Stakeholder representations

The consensus among companies in their representations is that that this performance commitment would lead to large underperformance payments. Most feedback relates to the PCL, but some also relates to risk protections.

On caps and collars, United Utilities proposes introducing a collar, as this performance commitment is likely to be less well established over the 2025-30 period, if there is a change in the definition. On deadbands, Wessex Water proposes including a deadband to protect companies from small variations in performance around the PCL caused by factors outside company control.

Our assessment and final determinations

We have reviewed setting a collar on this performance commitment to provide relief against very high levels of underperformance. The justification of implementing a collar is to limit the size of underperformance payments, which could affect the attractiveness of water companies to investors. However, we aim to get the balance right, so that companies are still being incentivised to reduce incidents over a wide range of performance. We calibrated the level of the collar for each company, informed by the potential range of underperformance a company could achieve. From this exercise, we have decided to set a collar at -0.75% RoRE for all companies except South West Water where we set a collar at -1.5% RoRE. This reflects the size of its underperformance historically. We consider that these collar levels strike an appropriate balance between relief against significant imbalances in financial risk and ensuring that incentives apply for a wide range of underperformance.

We provide more information on risk protections in Section 5 of this document.

For our final determinations

We introduce a collar set at -0.75% wastewater RoRE for all companies, except South West Water where it is set at -1.5%.

11.7 Operational greenhouse gases – Water and Wastewater

These performance commitments measure operational greenhouse gas (GHG) emissions in percentage reduction in greenhouse gas emissions (expressed in tonnes CO2e, carbon dioxide equivalent) from a 2024-25 baseline.

We set PCLs for both water and wastewater separately. However, the text below covers both water and wastewater approaches unless stated differently. For further information see the 'Operational greenhouse gas emissions (water) and operational greenhouse gas emissions (wastewater) performance commitment definitions'.

For our final determinations

We have changed:

- We update the **performance commitment definitions** to clarify the role of reporting and assurance along with the applicable **version of the Carbon Accounting Workbook** and which **global warming potentials** companies should use.
- We update the **performance commitment definitions** to clarify that where actual GHG emissions are less than forecast due to the non-delivery of investment, **we may intervene to protect the interest of customers**.
- We accept **companies forecasts** for the **performance commitment level for 2025-30 for base emissions**, without any extra stretch to these forecasts.
- We **reduce the stretch** expected from specific cost allowances in **base expenditure** and update our assessments on the performance improvements expected from enhancement expenditure.
- We introduce **a deadband** where ODI outperformance payments do not apply if companies' emissions are increasing from their baseline position, even if they perform better than their target.

We have not changed:

- The performance commitment level **is company specific** with financial incentives.
- The **ODI rate, set at £188 per tonne of CO2 equivalent**.
- The **caps and collars** for all companies are set at **±0.5% water/wastewater RoRE**.

Performance commitment definition

What we said in our draft determinations

Reflecting on companies' business plan submissions, we made the following two changes to the definitions' requirements:

- companies need to present their operational GHG emissions as a relative measure; and
- in addition to companies having their emissions data audited by a suitably qualified independent third-party to confirm compliance, companies should report their data according to an internationally recognised GHG emissions reporting standard, for example ISO 14064. This compliance should also be confirmed as part of the audit process.[168]

Stakeholder representations

We received representations on our draft determinations from five water companies (Northumbrian Water, Severn Trent Water, United Utilities, South East Water, and Anglian Water).

Northumbrian Water requests clarification in our definition about the specific version of the Carbon Accounting Workbook (CAW) that companies should use. Northumbrian Water, Severn Trent Water, and United Utilities request clarification about the specific emissions factor that companies should use when calculating their emissions and if companies should consistently use the factor throughout the 2025-30 period.

South East Water asks for a mechanism to remove 'atypical' carbon emissions due to unforeseen events. South Staffs and United Utilities requested for power purchase agreements (PPAs) to be included as a contributor to emissions reductions. Anglian

[168] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.118.

Water, Northumbrian Water, and WaterUK have raised concerns that companies are required to retain their Renewable Gas Guarantees of Origins certificates if they want to claim emission reductions towards their performance.

United Utilities asks for clarification on the role of reporting and assurance in a number of areas. The company highlights that there is no 'recognised' carbon reporting standard and that compliance with the ISO 14064 standard for creating a greenhouse gas inventory is wider than input data. Additionally, the company says that the performance commitment definition is not compliant with the Greenhouse Gas Protocol.

Our assessment and final determination

We clarify that companies should use the specific version of the Carbon Accounting Workbook (CAW), as detailed in the updated performance commitment definitions.[169] [170] Companies should be consistent with their use of the CAW Excel workbook and its associated emissions factors throughout the 2025-30 period.

To the extent necessary to meet the requirements of the performance commitment, companies' reporting should align with a relevant internationally recognised standard (for example ISO 14064). We also clarify that when reporting, companies should clearly explain any differences between actual and forecast annual GHG emissions. Where actual GHG emissions are less than forecast due to the non-delivery of investment we may intervene to protect the interests of customers.

We do not propose to include a mechanism to remove 'atypical' carbon emissions due to unforeseen events. We provided allowances in line with our PR24 methodology, which is that companies should manage all external factors.[171]

We confirm that companies are permitted to claim emissions reductions from:

- the export of renewable energy it has produced;
- purchases of renewable energy generated from the treatment of its waste by third parties; and
- insets.[172]

[169] Ofwat. 'PR24 operational greenhouse gas emissions performance commitment (Wastewater)', December 2024.
[170] Ofwat. 'PR24 operational greenhouse gas emissions performance commitment (Water)', December 2024
[171] Ofwat, 'PR24 Final Methodology – Appendix 7 Performance Commitment', December 2022, p.12-15.
[172] Subject to the requirements outlined in our Performance Commitment definition documents, ' PR24 operational greenhouse gas emissions performance commitment (Water)' and PR24 operational greenhouse gas emissions performance commitment (Wastewater).

Our approach is focussed on ensuring that companies are primarily incentivised through the performance commitments to reduce their own physical emissions. This means the following activities are excluded from the calculation of net location-based emissions:

- offsets;
- green tariff energy purchases; and
- the company's consumption of renewable energy delivered through the grid, including where this is due to a direct or corporate power purchase agreement.

We confirm that companies that export renewable energy can count these exports towards their net emissions totals if they retain the appropriate certificates (for example Renewable Energy Guarantees (REGOs), Renewable Gas Guarantees (RGGOs) in accordance with the requirements of the performance commitment).

We confirm that the performance commitments will be based on a net location-based accounting approach.[173] This approach is central to ensuring companies are incentivised to reduce their actual physical emissions in line with the requirements of net zero by 2050. It helps to ensure companies are rewarded for the actions they take and not for actions of others that lead to organisational decarbonisation, for example, a reduction in emissions brought about by national government polices to decarbonise grid-based energy supplies.

Consequently, we acknowledge that emissions reductions may appear smaller, or less impactful against long-term Welsh and UK government targets, than they otherwise would be than if we incentivised companies via a market-based approach.[174] A market-based approach permits organisations to report emission reductions achieved because of decarbonisation of grid-based energy supplies. However, we have been clear companies can dual report, with such reporting enabling companies to demonstrate the achievement of company specific and wider sector commitments to net zero.

For our final determinations

- We clarify **the version of the carbon accounting workbook and which global warming potentials** companies should use. We add reference to the requirements of independent third- party assurance

[173] Ofwat, 'PR24 Final Methodology – Appendix 7 Performance Commitment', December 2022, p.44.
[174] These performance commitments incentivise specific aspects of company performance as measured under the provisions of the performance commitment. As such they may not match other measures of company performance outside PR24.

- We update the **performance commitment definitions** to clarify that where actual GHG emissions are less than forecast due to the non-delivery of investment, **we may intervene to protect the interest of customers**.
- We clarify that, to the extent necessary to meet the requirements of the performance commitment, companies' reporting of performance **should align with** an **internationally recognised reporting standard** (for example ISO 14064), instead of a carbon reporting standard.

Performance commitment level

What we said in our draft determinations

For draft determinations, we set the operational greenhouse gas emissions PCL at a **company specific level**.[175]

For setting the 2024-25 baseline at draft determinations, we used company forecasts for 2024-25, except for companies who forecast **an increase in GHG emissions between 2022-23 and 2024-25.** For these companies, we set the 2024-25 level as the last reported outturn data (2022-23).

Where we recognised a deteriorating performance between 2024-25 and 2029-30 from base, we set a **minimum baseline stretch of the median company forecast industry** positions. Where we considered companies could make further reductions from base, we stretched those companies **at the mid-point between the upper quartile and median industry forecast position**.

At draft determinations, we applied a stretch of an **additional 2.5% reduction to all companies**. This related to the base cost adjustment we made to all companies to provide extra allowances for the development of the infrastructure needed to reduce their GHG emissions.

At draft determinations, we accepted companies' submissions for reductions associated with **standard enhancement** and the **net zero challenge**. For the net zero challenge, we allowed expenditure for 13 wastewater projects across four companies, totalling £316 million, and one nature-based catchment project totalling £1 million.[176]

[175] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.120.
[176] Ofwat, PR24 Final determinations: Expenditure allowances, December 2024.

Stakeholder representations

We received responses from all water companies except for Portsmouth Water and from three non-companies regarding the operational greenhouse gas PCL.

Anglian Water, Hafren Dyfrdwy, Severn Trent Water, South East Water, Southern Water. United Utilities and Yorkshire Water challenge our decision to use their 2022-23 emission level as the baseline position. The companies state that a 2022-23 position would not take into account operational emissions resulting from investment allowed at PR19, which is due to come online towards the end of the 2020-25 period, such as phosphorus removal schemes.

Representations were made by Affinity Water, Hafren Dyfrdwy, Northumbrian Water, Severn Trent Water, Thames Water, Welsh Water, Wessex Water and Yorkshire Water, stating that the 2.5% emissions reduction from the base cost uplift is too stretching. Companies express concern that the level of reduction cannot be delivered for the level of allowances provided. Companies also challenge our methodology for setting the 2.5% stretch, as we used cumulative scheme benefits up to 2029-30. Hafren Dyfrdwy, Severn Trent Water and Yorkshire Water argue the benefits companies can deliver in 2029-30 should be used to determine the level of stretch, rather than cumulative benefits over the 2025-30 period.

Anglian Water, South East Water, Wessex Water, Yorkshire Water, Thames Water and Dŵr Cymru raise concerns that we did not allow allowances for net zero challenge schemes yet retained the emission reductions from these schemes within their PR24 PCLs. Companies highlight that these reductions would be unachievable without the additional funding requested.

Southern Water, Yorkshire Water, South East Water, South Staffs Water and Severn Trent Water all deem the level of stretch from baseline to be too high. Yorkshire Water says the levels were unachievable and South Staffs Water says it could not deliver the reductions with the available expenditure allowances.

Companies that had net zero challenge schemes accept, and which were envisaged as leading to decreased process emissions, raise concerns that, due to limitations in the reporting methodology of the CAW, they would not be able to demonstrate the actual impact of the schemes on emission levels. As a result, companies have requested:

- emissions associated with these net zero challenge schemes to be removed if the current version of the CAW isn't updated (Dŵr Cymru, Hafren Dyfrdwy),
- zero values to be attributed to their process emissions schemes in the PCL (United Utilities) or

- to use a methodology for reporting process emission reductions that is applicable with the current version of the CAW v17 using AR4 global warming potential (Severn Trent Water, Yorkshire Water, Anglian Water, Wessex Water).

Non-company stakeholders also made representations. WaterUK expresses its concern that the operational greenhouse gas reduction required by water companies was not feasible, given that Ofwat reduced the allowed enhancement cost requested by companies. Havant Climate Alliance and Friends of the Earth and the office of Mayor of London have concerns with the target of achieving net zero by 2050 and that the 11% reduction of emissions by 2030 is unambitious.

Our assessment and final determination

Specificity

For final determinations, we continue to set this PCL on a **company specific basis**. This approach reflects that companies are at different stages of maturity in their decarbonisation journey. There is also limited historical performance data to compare companies and support setting PCLs at a common level for the 2025-30 period.

Baseline

For final determinations, we make a **change from draft determinations and adopt companies' forecast 2024-25 emissions as the baseline** for setting PR24 PCLs. We agree with company feedback that it allows us to better account for the emissions impact from investment allowed at PR19 and scheduled to be delivered in the toward the end of the 2020-25 period.

Performance from base expenditure

For final determinations, we are no longer stretching companies **that forecast an increase in base emissions**. We do this based on feedback provided by companies to reflect both that:

- some of these base emissions will result from environmental improvement benefits delivered in 2020-25, including green recovery investment; and
- we are concerned that overly stretching companies in this area will risk disincentivising delivery of environmental improvements expected from base expenditure, for example storm overflow spill reduction.

Although we are no longer stretching companies' performance from base, we are still **applying a base cost uplift**. At final determinations, to calculate the emissions adjustment **associated with the base cost uplift**, we use companies forecast 2029-

30 benefits to determine the level of stretch instead of the cumulative scheme benefits over the 2025-30 period. We recognise it is likely that the investment to reduce emissions from the use of vehicles and heating will take time to deliver emission reductions during the 2025-30 period, with most of the benefits being delivered in years 4 and 5. Taking into account companies forecast 2029-30 benefits results in a **reduction of stretch from 2.5% to 1.2%** for final determinations.[177]

Performance from enhancement expenditure

In representations, ten companies provide updated enhancement cases or new evidence for net zero challenge schemes. We have assessed this new evidence and revise our decisions from our draft determinations. Based on our assessment, we are now allowing expenditure for 33 net zero challenge schemes across seven companies, totalling £501.4 million.[178]

For final determinations, we respond to company feedback and remove benefits associated with process emission reductions which are not reportable under the performance commitment definition. We have included process emission reductions associated with accepted net zero challenge schemes, where companies can demonstrate reductions using their own monitoring and the Carbon Accounting Workbook.

For final determinations, we correct the PCLs to not include the emission reductions associated with rejected net zero challenge schemes that did not receive allowances.

We accept company forecasts of emission changes relating to the delivery of standard enhancement projects. We have not applied any performance stretch to these forecasts. Standard enhancement includes the impact of schemes outside of the net zero challenge such as wastewater enhancement for WINEP programmes, industrial emissions directive (IED) allowances, new and enhanced water treatment works and infrastructure developments to increase resilience. We do not consider there is any requirement to reduce expected emission reductions where we have applied enhancement cost challenges that reflect activities being delivered at an efficient cost or through base expenditure.

We set out our calculations for the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Operational greenhouse gas emissions - water' and 'PR24 final determinations: Performance commitment model – Operational greenhouse gas emissions - wastewater'.

[177] Ofwat, PR24 Final determinations: Expenditure allowances, December 2024.
[178] Ofwat, PR24 Final determinations: Expenditure allowances, December 2024.

For our final determinations

Overall, we expect the sector to limit increases in its operational greenhouse gas emissions to less than 2%, while delivering significant enhancement investment[179], including the statutory environmental programme and enhancements to supply resilience.

- The PCL will continue to be set at a **company specific level** for all companies.
- We use companies' forecasts for the **performance commitment level for 2025-30 for base emissions,** before applying a base cost uplift in 2029-30.
- We reduce the stretch expected from cost allowance in base expenditure from **2.5% of companies 2024-25 baseline to 1.2%.**
- We **use company emission forecasts for the impact of standard enhancement expenditure.**
- We **revise assessments of companies which submitted net zero challenge schemes** following review of additional evidence submitted by companies.

Outcome delivery incentives

What we said in our draft determinations

We applied the same ODI rate for water and wastewater operational greenhouse gas emissions performance commitments. This was set as the mid-point value within the 2025-30 period (2027) of BEIS carbon values (£268 per tonne of CO2 equivalent). This value reflects:

- Evidence from the 2022 report by Frontier Economics, which suggested that abatement costs of carbon reduction are lower in the water sector compared to the wider economy;[180] and
- That BEIS carbon values represent a marginal benefit of carbon reduction rather than the cost and we did not want to overcharge customers without equivalent benefit, and costs should not necessarily fall on the customers of a particular water company if the impact applies more widely.

[179] Ofwat, PR24 Final determinations: Expenditure allowances, December 2024.
[180] Frontier Economics, 'Incentivising Net Zero', 08 April 2022, p. 6.

We multiply this rate by the benefit sharing factor, set at 70% set out in the PR24 methodology. This means that 70% of the benefits are passed onto customers. This produces **an ODI rate of £188 per tonne of carbon dioxide equivalent**.

Stakeholder representations

We did not receive comments from representations specific to the ODI rate for operational greenhouse gas emissions.

Our assessment and final determinations

We maintain our draft determinations position of setting the ODI rate for operational greenhouse gas emissions at £188 per tonne of carbon dioxide equivalent. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

> **For our final determinations**
>
> The **ODI rate of £188 per tonne of CO_2 equivalent.**

Risk protections

What we said in our draft determinations

Since these are new performance commitments, we set a cap and collar on ODI payments for all companies at ±0.5% water RoRE for the performance commitment relating to water operations and ±0.5% wastewater RoRE for the performance commitment relating to wastewater operations.

Stakeholder representations

In its representations, United Utilities says that the levels set for the caps and collars are ineffective and do not sufficiently protect customers. The company says that the collar is set at a level that is twice its entire operational carbon emissions.

Our assessment and final determinations

Alongside other new performance commitments, we continue to set the cap and collar at the standard level of ±0.5% RoRE for new performance commitments as this offers sufficient protection against high levels of financial risk whilst maintaining a wide range where ODI payments apply to maintain incentives. As the caps and collars are set based on financial risk rather than the range of performance, if the natural limits of performance do not trigger the collar, we would consider that the amount of financial risk exposure is acceptable. We would not tighten caps and collars for this reason.

We have also included deadbands for several companies. These deadbands are applied for instances where the PCL target is negative and companies perform better than the PCL, but still deliver increasing levels of emissions from their 2024-25 baseline. This would typically earn the company outperformance payments as they are performing better than their PCL target. However, in this instance it would represent the wrong incentives for the company to earn outperformance payments for increasing their emissions from their 2024-25 baseline. Therefore, deadbands will ensure no company is eligible for outperformance payments where increases in emissions from their baseline occurs.

These deadbands apply for the performance commitment relating to water operations for the following companies and years:

- Affinity Water (2028-29 only);
- Severn Trent Water (all years);
- Thames Water (2026-27, 2027-28, 2028-29);
- United Utilities (2025-26, 2026-27, 2027-28, 2028-29);
- Yorkshire Water (2027-28, 2028-29);
- Southern Water (all years);
- South West Bournemouth Water (2028-29, 2029-30); and
- Wessex Water (2025-26).

These deadbands also apply for the performance commitment relating to wastewater operations for the following companies and years:

- Anglian Water (2025-26, 2026-27, 2028-29, 2029-30);
- Dŵr Cymru (all years);
- Hafren Dyfrdwy (all years);
- Severn Trent Water (all years);
- Southern Water (all years);
- South West Bournemouth Water (2027-28, 2028-29, 2029-30);
- United Utilities (all years);
- Wessex Water (2025-26, 2026-27, 2027-28, 2028-29), and
- Yorkshire Water (all years).

For our final determinations

- We set a **cap and collar set at ±0.5% RoRE** for each of the water and wastewater performance commitments.
- We introduce **a deadband** so that companies do not receive an ODI outperformance payment where they perform better than their target, but emissions still increase from their baseline.

12. Final determinations for asset health performance commitments

Maintaining asset health is key to ensuring companies can meet the needs of customers and the environment now and in the future. Poor asset health can adversely impact the service provided to customers and the environment. Alongside other tools and metrics, we use three PR24 performance commitments to measure asset health across the 2025-30 period.

- Repairs to burst mains (previously named as mains repairs at PR19);
- Sewer collapses; and
- Unplanned outage.

In our PR24 final determinations, we provide additional allowances where companies have met the appropriate standard of evidence to demonstrate that it is needed to deliver greater numbers of asset renewals and refurbishment than historically, to maintain and improve asset condition.[181]

We discuss wider asset health issues and how we will approach these in the 2025-30 period in 'PR24 final determinations: Expenditure allowances'.

[181] Ofwat, 'PR24 final determinations: Expenditure allowances', December 2024.

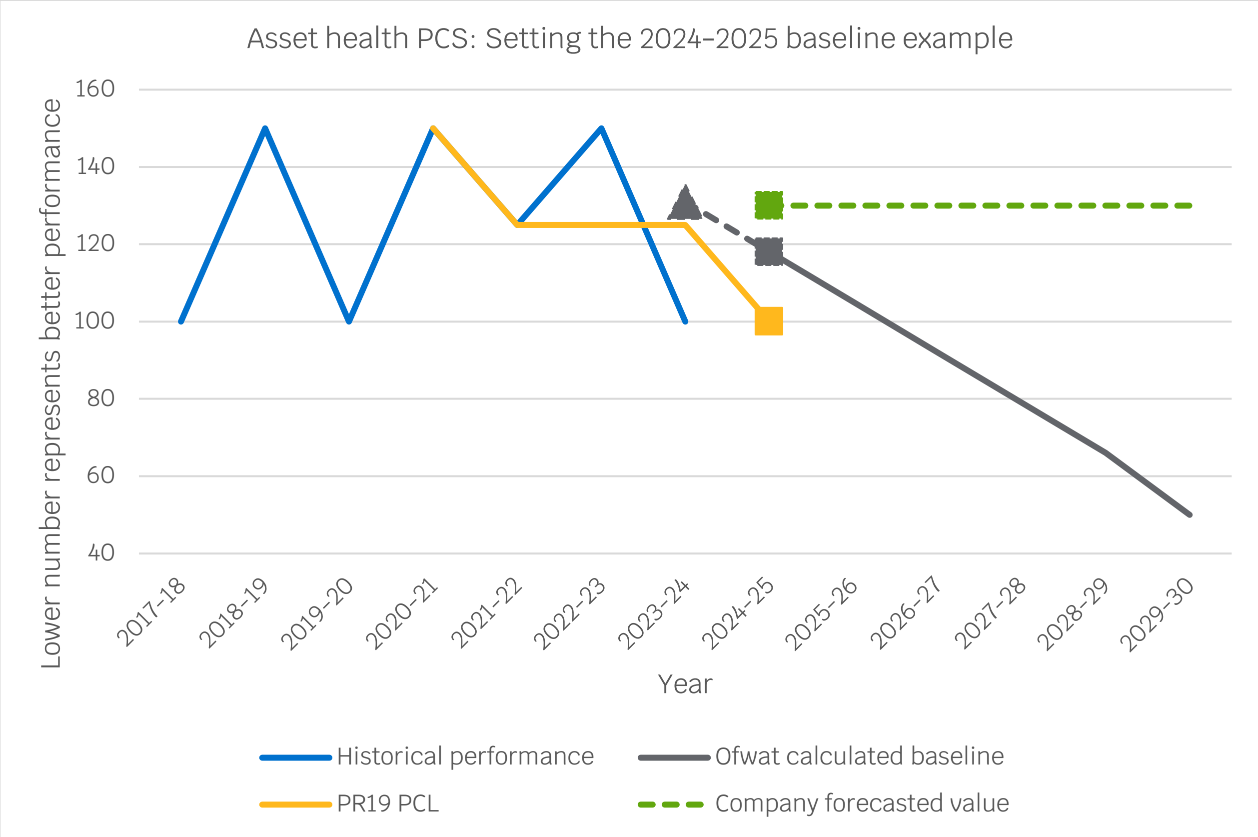
Approach to setting the baseline (2024-25 position) for asset health performance commitments

At draft determinations we aligned the baseline for setting 2025-30 PCLs to the PR19 2024-25 PCL for repairs to burst mains and sewer collapses.[182] With more recent data now available, we are putting greater emphasis on recent outturn performance levels at final determinations. We outline our assessment approach in general terms below and then discuss the specific impact in the individual performance commitment sections.

For each asset health performance commitment, we set the PR24 2029-30 PCL either at common or at company-specific performance levels. For each company we set a 2024-2025 baseline of performance by profiling a line from the PR24 2029-30 PCL back to a calculated 2023-24 performance level, which is the average of the 2020-24 outturn performance for each company. From this line we can derive a calculated 2024-25 baseline position. This value is compared with the company forecast position and the PR19 2024-25 PCL to set a suitable baseline. Chart 1 illustrates this approach.

[182] The performance commitment definition for unplanned outage has materially changed since PR19 and so the PR19 PCL is not consistent and cannot be used. At draft determinations, for repairs to burst mains and sewer collapses we made company specific adjustments to the baseline for Southern Water.

Chart 1: Example on setting the baseline (2024-25) for asset health PCs at PR24 (using dummy data)



Where possible, we maintain the PR19 2024-25 PCL. However, when the Ofwat calculated 2024-25 baseline value is less stretching than the PR19 PCL, we set the baseline as the more ambitious value of either the company forecasted value or the Ofwat calculated value (ensuring we do not stretch further than the PR19 2024-25 PCL). In the example show in chart 1, we would set the baseline at the grey square.

This approach reflects outturn performance delivered in the 2020-24 period, accounts for oppurtunity to improve performance from 2023-24 to 2024-25 and references the company forecast position in 2024-25. This aligns with the considerations in chapter 3 by using the latest evidence on performance available in the form of 2023-24 outturn data.

12.1 Repairs to burst mains

This performance commitment measures repairs to burst water mains (excluding communication and supply pipes) where water is being lost. It is reported as the number of repairs to burst mains per thousand kilometres of the company's mains network. It does not cover proactive mains renewal or replacement. For further information see the 'Repairs to burst mains performance commitment definition'.

For our final determinations

We have changed:

- We clarify the **performance commitment definition**.
- Our **approach to setting the baseline** for this performance commitment level takes into account the latest reported performance.
- Our view on the **expected performance improvements from base expenditure**
- We **remove the time-lag assumption** for the mains renewals adjustment
- We **set an ODI rate 'floor'** at PR19 rates.
- We **set a deadband** on underperformance of 10 repairs to burst mains per 1,000 km mains. This applies to all companies.

We have not changed:

- Performance commitment levels are set on a **company specific basis.**
- The **adjustment to repairs to burst mains** to account for mains renewal above the rate the of 0.3% p.a.
- We have not otherwise changed our **approach to setting ODI rates.**
- We have **not changed caps and collars.**

Performance commitment definition

At our draft determinations, we took the opportunity to refine the definition for clarity.

In response to this revised definition, Yorkshire Water and Dŵr Cymru both say that the company does not include proactive renewal but has always included reactive repairs and proactive repairs. Southern Water states that proactive repairs should be excluded from the performance commitment to avoid disincentives for conducting maintenance and preventive activities.

Our intention has always been to include both proactive and reactive repairs to burst mains from which water is lost. This is in recognition of the performance commitment being an asset health measure with an aim to incentivise companies to maintain and improve long-term asset health. It follows that the performance commitment excludes proactive renewal or replacement programmes that do not involve water lost from mains. We do not agree with Southern Water's view, as we consider proactive repairs for pipes where water is lost is also important for our understanding of asset health.

For our final determinations

We amend the definition to correctly state our intention that it covers both proactive and reactive repairs to burst mains from which water is lost; and that it does not cover repairs that are undertaken as part of mains renewal or replacement programmes.

Performance commitment level

What we said in our draft determinations

In our draft determinations, we set this performance commitment level at a company specific level.[183] We aligned the baseline for all companies (except Southern Water) to the PR19 2024-25 PCL. We set the performance stretch from base expenditure as the average of the best eight annual performance levels in the 2011-12 to 2022-23 period by 2029-30. For companies with mains renewals programme funded through enhancement expenditure, we further stretched companies to reduce repairs to burst mains to account for this additional allowance.

Stakeholder representations

Dŵr Cymru, Southern Water, Wessex Water and South East Water note the perverse incentives between repairs to burst mains and leakage. The companies therefore request an uplift to repairs to burst mains PCLs associated with their proactive repair programme to reduce leakage.

Companies comment on our proposed adjustment to repairs to mains bursts to account for funded mains renewal activities.

Northumbrian Water states that targeting condition grade 4 and 5 assets is not the most effective strategy to deliver renewals at an efficient unit rate: it may sometimes be beneficial to renew assets in better condition while conducting mains renewal activity in that area if the pipe is likely to move from condition grade 3 to 4 or 5 in the next 5 year period. The company also states that Ofwat's adjustment for additional

[183] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.56.

mains renewal is based only on the last 5 years of pipe condition data, whereas the company has put forward forecasts based on models which contain 18 years of data. Furthermore, the company is of the view that this adjustment is too interventionist with Ofwat specifying the length and condition of mains to review.

South West Water also does not agree with our approach to adjust repairs to burst main levels to account for mains renewals activities. The company states that mains renewal activity will not always directly correlate to the prevention of a mains bursts. The company also states for the Bristol region the renewal activity is to improve water quality and therefore should not add additional performance stretch to repairs to burst mains.

Yorkshire Water, a lower quartile performer in this metric, states that it needs more funding to reach an improved performance level however it still rejects our proposed draft determination PCLs. The company also says that the starting position (the 2024-25 baseline) should be based on the performance in the 2020-24 period rather than PR19 PCLs.

Our assessment and final determinations

Specificity

As set out in our PR24 methodology and draft determinations, we will maintain this performance commitment at a company-specific level. We consider this is appropriate as factors such as soil type and pipe material may vary between regions. Companies may also adopt different asset management approaches to maintain the long-term health of these assets.

Baseline

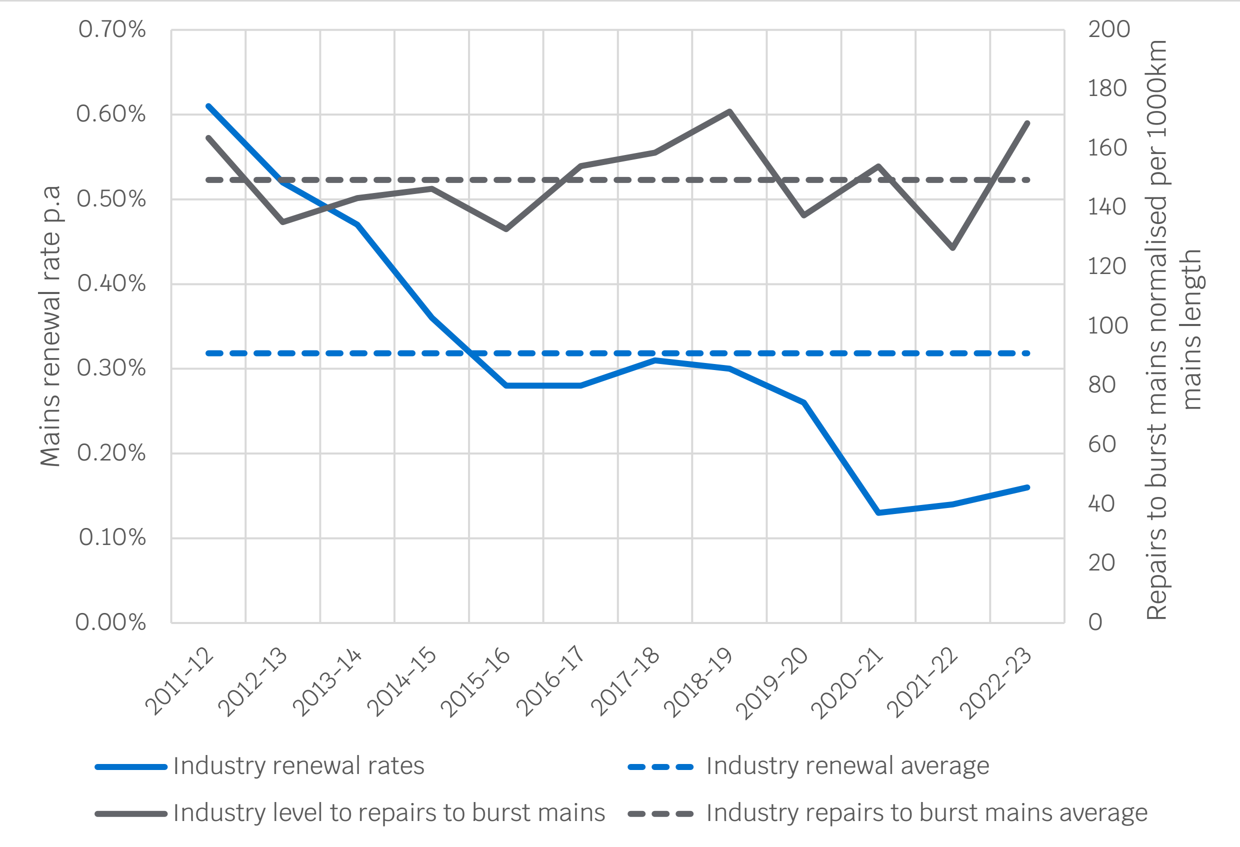
For final determinations, after reviewing representations to draft determinations and considering 2023-24 data, we change our approach to setting the baseline. Under this approach, we set the baseline aligned to the PR19 2024-25 PCL for all companies except Yorkshire Water, Dŵr Cymru and Southern Water. For both these companies, we set an Ofwat calculated value. We set our calculations to determine these values in 'PR24 final determinations: Performance commitment model – Repairs to burst mains'.

Performance from base expenditure

For final determinations, we have changed our assumption around what base expenditure allowances can deliver. For draft determinations, our expectation was that performance from base expenditure in 2029-30 – with a 0.3% mains renewal rate - should be equivalent to the average of companies eight best performing years in the

2011-12 to 2022-23 period. However, having reviewed company representations and the latest reported (2023-24) data, we now set performance from base expenditure in 2029-30 as the average of performance in 2011-12 to 2023-24 (see Chart 2 below). We recognise that there will be other factors that impact performance but consider that this assumption broadly captures the relationship between renewal and repairs needed.

Chart 2: Average industry renewal rate over the 2011-12 to 2022-23 period against the average repairs to burst mains performance metric



Implementing our draft determinations approach (average of best eight historical performances) with the latest reported (2023-24) data resulted in overly stretching 2029-30 PCLs that companies would struggle to meet when compared to company forecasts. This would impact the balance of the outcomes package over the 2025-30 period. We therefore adapt our approach as described.

Performance from enhancement expenditure

In line with draft determinations, we adjust this performance commitment level to account for each company's mains renewal programme. While several companies push back on this adjustment in response to our draft determinations, we consider it important to link the cost allowances provided for mains renewals to delivery of a reduction in repairs to burst mains.

We broadly maintain the same adjustment process between draft determinations and final determinations. Where we provide companies allowances to renew a greater length of mains beyond the 0.3% per year to be delivered by base, we make an adjustment to the 2029-30 repairs to burst mains performance level we expect to be delivered through base expenditure. This adjustment accounts for the reduction in mains bursts from replacing poor condition pipework with new pipework. Where companies have put forward a base renewal rate greater than 0.3% per year and we accept this level we assume this accepted level buys historical long term average (2011-12 to 2023-24). For example, we accept South Staffs base renewal rate (0.56% p.a) and as such assume this accepted level buys historical long term average.

To make this adjustment, we assume that companies renew their poorest condition pipes first (condition grade 5 pipes). Company submissions have provided data on burst rates of pipes at different condition grades. We therefore make an adjustment based on the benefit of renewing the funded length of poor condition pipe with a new pipe with a burst rate of zero.[184] We have made a company-specific adjustment for Anglian Water as the company specifies which condition mains it will renew.

Northumbrian Water's representation states targeting condition grade 4 and grade 5 is not the best asset management strategy. To address this, we assume that while companies will focus on the poorest condition pipes, they require flexibility to replace pipes to address other priority issues too. We therefore assume burst reduction benefits will be delivered for 90% of a company's total additional renewal length. For example, if a company is funded through enhancement to renew an additional 100km of mains over the period, we only apply this adjustment to 90km of mains. As such, the company has flexibility to renew other condition pipes as set out in representations.

Given we have significantly reduced our expectation on performance from base (that is moving from best eight historical performance to long term average), we have removed the time-lag adjustment for benefits we applied at draft determinations.

Where companies are renewing mains to address water quality issues, we make an adjustment to the PCLs covering customer contacts about water quality. We provide more details in Section 9.5 – Customer contacts about water quality.

Once we make the proposed adjustment for mains renewals beyond the base level for each company, we compare our 2029-30 calculated value against company proposals

[184] Data provided in business plan submissions table CW20, additional cohort table.

from total expenditure. Where a company has proposed a more stretching repairs to burst mains level than our calculated level, we accept company proposals. **Overall, we accept 11 company proposals for the PR24 2029-30 PCL and intervene to set more stretching PCLs for six companies.**

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Repairs to burst mains'. For the performance commitment levels, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set the PCL as a **company specific level**.
- **We change our assumption on performance** from base from draft determination and set it as the long term average performance level (2011-12 to 2023-24).
- As per draft determinations, we further **stretch companies on repairs to burst mains based on their mains renewals programme**. Broadly, where we provide allowances beyond 0.3% per annum to renew mains, we stretch these companies further on repairs to burst mains.
- We make **no adjustment to repairs to burst mains for leakage improvements** (see Other considerations below for further discussion).

Other considerations

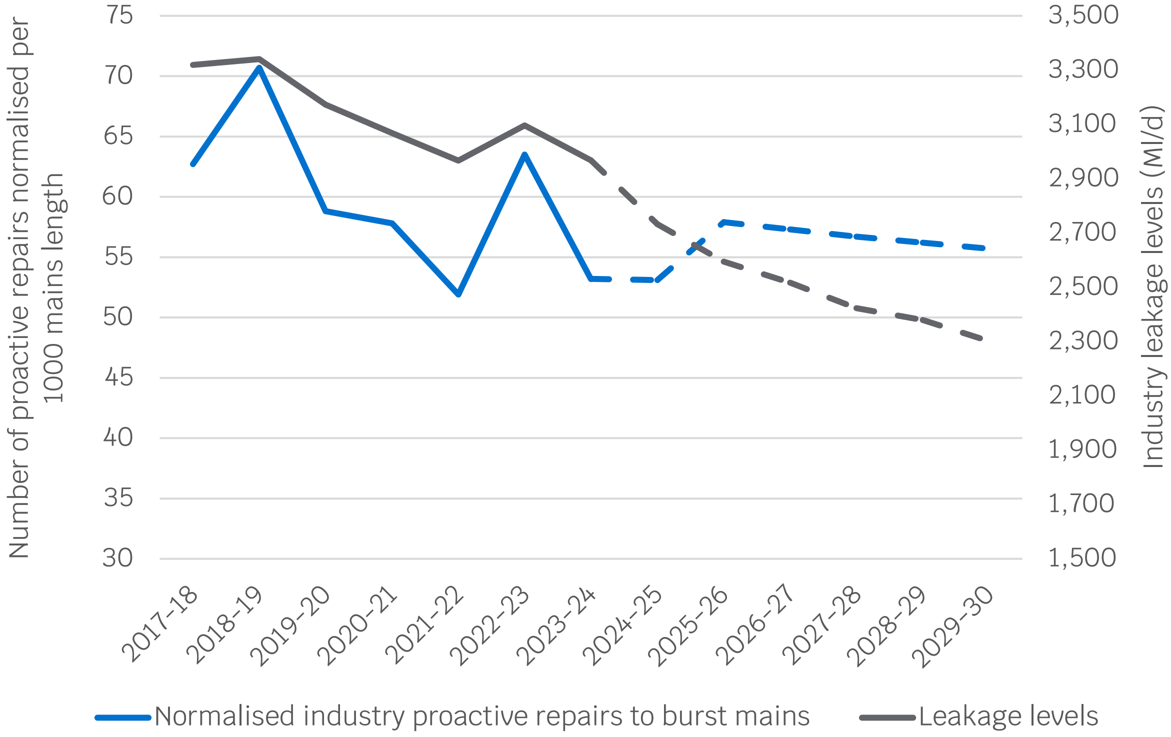
In response to our draft determinations request, several companies put forward evidence to support their view of the relationship between repairs to burst mains and leakage. In our draft determination, we made no adjustment (uplift) to repairs to burst mains PCLs for activities to reduce leakage. Companies state there are perverse incentives between repairs to burst mains and leakage, that is one way a company could reduce leakage is through increasing proactive repairs to burst mains. However, our outcomes regime also incentivises companies to reduce repairs to burst mains which leads to opposing incentives. Dŵr Cymru goes further to say this performance commitment should only include reactive repairs. This way, the proactive repairs element, which links with leakage performance, does not need to be accounted for in this performance metric.

We welcome the evidence put forward by Dŵr Cymru, Southern Water, Wessex Water and South East Water regarding their view on the quantification of a link between repairs to burst mains and leakage. While we recognise there is an intuitive link between repairs to burst mains and leakage, we make no uplift to the repairs to burst mains PCLs for leakage as our correlation analysis does not provide a clear view. Chart 3 below plots the industry level proactive repairs to burst mains against the industry leakage performance (Ml/d) over the 2017-18 to 2023-24. It also shows the industry level forecasts from 2024-2025 to 2029-2030 for the number of proactive repairs to burst mains (normalised per 1000 mains length) and annual average leakage values. If there is a perverse incentive or negative relationship, we would expect to see an increase in repairs to burst mains and reduction in leakage levels. However, the latest reported (2023-24) data does not suggest this. In fact, at the industry level, companies are able to reduce leakage and reduce repairs to burst mains. This indicates that companies are opting for other strategies to reduce leakage outside of find and fix. In the most recent annual performance report (APR) 2023-24, companies report the use of different approaches to fix leakage such as active pressure management and improved use of technology. Moreover, the industry forecasts suggests that repairs to burst mains will continue to drop and leakage levels will still decrease.

We nevertheless make some adjustments to reflect potential links: we have applied a deadband for repairs to burst mains for all companies at 10 normalised units for each year (see Section 5.2). This should not only help with exogenous shocks that could impact this metric such as extreme weather events, but also provide a small leeway for find and fix programmes.

We have also set the outcomes delivery incentive (ODI) rate for leakage significantly higher than the repairs to burst mains ODI rate. As such, if a company tackles repairs to reduce leakage, the benefit from the leakage ODI outweighs the penalty from the repairs to burst main ODI and so the incentive to reduce leakage through repairs to burst mains is maintained.

Chart 3: Industry level correlation between proactive repairs to burst mains and leakage (Ml/d)



Outcome delivery incentives

What we said in our draft determinations

At draft determinations we set the ODI rate to match the average PR19 ODI rate to ensure that incentives are no weaker than at PR19. This is to avoid the risk of a deterioration on performance.

Stakeholder representations

Hafren Dyfrdwy highlights that the rate per repair per customer is higher for small companies, due to company size.

Dŵr Cymru states that the asset health benefits of a repairs to burst mains performance commitment are covered by leakage, while the effects of repairs to burst mains are covered by the water supply interruptions performance commitment. As a result, the company proposes that the repairs to burst mains performance commitment should be non-financial.

South West Water states that comparing repairs to burst mains ODI rates to PR19 overrides Ofwat's PR24 methodology, as PR19 rates are based on company reported marginal costs. It proposes repairs to burst mains median rate should be uplifted to be at least as strong as the PR19 rate.

Thames Water believes that using the PR19 ODI rate was inappropriate. It believes that PR24 ODI rate model rates should be used, with a 0.5% collar.

Our assessment and final determinations

In relation to Hafren Dyfrdwy's concerns around the normalisation of the repairs to burst mains performance commitment, we are not changing the normalisation process in the definition at final determinations. As this is a performance commitment that relates to the health of a company's network, it makes sense to normalise by sewer length rather than customer numbers, as the length of network will likely have a greater impact on performance than the size of the customer base.

In response to Dŵr Cymru, the inclusion of the repairs to burst mains performance commitment is important to maintain asset health across networks. This performance specifically targets this type of proactive maintenance rather than leakage or water supply interruptions which indirectly incentivise work to avoid burst mains.

In response to South West Water and Thames Water, we set the incentives to be no weaker than the PR19 median ODI rate per individual repair to a burst main to avoid the risk of a deterioration in performance from weaker incentives. We have applied this to all performance commitments which were common or widespread at PR19. We set this out in Section 4.

For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set **the ODI rate** to match the **average PR19 ODI rate** to ensure that incentives are no weaker than at PR19

Risk protections

What we said in our draft determinations

At draft determinations we set a cap and collar on ODI payments at ±0.5% RoRE for all companies. This was to limit outperformance on a performance commitment which has a lower direct consequence for customers and the environment. We did not set a deadband for this performance commitment since we wanted to avoid distorting incentives whereby companies may not perform beyond the deadband threshold.

Stakeholder representations

We did not receive specific representations related to caps and collars for the repairs to burst mains performance commitment.

On deadbands, Anglian Water and South West Water state that a deadband on repairs to burst mains should be applied to protect against underperformance caused by exogenous factors, particularly ground movements caused by freeze-thaw and hot weather. They also state that there was regulatory precedent for this with the CMA setting a deadband at PR19.

Our assessment and final determinations

In line with our general approach to caps and collars, **we have not made any adjustments to caps and collars for this performance commitment** since draft determinations.

Informed by company feedback, we have reviewed the setting of a deadband for this performance commitment. We have decided to include a deadband to reduce potential negative skew on ODI payments from the operational reality of this performance commitment. We have set the **underperformance deadband for all companies at the same level of 10 repairs to burst mains per 1,000 km mains**.

We provide more information on the justifications for the deadband in Section 5.2.

Our final determination for risk protections

- We set a **cap and collar**, limiting out- and underperformance payments to ±0.5% water RoRE. This applies to all companies.
- We set a **deadband on underperformance** of 10 repairs to burst mains per 1,000 km mains. This applies to all companies.

12.2 Sewer collapses

This performance commitment measures the number of sewer collapses per 1,000 kilometres of all sewers that have not been identified proactively by the company and are causing an impact on service to customers or the environment. For further information see the 'Sewer collapses performance commitment definition'.

Or our final determinations

We have changed:

- We specify **how sewer lengths will be measured for Hafren Dyfrdwy.**
- We changed **our approach to setting the baseline (2024-25 position)** for all companies. This approach takes into account the latest reported performance, PR19 2024-25 PCL and company forecasts.
- We incorporate **2023-24 performance** into the **setting the 2029-30 stretch** for all companies.
- We **revise the ODI rate** which is calculated using an **inflation adjusted PR19 rate with a 20% uplift.**

We have not changed:

- We **maintain company-specific PCLs** for this this performance commitment.
- We have **maintained the cap and collar at ±0.5% RoRE** and we have not set a deadband.

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the definition described in our PR24 methodology.

We received no representation on definition and there have been no changes in the external environment that demand a change in the definition.

In our final determinations, we specify that performance for Hafren Dyfrdwy over the 2025-30 period will be measured using its 2023-24 sewer lengths, given the size of the company. Other companies will report based on their latest sewer length measurements in the relevant reporting year.

No further changes are required.

For our final determinations

We do not make a change to the general definition, except for specifying how **sewer lengths will be measured for Hafren Dyfrdwy** relative to other companies.

Performance commitment level

What we said in our draft determinations

In our draft determination, we aligned the baseline to the PR19 2024-25 PCL for all companies except for Southern Water and Hafren Dyfrdwy. The performance from base was set as the better of a company's 2029-30 forecast performance or the average of its best five performances in the 2017-18 to 2022-23 period. We have included the most recent 2023-24 data to supplement our analysis for final determinations. [185]

Stakeholder representations

We received no material representations on our approach to setting performance commitment levels for sewer collapses. Dŵr Cymru, United Utilities, South West Water, Thames Water, Wessex Water and Yorkshire Water agreed to our approach in setting PCL for sewer collapses.

Ilkley Clean River and Preston Under Scar Parish Council representations state that companies should increase the resilience of their infrastructures by proactive management. Our framework and final determinations incentivise companies to undertake optimal strategy that will improve other customer measures.

Our assessment and final determinations

Specificity

As per draft determinations and our PR24 methodology, **for final determinations we set this performance commitment on a company- specific basis**.

Baseline

[185] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.68.

For final determinations, we set the baseline for all companies using an approach outlined at the start of this section. The baseline is therefore either the PR19 2024-25 PCL, the company forecast level or an Ofwat calculated value. For all companies except Southern Water and Hafren Dyfrdwy, we set the baseline as the PR19 2024-25 PCL. This is because we allow companies to retain the benefits of outperformance from the previous period into the 2025-30 period. All companies are forecasting to meet our baseline in 2024-25.

We intervene to adjust the baseline for Southern Water because the company has failed to meet its PCL in all years of the 2020-24 period. To set a revised baseline, we compare an Ofwat calculated level against the company forecast position. Given the company proposes a more stretching baseline, we set its baseline aligned to the company's 2024-25 forecast. More information can be found in the Southern Water specific appendix.[186]

Due to Hafren Dyfrdwy's small asset base, we set its baseline based on its historical performance levels. More information can be found in the Hafren Dyfrdwy specific appendix.[187]

Performance from base expenditure

We expect companies to deliver good performance from base expenditure allowances but do not stretch companies beyond historically achieved levels. This is because we consider companies are best placed to understand their network and maintain a resilient infrastructure. The company should consider the optimal strategy that will improve outcomes (such as sewer flooding) that matter to customers and the environment. In certain cases, it may not be an optimal strategy to always reduce sewer collapses to deliver the outcomes for customers. Hence, we do not stretch companies beyond historically achieved levels.

We have set the 2029-30 performance to be delivered from base as the average of an individual company's five best performing years in the 2017-18 to 2023-24 period on this basis. We accept company proposals where this is more stretching than this average. We use a linear profile between our baseline and the 2029-30 position to set the PR24 PCLs.

The inclusion of the recent 2023-24 data on sewer collapses, submitted in August 2024, enabled us to set a more stretching target for 2029-30 than that proposed for draft determinations for 10 out of 11 companies. Southern Water is set at a slightly lower level

[186] Ofwat, 'PR24 final determinations: Southern Water – Outcomes appendix', December 2024.
[187] Ofwat, 'PR24 final determinations: Hafren Dyfrdwy - Outcomes appendix', December 2024.

of stretch for 2029-30 than at draft determination level as we accept its forecast that proposes a more stretching level than our benchmark (five best performing years).

For final determinations, further base cost allowances have been made which will help companies to improve performance and deliver the PR24 PCLs. Companies can use proactive management to identify potential collapses before they have an impact on customers as well as robust processes to ensure incidents are monitored and recorded to better understand asset performance. Learnings and findings from technical and operational teams should be continuously shared.

Performance from enhancement expenditure

For final determinations, we make no adjustments to sewer collapses performance commitment levels to account for enhancement expenditure for any company.

With an increase in base cost allowances and expectation to deliver historically achieved levels, we overall consider our final determination performance commitment levels for sewer collapses as achievable yet stretching with 6 out of 11 companies forecast to meet our PR24 2029-30 PCL.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Sewer collapses. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set this performance commitment at **a company specific level.**
- We **adjust our approach to setting the baseline** for all companies for sewer collapses. The change only impacts Southern Water and Hafren Dyfrdwy.
- For **the level of stretch**, our approach **remains the same** as draft determination, however, we incorporate another year of data (2023-24) into the analysis which results in revised PCLs.

Outcome delivery incentives

What we said in our draft determinations

At draft determinations we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23.

Stakeholder representations

We did not receive any representations relating to the ODI rate for sewer collapses.

Our assessment and final determination

Alongside other asset health performance commitments, we have reviewed the strength of the ODI rate relative to all performance commitments. The top-down approach is sensitive to performance inputs and can lead to very high ODI rates where historical performance ranges are narrow. We have used an alternative approach of basing the ODI rate off the PR19 ODI rates.

We set the ODI rate based on the median PR19 ODI rate per sewer collapse using company groupings set out in Section 4. This is adjusted for inflation. We have analysed performance in the period 2020-24 to assess the strength of this incentives and while performance has generally been strong on this performance commitment, we have included an uplift of 20% on this PR19-based ODI rate to avoid the risk of companies having insufficient incentive to keep performance high. The final determinations ODI rate should therefore sufficiently incentivise companies to improve performance whilst not creating adverse incentives. This is a decrease of 83.6% compared to the rate proposed at draft determinations.

For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determination

- We set the ODI rate based on **PR19 median ODI rate** per sewer collapse, according to company size groupings, with an **uplift of 20%.** The ODI rate is normalised to match the unit of performance according to the definition.

Risk protections

What we said in our draft determinations

At draft determinations we set a cap and collar on ODI payments at ±0.5% RoRE for all companies. This was to limit outperformance on a performance commitment which has a lower direct consequence for customers and the environment. We did not set a deadband for this performance commitment since we wanted to avoid distorting incentives whereby companies may not improve performance beyond the deadband threshold.

Stakeholder representations

South West Water states that the ±0.5% cap and collar on proposed at draft determinations was arbitrary and didn't align with customer preferences.

We did not receive any representations specific to a deadband on sewer collapses.

Our assessment and final determination

We have based caps and collars on the size of financial risk rather than customer preferences. We have calibrated caps and collars against potential performance ranges. We have not found sufficient reason to change the level of caps and collars from the ±0.5% RoRE level that we set at draft determinations and the levels are consistent with new performance commitments.

For our final determinations

- We set a **cap and collar**, limiting out- and underperformance payments to **±0.5% water RoRE**. This applies to all companies.

12.3 Unplanned outage

This performance commitment measures annual unplanned loss of peak week production capacity weighted by the duration of the loss in days. It is an asset health measure related to risk of interruptions to supply. For further information see the 'Unplanned outage performance commitment definition'.

For our final determination:

We have changed:

- **Our approach to setting the baseline** for this performance commitment to take into account the latest reported performance.
- The **ODI rate** is calculated using an **inflation adjusted PR19 rate with a 20% uplift.**

We have not changed:

- The **performance commitment definition.**
- The **specificity** for this performance commitment
- This performance commitment will **remain a common PCL** to deliver 2.14% by 2029-30.
- We have **maintained the cap and collar at ±0.5% RoRE** and we have not set a deadband.

Performance commitment definition

We did not propose any change to the definition at our draft determinations.

We received no representation about the performance commitment definition and there have been no changes that require changes to the definition.

At final determinations, we make **no change to the definition**.

Performance commitment level

What we said in our draft determinations

In our draft determinations, we proposed that all companies would have a company specific baseline converging to a common PCL by 2029-30. This value was calculated as 2.14% (units) which is the median value of company forecast position in 2029-30 from base expenditure. [188]

Stakeholder representations

United Utilities, Wessex Water, Yorkshire Water and South Staffs Water responded to our draft determinations. Wessex Water and United Utilities state that this performance metric should be company specific. They say that the addition of unplanned outages

[188] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.65

occurring from raw water quality deterioration to the metric impacts companies differently based on certain factors such as water sources which is beyond their control. United Utilities states that companies reliant on exposed, upland reservoirs are disadvantaged in comparison to groundwater reliant companies due to the vulnerable nature of their raw water supply. Wessex Water states there will always be uncontrolled contributions from pollution catchment activities from third parties and since they have c.80% of supply from groundwater assets.

Wessex Water sets out that it would be expensive and not beneficial to customers to install treatment at certain sites that are impacted by raw water quality issues. The company can instead actively and strategically manage their water supply by taking these sites out of supply that are affected by raw water quality in winter months. This is now classed as an unplanned outage but given the company's investment in its GRID system it is able to divert water from other works to maintain supplies to customers. Wessex Water states this allows the company to maintain a low level of water supply interruptions, good compliance risk index performance (CRI) and that it has not had to impose any customer water restrictions since 1976.

Our assessment and final determinations

Specificity

For final determinations, we maintain our draft determinations position that each company will have a company specific baseline and trends towards the common endpoint in 2029-30.

As described above, several companies put forward cases that this performance commitment should be company specific. We consider that if the number and duration of unplanned outages increases, the risk to service increases, regardless of the existing mitigations or redundancies in the company's system. However, we recognise the need for the sector to demonstrate a better understanding of asset health before we can consider moving companies to a company specific level on this metric. As set out in our long-term strategy to improve asset health, we will continue to evolve our monitoring approach working with companies to provide a richer picture of asset health and wider operational resilience for customers and stakeholders.

Baseline

For final determinations, we adapt our approach to setting the baseline in line with the approach on other asset health performance commitments. We set out further details in Section 12. The key difference between unplanned outage and the other asset health measures is that there is a material change in definition between the PR19 period

(2020-25) and PR24 period (2025-30). Therefore, it is not appropriate to set the baseline as the PR19 2024-25 PCL.

To set the baseline we therefore set the lower value of the company forecast position or an Ofwat calculated value.

Performance from total expenditure

For final determinations, we maintain the 2029-30 endpoint for all companies at 2.14% (percentage loss from peak week production capacity). This is calculated as the median industry forecast position from base expenditure (OUT2). We note the data points remain the same between draft determinations and representations to draft determinations. We set the PCL using performance from base forecasts because not all companies have consistently identified a performance impact from enhancement expenditure, and we have not approved all enhancement expenditure requests.

For final determinations, we provide allowances beyond our draft determinations levels. This includes £1.2 billion to tackle raw water quality deterioration for the industry and c.£300m on taste, odour and colour. While not all this funding is targeted at reducing unplanned outages, we consider that companies should be able to use these allowances to address issues and improve performance.

With our final determinations approach, ten companies forecast to meet or outperform our PR24 2029-30 PCL.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Unplanned outage.' For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determination

- We maintain the PCL for all companies at **a company specific level**
- We **adjust our approach to setting the baseline** for this performance commitment to better reflect the latest reported performance
- We **set the 2029-30 PCL at 2.14%** as per draft determinations.
- We **do not apply additional stretch** to companies **for enhancement expenditure**

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23.

Stakeholder representations

Hafren Dyfrdwy states that it had a significantly higher ODI rate for unplanned outage relative to other companies in terms of the rate per customer. It proposes using the average £/Mld loss of capacity per customer for other companies and multiplying it by the number of households connected to the company's network.

Northumbrian Water states that the ODI rate for unplanned outage is disproportionately high and distorts incentives that would be better placed focused on higher priority areas. South Staffs Water also argues that the ODI rate has increased too much compared to PR19, which places too much downside risk on the company.

Our assessment and final determination

We understand the concerns of companies as to the strength of the ODI rate for unplanned outage. We have reviewed the ODI rate strength relative to other performance commitments. The top-down approach is sensitive to performance inputs and can lead to very high ODI rates where historical performance ranges are narrow. We have used an alternative approach of basing the ODI rate off the PR19 ODI rates.

We have set the ODI rate based on the median PR19 ODI rate per Ml/d reduction in peak week production capacity using the company groupings set out in Section 4. This is adjusted for inflation. We have analysed performance in the period 2020-24 to assess the strength of this incentives and while performance has generally been strong on this performance commitment, we have included an uplift of 20% on this PR19-based ODI rate to avoid the risk of companies having insufficient incentive to keep performance high. The final determinations ODI rate should therefore sufficiently incentivise companies to improve performance whilst not creating adverse incentives. This is a decrease of 59.0% compared to the rate proposed at draft determinations. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set the ODI rate based on **PR19 median ODI rate** per Ml/d reduction in peak week production capacity, according to company size groupings, with an **uplift of 20%**. The ODI rate is normalised to match the unit of performance according to the definition.

Risk protections

What we said in our draft determinations

At draft determinations we set a cap and collar on ODI payments at ±0.5% RoRE for all companies. This was to limit outperformance on a performance commitment which has a lower direct consequence for customers and the environment. We did not set a deadband for this performance commitment since we wanted to avoid distorting incentives whereby companies may not improve performance beyond the deadband threshold.

Stakeholder representations

We did not receive specific representations related to caps and collars for this performance commitment.

Northumbrian Water and South West Water propose including a deadband to reduce asymmetric risk exposure as a result of within-year external impacts. They stated that there was precedence at PR19 through the CMA-imposed deadbands for this performance commitment.

Our assessment and final determination

In line with our general approach to caps and collars, we have not made any adjustments to caps and collars for unplanned outage since draft determinations.

We considered the inclusion of a deadband for unplanned outage. We reviewed company performance at PR19 and found that all companies performed well against their PCL with very few instances of companies facing underperformance payments. For PR24 we are also providing significant cost allowances for water quality (£1.2 billion) and asset resilience (£1.3 billion), which should limit the impact of external factors on performance. Due to this strong historical performance, low level of stretch on PCL targets and the levels of funding companies are receiving, we have decided against including a deadband for unplanned outage.

At final determinations we have maintained the level of the cap and collar at ±0.5% RoRE for all companies. We have not included a deadband.

For our final determinations

- We set a **cap and collar**, limiting out- and underperformance payments to **±0.5% water RoRE**. This applies to all companies.

13. Final determinations for compliance – based performance commitments

13.1 Compliance risk index

This performance commitment measures the risk from water compliance failures and is set in line with the Drinking Water Inspectorate's (DWI's) Compliance Risk Index. For further information see the 'Compliance risk index performance commitment definition'.

For our final determinations

We have changed:

- The **ODI rate** is calculated **using inflation adjusted PR19 rates.**

We have not changed:

- The **performance commitment definition.**
- The **performance commitment level is set at zero for all companies** for this this performance commitment for the 2025-2030 period.
- We maintain the **deadband levels** over the 2025-2030 period and there is **no cap or collar.**

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the definition described in our PR24 methodology.

We received no representation about the definition and there have been no changes in the external environment that require a change in the definition.

For our final determinations

We make **no changes to the definition.**

Performance commitment level

What we said in our draft determinations

In our draft determinations, we set this performance commitment at a compliance risk index score of zero over the 2025-30 period for all companies with a deadband.

Stakeholder representations

We received representations from 11 companies on compliance risk index. The common challenge from companies was on the deadband which we discuss in the section below on risk protections.

We did not receive any non-company representations specifically related to the compliance risk index. However, we received high-level feedback from the Drinking Water Inspectorate (DWI) summarising its engagement with Ofwat during the price review.

Our assessment and final determinations

Specificity

We set this performance commitment at a common level for all companies.

Baseline

We align the 2024-25 baseline position to the PR19 2024-25 PCL. This is a compliance risk score of zero, reflecting that we expect water companies to reduce water quality risks towards zero.

Performance from total expenditure

The performance commitment level is set at zero for the 2025-30 period. We expect companies to deliver compliance risk index performance through total expenditure in the 2025-30 period. For final determinations, we provide significant allowances to improve taste, odour and raw water quality deterioration that should help companies meet this performance commitment.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – compliance risk index'. For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For our final determinations

- We set the level **at a common level** for all companies.
- The **performance commitment level is set at zero for the 2025-30 period** (compliance risk index score).

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology. This used data up to 2022-23.

Stakeholder representations

We did not receive representations specific to the ODI rate for the compliance risk index performance commitment.

Our assessment and final determination

As there is no scope to outperform on this performance commitment, we have reconsidered the ODI rate to reduce negative skew on ODI payments. We have scaled down the ODI rates based on the median PR19 ODI rate per customer for each company, after adjusting for inflation. As a result, the median ODI rate has decreased by 18.2% since draft determinations. This is an 3.4% increase on the median PR19 rate, when adjusted for inflation. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

This performance commitment incentivises improvements from an already high level of performance. We believe that the incentives set at PR19 remain strong enough to incentivise high levels of performance and we expect companies to achieve full compliance with this metric.

For our final determinations

- We set the ODI rate based on the **inflation adjusted PR19 median ODI rate per customer**, according to company size groupings, which is normalised to match the unit of performance according to the definition.

Risk protections

What we said in our draft determinations

In line with our PR24 methodology, reflecting that this is a risk-based compliance measure rather than an absolute metric, at draft determinations we included a deadband level for compliance risk index agreed in consultation with the Drinking Water Inspectorate. This was set as a tightening deadband for all companies, beginning at the PR19 deadband level for each company and tightening to end at 1.0 in 2029-30.

Stakeholder representations

Nine companies made representations that the deadband is too challenging (Anglian Water, Hafren Dyfrdwy, Northumbrian Water, Severn Trent Water, Southern Water, Yorkshire Water, South Staffs Water, South West Water and Bristol Water). Companies suggest retaining the deadband at 2 or propose 1.5, which were the levels set at PR19. Companies suggest the deadband has been set too low in comparison with current and forecast performance. Severn Trent Water and Hafren Dyfrdwy state a deadband of 1 is too low to account for failures outside of management control (for example, sample failures taken at customer taps). Yorkshire Water and Northumbrian Water propose setting the same deadband for all companies. Anglian Water challenges the profile of the deadband and propose maintaining the same level for all years because the level of risk outside of management control does not diminish over time.

Dŵr Cymru says that a PCL of zero cannot be met with base expenditure. This forms part as part of its rationale for retaining a deadband of 2.0.

Our assessment and final determination

We continue to apply a deadband reflecting this is a risk-based measure which can be impacted by the internal pipework and fittings at customer properties.

Following further consultation with the DWI about the level and profile of the deadband we remain of the view that the **2029-30 deadband level should be set at the compliance risk index score of 1.00.** This is a level that if exceeded by a single additional failure could result in material risk to water quality.

As set out in our draft determinations, we align the deadband level with companies' current PR19 deadband levels, with a glidepath to the 2029-30 level. This incentivises companies to continue to work towards full compliance for 2025-26. We have set a deadband for four companies at 1.50 for 2025-26 to 2027-28 then an improving profile to 1.00 in 2029-30. For the remaining 13 companies, we have set an improving deadband from 1.83 in 2025-26 to 1.50 in 2027-28 and then to 1.00 in 2029-30.

We provide more information on risk protections in Section 5 of this document.

For our final determinations on risk protections

- We set the **deadband** at a non-compliance score of 1.00 at 2029-30 with the company specific improvement profiles over 2025-30 as explained above.

For PCL and ODI data by company for each performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

13.2 Discharge permit compliance

This performance commitment measures the number of sites failing to meet the discharge permit conditions. For further information see the 'Discharge permit compliance performance commitment definition'.

For our final determinations

We have changed:

- The **performance commitment definition** to confirm the applicable version of the environmental regulators' Environmental Performance Assessment methodology and confirm the price control allocations.
- The **ODI rate** is calculated for WaSCs using **inflation adjusted PR19 rates**
- We introduce **deadbands for two groups**: large WaSCs, and Hafren Dyfrdwy and WoCs

We have not changed:

- We set the **performance commitment level at 100%** over the 2025-2030 period for **all companies**
- The **ODI rate** is calculated for WoCs **using the top-down approach** with a starting **RoRE allocation of 0.5% water RoRE** but **using company specific performance ranges**
- There is **no collar** on this performance commitment

Performance commitment definition

We did not propose any change in the definition at our draft determinations to the one described in our PR24 methodology. We received no representations on its definition.

We have made a minor change to update to the Environmental Performance Assessment (EPA) version referred to in the definition, because this is the latest version that is in effect at the date of our final determinations. We also confirm the price control allocations.

For our final determinations

We have made no change to the **performance commitment definition** other than to update the reference version 11 of EPA and to confirm the price control allocations.

Performance commitment level

What we said in our draft determinations

At draft determinations we set this performance commitment at a common level for all companies. All companies have a statutory obligation to meet permit consents therefore we set PCLs at 100% compliance across the 2025-30 period.[189]

Stakeholder representations

We did not receive any representations from company or non-company stakeholders relating to this performance commitment.

Our assessment and final determination

Specificity

As per draft determinations and set out in our PR24 methodology, for final determinations we set this performance commitment at a common level for all companies.

[189] Ofwat, 'PR24 draft determinations: Delivering outcomes for customers and the environment', July 2024, p.63.

Baseline

For our final determination, we maintain the baseline of 100% compliance with discharge permits.

Performance from total expenditure

As per draft determinations and set out in our PR24 methodology, for final determinations we maintain that all companies should deliver 100% compliance with discharge permits through total expenditure in the 2025-30 period. Poor performance on discharge permit compliance can result in significant adverse impacts for customers and the environment. Discharge permit compliance data from the latest reporting year 2023-24 shows that four companies have delivered 100% compliance. Our proposed PCL at draft determinations is therefore achievable yet stretching and retained for final determinations.

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Performance commitment model – Discharge permit compliance.' For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'

For our final determinations on performance commitment levels

We **set performance commitment levels at a common level of 100%** across all years of the 2025-30 period

Outcome delivery incentives

What we said in our draft determinations

At draft determinations, we set the ODI rate based on the top-down rate setting methodology using data up to 2022-23.

Stakeholder representations

Severn Trent Water believes that scaling the discharge permit compliance ODI rate by the number of works does not account for the size of the works, and therefore creates an excessive ODI rate.

Portsmouth Water, South East Water, SES Water and South Staffs Water state that small companies face higher risk than larger water and sewerage companies with the proposed method of calculating performance. As water only companies have fewer sites relative to water and sewerage companies, a site failure would contribute a higher percentage to overall performance. These companies propose various methods to scale the rate relative to water and sewerage companies and lower the %RoRE risk faced by water only companies.

Affinity Water states that as water only companies do not treat sewage at their water treatment works, the potential environmental harm of a non-compliance incident is lower relative to water and sewerage companies. It suggests that the rate for water only companies should be scaled down accordingly.

Thames Water believes that water and sewerage companies and water only companies do not have comparable performance for discharge permit compliance. It proposes separating companies by water and sewerage companies and water only companies instead of large and small companies when estimating the median rate.

Our assessment and final determination

We acknowledge companies' concerns with the size of ODI rates proposed at draft determinations relative to PR19 rates and the impact on overall balance in total outcomes performance risk.

This performance commitment applied only to WaSCs at PR19. Over the period 2020-24 most companies made improvements or performed consistently above a compliance rate of 98%. We therefore consider that an inflation adjusted PR19 rate – while lower than draft determinations – is sufficient to incentivise performance improvements over 2025-30.

For WoCs, we have decided to maintain the standard top-down approach, whereby we divide a proportion of regulated equity by an expected reasonable maximum level of underperformance to get a marginal ODI rate. To address company concerns about the level of rates, we generate company specific performance ranges to calculate the rates. For the ODI rate by company for this performance commitment, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

For companies which have historically maintained 100% compliance, we assume a theoretical worst-case performance of one water treatment works failing a permit. For Affinity Water, which has significantly more treatment works than other companies with 100% compliance historically, we have applied a theoretical worst-case performance based on the rate of site failures for companies with a comparable number of numeric permits (South East Water and South Staffs Water). This average non-compliance rate of approximately 10% rounds to a performance range of 4 treatment works failing a numeric permit, or a non-compliance rate of approximately 12%.

For our final determinations on ODIs

- We set the ODI rate for WaSCs based on the **inflation adjusted PR19 median ODI rate per site failing a numeric permit**, according to company size groupings. The ODI rate is normalised to match the unit of performance according to the definition.
- We set the ODI rate for WoCs using the **top-down approach**. We have used company-specific performance ranges in this rate setting calculation.

Risk protections

What we said in our draft determinations

At draft determinations, we did not set any risk protections for this performance commitment.

Stakeholder representations

Affinity Water, Anglian Water, Northumbrian Water, Southern Water, Severn Trent, Dŵr Cymru, South West Water, United Utilities, Wessex Water propose setting a deadband at 99% performance for the discharge permit compliance performance commitment. They state that this would align with the Environment Agency's assessment of "green" performance and would allow for incidents outside of managements control. Hafren Dyfrdwy and South East Water also use this rationale but suggest a deadband to one site failure.

Our assessment and final determination

As part of our holistic assessment of drivers of imbalances in ODI risk and how we could achieve greater balance between potential outperformance and underperformance payments across all ODI payments, we reviewed our position on setting a deadband on discharge permit compliance. As there is no opportunity for companies to achieve outperformance on this performance commitment, a deadband can be used to reduce negative skew on ODI payments.

We are **reintroducing the deadband at 99%** for water and sewerage companies, except for Hafren Dyfrdwy. For Hafren Dyfrdwy and water only companies we are setting the deadband at the equivalent of **one treatment works failing against a compliance permit.** We nevertheless expect companies to achieve 100% compliance.

We provide more information on risk protections in Section 5 of this document.

For our final determinations

- We set the **deadband threshold at 99%** for water and sewerage companies (excluding Hafren Dyfrdwy).
- We set the **deadband threshold** at the equivalent of **one treatment works** failing against a compliance permit for Hafren Dyfrdwy and water only companies.

14. Final determinations for the measure of experience incentives

14.1 C-MeX

This performance commitment is a measure of customer experience (C-MeX). Its purpose is to incentivise water companies to provide excellent customer service to residential customers. For further information see the 'C-MeX performance commitment definition'.

For our final determinations:

We have changed:

- The **performance commitment level** to lower the target to provide a better balance of risk for C-MeX across the sector.
- We calculate ODI payments **using a top-down ODI rate** and use a reduced appointee **RoRE of 0.4%.**
- We set **cap and collars at ±0.4%** appointee RoRE.

We have not changed:

- The **weightings of the surveys** used to calculated C-MeX scores.[190]
- The **specificity of the PCL** – the PCL is set on a common basis.
- The **approach to C-MeX surveys** (including not using a check and challenge process or online correction factor).

Performance commitment definition

What we said in our draft determinations

We said that a company's performance on C-MeX will be measured as a single score out of 100. It will be calculated from the average scores on two surveys:

[190] We have made other minor textual changes in the C-MeX performance commitment definition.

1. the customer service survey (CSS), from a sample of customers who have **contacted the company**, and
2. the customer experience survey (CES), from a sample of **all customers**.

We said that the CSS will contribute a greater weight (66.7%) than the CES (33.3%). We are doing this to increase the incentive on companies to improve service for the worst affected customers while also keeping a focus on the entire customer base. We did not include separate components for complaints in our definition.

Stakeholder representations

We received representations on our draft determinations from five water companies (Dŵr Cymru, Southern Water, South West Water, Thames Water and Wessex Water), and five non-company stakeholder (Atkins, CCW, Dŵr Cymru's Independent Challenge Group (ICG), GMB Union and Yorkshire Forum for Water Customers) on the performance commitment definition.

Three companies agree and two companies disagree with the performance commitment definition. There are mixed views from non-company stakeholders:

- CCW and Dŵr Cymru's ICG agree with having a contact and non-contact survey, noting the increased strength on worst-affected customers.
- South West Water and Wessex Water disagree with the 33.3% weighting on the CES, saying it is too high since it is less in a company's direct control.
- On complaints, CCW and the Yorkshire Forum for Water Customers disagree with not including complaints in C-MeX, saying that volumes of complaints have been increasing and including them in C-MeX would encourage more focus on reducing complaints. However, Atkins agree with not including complaints, saying that there is evidence of inconsistent reporting.

The GMB Union notes that the poor reputations of water companies has a negative effect on water company workers, and that water companies should address this through improving customer service.

Our assessment and final determinations

We agree with the importance of the contact component within C-MeX, which is why we proposed at draft determinations to increase its weight compared to PR19 as well as lowering the weight of the non-contact component. We consider it appropriate to keep sufficient weight on the CES (that is 33.3%) to incentivise companies focus on the entire customer base.

While we agree that performance on complaints needs to improve, we do not have enough confidence in the complaints data to include it in C-MeX at PR24. We only have one complete year of data on total complaints, which makes it challenging to set accurate performance targets.[191]

Our final determination on the performance commitment definition is to not change how we calculate a C-MeX score from draft determinations:

- A company's performance on C-MeX will be measured as a single score out of 100 **calculated from the average scores of two surveys**, the CSS (contact survey) and the CES (non-contact survey).
- The **CSS will contribute a greater weight** (66.7%) than the CES (33.3%).
- We will **not include a separate component for complaints** in our definition. We will work with CCW and use tools outside of the price review to improved companies' performance on complaints.

Performance commitment level

What we said in our draft determinations

We said that this performance commitment would be set on a **common basis**. Customers expect the same standard of customer service no matter where they are in the country and there are no clear reasons for any company-specific differences.

We said that in setting the **baseline**, we would **compare C-MeX performance to a cross-sector benchmark** to address concerns about C-MeX not being stretching enough and performance declining in PR19 as well as achieving a step change in customer service. This creates a target which compares water company performance to industries in the wider economy and would reward the last-placed company in the water sector for marginal improvements. A company's incentive payment would be calculated relative to a cross-sector benchmark based on the UK Customer Satisfaction Index (UKCSI) all-sector average,[192] rather than relative to other water companies' performance only. The size of the payments will depend on the distance of a company's

[191] Complaints on all channels ('total complaints') have been collected since 2022 however complaints for Southern Water were mis-recorded in 2022-23. See: CCW, 'Household Customer Complaints Handling Report 2023-24', Oct 2024, p.15.
[192] The UKCSI is the national barometer of customer satisfaction published by the Institute of Customer Service since 2008. It is an independent benchmark of customer satisfaction on a consistent set of measures on over 250 organisations across 13 sectors in the UK.

C-MeX score from the PCL benchmark and a top and bottom benchmark, based on the UKCSI all-sector upper quartile and the UKCSI minimum, respectively.

We said that we expect water companies to provide similar customer service to the rest of the economy throughout PR24 and they should be able to do so through **efficient base expenditure**. We made no adjustments for enhancement expenditure.

Stakeholder representations

We received responses from all water companies and five non company stakeholders (First Economics (report prepared for WaterUK), House Builder's Federation (HBF), Institute of Customer Service (ICS), Water UK and the Yorkshire Forum for Water Customers) about the performance commitment level for C-MeX.

Many companies and non-company stakeholders (CCW, HBF, ICS and WaterUK) **agree with the desire to set outward looking customer service performance standards for the water sector that is using an external benchmark**. However, all companies and two non-company stakeholders disagree with the using the UKCSI all-sector average as the performance benchmark for this PC. Their reasons are summarised below:

- 14 companies and WaterUK say that using this results in too stretching a target and would lead to negative balance of risk.
- 12 companies say water companies are negatively biased in the UKCSI since customers do not have a choice of their water provider, unlike other organisations in the UKCSI. This means customer interactions are very different in water to other sectors, which they say makes it unfair to compare water companies to the average of all sectors.
- Dŵr Cymru, Thames Water and United Utilities suggest using the UKCSI Utilities average, saying that utilities organisations are better comparators for water. The ICS proposes a two-tiered approach with the first target based on the UKCSI Utilities average and the second based on the UKCSI all-sector average. They say this approach recognises the current performance of water companies but also challenges companies to improve.
- Hafren Dyfrdwy, Severn Trent Water, United Utilities, Wessex Water and Yorkshire Water raise concerns about mismatch in survey timings between the C-MeX surveys and the UKCSI survey.
- Seven companies and WaterUK raise concerns about predictability and volatility of targets.
- Hafren Dyfrdwy and Severn Trent Water say absolute targets (set at the C-MeX median for 2023-24) could be used to address some of the issues with the relative approach.

- Dŵr Cymru, Portsmouth Water and South West Water say we should revert to the PR19 relative approach, with the PCL set at the C-MeX median.
- The Yorkshire Forum for Water Customers say that coupling C-MeX to UKCSI creates a disproportionate performance penalty, which could result in a company chasing satisfaction numbers, rather than solving more complex issues that matter to customers (such as complaint handling).

Several companies and WaterUK also say that further work was needed to develop an appropriately stretching and robust benchmark for C-MeX.

Our assessment and final determinations

We agree that the draft determinations PCL, based on the UKCSI all-sector average, is a very stretching threshold based on past performance, especially based on the most recent performance year. Based on the past performance of some water companies and other utilities organisations performing in the top half of the UKCSI, we consider that water companies can achieve the levels seen in other industries. However, we recognise that it may be more challenging for water companies to reach high UKCSI scores due to the absence of customer choice associated with monopolies.

Therefore for final determinations we change the benchmark used for C-MeX from draft determinations. Taking into account stakeholder feedback in representations and from more analysis using the additional year of data (2023-24), we consider it is appropriate to adjust the PCL to make sure it is achievable yet still stretching for companies. We **continue to set performance targets in relation to performance in other sectors, using UKCSI data to set the PCL** as we still consider it is right to set outward looking customer service standards for the water sector. The PCL will be dynamic (ie change each year based on outturn data). This is because it is challenging to set targets in advance for this performance commitment (due to unpredictability and lack of forecast data).

We set a lower PCL by using the UKCSI all-sector average reduced by 5 points for 2025-2028 and UKCSI all-sector average reduced by 4 points for 2028-30. We use a downward adjustment of 5 because this is the long term difference between the UKCSI all-sector average and the UKCSI utilities sector average. Therefore, we set the PCL taking into account the specific factors common to utilities organisations.[193] Using this approach, instead of simply using the UKCSI utilities average as proposed by some stakeholders, provides a more robust value as there are more organisations in this benchmark so it is likely to be more stable over time. We reduce the adjustment in years 4 and 5 to encourage continuous improvement, and because we **maintain the**

[193] Such as having less frequent direct customer contact than other organisations and providing essential services.

ambition for water companies to perform at levels consistent with the wider UK economy.

Although we note some concerns raised about using the UKCSI, we still consider it is the best available data source for customer service benchmark, and therefore for use in C-MeX. Although we recognise the benefits of moving to an absolute targets approach (i.e. set a PCL for each year of the period), we consider it would be too challenging to set targets at the correct level and take account of external factors appropriately. Although some companies say they would prefer reverting to the PR19 relative approach with the PCL set at the C-MeX median, we do not consider this is a preferable option given that C-MeX scores have been declining throughout the PR19 period and company payments have not reflected this decline.

Our final determination on the performance commitment level is to lower the C-MeX PCL:

- We will continue to set performance targets in relation to performance in other sectors, using **UKCSI data to set the PCL** and the target will be **dynamic** (i.e. change each year).
  We will base the PCL on the **UKCSI all-sector average -5 points** for 2025-2028 and **UKCSI all-sector average -4 points** for 2028-30.
- We use a **downward adjustment of 5** to reflect the long-term difference between the UKCSI all-sector average and the UKCSI utilities sector average. Using this approach instead of the UKCSI Utilities average provides a more robust value as there are more organisations in this benchmark so it is likely to be more stable.
- We **reduce the adjustment in years 4 and 5** to encourage continuous improvement, and because we maintain the **ambition for water companies to perform at levels consistent with the wider UK economy**.

Outcome delivery incentives and risk protections

What we said in our draft determinations

We said that, based on further analysis of PR19 performance and consideration of stakeholder views, we would strengthen incentives further than what we said in the PR24 methodology, to **±0.5% appointee RoRE**.

We said that, due to the relative approach for calculating payments, the financial risk from C-MeX would be limited to ±0.5% appointee RoRE. We also said that C-MeX would be included in the aggregate risk sharing mechanism for the outcomes package at PR24.

Stakeholder representations

We received responses from 14 water companies and four non company stakeholders (CCW, Dŵr Cymru's Independent Challenge Group (ICG), First Economics (report prepared for WaterUK) and Havant Climate Alliance and Havant Friends of the Earth) on ODIs and risk protections. Five companies agree with the proposed incentive size, but five companies disagree with it.

- Thames Water and Southern Water say that the incentive size is disproportionately large compared other performance commitments. Thames Water say that this is because C-MeX is set based on wholesale RoRE instead of either water or wastewater like other performance commitments. Southern Water also say that it may be too large in the context of retail revenue.
- Dŵr Cymru proposes C-MeX should be ±0.35% appointee RoRE.
- United Utilities and Wessex Water say that it is not proportionate with how customers' value customer service relative to other areas of performance.
- CCW and Dŵr Cymru's ICG supports the increase in the financial value of this incentive for 2025-30.
- First Economics say that there is an opportunity for more outperformance on C-MeX since Ofwat are setting performance targets at levels of performance that sit far beyond what the industry is currently delivering, so stronger incentives are needed to drive performance and reward companies.
- Havant Climate Alliance and Havant Friends of the Earth agree that better customer service should be financially incentivised.

Seven companies also say the proposal to calculate payments relative to performance benchmarks can lead to unpredictable and volatile payments, since the benchmarks can move each year, and this can impact payments.

We explored the potential payment volatility further at a workshop with companies and CCW.[194] Following this workshop, three companies say they support the move to a top-down ODI approach in theory. However, three companies say this proposal may lead to additional uncertainty and complexity, especially given its introduction at this late stage in the process. All companies highlight that what is important is making sure the risk exposure from C-MeX is balanced. One company raises concerns about moving to a top-down ODI approach reducing incentives for top performers.

[194] Ofwat, Calculating ODIs for C-MeX and D-MeX and development of MeX surveys November 2024.

Our assessment and final determinations

We consider it is appropriate to have strong incentives on C-MeX at PR24 to incentivise a **step change in customer service performance**. We, therefore, are still increasing incentive sizes from PR19. However, we are lowering the incentive size from at draft determinations from 0.5% appointee RoRE to 0.4% appointee RoRE. This change is in line with what we said in our PR24 methodology. [195] We have calibrated the size of incentives against retail revenue, and consider it is proportionate to retail revenues and the size of incentive for other key performance commitments.

We agree with company concerns that the relative approach based on distance to three benchmarks could lead to unpredictable and volatile payments so we are changing our approach to use ODI rates.[196] Although we recognise company concerns about this being a late change in the process, we think it is justified because it responds to a key concerns raised by companies related to the complexity of the approach and consistency with other performance commitments (including D-MeX - see Section 14.2.3 below).

We have engaged extensively with companies on the top-down methodology for calculating ODI rates for other performance commitments. This change in calculation for C-MeX brings it in line with the approach for most other common performance commitments.

We consider using ODIs increases incentives for the top performer to improve (not reduce) because under the relative approach, the top company (if they stay top) always receives the maximum payments, even if their performance deteriorates in absolute terms.

We recognise the strong interactions between the PCL and ODI rate. Based on changes to both the PCL and ODIs for C-MeX at final determinations, expected payments from C-MeX are approximately balanced at a sector level (our estimates are based on data from PR19).[197] Therefore we consider the PCL and ODI are set at appropriate levels. We understand First Economics' view that very high levels of performance should be strongly incentivised (this is in line with our principles for setting enhanced incentives, see Section 4.8). However, since we are lowering the PCL for C-MeX at final determinations, and against a recent backdrop of poor performance in C-MeX scores,

[195] In the PR24 methodology we said that we expect C-MeX to account for ±18% retail revenue, which is approximately ±0.4% RoRE.
[196] Note this approach was discussed in a working group with companies and CCW on 5 November 2024.
[197] This is using PR19 performance data under the C-MeX methodology for PR24. The sector median value is 0.08% RoRE. See 'C-MeX expected RoRE payments model'.

we do not consider strengthening incentives beyond 0.4% RoRE is necessary or in the interests of customers.

We will set **caps and collars on C-MeX at ±0.4% RoRE** to protect customers and companies which reflects uncertainty in the performance range we have used in calculating ODI rates and also noting changes to surveys.

For our final determination on the ODI rates and risk protections:

- The ODIs are calculated using a starting equity of **0.4% appointee RoRE**, recognising the high importance of C-MeX and the desire for a step change in performance at PR24.
- We set **caps and collars at ±0.4% appointee RoRE**. This is in line with what we said in the PR24 methodology but is a reduction from 0.5% appointee RoRE at draft determinations.

For the outcome delivery incentives and risk protections by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Surveys

What we said in our draft determinations

We said that we expect to use primarily digital survey methods (SMS and email) at PR24 for both the CES and the CSS. We said that we expect to only use telephone and postal surveys where it is required by the customer or to make sure that the sample is representative. We said that we will make sure that sample sizes for both surveys are robust and that the survey frequencies allow for sufficient response rates, and good quality responses from customers.

We said that would remove the 'check and challenge' process at PR24 and that we would work with our survey agent(s) to make sure there are sufficient quality and assurance checks in place to make sure that we are confident in the survey results. We also said that we would not have an online correction factor for digital surveys at PR24, due to the change in survey methodology.

Stakeholder representations

We received responses from nine water companies on C-MeX surveys. Eight companies raised concerns about our change in approach to surveying at PR24:

- Dŵr Cymru, Northumbrian Water, United Utilities, Wessex Water and Yorkshire Water raised concerns about the move to digital surveys relating to getting the right representation of different customer groups, risks of errors in data collection and practical concerns around data sharing.
- Seven companies say that the online correction factor should be retained for PR24. They argued that there is evidence that digital survey scores are lower than from other methods and that the change may impact companies differently.
- Seven companies say that the check and challenge process should be retained for PR24, arguing that many of the challenges raised by companies are upheld and it is important to improve the robustness of surveys.

Severn Trent Water and Southern Water also ask for sample sizes to be increased, to increase robustness.

We also explored survey issues at the workshop. Following this:

- a company raises the need to consider accessibility of digital surveys for certain customer groups.
- a company would like to understand more about the quality controls which replace check and challenge.

Our assessment and final determinations[198]

We recognise concerns about the change in survey method, but we consider it appropriate to move to primarily digital methods in order to make sure the surveying chosen can still be used up until 2030.[199] We piloted this approach in 2024, commissioning an independent survey agent (Accent) to test survey methods for use in 2025-30. [200] As part of this pilot, email and SMS surveys proved to be a viable methodology for use in C-MeX. We will continue to work with the survey agent and companies ahead of April 1 to address specific concerns and explore ways to make sure that the samples are representative of the populations.

On the online correction factor, we did not find compelling evidence in the C-MeX survey pilot for using an online correction factor and what level to set it at.[201] At PR24, we will use primarily digital survey methods. We will only use telephone where it is required by the customer, for representation or to boost response rates, which we

[198] Note these expectations may need to be adjusted to take account of practical fieldwork issues.
[199] Based on trends of lower telephone use and increased use of digital methods – see Accent 'Literature review of current approaches to customer satisfaction surveying', August 2024, p.5, 9,13.
[200] Accent, 'C-MeX pilot report', August 2024.
[201] Accent, 'C-MeX pilot report', August 2024, pp. 8-9.

expect will be in limited cases. The survey method will not be determined by initial contact method (like at PR19) so there is less need for an online correction factor.

We agree that it is important to have accurate data to ensure confidence in the results. While we are not going to have a 'check and challenge' process at PR24, we are increasing quality assurance on the data by the survey agent.

Our final determination on C-MeX surveys is to not make any changes to the approach for C-MeX surveys from draft determinations:

- We will **use primarily digital survey methods** (SMS and email push-to-web) at PR24. Due to the change in survey methodology, we also will **not have an online correction factor** to adjust scores from online surveys upwards.
  We will **not have a check and challenge** process at PR24, instead we will make sure the survey agent conducts appropriate quality assurance checks.
- We will **continue to work with companies and the survey agent on detailed aspects** of surveying, including on sample sizes, before 1 April 2025, when C-MeX goes live.

14.2 D-MeX

This is a measure of developer experience (D-MeX). Its purpose is to incentivise water companies to provide excellent customer service to developer services customers. For further information see the 'D-MeX performance commitment definition'.

For our final determinations

We have changed:

- How we calculate ODI payments to **use a top-down ODI rate** rather than a relative approach to make sure that performance payments better reflect changes in performance and
- The size of the incentive to use a reduced **appointee RoRE of 0.2%**;
- We set **caps and collars at ±0.2% appointee RoRE**; and
- We change the frequency for D-Mex surveys from annual to quarterly.

We have not changed:

- How we calculate a D-MeX score – so we have not changed the D-Mex metrics, or the weightings of the surveys used to calculate D-Mex scores;[202] or
- The **use of the median D-Mex score to set the performance commitment level** target.

Performance commitment definition

What we said in our draft determinations

A company's performance on D-MeX would be measured as a single score out of 100. This is calculated from the average score on a satisfaction survey and performance against the Levels of Service metrics.[203]

We said that we would **increase the weight of the survey component in D-MeX to 66.7%** to strengthen incentives on companies to improve the service they provide to developers. We retained the Levels of Service metrics with a weight of 33.3%.

We also split the survey component equally between surveys from small developers (33.3% overall) and surveys from large developers and competitors (33.3% overall),[204] to **make sure that the voices of all developer groups are appropriately represented in D-MeX**.

Stakeholder representations

We received representations on our draft determinations from three companies (Severn Trent Water, Thames Water and Yorkshire Water) and two non-company stakeholders (Independent Networks Association (INA), and Independent Water Networks, (IWNL)) on the performance commitment definition.

There are mixed views from companies and other stakeholders:

- Thames Water, the INA and INWL support the component weightings. The INA and INWL say this will enhance the focus on customer satisfaction surveys.
- Severn Trent Water and Yorkshire Water say that we should not reduce the weighting on the Levels of Service metrics saying they are more objective measures of service better aligned with developers' priorities.

[202] We have made other minor textual changes in the D-MeX performance commitment definition.
[203] The Levels of Service metrics are a set of quantitative service metrics against which companies' performance is measured each year, measured as a percentage. Each metric has an associated performance target (e.g. in number of days).
[204] We refer to self-lay providers (SLPs) and new appointees (NAVs) collectively as 'competitors'.

- Severn Trent Water disagree with increasing the representation of competitors (NAVs and SLPs). It says that their survey responses may be biased because these developer customers operate in the same competitive market as water companies. Thames Water however agrees with the proposed change, arguing that it is more representative of its developer services.

Our assessment and final determinations

We agree that the Levels of Service metrics are an important component of D-MeX and important to customers. We still consider that the weighting of 33.3% retains enough weight on the Levels of Service metrics to make sure that companies maintain focus on it and make sure that performance does not fall.

We consider that increasing the representation of competitors is important to address concerns that competitors were under-represented relative to their market activity, especially since we expect that their market activity will grow over the period. This approach aligns with our strategic priority to increase competition in markets.

Our final determination on the performance commitment definition is to not change how we calculate a D-MeX score from draft determinations:

- A company's performance on D-MeX will be measured as a single score out of 100 calculated from **the average scores on a customer satisfaction survey and the Levels of Service metrics component**.
- The **survey will contribute a greater weight** (66.7%) than the Levels of Service metrics (33.3%).
- The survey **is split equally** between surveys from small developers (33.3% overall) and surveys from large developers and competitors (33.3% overall).

Performance commitment level

What we said in our draft determinations

We said that this performance commitment would be set on a **common basis**, as customers expect the same standard of customer service no matter where they are in the country and there are no clear reasons for any company-specific differences. We also would not have separate league tables for English and Welsh companies because the core customers service activities across England and Wales are sufficiently comparable regardless of different legislative environments.

We said we would maintain the **within-sector relative approach for D-MeX**. We have not observed the same performance issues as for C-MeX, with D-MeX scores increasing for all companies at PR19. Additionally, there is not an appropriate cross-sector benchmark to use. This means that a company's performance payment in a given year would be based on the difference between:

1. a company's D-MeX score and the median company's D-MeX score; and
2. the D-MeX median and either the D-MeX score of the top performer or the bottom performer.

For example, a company would earn outperformance payments if it performs above the median performer, with the size of the payments being determined by the numerical distance between its D-MeX score, the D-MeX score of the median company and the D-MeX score of the top company.

We expect water companies to continue to provide excellent customer service to developer customers. They should be able to do so as part of their usual business or through efficient base expenditure. We made no adjustments for enhancement expenditure.

Stakeholder representations

We received representations on our draft determinations from three companies (Dŵr Cymru, Thames Water and Yorkshire Water) and two non-company stakeholders (INA and IWNL) on the PCL.

Two companies disagree with our proposals for the PCL:

- Thames Water proposes using absolute targets or a 'hybrid' approach (relative approach with opportunity rewards for marginal improvements) instead of a relative approach to set the PCL. Yorkshire Water also propose a 'hybrid' approach.
- The INA says that the target should be based on the upper quartile of industry performance to push companies towards a new industry frontier. The IWNL say this approach aligns with targets set for other performance commitments.
- Dŵr Cymru says that Welsh companies are disadvantaged due to a different regulatory environment for developer services customers which results in lower scores on the survey component.

Our assessment and final determinations

We have considered using an absolute targets approach (setting a target for absolute improvements in performance that is, not dynamic targets). However, there are challenges with setting this target at the correct level due to uncertainties about the impact of changes to surveys on performance scores. We have also considered using a 'hybrid' approach however, we consider that this would introduce extra complexity to the approach with uncertain impacts on incentives and would still be susceptible to external factors.

We understand the INA's desire to set targets at the upper quartile of sector performance to drive performance improvements, however, we consider the upper quartile to be too stretching and would drive negative skew in the outcomes package. Using the median company's D-MeX score each year should still deliver performance improvements by creating competition and encouraging continuous improvements. We consider that in the absence of an external benchmark for D-MeX, this approach remains to be appropriate for incentivising improved performance at PR24.

We have reviewed the D-MeX metrics which Dŵr Cymru say are impacted by different legislative requirements. We have not found clear evidence that companies in Wales are disadvantaged. We consider that companies can manage dissatisfaction with legislative and regulatory requirements through effective communication and good customer service. Furthermore, we consider that retaining all companies in D-MeX is appropriate to retain benchmarking power for setting the PCL. We therefore will continue to set D-MeX as a common PCL, as customers expect the same standard of customer service no matter where they are in the country and there are no clear reasons for any company-specific differences.

Our final determination on the performance commitment level is to not make any changes from draft determinations:

- The D-MeX PCL will be set on **a common basis**.
- We will set the PCL **at the median company's D-MeX** score each year.

Outcome delivery incentives and risk protections

What we said in our draft determinations

We said D-MeX incentives would be **symmetrical,** and the **size of the incentive would increase to ±0.25% appointee RoRE** to promote focus on D-MeX and be proportionate relative to the size of the C-MeX incentive.

Given that D-MeX is a well-established and understood performance commitment, we said that it would not have an individual risk protection, but due to the targets for D-MeX being relative, there are limits to the maximum payments equivalent of ±0.25%

RoRE. We also said we would include it in the aggregate risk sharing mechanism for the outcomes package.

Stakeholder representations

We received representations on our draft determinations from four companies (South West Water, Southern Water, Thames Water, Yorkshire Water) and one non-company stakeholder (IWNL) on ODIs and risk protections.

Stakeholders have mixed views on the incentive size for D-MeX:

- South West Water supports symmetrical incentives.
- Thames Water says that including wastewater regulatory capital value (RCV) is inappropriate since its developer services are mostly for water services.
- Southern Water, Thames Water and Yorkshire Water say that the incentive size is too large, arguing that it is not proportionate to developer services revenue and that it is not supported by customer priorities.
- IWNL says that the incentive should be in a higher importance risk category to give customers additional protection from moving developer services outside of the price control from April 2025.

Thames Water and Yorkshire Water also disagree with the approach to calculating incentive payments saying performance does not always translate well into payments. For example, companies who are below the median despite making an absolute improvement may incur larger underperformance payments, if the bottom performing company improves. Equally, the bottom performing company will always incur the maximum penalty even if it makes absolute improvements in performance.

We discussed at a workshop with companies and CCW an alternative approach to calculating payments.[205] Three companies say they would support the move to a top-down ODI approach in theory, however three companies say this proposal may lead to additional uncertainty and complexity at a late stage in the process. One company raises concerns about moving to a top-down ODI approach reducing incentives for top performers.

On **risk protections**, United Utilities says that the caps and collars on D-MeX should be set based on the numbers of new connections.

Our assessment and final determinations

[205] Ofwat, Calculating ODIs for C-MeX and D-MeX and development of MeX surveys, November 2024.

We agree with the concerns that calculating ODIs using a relative approach are not reflective of absolute changes in performance. We consider that it is appropriate to change the approach to calculating incentive payments for D-MeX to use an ODI rate.[206] Using an ODI rate will mean the bottom performing company does not automatically incur the maximum penalty, and it also will reduce volatility and uncertainty. We have calculated ODI rates using a top-down methodology which we have extensively engaged with companies on for other performance commitments. This brings the approach in line with the approach for most other common performance commitments.

Although we recognise company concerns about using an ODI rate being a late change in the process, we consider that there is sufficient reason to do so because it responds to a key concern raised by companies, making the approach less complex and consistent with other performance commitments (including C-MeX - see Section 14.1 above).

We still consider it appropriate to use appointee RoRE which applies to water and wastewater, to calculate incentive payments because D-MeX applies to both water and wastewater activities. We consider it appropriate to reduce the size of D-MeX incentive to account for the change in approach to allocating payments at final determinations. This will improve alignment of the size of the D-MeX incentive with the relative importance of the other performance commitments.

We are lowering the starting RoRE allocation and caps and collars for D-MeX from 0.25% RoRE to 0.2% RoRE. This is half the size of the C-MeX incentives, which we still consider to be proportionate given the amount of revenue from residential retail and developer services.

We consider the proposals for D-MeX will sufficiently protect the interests of all developer services customers, given that developer services are being moved outside of the price control at PR24. In particular we have increased representation of new appointees and self-lay providers in D-MeX to provide extra protection.

We will set caps and collars on D-MeX at ±0.2% RoRE to protect customers and companies which reflects uncertainty in the performance range we have used in calculating ODI rates and also noting changes to surveys.

Our final determination on ODI rates and risk protections:

- We will use an **ODI rate to allocate payments** instead of the relative approach we proposed at draft determinations.
- We will calculate payments based on a proportion of appointee RoRE. We will use a starting **equity of ±0.20% appointee RoRE** in the ODI rate calculation.
- We will **reduce the cap and collar on incentive payments for D-MeX to ±0.20%** appointee RoRE in line with equity at risk.

For the outcome delivery incentives and risk protections by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Surveys

What we said in our draft determinations

We said we would reduce the survey frequency from a monthly survey about specific interactions with companies to an **annual survey about overall experience** with the company. This was to address evidence of survey fatigue and associated levels of "do not contacts" in the sample.

We proposed not to introduce a check and challenge process in D-MeX for the same reasons as described above in Section 14.1 for C-MeX.

Stakeholder representations

We received representations on our draft determinations from four companies (Anglian Water, Severn Trent Water, Thames Water and Yorkshire Water) on D-MeX surveys.

Four companies disagree with proposals on the survey:

- Anglian Water, Severn Trent Water and Yorkshire Water disagree with reducing the survey frequency because it reduces feedback opportunities for companies which inform performance improvements.
- Severn Trent Water and Thames Water say that moving to annual surveys from monthly surveys will lead to less accurate results due to recall issues (as the survey may take place many months after the interaction). Anglian Water and Thames Water say that small developers in particular should be surveyed more frequently.
- Anglian Water says we should consider how to avoid potential bias or confusion from surveying about multiple companies in one survey.

Following the workshop with companies and CCW, several companies provided additional responses on our proposals on the accessibility of digital surveys and additional quality assurance.

Our assessment and final determinations

We still consider it appropriate to use primarily digital survey methods, to make sure it is appropriate for use up until 2030.[207] We will use telephone or postal methods for representation purposes or to ensure sufficient response rates.

We understand concerns that for some developers, especially small developers, an annual survey may be inappropriate due to the small number of interactions these developers have with their water company. We consider that moving to a quarterly survey for all developers will be sufficient to prevent recency bias and recall issues in responses. Quarterly surveys will also provide regular feedback to companies for performance improvements.

We still consider it appropriate **not to include a check and challenge process** in D-MeX. We are increasing quality assurance on the data by the survey agent.

These expectations may need to be adjusted to take account of practical fieldwork issues.

Our final determination on surveys is to change the survey frequency for D-MeX from draft determinations.

- We will survey developers **on a quarterly basis**.
- We will use **primarily digital survey methods**. We will use telephone or postal methods for representation purposes or to ensure sufficient response rates.
- We **will continue to work** with companies and the survey agent on **detailed aspects of surveying** before 1 April 2025, when D-MeX goes live.

14.3 BR-MeX

The Business and Retailer Measure of Experience (BR-MeX) is designed to incentivise wholesale companies in the non-household market to give business customers and the retailers serving these customers a better experience. It captures the experiences of

[207] Based on trends of lower telephone use and increased use of digital methods - see Accent 'Literature review of current approaches to customer satisfaction surveying', August 2024, p.5, 9,13.

both end users and intermediate customers. For further information see the 'BR-MeX performance commitment definition'.

BR-MeX will apply to the incumbent companies operating wholly or mainly in England. It does not apply to companies based mainly in Wales.

For our final determinations

We have changed

- Our approach on how to treat a wholesaler according to the **robustness of B-MeX survey** results for that wholesaler.

We have not changed

- The **use of the median BR-Mex score to set the performance commitment level** target.
- Our approach to calculating **ODI rates** with a starting point of ±0.2% appointee RORE.
- The **approach to B-Mex and R-Mex surveys** (including not using check and challenge process).

Performance commitment definition

What we said in our draft determinations

We said that BR-MeX would be a single annual score for each wholesaler, calculated from:

- 50% based on survey results of business customers that contacted their wholesaler (B-MeX); and

Either:

- 50% based on results of a twice-yearly survey of retailers (R-MeX), where no suitable market performance framework (MPF) metric is available;

or

25% based on the Market Performance Framework (MPF) metrics that measure company performance against industry codes where available and 25% from R-MeX, where a suitable MPF metric is available.

The industry's MPF sets out a number of standards and key performance indicators (KPIs) that wholesalers and retailers should meet. The industry is currently reviewing the MPF with a view to implementing a revised framework by April 2025. We said we would consider including one or more MPF metrics within the calculation for a BR-MeX score. We said we would only include metrics that incentivise a better customer experience including those where performance is contributing to better market functioning. We said we would also need to consider whether these metrics are likely to be sufficiently determined and defined by the MPF review in time for inclusion within BR-MeX.

Stakeholder representations

We received representations on our draft determinations from seven wholesalers and four non-company stakeholders on the performance commitment definition.

Almost all representations are broadly supportive of the principle of introducing BR-MeX as a financial performance commitment. Only Yorkshire Water disagrees with introducing BR-MeX due to concerns with the methodology and the readiness of the incentive rather than with the principle of the incentive itself.

Thames Water says that the MPF element should be given greater weight - alongside a reduction in the weight for R-MeX. Wessex Water says that surveys in the non-household market are new and that there is still some confusion over the role of retailers and wholesalers which could influence the scores. Therefore, Wessex Water suggests the overall weighting to the B-MeX survey should be reduced and weighting for the R-MeX and MPF elements should be increased (to a third each). There was little support for increasing the weight of R-MeX if the MPF element was not included.

MPF Metrics

Eight stakeholders support having MPF metrics in BR-MeX. Thames Water, Severn Trent Water and Yorkshire Water say the MPF measures (which are objective) provide some balance to R-MeX (which is viewed as more subjective). However, four wholesalers raise concerns that the revised MPF framework and metrics would not be ready by April 2025. Underpinning this concern, wholesalers suggest they had not had the opportunity to understand how the MPF metrics would impact on the overall BR-MeX scores.

MOSL notes the interactions between improved quality data generated by its Data Assurance Programme and the wider reform of the MPF must be closely aligned to the incentives within BR-MeX. MOSL supports the inclusion of some MPF metrics in BR-MeX, specifically metrics M12 – premises address accuracy, M15 – late failed Service

Level Agreement for Bilateral hub requests and M18 – proportion of Bilateral transactions completed on time.

Our assessment and final determinations

BR-MeX and the MPF have similar aims for both retailers and wholesalers across a range of activities and service levels as they both encourage retailers and wholesalers to act and deliver in ways which support effective market functioning and so help deliver better customer outcomes. MOSL is currently leading a review of the MPF framework, with a view to a revised framework entering into force during 2025-26.

We would reiterate that we will only look to include MPF metrics within BR-MeX that we consider are significantly likely to **incentivise a better customer experience** including those where good performance is contributing to better market functioning. Having more metrics in BR-MeX reduces the incentive mechanism and distracts from improved customer service. Furthermore, we note that such metrics are new both in terms of MPF reform and how they may contribute to and function within the new BR-MeX mechanism. We also note that BR-MeX will be set in place over the period 2025-2030 and there is relatively limited scope to amend or change definitions. For these reasons we have sought to limit the number of MPF metrics within BR-MeX.

BR-MeX will introduce three metrics from the revised MPF framework, and we have agreed with MOSL that these **will be in place for 1 April 2025.**

During the first quarter of a B-MeX shadow period there were issues with some companies achieving sufficient interview responses to give sufficiently statistically significant results. We anticipate improvements in data quality will ensure sample size targets can be achieved in future and this will not be an ongoing issue. However, should there continue to be an issue with a Wholesaler's data sample such that the standard error around the score for the Wholesaler for the full year is above 4 we will exclude that score when setting the median B-MeX score. We will assign to the excluded Wholesaler the median B-MeX score. We consider this will help to avoid creating undue uncertainty on ODI payments for other companies. Note we will continue to monitor, via B-MeX survey statistics reported to us by MOSL, as given by the Agent, the size and quality of customer contact sample sets delivered by Wholesalers to the Agent, as well as how these are or are not converting to achieved B-MeX interviews per Wholesaler. We reserve the right to suspend or amend our calculation of BR-MeX for any Wholesaler where we consider that that Wholesaler is unreasonably providing small, poor quality or otherwise sub-standard customer contact data sets to the Agent.

Our final determination on the performance commitment definition.

A company's **BR-MeX score** will be based on three components:

- **Business experience survey (B-MeX)** - The B-MeX survey will be a telephone survey of contacts that each wholesaler has had with business customers, either directly or indirectly. MOSL will commission an Agent to run the B-MeX survey.

- **Retailer experience survey (R-MeX)** - This will be a direct survey of Retailers regarding their assessment of the services they have experienced from wholesalers and it will be undertaken twice yearly by the market operator MOSL.

- **MPF metrics** - M15 and M18 metrics relating to wholesaler performance in the completion of bi-lateral requests within BR-MeX, and M12 relating to the quality of address and premises data held by each Wholesaler.

The results from the B-MeX will account for 50% of the overall BR-Mex score; 25% will come from the R-MeX score and 25% from the MPF element. Each of the three MPF metrics will be given equal weighting.

Performance commitment level

What we said in our draft determinations

We said that this performance commitment would be set on a **common basis**, as customers expect the same standard of customer service no matter where they are in the country and there are no clear reasons for any company-specific differences.

Given the challenges of setting the PCL for a new performance commitment, including the lack of robust data over time to establish what "good" looks like in absolute terms and there is not an appropriate cross-sector benchmark to use we said we would adopt a **within-sector relative approach for BR-MeX,** with the PCL set at the BR-MeX median each year.

This means that a wholesaler's performance payment in a given year would be based on the difference between 1) a company's BR-MeX score and the median BR-MeX score; and 2) the BR-MeX median and either the BR-MeX score of the top performer or the bottom performer.

We expect wholesale companies to continue to provide excellent customer service to retailers and non-household customers. They should be able to do so through **efficient base expenditure**. We made no adjustments for enhancement expenditure.

Stakeholder representations

We received representations on our draft determinations from two wholesalers and four non-company stakeholders on the performance commitment level.

Thames Water raises concerns that, in the absence of any historical data, it would be difficult to establish an appropriate PCL and said that they believe it is disproportionate and risky to expose water companies to large-scale incentives from the start of the price control period. However, South West and Wessex Water say that using the median is appropriate.

Our assessment and final determinations

We have not changed our approach to setting the PCL for BR-MeX score from draft determinations. Using the median company's BR-MeX score as the PCL should still deliver performance improvements by helping to mimic outcomes that we would expect to develop in a more a competitive environment. We consider that in the absence of an external benchmark or historical data for BR-MeX, this approach is appropriate for incentivising improved performance at PR24.

We consider that using a relative approach is appropriate as BR-MeX is a new performance commitment and so it is difficult to set a robust and meaningful absolute target. We consider that this approach is simple and continues to provide strong incentives on all wholesalers to improve performance.

Our final determination on the performance commitment level:

- The BR-MeX PCL will be set at the **median BR-MeX score** each year.

Outcome delivery incentives and risk protections

What we said in our draft determinations

We said BR-MeX incentives would be **symmetric,** and the **size of the incentive would be ±0.20% appointee RoRE** to promote focus on non-household customers.

Owing to the targets for BR-MeX being relative, there are limits to the maximum payments equivalent to ±0.2% RoRE. In essence, financial risk from this incentive is capped. We will also be including it in the aggregate risk sharing mechanism for the outcomes package.

Stakeholder representations

We received representations on our draft determinations from three wholesalers and four non-company stakeholders on the outcome delivery incentive.

MOSL, UKWRC, IWNL and the Strategic Panel agree with symmetric incentives at ±0.2% RoRE but highlight that the weighting of BR-MeX and C-MeX should be kept under review to make sure the incentive sizes continue to reflect the relative revenues between the two customer groups.

Thames Water and Yorkshire Water say the incentive size is too high and that it should be reduced to ±0.1% RoRE. Thames Water suggest the incentive size for BR-MeX should be adjusted relative to C-MeX, using the relative revenues in scope. Thames Water also say that the incentive should only apply to water RCV, and not wastewater RCV (or adjusting the size of the incentive to ±0.1% appointee RoRE).

Thames Water, Severn Trent Water and Yorkshire Water suggest introducing the incentive without financial incentives in the first year and gradually building to ±0.2% RoRE, since BR-MeX is new.

Our assessment and final determinations

The performance commitment will be allocated on a level of risk equivalent to a maximum ±0.2% appointee RoRE. We still consider it appropriate to use appointee RoRE which applies to water and wastewater, to calculate incentive payments because BR-MeX applies to both water and wastewater activities. We continue to consider that this provides a meaningful maximum financial incentive (either as an outperformance payment or as an underperformance payment) to wholesalers to provide a better experience for retailers and customers. We consider this level is proportionate to C-MeX and other ODIs, it is also in line with equivalent incentives for businesses in Wales.

BR-MeX will be a relative incentive. A company's incentive payment each year will depend on the distance between its BR-MeX score from the median BR-MeX score and either the top or bottom BR-MeX score.

The financial incentives will be introduced from the 1 April 2025. We consider that this best helps incentivise relevant improvements in wholesaler performance.

Our final determination is to not change ODIs for BR-MeX from draft determinations.

- We will **use a relative approach to calculate ODI payments** on BR-MeX.
- BR-MeX will account for a maximum **of +0.2% of a company's appointee RoRE and a minimum of -0.2% appointee RoRE**.

Surveys

What we said in our draft determinations

We said two surveys would be needed to be run to derive scores for wholesalers: one for non-household customers (B-MeX) and one for retailers (R-MeX):

B-MeX would be a monthly telephone (CATI) survey of business customers that each wholesaler has had contact with, either directly (contacts between customer and wholesaler), or indirectly (referred by the retailer via the bi-lateral hub). Sample sizes should be sufficient to make sure that results are robust for each wholesaler. The B-MeX survey is to be commissioned and administered by the Market Operator, MOSL. R-MeX would be a direct survey of retailers, undertaken twice yearly (every six months). The R-MeX survey will be carried out and administered by the market operator, MOSL.

We said that we would not introduce a 'check and challenge' process for the surveys and that we would work with MOSL with a view to ensuring there are sufficient quality and assurance checks in place such that we are sufficiently confident in the wholesaler scores derived from the B-MeX and R-MeX survey results.

Stakeholder representations

- Three wholesalers (Anglian Water, Severn Trent Water and Yorkshire Water) raise concerns about potential business customer confusion between wholesale and retail activity on the B-MeX survey, saying this may influence the results.
- Four wholesalers (Anglian Water, Yorkshire Water, Severn Trent Water and Thames Water) raise concerns that the R-MeX pilot had provided inconsistent results (between scores and written comments). Anglian Water and Yorkshire Water suggest that this was due to confusion about wholesale and retail activity and asked for clearer guidance on how to complete the R-MeX survey.
- Two wholesalers (Wessex Water and Severn Trent Water) raise concerns about volatility in R-MeX scores due to small sample sizes. Wessex Water suggests applying weighting to compensate for one retailer accounting for a very small

proportion of a wholesaler's customer base but carrying an equal weight in the R-MeX survey.
- Four wholesalers (Anglian Water, Severn Trent Water, Wessex Water, Yorkshire Water) suggest using a 'check and challenge' process to give wholesalers confidence that the survey elements of the incentive (both R-MeX and B-MeX) are robust.

Our assessment and final determinations

Regarding the B-MeX survey, we commissioned and undertook pilot work and testing during 2023-24.[208] We also commissioned an Agent (Accent) to undertake a shadow run of the B-MeX survey and questionnaire during 2024-25, and we have held industry workshops to understand views and feedback.[209] Accent's interim findings are available.[210] In the light of findings from the 2023-24 pilot work, we have amended the questionnaire for the shadow run with the aim of improving participants' understanding. Changes include the information given to participants relating to the role of the wholesaler and retailer particularly to drawing attention to the distinction for indirect contacts to help them focus on the service received from the wholesaler. Where necessary the difference between a water only company and water and sewerage company to ensure the appropriate services are being scored. Findings from Accent's shadow run suggest that the questionnaire is generally understandable though we note Accent's recommendations regarding reminders to survey participants to restrict their feedback to the wholesaler only. We will also review this point and any consequential changes to the questionnaire in the light of final findings from Accent, due in February 2025.

Regarding the R-MeX survey, we have worked with MOSL to review the approach to the R-MeX survey. We have also held industry workshops to understand views and feedback.[211] Noting views put forward, we have agreed that MOSL will prepare guidance for retailers on how to complete the survey to support a more consistent approach to scoring across retailers.

We recognise concerns about response rates on the R-MeX survey. More recently we have seen response rates improve. In the most recent R-MeX survey (August 2024) 16 of the 21 eligible retailers providing a response on one or more wholesalers, and for all wholesalers at least two different retailers provided responses.[212] In most cases a response rate of over 70% is achieved. For companies in England, over 99% of non-household customers (and over 96% of non-household water consumption) are covered

[208] See: IFF, 'BR-MeX Pilot Report', April 2024.
[209] See: BR-MeX: Business customer and retailer measure of experience - Ofwat.
[210] See: Accent, 'B-MeX Interim Report Shadow Period 2024-25', November 2024.
[211] See: BR-MeX: Business customer and retailer measure of experience - Ofwat.
[212] See: Retailer Measure of Experience (R-MeX).

by the retailers that do respond. We consider this indicates that R-MeX provides a reasonable level of market coverage and level of retailer engagement. Furthermore, MOSL will also remind retailers of the importance of completing the survey for all wholesalers they deal with, with a view to maximising retailer response rates.

There will be no statistical correction or weightings applied to the R-MeX scores. We consider that raw scores are transparent and easy to understand. We consider that statistical correction techniques such as weighting or centring add a level of complexity and opacity to the results which could lead to further challenges and not improve the robustness of the results. [213] Furthermore, in terms of the observation that 'one off' incidents may unduly influence a retailer score for a particular wholesaler, we note that R-Mex results are averaged across the two biannual surveys, which should allow wholesalers time to 'recover' from a one-off incident.

We still consider it appropriate **not to include a check and challenge process** in the surveys. We will issue guidance to MOSL (who will be commissioning the survey agent for B-MeX as well as running the R-MeX survey) to improve quality assurance on surveying process and data undertaken by the survey agent – this will include clarifying the roles of retailers and wholesalers. We will seek assurance from MOSL that they have processes in place to appropriately quality check scores, so they accurately reflect the service provided by the specific wholesaler.

Our final determinations on surveys:

- **The B-MeX survey** will be a monthly survey from business customers who have contacted a wholesaler. It will be a telephone (CATI) survey. Sample sizes should be sufficient to make sure that results are robust for each wholesaler. The Market Operator MOSL will be responsible for commissioning and ensuring the running of B-MeX surveys, and the transfer of relevant results, scores and statistics to Ofwat.
- **The R-MeX survey** will be an online direct survey of Retailers, undertaken twice yearly with a six-month interval. The market operator MOSL will be responsible for administering the R-MeX surveys, and the transfer of relevant results, scores and statistics to Ofwat. We will not use a check and challenge process for the B-MeX and R-MeX surveys. We will work with MOSL on increasing quality assurance on the data.

[213] See for example: 'IFF BR-MeX Pilot Report'. April 2024, Chapter 7.

14.4 Business customer experience in Wales

This is a measure of non-household (business) customer experience for companies operating wholly or mainly in Wales to incentivise water companies to provide excellent customer service to business customers. For further information see the 'Business customer experience in Wales performance commitment definition'.

For our final determinations

We have changed

- We set a **lower performance commitment level** so that the target is achievable yet stretching for both companies.
- The equity at risk in the ODI rate calculation to use **a reduced appointee RORE of 0.2%,** to align with BR-MeX;
- The **caps and collars to ±0.2%,** reduced to align with the equity at risk; and
- The **performance commitment definition** to include large customers.[214]

We have not changed

- The **weighting of the surveys** in the performance commitment definition; The approach **to surveys.**

Performance commitment definition

What we said in our draft determinations

We said we would:

- introduce a contact survey component to calculate a company's business customer experience in Wales score;
- change the survey scale from 1-5 to 0-10;
- not have specific weightings within the operational contacts element for contacts related to water incidents and wastewater incidents; and,
- not introduce a separate component for customers who have experienced operational issues but have not contacted their company.

[214] We have made other minor textual changes in the business customer experience in Wales performance commitment definition.

Stakeholder representations

We received representations from Dŵr Cymru and CCW on the performance commitment definition. Stakeholders neither agree nor disagree with our proposals for the performance commitment definition. Dŵr Cymru notes an addition to be made to the **performance commitment definition** to include large customers who consume more than 50 Ml per annum should be included in the measure as they are included in BR-MeX. CCW supports our proposals on the performance commitment definition.

Our assessment and final determination

We agree that it is appropriate to include large customers in the business customer experience in Wales measure to align with BR-MeX, and to make sure companies are incentivised to deliver excellent service to all customers, regardless of company size.

Our final determination on the performance commitment definition is to make a small change from draft determinations to include large customers:

- A company's performance on business customer experience in Wales will be measured as a **single score out of 100 calculated from the average scores of two surveys** – a contact survey and a non-contact survey. Both surveys will **contribute equally** to the score.
- **Large customers** who consume more than 50 Ml per annum **are included in this measure.**

Performance commitment level

What we said in our draft determinations

We set this performance commitment on a **common basis**. There was no clear reason for any company-specific differences.

We proposed to use an **absolute targets approach**. We considered that there is no currently comparable performance data for a relative approach which compares performance across service providers in England and Wales. It is also not possible to use a within-sector relative approach with only two companies in Wales.

We set the 2025-26 PCL value by taking the maximum historical performance value (adjusted for the new methodology), rounded to the nearest whole number. This was lower than the PR19 PCL. We applied an annual improvement factor based on average percentage improvement from historical and forecast data, which aims to encourage continuous improvement. We made no adjustments for enhancement expenditure.

Stakeholder representations

We received representations from both companies on the PCL.

Both companies disagree with **the PCL**:

- Both companies say that the **PCL is too stretching**. Both companies highlight that companies in Wales generally perform well in terms of business customer satisfaction, so they should not be set a PCL which makes it look like they are underperforming.
- Both companies say that setting a common PCL is inappropriate due to distinct differences (including the customer base) which makes them incomparable for setting the PCL.
- Dŵr Cymru says that any changes to the questionnaire would impact performance scores, so using the shadow survey to inform PCLs may not be appropriate.
- Hafren Dyfrdwy says that use of Dŵr Cymru's shadow survey to inform PCLs is inappropriate since it did not cover a long enough timeframe to capture the effects of seasonality on survey responses, and its customers were also excluded. Hafren Dyfrdwy highlights that it is important to include the contact survey in the approach to PCL setting.

Our assessment and final determination

We agree that the draft determinations PCL was stretching given outturn performance and the impacts of moving to digital surveying. We consider it appropriate to reduce the level of stretch to make sure the PCL is achievable yet stretching. Reducing the level of stretch reflects that the PR19 PCL had a high stretch which neither company has so far been able to achieve, despite being relatively 'good' performers in terms of business customer experience.[215]

We consider that customers of both companies expect the same standard of customer service, and there are no clear reasons why performance should be different in the absence of other comparators, we consider that setting the PCL based on both companies' historic data is the most appropriate option.

[215] CCW published a report in 2023 that found business customer satisfaction is on average higher for Welsh companies than it is for English companies.

We consider that using data from Dŵr Cymru's shadow survey to inform our PCL setting is appropriate since it is the most accurate reflection of how the measure will run at PR24, as this was measured on a 0-10 scale and included a contact survey.[216]

We set out our calculations to determine the final determination PCLs over the 2025-30 period in 'PR24 final determinations: Business customers in Wales PCL model.' For the performance commitment levels by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Our final determination on the performance commitment level :

- The PCL is set on **a common basis** for both companies.
- We have **reduced the level of stretch on the PCL** to make sure it is achievable yet stretching, so we have reduced the baseline from 80.00 to 78.39. To set the baseline we have used the upper quartile of historical performance.
- **The 2029-30 PCL is equivalent to the PR19 PCL**, so is set at 80.17. Based on historic and forecast performance we consider this PCL is achievable.

Outcome delivery incentives and risk protections

What we said in our draft determinations

We proposed that the business customer experience in Wales incentive would be **symmetrical**, and the **size of the incentive would increase to 0.25% appointee RoRE** as a starting RoRE allocation.

Due to changes to the performance commitment for PR24, we proposed to limit the maximum payments to the equivalent of ±0.50% RoRE to protect against uncertainty from performance scores. We considered that relatively wide caps and collars maintained the appropriate incentives for companies and would protect customers and companies from undue risk.

Stakeholder representations

We received representations from both companies and CCW on the **ODI rates and risk protections**. Both companies disagree with the ODI rates and the level at which the

[216] Data from Dŵr Cymru's shadow survey is used to calculate the adjustment factor which we use to convert historical and forecast data from the methodology and survey scale from PR19 to PR24. However, we use both companies' performance data equally in our approach to setting the PCL.

risk protections are set, whereas CCW disagrees with having any risk protections on the incentive:

- Both companies say that the **incentive size is too large**. Dŵr Cymru says that it is not proportionate to business retail revenue. Hafren Dyfrdwy says that ODI rate is not proportionate to that for BR-MeX.
- Both companies say that the cap and collar range should be narrowed due to low confidence in the PCL setting. They say that the range should be reduced to align with the level of RoRE at risk.
- CCW disagrees with caps and collars, arguing that they weaken the incentive.
- Both companies say that there should be no financial incentive attached the measure in its first year. This is due to low confidence in the PCL setting.

Our assessment and final determination

We agree that it is appropriate to align the incentive to the size of BR-MeX so risk exposure is consistent across English and Welsh companies, so we will lower the RoRE allocation from 0.25% RoRE to 0.20% RoRE. We consider it necessary to retain (and narrow) risk protections for companies and customers due to a level of uncertainty arising from changes we have made to the performance commitment definition and survey methodology at PR24.

We consider it appropriate to retain the financial incentive for all years of PR24 – to make sure companies maintain sufficient focus on this performance commitment. Although we have made changes to the measure at PR24, this measure is not new, and we have tested the changes to methodology in the pilot. The survey pilot found that the methodology for contact and non-contact surveys produce robust data.[217]

Our final determination on ODIs and risk protections:

- **ODI payments** are calculated using **a top-down ODI rate** (with the changes to the methodology explained in Section 4.2 with a starting appointee RoRE allocation of **0.2%**).
- We will **have caps and collars at ±0.20% appointee RoRE**, in line with the equity at risk.

[217] Accent, Piloting approaches to capturing customer experience in the water sector for PR24; Business Customer Experience in Wales, August 2024, p.10.

For the outcome delivery incentives and risk protections by company, see 'PR24 final determinations: Key Dataset 1: Outcomes data'.

Surveys

What we said in our draft determinations

We proposed to explore using a mixed methodology approach by including digital survey methods as well as telephone.

We said we would review our approach to surveying for this performance commitment to make sure that the surveys aligned with our survey principles.

Stakeholder representations

We received representations from Dŵr Cymru on the business customer experience in Wales surveys. Dŵr Cymru disagrees with the removal of check and challenge and request a replacement to improve the data validity, particularly for small sample sizes.

Following a workshop with companies and CCW, Dŵr Cymru says that moving to a primarily digital approach is likely to result in lower scores than historic scores or those from the shadow survey which informed the PCL setting, which used telephone surveys.[218]

Our assessment and final determination[219]

We still consider it appropriate to use primarily digital survey methods, to make sure it is appropriate for use up until 2030. We will use telephone or postal methods for representation purposes or to ensure sufficient response rates. We consider it appropriate to conduct non-contact surveys on a quarterly basis and contact surveys on a monthly basis. This aims to improve recall of respondents in the contact survey and aligns with the approach taken for C-MeX.

We will put more responsibility on the survey agent to conduct appropriate quality assurance checks to make sure the data is accurate and robust, so do not agree that there is a need for a check and challenge process. This is in line with our approach for C-MeX, D-MeX and BR-MeX.

[218] Ofwat, Calculating ODIs for C-MeX and D-MeX and development of MeX surveys, November 2024.
[219] Note these expectations may need to be adjusted to take account of practical fieldwork issues.

Our final determination on business customer experience in Wales surveys is to not make any changes to the approach from draft determinations:

- We will use **primarily digital survey methods**. We will use telephone or postal methods for representation purposes or to ensure sufficient response rates.
- We consider it appropriate to conduct **non-contact surveys on a quarterly basis** and **contact surveys on a monthly basis**.
- We will **continue to work** with companies and the survey agent **on detailed aspects of surveying** before 1 April 2025, when business customer experience in Wales goes live.

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

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