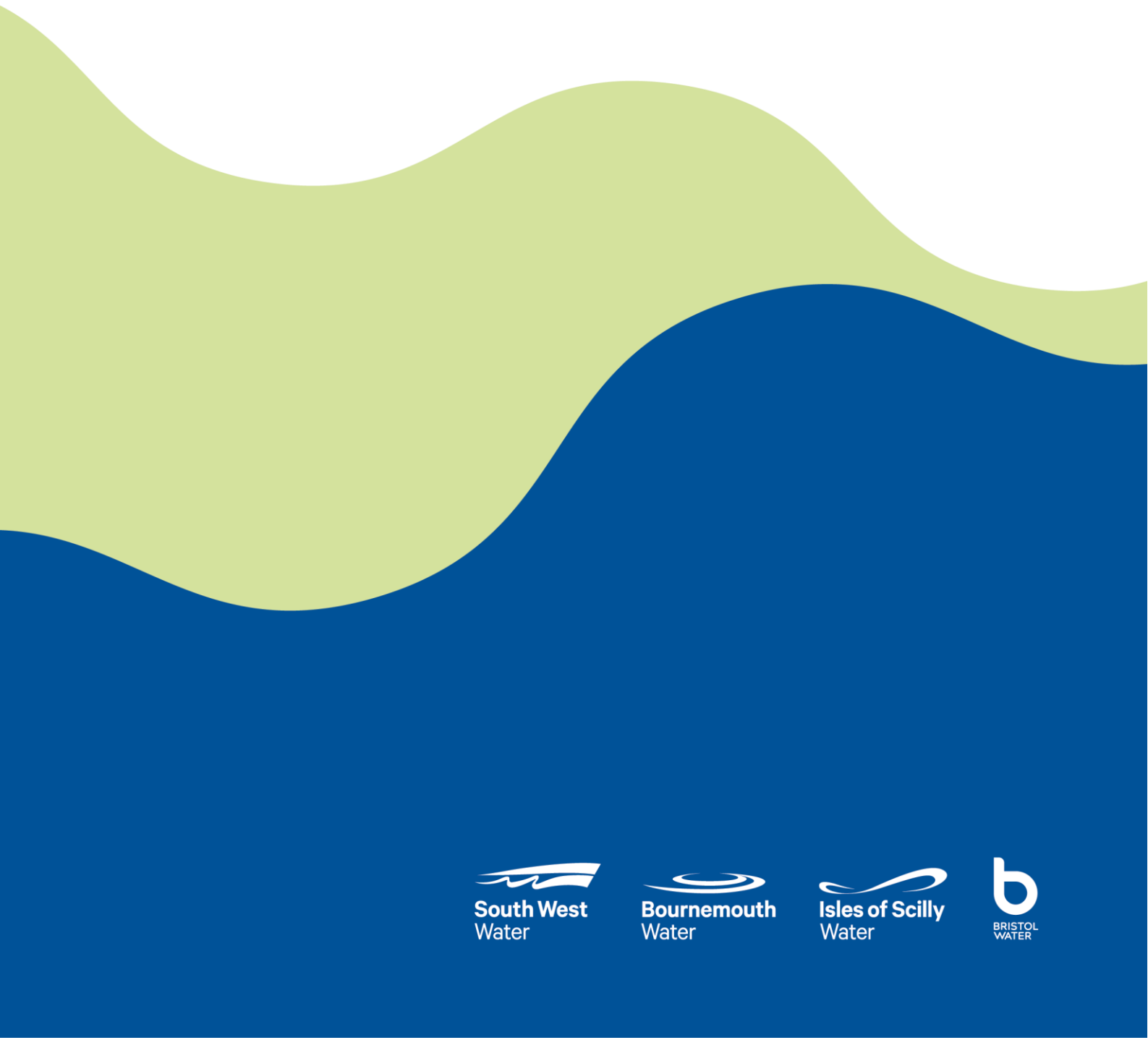




Evidence against quality tests

Outcomes



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Introduction

This document explains our approach to establishing our proposed outcomes and performance commitments and how we've ensured our targets are stretching.

By developing outcomes with customers over the last 10 years, and reflecting what matters to them, it has allowed us to be very transparent and to be held to account on areas of performance which are most important to customers.

For PR24, across the board, Ofwat are moving toward consistency across the industry and that includes outcomes – imposing a smaller set of outcomes which are common across the industry. In recognition of the revisions to the outcomes framework, we have followed four principles governing the development of our outcomes:

- To reflect what is important to our customers
- To simplify the approach to ODI rate setting
- To reflect a balanced and symmetrical risk and return range
- To set ambitious performance targets that we want to deliver, but to also balance these ambitions with deliverability.

In following these guiding principles, we have discussed the central role our engagement with our customers has played in shaping our targets and the essential scrutiny and challenge we have received throughout from the WaterShare+ Customer Advisory Panel.

We have demonstrated that our business plan delivers for customers, ensures costs are efficient, and ensures bills are affordable for all.

Alongside our performance commitments, we have set out in detail the approach we have taken to establishing our proposed alternative package of Outcome Delivery Incentives (ODIs) to drive service delivery.

We have also summarised the complementary ways in which we protect and underpin delivery for our customers. We have demonstrated how our ODIs are directly derived from the results of our customer engagement, and the independent challenge they have received from the WaterShare+ Customer Advisory Panel. We have shown how our symmetrical ODI package is well balanced to reflect customers' priorities across our outcomes and strikes the right balance of risk and reward overall to drive the delivery of services customers want and to deter and protect them from underperformance.

This document forms part of a suite of documents addressing the quality and ambition assessments specified in the Ofwat PR24 methodology.

Building on PR14 and PR19 customer engagement and business planning, we have driven a further step change in our processes to ensure that what matters most to our customers is at the heart of our plans - customer engagement has, in particular, driven our alternative incentive rates. As a result of our approach, we are confident that we have set out a high quality, ambitious and stretching suite of outcomes and performance commitments, that deliver a balanced and symmetrical framework, that our customers support and value. We have also ensured that customers' interests are protected through our well-evidenced package of incentives.

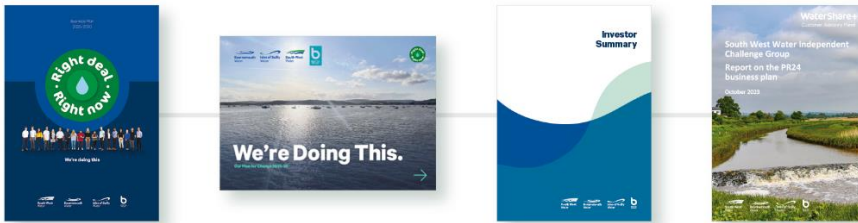
Our outcomes governing principles and active engagement with the WaterShare+ Customer Advisory Panel, ensure that we have seamlessly embedded customer and stakeholder engagement both in delivering current services and defining future targets and plans across all operating regions that make up South West Water.

Our performance commitments, together with our ambitious future targets, are the result of a detailed and comprehensive assessment of the full spectrum of possible outturn levels for each performance commitment, using a mix of expert judgment, historical analysis and forward-looking analysis of what base buys.

Document Map

The primary documents within the business plan submission are illustrated below. Other supplementary information, reports and documents are also referenced within these documents and can be accessed using a link in the document, where appropriate.

Level 1 • Main documents



Level 2 • Our strategic priorities



Level 3 • Evidence against quality tests



Level 4 • Supporting documents and data table commentaries



Strategic plans to 2050



Executive Summary

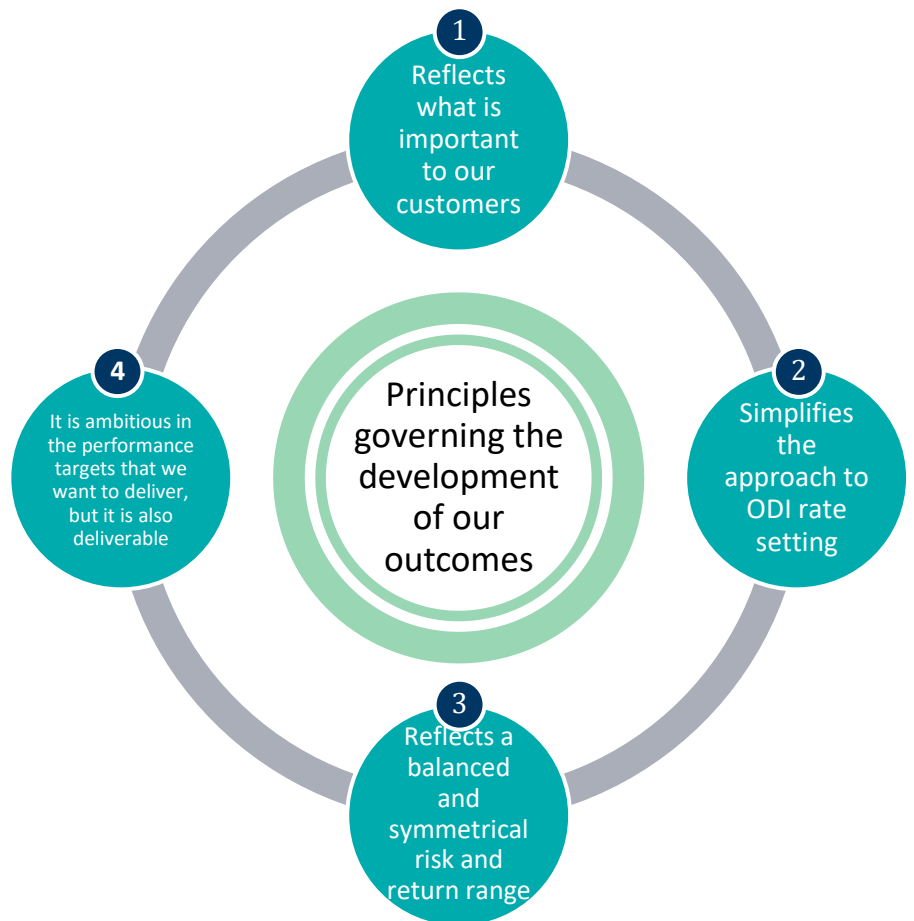
Our business plan is the right plan for our customers and the communities we serve. Our outcomes and incentives are an important part of our business plan. Our outcomes framework is grounded on the needs and expectations of our customers and reflects the particularities of our region.

It is crucial that we deliver the right outcomes for customers, communities and the environment. The outcomes framework holds us to account for the outcomes our customers pay for, and incentivises us to go further where it will deliver value.

With the challenges likely to face the industry under PR24 and beyond, it is more important than ever that customers are central to our plans and their preferences represented.

Our ODIs reflect what values most to our customers, environment and to society. For PR24 we welcome Ofwat’s objectives, namely for simplification of the framework and for a balanced framework with symmetrical incentives. We present in this document compelling evidence and customer research for our outcome and incentive design, based on the approaches we proposed in responding to the PR24 methodology consultation, and subsequent submissions such as on “what base buys”. We have not followed the detailed application of the PR24 methodology in all areas. Where we have deviated from the detailed methodology, we have clearly highlighted this and provided evidence and our rationale for proposing such changes. We have adopted our approach to ODI rate setting and ODI protections to:

- have the right balance of risk and return for an efficient, high performing company
- provide Ofwat with a range of approaches to consider in calibrating plans in summer 2024.



At the heart of our plan is our goal to deliver a high quality, efficient and affordable service to our customers, focused on what matters most to them, meeting all our statutory obligations in the context of the unique natural environment in which we operate. Our long-term targets are consistent with the achievement of government targets and statutory requirements.

We are targeting ambitious performance levels across key areas of our business. We aim to be sector leading in the areas where customers value the service most, including:

- Continuing to be sector leading on internal sewer flooding – delivering the fewest instances of internal sewer flooding
- Sector leading bathing water quality
- Reducing storm overflows from 20 to 17.5 by 2030 (a 13% reduction), in particular by building on the success of the launch of our WaterFit Live app in April 2023, which shares performance data and real time information when a storm overflow is spilling
- A cumulative 31% reduction in leakage levels across Devon, Cornwall and Bournemouth and a cumulative 26% reduction in leakage levels in Bristol (compared to baseline levels in 2019/20).

- Reducing water quality contacts less than 0.9 per 1,000 population in both regions, targeting discoloured water reduction.
- Continuing our Upstream Thinking plans – our ambitious, innovative and award-winning catchment management programme that aims to reduce pollutant load in water sources to improve water quality or to slow water within catchment and thereby increase resilience to both drought and flood events.

In line with Ofwat's guidance, we have included within this document insights into what the ODI framework would look like if Ofwat's proposed central ODI rates were used instead of the rates based on our own customer research and analysis. But under Ofwat's approach, the ODI framework is not balanced and it is not symmetrical. We have therefore proposed an alternative approach to ODI rate setting and to the balance of our overall ODI framework. Our alternative approach still aims to comply with the indicative $\pm 3\%$ ODI RORE range, whilst at the same time remaining consistent with the approach to setting absolute targets. In addition, we have also proposed our dynamic approach to incentives, which considers relative targets (but we understand that this latter approach may require a review of the ODI framework for future price reviews).

Our alternative ODI framework reflects the following:

- Separate outcomes (having separate performance levels and incentive rates across the South West and Bristol regions, and the Isles of Scilly where regulator targets are measured separately)
- Two new bespoke performance commitments applicable to the South West region (catchment management and embodied greenhouse gas emissions)
- The adoption of alternative marginal benefits and incentive rates (shown in data table OUT7) rather than the top-down rates Ofwat has proposed for the industry
- The adoption of a greater number of deadbands
- The adoption of a greater number of caps and collars, which are not automatically set at levels equivalent to $\pm 0.5\%$ RORE
- The appropriateness of common or company-specific performance levels, for example we are proposing that bathing water quality become a common performance level for the industry

- Where applicable, and as an alternative to the absolute targets, dynamic incentives (with relative industry targets) are also proposed as an additional consideration for a number of common performance commitments

Our performance commitments, together with our future targets, are the result of a detailed and comprehensive assessment of the full spectrum of possible outturn levels for each performance commitment, using a mix of expert judgment, historical and comparative analysis and forward-looking risk assessment.

We have used cost benefit analysis reflecting customers' values to support and underpin the assessment of the level of investment and performance commitment forming each outcome. This ensures that customers' values and trade-offs are reflected in efficient and stretching service commitment levels.

We have undertaken our own robust ODI incentives research in order to establish the proposed ODI incentive rates. This research is more robust, and reflects the development of the approach we proposed to the PR24 Future Ideas Lab. We have used customer and stakeholder views to define the overall package of stretching incentives to ensure that the balance between service and risk accurately reflects their preferences and provides strong incentives for further innovation.

We have consulted widely to test and refine the outcomes, including the committed performance levels and incentive structures to ensure that it accurately reflects customer and stakeholder views. This iterative process of engagement and listening to our customers and stakeholders ensures that we have developed the best, well evidenced plan delivering what matters most to them and the environment. We are confident that the extensive programme of engagement undertaken has ensured that our outcomes and performance commitments are well evidenced. We are confident our approach is robust and reliable in all material aspects and ensures the business plan delivers value for money services to customers, with the target of delivering more for less in the future. Our industry leading customer research and engagement programme ensures that our performance commitments are:

- Consistent with the interests of our consumers – today and in the longer term

- Based on results from cost benefit analysis and our assessment of upper quartile cost and service sector performance, when combined through robust analysis
- Aligned with legislative obligations and economic to deliver.

Whilst we welcome Ofwat’s principle of symmetrical incentives risk at PR24, in our view, the outcomes package as a whole has inherent downside skew, even for efficient companies. Whilst we have followed Ofwat’s guidance, where we have implemented an alternative approach, we have provided detailed evidence and justification for our decisions. Asymmetric risks are apparent in the proposed design of ODI protections, the approach to setting performance commitment levels (via common levels set at the draft determination and via assumed improvements from base costs), cost allowances and PCDs.

On estimating ODI risk, based on Ofwat’s indicative ODI rates and PR24 methodology expectations for ODI protections, this does not result in an ODI framework that contributes to an appropriate balance of risk and return. We have therefore considered the following as part of our assessment for estimating ODI risk for each performance commitment:

- Balance of risk
- Customer insights
- Regulatory precedent.

Ofwat has designed a top-down approach to ODI rate setting for PR24. We retain the view that ODI rate setting would better align to a combination of triangulated bottom-up willingness-to-pay valuations and top down RORE allocation approaches to determining ODI rates. Our top-down approach is seeking explicit customer views on our ODI allocations, instead of relying on performance ranges to justify stretch, as Ofwat has proposed.

We have proposed an alternative approach to ODI rate setting. Our proposed customer informed ODI rates for South West and Bristol are summarised on the page overleaf.



For more information see [Enhancement business cases](#)

Our plan, and our alternative ODI package, achieves a balance of activity and investment that will deliver for our customers, providing an efficient service and ensuring affordable bills for all. We have proposed incentives that will encourage us to do more of the right thing, whilst protecting customers from outperformance payments that exceed their requirements. Based on customer and stakeholder feedback we are confident our ODI package reflects the right balance. We summarise below how we have achieved a balanced ODI framework and highlighted where we have adapted an alternative ODI design, compared to the PR24 methodology.

In summary, our outcomes framework is underpinned by stretching yet achievable performance commitment levels and achieves a +1.9 to -2.1% RORE range, consistent with Ofwat’s methodology. This risk range has been achieved in tandem with the adoption of our preferred incentive rates and our ODI protections. This risk range is summarised on the pages overleaf. Our ODI design has been informed by:

- Extensive and robust customer and stakeholder engagement and research – including our robust ODI top down RORE allocation research, developed with third party support, set out in the section on Customer Engagement and Research
- Our what base buys analysis approach that informed our base target setting, alongside our ODI P10 and P90 incentive levels. The methodology we developed with third party support and previously shared with Ofwat has been updated to reflect industry 2022/23 performance (our outputs are captured in data table OUT2). This is set out in the section on What Base Buys
- In addition to the “what base buys” level of performance from base expenditure, we have set out the additional level of performance that derives from enhancement expenditure. This is set out in the our enhancement investment cases
- Detailed incentive design to provide symmetrical incentive ranges with an appropriate level of risk. We set out the incentive design choices we have made in this document and set out the RORE modelling that supports this in the Risk and Return document
- Our P10 and P90s have been set with reference to Ofwat’s view of P10 and P90 levels. Further analysis on our deviations from the Ofwat levels are included in the appendix.

Summary tables – our proposed customer informed ODI rates for South West and Bristol

Performance commitment	Unit	SWB ODI rate, £m	BRL ODI rate, £m
Internal sewer flooding	Number per 10,000 sewer connections	1.24	N/a
External sewer flooding	Number per 10,000 sewer connections	0.58	N/a
Water supply interruptions	Property minute	0.21	0.11
Compliance risk index (CRI)	CRI score	0.29	0.15
Customer contacts	Customer contacts per 1,000 population	1.78	0.91
Discharge permit compliance	%	1.25	0.04
Serious pollution incidents	Number	0.70	0.78
Storm overflows	Average number of spills per overflow	0.31	N/a
Total pollution incidents	Number per 10,000 kilometres of wastewater network	0.17	N/a
River water quality	Reduction in kilograms of phosphorus	0.00034	N/a
Biodiversity	Biodiversity units per 100km ²	1.31	0.21
Asset health 1: Mains repairs	Number per 1,000 kilometres of mains	0.08	0.03
Asset health 2: Sewer collapses	Number per 1,000 kilometres of sewer network	0.21	N/a
Asset health 3: Unplanned outage	%	0.41	0.24
Leakage	MI/d	0.15	0.15
Per capita consumption	litre/person/day	0.21	0.10
Business demand	MI/d	0.08	0.08
Operational GHG emissions (water)	% change from baseline	0.25	0.09
Operational GHG emissions (waste)	% change from baseline	0.47	N/a
Bathing water quality	Index change of 1	5.28	N/a
Catchment management (bespoke)	Hectares	0.0002	N/a
Embodied I GHG emissions (bespoke)	% change from baseline	0.48	0.08

Summary tables – the impact of our alternative ODI design ODI RORE and how this compares to Ofwat’s PR24 methodology

We summarise below the ODI impact on RORE compared to Ofwat’s ODI framework. Our customers have been clear that 2% RORE is the appropriate bill impact risk for the PR24 ODI package as a whole, which we have factored into our deviations from the Ofwat top-down approach.

Maximum range	Underperformance as % of RORE	Underperformance £m p.a. (averaged)	Outperformance as % of RORE	Outperformance £m p.a. (averaged)
Ofwat’s top-down approach to setting ODIs (with limited ODI protections)	-16.9%	-341	10.0%	201
Our alternative approach (our ODI rates and our ODI protections)	-5.2%	-105	3.8%	76

P10/ P90 range	Underperformance as % of RORE	Underperformance £m p.a. (averaged)	Outperformance as % of RORE	Outperformance £m p.a. (averaged)
Ofwat’s top-down approach to setting ODIs (with limited ODI protections)	-5.9%	-120	3.9%	80
Our alternative approach (our ODI rates and our ODI protections)	-2.1%	-43	1.9%	37

Our alternative top-down ODI rates are shown in data table OUT7. The table above shows the additive ODI impact on RORE. We show the sensitivity testing that derives the overall ODI RORE range in the *Risk and Return* document.










This document should be read in conjunction with data tables OUT1-10 and our data table commentary on section 1: outcomes.



For more information see [Risk and return](#)

Key Messages

Our Board has carefully considered how our performance during 2020-2025 informs our plans for 2025-2030 and beyond, with the executive proposing targets which are stretching but deliverable.

-  Our outcomes meets the objective of the PR24 methodology, reflecting simplification of the framework
-  Our outcomes reflect what matters most to customers and are underpinned by extensive customer evidence
-  Our outcomes reflects a balanced and symmetrical risk and return, delivering c.+/- 2%
-  Our outcomes reflects consistency with regulatory precedent and is consistent with future statutory and regulatory objectives
-  Our outcomes reflects an ambitious framework – our performance commitment targets are stretching and deliver step changes in base performance
-  Our performance commitments and their ODI protections are well evidenced and reflect what customers have told us they want and expect
-  Whilst we have applied alternative marginal benefits, which are different to the top-down industry marginal benefits Ofwat has published, we have applied the spirit of the methodology, by applying top-down incentive rates. This is based on compelling customer research and ODI risk evidence.
-  Our customer engagement on our outcomes is in line with Ofwat's standards for customer research
-  There has been extensive challenge of our outcomes plans by our independent WaterShare+ Customer Advisory Panel

Our Long-Term Ambitions

We serve one of the most distinctive and diverse regions in the UK stretching from Bristol to Bournemouth, Devon, Cornwall and the Isles of Scilly and we anticipate a number of particular influences in the region over the coming years and decades.

In Our Strategic Direction to 2050 we set out our long-term ambition for the water system we operate. It covers the leadership and action we will take, the action needed from others, and the opportunities we must collectively grasp if we are to ensure high quality, reliable and resilient water services alongside protecting the environment for future generations. We also set ourselves five long term ambitions which reflect our position today, the priorities of customers and stakeholders and the challenges we face.

For PR24, across the board Ofwat are moving toward consistency across the industry and that includes outcomes – imposing a smaller set of outcomes which have common definitions applied across the industry. Whilst this ensures comparability, some of these measures which may not resonate clearly with customers. These metrics only represent a small proportion of what our plan will deliver for customers.

We do more than simply provide efficient and affordable water and wastewater services and the delivery of regulatory targets. Our purpose is to make sure that we deliver public health, boost environmental value, support a green economic recovery, and create social benefit for all, today and for generations to come.

Our ambitious plan will accelerate delivery in the areas which matter most to our customers and to our stakeholder - our long-term ambitions - which are areas of focus beyond the regulatory framework.

We are balancing the aims of our long-term ambitions with the requirements of the regulatory framework. In the table below we show our mapped long-term ambition to the PR24 performance commitments. Later in this document, we describe how our deliverability plans ensure we meet the performance commitment target levels, which will then contribute to our long-term ambitions.



For more information see [Our Strategic Direction to 2050](#)

Our Long-Term Ambitions	PR24 Performance Commitments	Our Plans
Resilient water resources through healthy catchments	Leakage Per capita consumption (PCC) Business demand	<ul style="list-style-type: none"> • Meet all water needs for homes, businesses and the environment • Create greater capacity through a diverse portfolio of water sources, strategic region resources and inter-connectors • Protect and boost river flows • Reduce leakage in the network and at customers homes
Top quality drinking water	Compliance risk index (CRI) Customer contacts about water quality Water supply interruptions Mains repairs Unplanned outage	<ul style="list-style-type: none"> • Ensure world class drinking water that meets stringent water quality standards • Progressively address emerging risks • Create resilient, smart networks with real time tracking and management of water pressure, flow and quality
Trusted by customers, stakeholder & communities	C-MeX D-MeX BR-MeX	<ul style="list-style-type: none"> • Delivering the basics brilliantly - being accessible to our customers when they need us and providing excellent customer service • Drive greater engagement through transparency - sharing our plans, data and how we are performing • Make It easier for customers to reduce their water consumption and save money • Innovate through progressive charging, to ensure fair and affordable bills for all; specifically protecting those most in need of support
Controlled & treated wastewater flows	Internal sewer flooding External sewer flooding Total pollution incidents Serious pollution incidents Storm overflows Discharge permit compliance Bathing water quality Sewer collapses	<ul style="list-style-type: none"> • Evolve our water recycling and sewerage system to meet the needs of our communities and the environment • Enhance sustainable drainage to reduce risk of flooding and pollution • Create resilient smart wastewater networks with real-time tracking and management of capacity
Delivery nature recovery & net zero	River water quality Biodiversity Operational GHG emissions (water) Operational GHG emissions (wastewater) Embodied GHG emissions (bespoke) Catchment management (bespoke)	<ul style="list-style-type: none"> • Increase biodiversity through further habitat creation and improvement • Decarbonise our operations • Use our land and resources to increase renewable energy generation • Return treated water safely to the environment

Developing our Outcomes

Principles governing the development of our Outcomes

Outcomes and performance commitments have played an essential role in driving improvements in the water sector. The framework rightfully ensures the importance of customers and incentivises companies to deliver their outcomes in innovative ways. Whilst outcomes have been part of the framework for the last 10 years, in recent years Ofwat has become more focused on comparability of the industry.

An effective ODI framework should be able to deliver real benefits to customers while providing the Company with both the flexibility and incentives to improve performance, where appropriate through investment.

Whilst it is understandable that for PR24 Ofwat has introduced new guidance for common performance commitments, incentive rates and bespoke performance commitments, designing a balanced package of service improvements and incentives across common and bespoke performance commitments should always be considered in the context of what is important to customers and investors (by designing an outcomes framework that considers customers protections, prioritises local needs and considers outcome delivery incentives alongside other risk and return mechanisms). The outcomes framework needs to consider its purpose and whether it still meets the principles that have governed its existence.

With a degree of freedom open to companies, the outcomes framework was a novel innovation at PR14. PR19 reduced the freedom given to companies to develop bespoke proposals tailored to reflect customer and stakeholder needs and aspirations. However, we were still able to use the framework to meet the original objectives in other areas of performance to address our customers' preferences through bespoke PCs and through setting appropriately stretching targets.

We support Ofwat's desire to simplify the price review at PR24 and we recognise that performance commitments was one of the areas of the methodology that Ofwat set this objective. We will always support a framework where our customers remain at the centre of defining the service measures we are incentivised to meet. However, the aim of regulatory simplification has, in the round, resulted in an ODI framework that cannot meet the PR24 methodology requirement of a balance in risk and return. The PR24 outcomes framework also moves yet further away from the original aim of the outcomes framework, with considerable constraints on companies' freedom to define measures according to what their customers value.



Throughout PR24, our guiding view has been that there is an opportunity to refocus the outcomes framework on driving local and long-term outcomes that align with long-term planning frameworks and that still achieve the objective of regulatory simplification.

- Development of outcomes requires four core components to be determined
- The defined metric, or outcome, to be delivered
- The target to be achieved
- The incentive rate, at which companies will be rewarded or penalised for out or under performance
- The design of the outcome; what protections will be in place for uncertainty (for newer measures) or third party impacts

In previous price reviews, companies had licence to develop outcomes which mattered most to their customers and communities, defined in such ways that were meaningful to them. Increasingly with its approach at PR24, Ofwat is moving towards greater standardisation and comparability across the industry. This means that:

- Outcomes are defined by Ofwat, with the expectation that there will be few, if any, company-specific outcomes. They are increasingly normalised
- Targets will be proposed by companies on submission, on reviewing ambition Ofwat will recommend targets in its determinations
- Incentive rates will be set by Ofwat
- Safeguards have largely been removed from the design. This removes any judgement from definitions and is intended to ensure companies are resilient for the future, but it means that companies bear the full risk for extreme events outside their control

We believe that this approach does not result in a balanced package of risk and reward which represents a 'fair bet' for investors, nor does it reflect local customer and community priorities. Given the scale of the PR24 programme we are proposing an alternative approach to ODI rate setting as part of our submission.

We understand that the imbalance in risk and return is an unintended consequence and so we have considered potential solutions – alternative marginal benefits (rather than the industry top-down incentive rates) would be the simplest solution at the draft determinations. But it is also not the only solution – we have had to introduce definition revisions, deadbands, caps and collars, in addition to our alternative marginal benefits, in order to ensure the ODI framework is balanced and aligned to an appropriate level of risk and return. We have provided evidence to justify our proposals.

The principles governing the development of our outcomes framework are summarised below. These principles are considered further in the remainder of this section.

Reflecting what matters most to customers

We have maintained our customer research programme, recognising that the views of local communities are vital in shaping our plan, and are proposing an alternative approach to ODI rate setting as part of our submission. Our approach has been developed with and is supported by third party experts, including an academic peer review of our triangulated willingness to pay approach (an approach we have included as a further step in the calibration of incentive rate setting).

Our continuing customer research, as well as the involvement and challenge from the WaterShare+ Advisory Panel and our Board, have enabled us to ensure that our plans are focused clearly on those things most important to customers and stakeholders.

Our ODIs provide strong incentives for delivery around our performance commitments. They reflect the right balance of financial under and outperformance incentives.

Our allocation of ODIs is based on customers' views – both in qualitative PC research and confirmed in our Balancing risk and reward research; customers support our proposed ODI package, and this has been developed and tested repeatedly as our approach has been refined.

ODIs only work for customers if they drive us to perform on those aspects of service that are important to them. We have engaged our customers to ensure our financial incentives have the right balance and strength.

Customers want the strongest focus to deliver and drive improvements in those aspects of service that are most important to them. Customers' number one priority is to ensure the basic requirement of a clean, safe drinkable water supply is protected and maintained. However, it is unlikely customers think this is an area that requires significant improvement. The two key areas for investment should be focused around supporting the local environment (e.g. preventing pollution, protecting plants /wildlife) and improving infrastructure (e.g. reducing leaks, failures and blockages), which are the most important areas for our customers beyond safe, clean water.

We have used the balancing risk and reward research as a top down check to make sure our incentives align with what customers want.

In summary:

- Our starting point for ODIs is ensuring that our customers remain supportive of the concept and that we reflect the priorities that matter most to them. Every stage of our planning process has been based upon what our customers have told us they want us to deliver, and what they are willing to pay for. We have aligned our incentives and provided strong incentives to deliver for customers and our region.

Simplification to the approach to ODI rate setting

Whilst we have considered Ofwat’s top-down approach to setting ODI rates, we have instead proposed an alternative approach to ODI rate setting (these are included in data tables OUT7 for the regions of South West and Bristol). Our approach removes the need for the complex regulatory judgement that Ofwat is forced to consider, as our approach directly reflects customer views. The outputs from our sources of customer engagement directly set the RORE allocations for each PC (we have considered customer views on individual PCs as well as groupings of PCs). We have used cost benefit analysis based on triangulated customers’ values to assess performance commitment levels and expenditures across all our outcomes – and challenged ourselves to ensure the plan provides value for money – even when delivering our regulatory and legal obligations. Whilst those values are not included in our indicative ODIs, we have included the compelling and sufficient evidence of such a 'bottom-up' approach to triangulations, which could be sourced when Ofwat is further calibrating incentives at the draft determinations. We have then used these same customer values to define the outcome delivery incentives (ODIs) that are also directly based on customers’ values and trade-offs. We have used customer and stakeholder views to define the overall package of stretching incentives to ensure that the balance between service and risk accurately reflects their preferences and provides strong incentives for further innovation and delivery within the period 2025-2030 period and beyond.

Neither the original approach to setting ODI rates based on the collaborative research for ODI rates, nor Ofwat’s a revised approach based on top-down RORE allocations, deliver more robust valuations than the high quality willingness to pay research undertaken by those companies that achieved a strong rating for their customer research and engagement at PR19.

For PR24, our aim has been to adopt a package of incentives that most accurately aligns to our customers’ preferences. To ensure we have adopted as consistent an approach to top-down incentives as Ofwat is anticipating, we have not calibrated our alternative top-down incentives ahead of our business plan submission, we do however include in our submissions our approach to and evidence of triangulated valuations. Our approach to triangulated valuations is one where continuous reviews and updates are considered - we recommend that Ofwat consider our supporting evidence as part of its calibration of all company's incentives at the draft determinations. Our full PR24 Triangulation Report considers the benefits of bottom-up valuations, in addition to our top-down valuations, in further detail.

Triangulation is the use of multiple, independent data sources and research methods to produce a common perspective or understanding. It is a means for cross-checking, validating and providing confidence in research results and findings. The objective of a robust valuation triangulation process is to increase the reliability and acceptability of valuations used in business planning by incorporating the range of available evidence (both quantitative and qualitative). This in turn increases the acceptability and legitimacy of the performance commitments and the overall plan.

Our valuation triangulation process for PR24 has built on the successful principles and approaches developed for PR19. It has been refined in accordance with the various requirements and guidance set out by regulators and stakeholders. This triangulation process, which has been discussed and challenged by the WaterShare+ Customer Advisory Panel, is summarised below.



This process uses a clear assessment criteria for appraising the robustness and relevance of each valuation source. This draws heavily on the approaches recommended in CCW’s triangulation process, the critical questions for appraising evidence in the HMT Magenta Book¹, and Defra’s value transfer guidelines². Once the robustness and relevance of each evidence has been assessed, we have weighted the valuation evidence to form triangulated values. This has been undertaken using weights discussed and agreed in advance with the WaterShare+ Panel.

The evaluation of the evidence on customer valuations was structured around two sets of critical questions:

- Robustness: What is the robustness of the research for our valuation purpose?
- Relevance: What is the relevance of the research to the service area being considered?

Each piece of evidence is then weighted (from 1 to 0) against these 2 critical questions. The triangulated values are then derived as an overall average, weighted by the robustness and relevance of each piece of valuation data. We have followed this approach for PR24 but we have also sought to significantly advance our understanding of customers’ valuation of services with our biggest programme of customer willingness to pay work and triangulation.

		Relevance (for the current purpose)				
		High	H/M	Medium	M/L	Low
Robustness (for the current purpose)	High	1	0.85	0.7	0.3	0.15
	H/M	0.85	0.75	0.55	0.3	0.1
	Medium	0.7	0.55	0.4	0.25	0
	M/L	0.3	0.3	0.25	0.2	0
	Low	0.15	0.1	0	0	0

Alongside the valuation work, independent academic expert, Professor Ken Willis has reviewed, challenged and supported the triangulation process, as have the independent WaterShare+ Advisory Panel.

In summary:

- Ofwat’s top-down industry incentives do not directly reflect the views of our customers. Marginal benefits, a key component used to set incentive rates, are only loosely based on customer research. This is a complex area, and one in which Ofwat is attempting to set values for the industry for the first time; whereas companies have experience from previous price reviews of setting their own rates based on ‘bottom up’ analysis of customer willingness to pay research. This has resulted in values which are not marginal, instead reflecting a percentage of company RORE.
- We have explored triangulated valuations as part of phase 2 of our customer engagement programme. We have included supporting evidence for further calibration of our alternative incentives, which could be further triangulated using ‘bottom up’ valuations, which have been peer reviewed.

Ensuring there are symmetrical ODIs in a balanced risk and return range

Price reviews require companies to make trade-offs of risk and return. It is important to prepare a plan that the business can deliver in the round. Whilst areas of challenging performance must be targeted, particularly where there are reputational consequences, managing uncertainty requires headroom in a mixture of cost, performance targets and financing in order to adapt.

In our Balancing risk and reward research customers tell us that the incentive range should not exceed 3% of RORE. A range of 1%-3% was popular with customers. Our incentives at the appointee level align with this range. This range is also consistent with the indicative ODI range as per the PR24 methodology.

Whilst Ofwat’s view is that a performance commitment does not need to be fully in a company’s control for it to be worth incentivising, it is evident from performance across the industry that this is not the case, and therefore we have concluded that we need to reflect this in the design of our incentives and ODI protections.

¹ HM Treasury “The Magenta Book Guidance for evaluation”, April 2011

² Eftec “Valuing Environmental Impacts: Practical Guidelines for the Use of Value Transfer in Policy and Project Appraisal”, A report for Defra, February 2010

Setting the wrong incentives may mean that companies are subject to performance risk in areas beyond their control, or are overly incentivised to perform on certain areas. In addition, too much risk has the potential to increase financing costs. Our incentives package should therefore be aimed at areas that our customers value, be proportionate in terms of willingness-to-pay and the impact on RORE and reflect the regulatory framework we must operate within. We must be mindful of the Gray review, which highlighted a concern that the balance of risk and reward had previously been tilted too far towards uncertain and potentially large penalties for failure, with relatively limited rewards for outperformance or innovation³.

We flagged in our response to the draft methodology our opposition to the limited use of caps and collars within the ODI framework. In our view, caps and collars are required to ensure a balanced ODI framework. The objective of a symmetrical risk and reward ODI range cannot be achieved without deadbands, caps and collars. A regulatory precedent should be noted. The CMA has previously shown support for the adoption of caps and collars for a number of performance commitments.⁴

We flagged in our response to the draft methodology our opposition to the absence of deadbands within the ODI framework. Ofwat's methodology only references a deadband as acceptable for one performance commitment – the compliance risk index. However, a regulatory precedent should be noted. The CMA has previously shown support for the adoption of caps and collars for a number of performance commitments.⁵

Our alternative ODI protections ensures risk allocated to those best placed to manage it – companies cannot be expected to bear the risks inherent in the framework in the absence of other risk sharing mechanisms (the aggregate sharing mechanism alone is not sufficient).

In summary:

- Ofwat's approach to ODI rate setting results in a risk-return that is not balanced and has significant potential financial ODIs equivalent to +/-5% RORE.

- We have followed Ofwat's guidance but we have found that not all of Ofwat's objectives can be met. We have prioritised simplification of the incentive rates, rather than introducing further complexity, to ensure balance in risk and return is achieved. This has resulted in our decision to delay any further calibration of our alternative top-down incentives with bottom-up triangulated valuations. We have nevertheless included our thinking in this area, so that Ofwat can consider such valuations in its calibrations at the draft determinations. Our alternative incentives deliver a balanced and symmetrical framework.
- We have also proposed dynamic incentives for a number of performance commitments.

Being ambitious in the performance targets but also reflecting deliverability

We have challenged ourselves to achieve stretching but deliverable performance commitment levels.

Using insights from our 'What Base Buys' methodology (developed with third party support from Oxera) we have examined trends in individual performance commitments for the industry (on a weighted average basis) and for the upper quartile cost benchmark companies. These insights have been considered as part of our ODI design protections.

We also assess current and forecast levels of risk and performance at Operational Performance Measure (OPM) level. Our OPM framework is aligned to the suite of performance commitments and covers the full range of our services and activities. This includes water, wastewater, environmental impacts, customer service, health and safety, and wider societal impacts.

³ Gray (2011) [Review of Ofwat and consumer representation in the water sector](#), page 30

⁴ Final Report, Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations

⁵ Final Report, Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations

Our OPM framework is used to articulate the change in risk and performance – now and in the future – and reflects the aspects of service that are important to customers. Our OPMs have been in place since 2003 and are updated through regular internal business reviews and customer engagement to ensure they reflect customer and stakeholder priorities. OPMs are embedded in all our decision support tools, for example our main optimisation system, known as Portfolio Risk Management (PRM), our and Water Resources Management Plan (WRMP) planning tools. Each OPM is valued separately. We have separate valuations that are used to assess our plans and examine how cost beneficial changes in the level of performance are.

Some performance commitments have a one to one mapping to OPMs (e.g. leakage), whereas other performance commitments are the sum of multiple OPMs (e.g. the pollution incidents performance commitment is the sum of the risk of category 1, 2 and 3).

The increased level of granularity that our OPMs gives us is important to ensure that we can deliver maximum value to customers by incorporating more detailed activities and operating effects on services.

A mapping of the performance commitments to the OPMs has been used to confirm the OPM Framework is complete and allows us to link all of our expenditure and activities to performance commitments and outcomes.

Each of the OPM valuations provides the estimated monetised benefit of the change in performance, and allows the full value of potential investment to be valued, and include:

- The customer willingness to pay to avoid service failures, such as sewer flooding, supply interruptions, and odour issues
- The customer willingness to pay and other community values for protecting the water and the natural environment, such as improving bathing waters, preventing pollution, reducing leakage, preventing traffic disruption and reducing greenhouse gases
- The customer willingness to pay for improvements in customer service, such as dealing with customer contacts first time and effectively
- The financial impact of failures to the company, such as clean-up costs and investigations.

As each OPM maps to our performance commitments – we can understand the value of delivering improvements in performance commitments to our customers.

We have engaged with customers, the WaterShare+ Advisory Panel and regulators to collect evidence and discuss targets for our performance commitments. The result has been that we have outcome performance commitments that our customers want and are consistent with relevant regulatory and statutory requirements and licence obligations.

In developing our targets for PR24 we have taken the following approaches to ensure targets are stretching but achievable, reflecting our investment plans:

- Industry comparisons setting targets based on industry comparison data and expectations, looking for areas of outperformance where we are already sector leading (i.e. internal sewer flooding)
- Link to other plans we are ensuring targets are consistent with other regulatory submissions where appropriate (such as leakage and PCC in the WRMP)
- Regulatory precedent proposing targets or deadbands where previously agreed or targets reflect other regulatory levels
- AMP7 performance and forecasts for 2024/25, as well as progress on our previous commitments.

One area where we have felt we have no choice but to not meet our 2024-25 target levels of performance is per capita consumption.

Further Information on our approach to establishing the cost-service relationship (often referred to as 'what base buys') can be found later in this document.

In summary:

- We have set targets which are stretching, but deliverable, reflecting both 'what base buys' analysis and our enhancement investment plans
- Our investment plan of £2.8bn will deliver a large number of outcomes for our customers and the communities we serve – significantly more than might be obvious by the 20 common performance commitments in the PR24 framework. Our framework is aligned with our investment and initiatives for the period – our price control deliverables are considered in our enhancement investment cases.

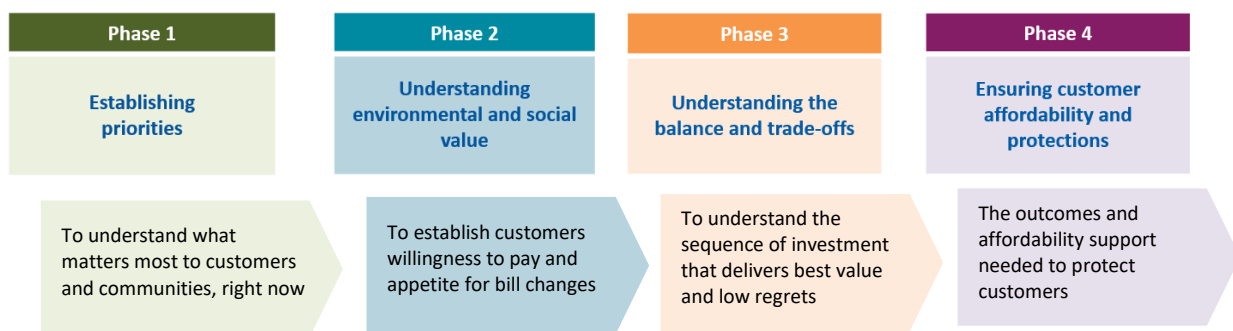
Customer Engagement and Research

We want to ensure our outcomes and performance commitments continue to best reflect the needs and wishes of our customers and stakeholders. We are proud that our PR24 outcomes framework has been developed through extensive consultation with both customers and stakeholders.

Our outcomes framework is customer-driven and linked to our customer priorities. Every stage of our planning process has been based upon what our customers have told us they want us to deliver, and what they are willing to pay for - with a customer engagement process that has been thoroughly tested by our independent WaterShare+ Advisory Panel.

Our research has been divided into four phases to ensure that the research inputs into the business planning process at the right time.

We established four phases to develop specific PR24 research and engagement underpinned by business as usual activities and the wider engagement campaign to encourage customers to have their say.



We have engaged meaningfully with our customers to understand their priorities for improved outcomes for customers, communities and the environment for 2025-30 and beyond. We continually track our customers priorities to be sure we can understand how they evolve over time, and have undertaken a whole programme of specific research projects to understand customer priorities using a range of techniques to capture the full breadth of views.

Our performance commitments and ODIs draw on a rich source of evidence gathered from extensive research and customer engagement. Our customers' top ten priorities are included in our outcomes.⁶ Overall our package of ODIs achieves a balance of risk and return in line with customers' views, offering protection to customers for poor service whilst providing incentives to further sector leading service where our customers value it most.



⁶ Verve (2023) PR24 Customer Priorities

There is a clear line of sight from what we have heard to what is in our AMP8 plans – as we have adopted the principle of “You Said... We Did” in developing our plans. We have reflected on our customers' top 10 priorities in the design of our incentives and our ambitious target levels of performance.

We are confident that the extensive programme of engagement undertaken has ensured that our outcomes and performance commitments are well evidenced. We are confident our approach is robust and reliable and ensures the business plan delivers value for money services to customers, with the target of delivering more for less in the future.

We continually have conversations with our customers, communities and stakeholders, in order to understand their priorities and shape the services we deliver. This is an on-going process, which is an integral part of each of our business activities.

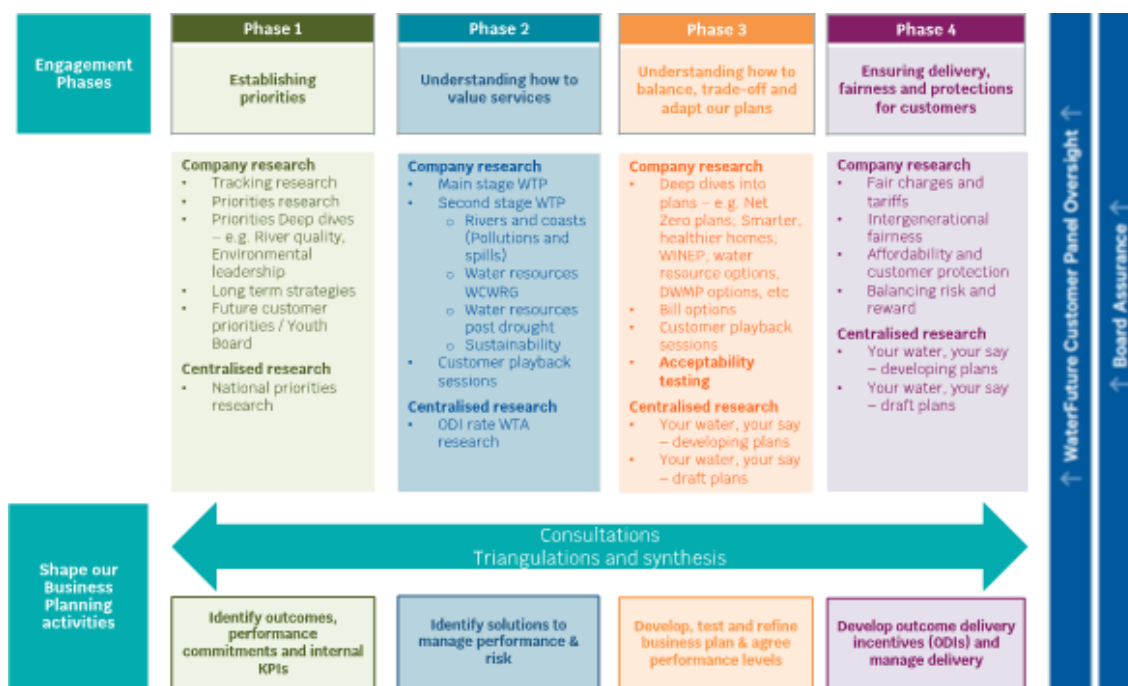
Throughout the business planning process, we have tested the principle of ODIs with our customers and found that customers support our balanced and symmetrical package.

We have set stretching but achievable performance commitment levels and we have reflected our customer preferences in our decisions over our investments and service improvements.

Building on our PR14 and PR19 customer engagement and robust business planning framework, we have driven a further step change in our processes to ensure that what matters most to our customers is at the heart of our plans. As a result, we have set stretching but achievable performance commitment levels and we have reflected our customer preferences in our decisions over our investments and service improvements.

Our industry leading customer research and engagement programme ensures that our performance commitments and the outcomes framework are consistent with the interests of our consumers – today and in the longer-term.

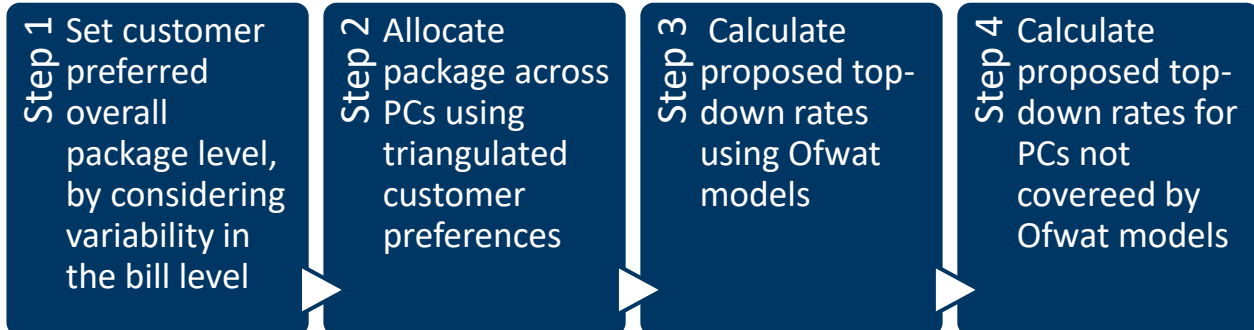
We have continued the customer research programme commenced in PR19, with an extensive customer engagement plan that aims to reach every customer. We have undertaken our engagement in four phases to ensure that we deliver these strategic aims for our engagement – ensuring that each piece of research delivers key insight required to inform our plans. This has allowed us to provide structure to the research and ensured inputs to the business planning process are carried out at the right time to enable customer views to inform our plans.



Our approach to ODI customer research has robustly captured customers views on:

- the extent of the overall ODI package and
- customer preferences for financial incentives which informs the allocation of this package across PCs.

Our approach to applying the customer research follows a four-step process. The process is developed to broadly align with the Ofwat approach to setting the indicative incentive rates.



We consider below the most relevant elements of our customer engagement activities that have contributed to our outcomes. Further evidence of our approach to ODI rate setting can be found in our supporting document.⁷

Qualitative Top-down Incentives Research⁸

The objectives of the research were to:

- Understand customer preferences on the relative importance of the list of options identified for bespoke PCs
- Understand customer views on the options identified and the reasons underlying their level of support
- Gather customer views on the allocation of PCs and financial incentives across common and bespoke PCs.

Our overall finding was that customers want both common and bespoke PCs; customers favour a greater emphasis on bespoke PCs when trying to achieve a balance between common and bespoke PCs and strongly prefer ODIs to focus on regional commitments. This is in contrast to Ofwat’s methodology expectations, namely that bespoke PCs are limited to “at most two or three” bespoke PCs. We found that customers want to see a focus on delivery of regional and local priorities in a balanced package of performance commitments and incentives. The majority of customers prefer an even split of ODIs across common and bespoke commitments, whilst some customers preferred an even higher financial weighting for bespoke compared to the common performance commitments.

⁷ ICS (September 2023) PR24 Outcome Delivery Incentive Rates, A customer informed top-down approach to setting ODIs

⁸ ICS (April 2023) Performance Commitments and Outcome Delivery Incentives: Customer Research

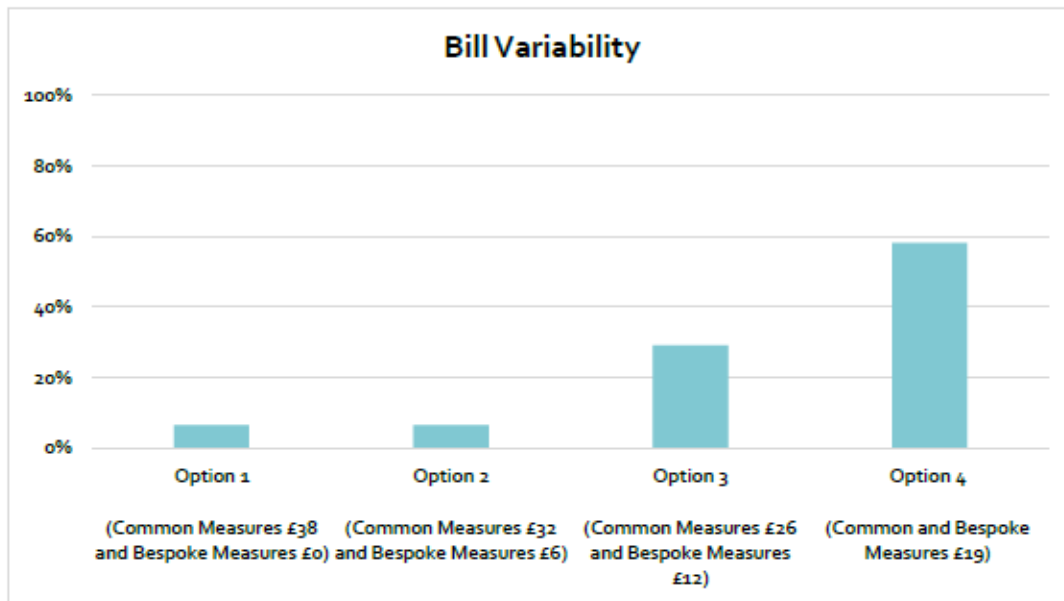


Figure 4.2 Customers' bill variability preferences

Our customers told us that they thought that targets (whether common or bespoke) should reflect differences in local conditions and should not necessarily be the same across companies.

Analysis of customer behaviour and preferences reveals that customers are strongly in favour of preventative measures as the most viable and cost-effective solutions for investment for performance commitments. We also heard that customers would like to see company activities focus on prevention of problems where possible and that they were open to new, non-traditional infrastructure ways of doing this, such as catchment management. This is in line with wanting to stop the issues at source instead of finding a cure afterwards, considering this more proactive rather than reactive. We have included catchment management (as a bespoke performance commitment) within our outcomes framework for PR24.

On ODIs, our overall finding was that customers wanted to see a greater emphasis on bespoke PCs in the RORE allocation. The majority of customers also preferred an even split of ODIs across common and bespoke commitments.

Quantitative Top-down Incentives Research⁹

The objectives of the research were to:

- Test customer support for the overall size of the potential range of incentives i.e. how much of the customer bill could be affected by incentives.
- Understand the relative importance of incentives for individual and groups of performance commitments.
- Understand how our customer views align or otherwise with the national position by undertaking a separate national survey.

The findings build on the insight gathered in the qualitative phase, providing robust representative insight broadly aligned to the qualitative and historic findings, that enable the development of robust customer-informed ODIs for PR24.

Our customers were clear that 2% RORE is the appropriate bill impact risk for the PR24 ODI package as a whole. Preference weights also showed that package B (2% RORE) was preferred over package A (1% RORE). Findings for the national sample are consistent with South West and Bristol. Package B (2% RORE) received the most support and D the least (4% RORE).

⁹ ICS (September 2023) Outcome Delivery Incentive research, informing top-down Incentives for PR24

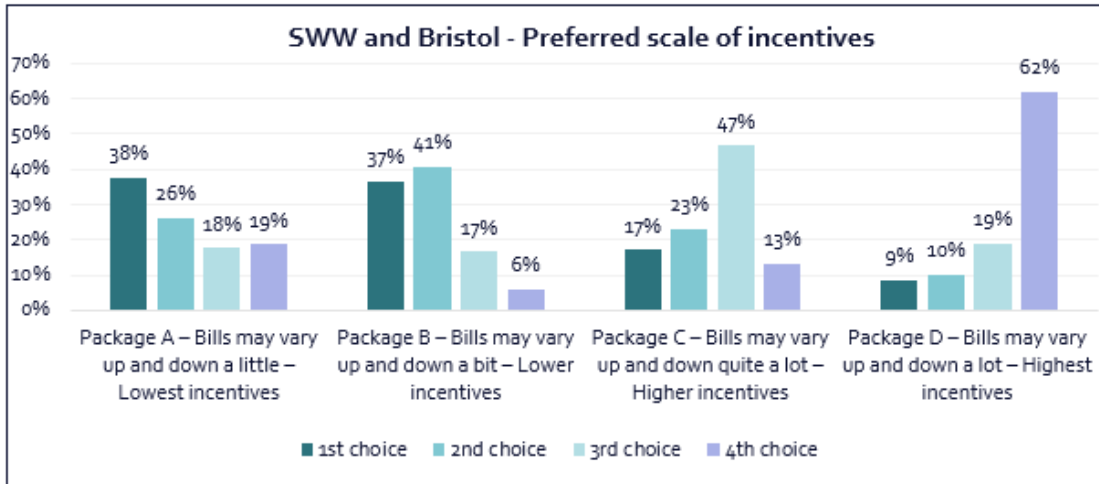


Figure 4-1: Preferred incentive package choices - Pooled SWW and BRL sample

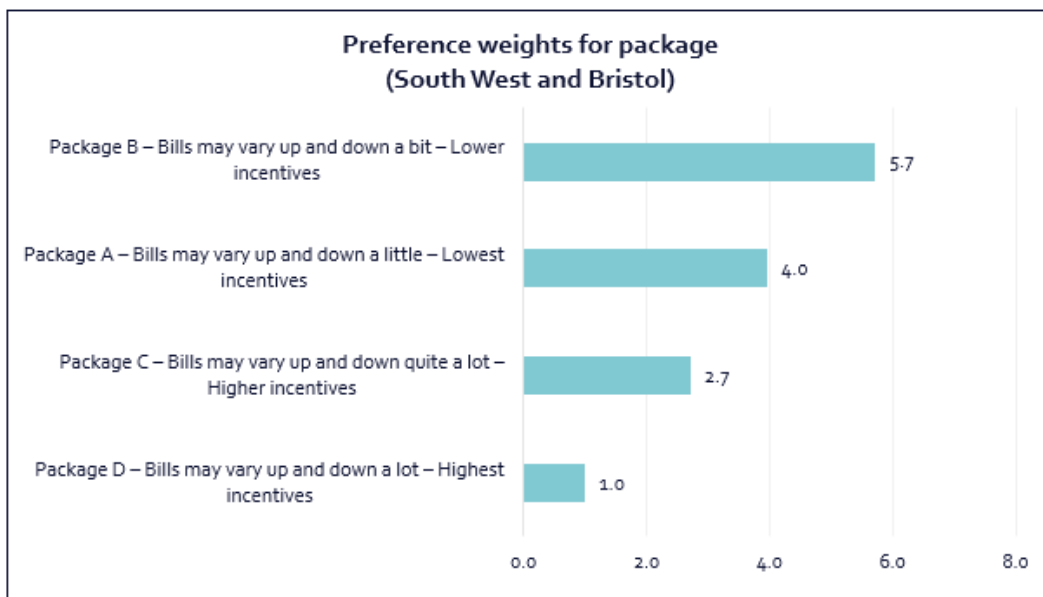


Figure 4-2: Relative preference weights for incentive packages

Our customers' strongest support for incentives was for drinking water quality standards, serious pollution incidents and discharges from treatment works. It is important to note that these are all penalty only performance commitments. This was followed by bathing water quality, leakage and river water quality, suggesting South West and Bristol customers focus on water in the local environment. The lowest support for the common incentives was for business demand for water and for carbon emissions from operations. Support for catchment management was higher than for a number of the common performance commitments.

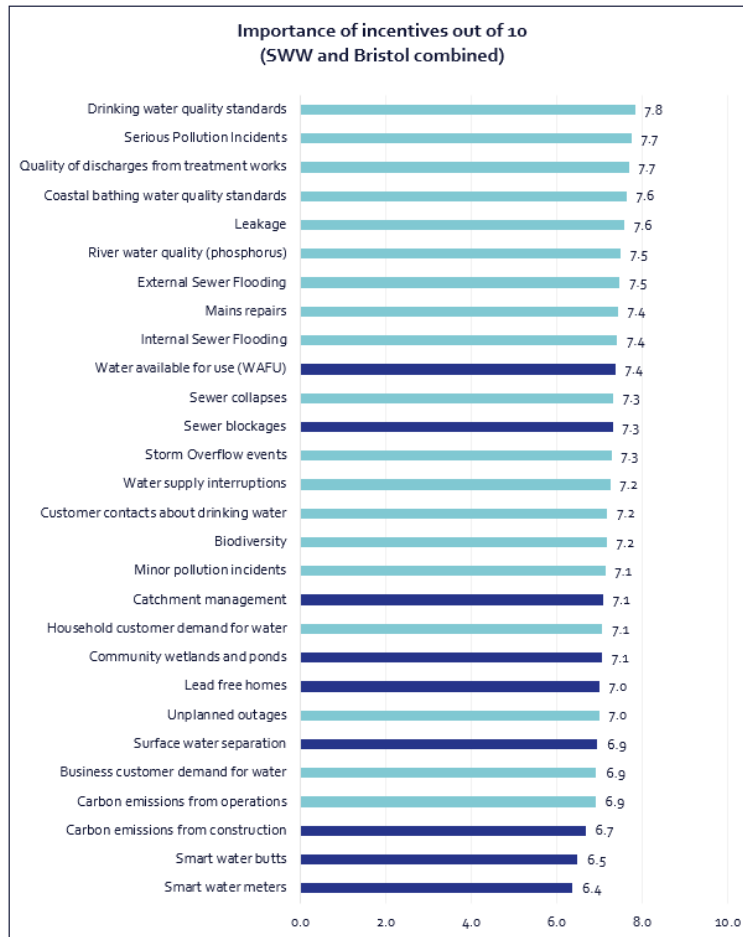


Figure 3-1: Importance of incentives out of 10 – Pooled SWW and BRL sample

Note: Darker bars denote bespoke PCs

The best worst preference weights for the importance of financial incentives are more varied compared to the findings for the importance out of 10. The results show a similar order of priority for importance for financial incentives to the score out of 10 questions but show greater differentiation as customers choose their preferred options. Sewer blockages and catchment management are bespoke PCs that are prioritised ahead of several common PCs. These results broadly align with the qualitative research findings on the importance of bespoke PCs.

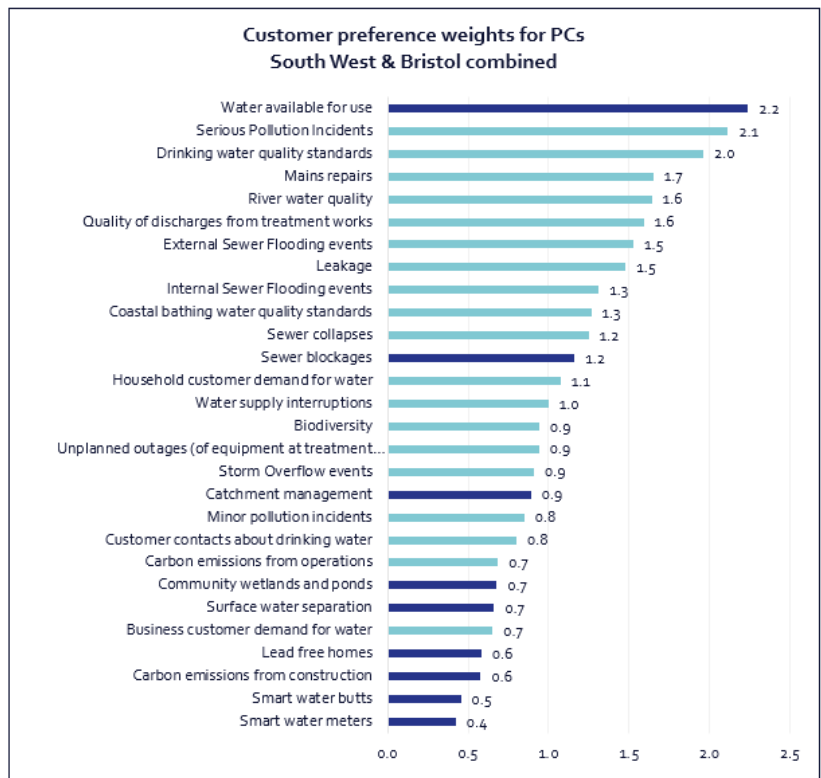
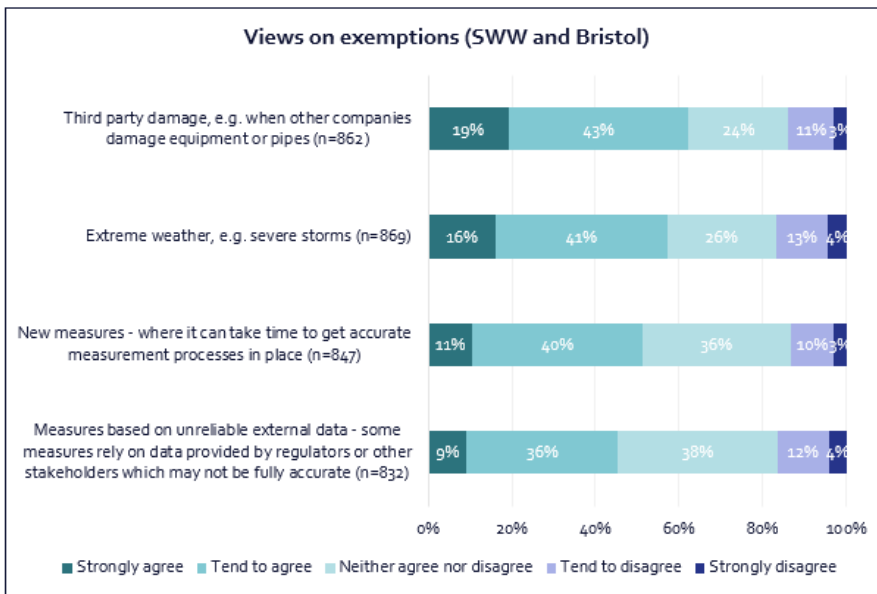


Figure 3-5: BWS customer preference weights for PCs – Pooled SWW and BRL sample

Note: Darker bars denote bespoke PCs

Support for exemptions was also strong for third party damage and extreme weather. Findings for the national sample are consistent with South West Water and Bristol.



4-15: Views on exemptions – Pooled SWW and BRL sample

Ofwat's collaborative cross-sector customer research

Working with companies and CCW, Ofwat implemented a collaborative approach to customer research for certain aspects of PR24. In this section we have summarised our reflections on how these contribute to our outcomes framework. The ODI rates research is the area where we have had the most concerns, which is why we have proposed alternative ODI rates in our business plan.

Common performance commitment definitions

We recognise Ofwat has gone to great lengths to understand the preferences of customers and how these preferences should be reflected in the common performance commitments.

In a joint project with CCW, Ofwat conducted research, involving a representative group of customers across England and Wales, to understand what matters most to customers and why. Ofwat used this research to inform the development of the common performance commitments for PR24. We have adopted these common performance commitments as part of our business plan. We have however also had to consider the appropriateness of some of the common definitions. For example, there are certain ODIs where there is significant risk for third-party impacts which are not excluded. We are proposing that we should take our fair share of risk, (such as third party supply interruptions), but not for more extreme events (such as the Carland Cross incident in the previous reporting period). We consider common definitions further in the Outcomes and Priorities sections within this document.

ODI rates research

In previous Price Reviews companies undertook their own customer research to inform customer valuations for service failures. These valuations would feed into companies' ODI rates. With different methodologies and approaches, this led to a large variation in valuations and ODI rates.

As part of the PR24 methodology, Ofwat said that the ODI rates will be calculated based on estimated marginal benefits multiplied by a benefit sharing factor (assumed to be at 70%). Ofwat also said that the marginal benefits valuations would be based on the findings of the collaborative customer research to inform ODI rates, rather than company-led research.

Working with CCW, and water companies, Ofwat initially conducted stated preference research with samples of each companies' customers leading to company-level results. Ofwat used this research to inform setting of each company's ODI rates for some of the common performance commitments. Whilst Ofwat translated the valuations to marginal benefits as part of mapping exercise, the valuations were not triangulated.

Ofwat initially expected companies to use the results of this research, as far as possible, to inform any proposals for the ODI rates related to bespoke performance commitments. Ofwat also initially expected companies to use the customer valuations derived from this research to inform their business cases for cost enhancement schemes.

As Ofwat has stated, within the initial ODI survey the regulator had intentionally described service failures in a way that was meaningful to customers so that the valuations could be as robust as possible. However, these descriptions of service failures did not exactly align with the performance commitment definitions. Ofwat therefore needed to 'map' between the service incidents customers valued and the performance commitment definitions. Ofwat encountered a number of challenges when mapping from the service incidents customers valued to performance commitment definitions. Where Ofwat were able to complete the mapping exercise, the majority of the rates were outside the range of expectations. Some rates were very low, some implausibly so, and other rates were very high, some implausibly so, and were not consistent with the ± 1 to $\pm 3\%$ return on regulatory equity (RORE) each year set out in the final methodology. Ofwat therefore decided to set all indicative ODI rates using a 'top-down' approach based on equity return at risk.

We consistently raised our concerns over the initial approach to ODI rates, namely the valuations derived from the collaborative customer research on ODI rates and the related assumptions required for the mapping exercise to establish marginal benefits, based on the customer valuations. A report was jointly-commissioned from eftec by Anglian Water, Northumbrian Water, South West Water and Wessex Water.¹⁰ The purpose of the report was to review the Outcome Delivery Incentive (ODI) customer research by Ofwat. The analysis considered the appropriateness of the approach and the design and implementation of the methodology.

We have sought to engage on the development of ODIs throughout the PR24 period:

- In **January 2022** we submitted a think-piece to the Future Ideas Lab, asking how could we simplify ODI rate setting? We proposed that if Ofwat's desire was to simplify ODI rates by determining customer valuations for marginal benefits and thereby removing considerations of marginal cost and willingness-to-pay valuations, that Ofwat should go even further, by instead proposing that customer research should be used to allocate ODI incentives top down to common performance areas, particularly one aligned to RORE /RCV allocation. This approach would then avoid the complexity of mapping customer valuations to marginal benefits for the common PCs.
- We shared the eftec peer-reviewed synthesis report was sent to Ofwat in **April 2022**. To summarise the findings of the report:
 - The Design and implementation of the methodology - the proposed approach was un-tested.
 - Using the results of a single study with a novel methodology – especially given the lack of testing - cannot offer sufficient rigour for setting ODI rates.
 - On the timetable, at the time of the eftec report publication, there was an observation that from a purely logistical perspective, if the valuation data was made available in the Summer 2022 and ODI rates in December 2022, this would have been too late for the companies. In the end, the timetable slipped even beyond those assumptions.
- We responded to the PR24 draft methodology in **September 2022**, highlighting our disagreement over the approach to customer valuations and approach to estimating marginal benefits for common and bespoke performance commitments. We also disagreed with Ofwat's approach to incentivising asset health performance. Overall, we raised concerns with the likely asymmetry that would arise from the design of the ODI framework.
- In **January 2023** we responded to Ofwat's request for inputs regarding its proposed method for asset health mapping, using an inferred benefits mapping approach. At the time, we explained that Ofwat's preferred approach (using an inferred benefits mapping approach), did not solve the problems that Ofwat had previously stated that it wanted to achieve. Namely, the inferred benefits mapping approach adds further complexity to the ODI setting process, relied on expert judgement (rather than capturing and reflecting customers' views) and potentially double count other performance.
- In **April 2023** we wrote to Ofwat, expressing our concerns over the customer valuations on ODI rates and the indicative marginal benefits. We expressed concern with the timing and delays of the results of the indicative marginal benefits and the consequences for business planning. We also expressed concern over the initial results of the indicative marginal benefits and the law of unintended consequences.

¹⁰ Eftec (April 2022) Ofwat ODI Research Peer Review

On 18 May 2023 Ofwat notified the industry of its intention to set top-down ODIs for the demand performance commitments (leakage, PCC and demand), for discharge permit compliance, river water quality, pollution incidents, serious pollution incidents and for storm overflows. At the time, Ofwat was still committed to internal sewer flooding, external sewer flooding, drinking water quality contacts, bathing water quality, water supply interruptions and for CRI to be based on the mapping exercise to establish marginal benefits, based on the customer valuations from the collaborative customer research on ODI rates. On 26 May, “given the time-criticality of this work for companies”, Ofwat then confirmed that ODIs for internal sewer flooding, external sewer flooding, drinking water quality contacts, bathing water quality, water supply interruptions and for CRI would now be set by its top-down approach i.e. on 26 May 2023 Ofwat officially confirmed that its top-down approach to setting ODIs would be applied to all common performance commitments (excluding operational greenhouse gas emissions and biodiversity).

On 3 July Ofwat released the indicative ODI rates, based on its top-down approach, for South West and Bristol. On 4 July, following the release of the indicative ODI rates we raised a number of queries with Ofwat. On 19 July 2023 Ofwat released the full indicative ODI rates and its methodology calculations, based on its top-down approach for all companies.

Ofwat’s top-down proposals consider three pieces of customer research but the sources for the research do not directly contribute to the incentive rate – these only set the maximum ODI RORE allowance. We suggest that Ofwat needs to include a process of further considering customer priorities (rather than relying on complex regulatory judgement), as well as a process of triangulating the results of the collaborative research with the body of valuation evidence developed by companies.

We recognise that there are potential advantages in greater consistency in service levels and incentives, in terms of simplifying considerations of valuations. However, we remain unconvinced that moving away from existing and established company led research and approaches to setting service levels based on companies’ identifying the marginal benefits is an improvement in the regulatory framework.

Due to the difficulties encountered over the intended approach to ODI rate setting, and the timing of the publications of its top-down approach to ODI rate setting, we have proposed alternative standard ODI rates for all our performance commitments. The final methodology states that a company may choose to take this option, so long as "compelling evidence for an alternative view on...marginal benefit estimates" is provided.

In terms of business plan, whilst we welcome and appreciate Ofwat’s change in its approach to ODI rate setting, this came very late in the day. The timing of the research, the delays to the indicative rates following the mapping exercises and the late release of the top-down indicative rates meant that we had no option but to develop our own top-down incentive rate proposals. These were necessary for balancing our ODI framework but also for our price control deliverables. Our top-down valuations – principally drawn from our qualitative research to understand views on importance of common and bespoke performance commitments and views on ODIs and our quantitative research to understand the importance of ODIs, including stated preference (CE) second stage valuation of Outcome Delivery Incentive rates – resulted in different valuation rankings to those proposed by Ofwat. Ofwat uses three sources of customer research and combines these to provide a customer priority rating. In order to make a comparison we have combined the findings from the two key question in the surveys that explore customer priorities for financial incentives. These questions are:

- The importance scores out of 10 for each PC to have a financial incentive.
- The customer preference weights from the best worst exercise.

We have used the geometric mean of the results for each question to produce a combined average for each PC. The recommended rating of high (H), medium (M) and low (L) are set based on quartiles for these common PCs. Lower quartile results are given a low priority and upper quartile results are allocated a high priority rating. The results are presented alongside the Ofwat findings. Comparing the ratings shows a number of differences, most notably for:

- Bathing water quality which is rated as high by our customers and low by Ofwat.
- Customer contacts which is rated as low by our customers and high by Ofwat.

Common Performance Commitment	Ofwat top-down customer research ranking	Our top-down customer research ranking
Internal sewer flooding	H	M
External sewer flooding	H	M
Water supply interruptions	H	M
Compliance Risk Index	H	H
Customer contacts on water quality	H	L
Discharge permit compliance	M	H
Serious pollution incidents	M	H
Storm overflows	M	L
Total pollution incidents	M	L
River water quality	M	H
Biodiversity	M	M
Mains repairs	M	M
Sewer collapses	M	M
Unplanned outage	M	M
Leakage	M	M
Per capita consumption	L	M
Business demand	L	L
Operational GHG emissions	L	L
Bathing water quality	L	H

Although Ofwat have set the benefit sharing factor at 70% for ODI incentive rates, this was not an economic proposition. Whilst we did not agree with that rate in our response to the PR24 methodology, it is not relevant to top down ODI rates set with reference to regulated equity / RCV (we are calculating through research an incentive rate rather than a marginal benefit value). The 70% assumption was designed to have some recognition that there was value in addition to that derive from customer research, and beyond the 50-60% range for company share of cost out or under-performance. The Ofwat research differs from stated preference research based on changes in performance and could not be used as an expectation of marginal benefit that could equal marginal cost, which up to PR24 was the logic behind ODI rates. The challenges Ofwat faced in converting the collaborative research into incentive rates confirms that triangulated Willingness to Pay values exploring changes in service performance are needed for service level optimisation.

We recognise the complexity of such research. The approach we have developed with ICS Consulting and Oxera has three connected strands that achieve Ofwat's original PR24 aim.

- We explore what change in service level has been achieved through past base and enhancement expenditure, and what the performance trends are for cost benchmark expenditure and industry median performance. We provide with our plan the analysis model and report from Oxera that has developed the initial concept we set out in our PR24 methodology respond and our response to the Ofwat "what base buys" information request. This modelling provides a view of what a notional, efficient, performing company can be expected to deliver based on the available industry data.
- We carried out the "top down" ODI customer research with ICS Consulting. This supplements our triangulated WTP evidence, and achieves the objective of a simpler rate to ODI setting. The ICS Consulting report sets out both South West area, Bristol area and national sample survey results, and therefore is a methodology that could be applied industry-wide.

- Finally, with the support of Oxera, we combined the “what base buys” model with both the Ofwat and our ODI incentive rates. This uses Monte-Carlo simulation to test different ODI incentive and incentive design, extending the “what base buys” analysis to consider the correlation of different performance metrics, providing an improved methodology for calculating P10 and P90 levels and also the overall notional (and company specific) risk from stretching performance assumptions and ODI designs.

We have made significant investment in developing this compelling set of research that will support the process of translating the PR24 methodology into stretching performance targets and well calibrated outcome incentives. We have also included in our submissions a comparison of our top-down rates, the Ofwat top-down rates and our bottom-up rates, to aid any further calibrations.

Affordability and acceptability testing

Working with CCW and water companies Ofwat developed a standardised approach to customer research into the acceptability and affordability of each company’s business plans and long-term delivery strategies ahead of their submission to us. Ofwat expect all companies to implement affordability and acceptability research in accordance with the guidance. We followed the prescribed guidance as part of our affordability and acceptability research. Six of our performance commitments were included in this research. Customers expressed a strong desire to see ambitious targets in relation to sewer flooding, leaks and pollution incidents.

What Base Buys (Service Delivery with Base Costs)

Ofwat published a historical performance dataset in April 2023. This dataset included performance commitments with a confirmed definition and covered the 2011-22 period. We note that Ofwat will forecast the level of performance improvement it expects to be delivered by an efficient company from base expenditure allowances from the baseline position. This will account for the overall level of stretch expected across all performance commitments from base expenditure.

It is worth noting that water companies are geographically distinct and cannot be treated as a single seamless whole. This is because Ofwat (and the CMA) have allowed companies different levels of expenditure historically to achieve different levels of service. Further, companies have implemented extensive, in-depth customer engagement strategies which have demonstrated that priorities and valuations vary from region to region. So, there should be no presumption that all companies should be starting at the same level of performance (even if they are all efficient). It is also worth noting the link between historical spend and diminishing economic benefits. We caution against using assumptions that past trends, via either costs or industry performance, directly predict the future. This is particularly relevant in the example of leakage. The CMA PR19 redetermination highlighted a clear cost-service relationship for leakage where the cost of reducing leakage by one MI/d increases as performance improves and where better leakage performance requires greater base cost allowances to maintain that level of performance.

Nevertheless, we have considered the following information to determine stretching performance improvements that can be delivered from base expenditure:

- Performance commitment levels set at PR19
- Historical outturn performance at an individual company and sector level (we have assessed outturn performance up to 2022/23)
- Historical expenditure included in the base expenditure models at PR24
- Company forecasts of performance levels that can be delivered from base expenditure
- Performance levels of efficient companies
- The opportunity for transformational performance improvements.

In developing our targets for PR24 we have taken the following approaches to ensure targets are stretching but achievable, reflecting our investment plans:

- Industry comparisons setting targets based on industry comparison data and expectations, looking for areas of outperformance where we are already sector leading (i.e. internal sewer flooding)
- Link to other plans we are ensuring targets are consistent with other regulatory submissions where appropriate (such as leakage and PCC in the WRMP)
- Regulatory precedent proposing targets or deadbands where previously agreed or targets reflect other regulatory levels.

We assume Ofwat will consider forecasts based on the performance level improvements achieved by either the efficient (upper-quartile) base cost companies or industry average performance trends. Using insights from the analysis developed with third-party support from Oxera we have examined base cost trends in individual performance commitments for the industry (on a weighted average basis) and for the upper quartile cost benchmark companies.¹¹ These insights have been considered as part of our ODI design protections.

¹¹ Oxera (September 2023) Proposed methodology to assess What Base Buys in terms of service quality

Adjustments to performance levels (adjusted for company-specific efficiency, the frontier shift in efficiency, innovation ambition, relative price effects etc.) and determining the impact of this on targets, is on the one hand relatively simple in a static world where companies are meeting forecast targets, steadily delivering lower base costs, and the relationship between individual enhancements and performance is clear. On the other hand, in a more dynamic and uncertain world, these assumptions may not be so transparent. We therefore do still have concerns regarding the practical challenges associated with developing a comprehensive understanding of the cost of delivering outcomes in the water industry, which is further impacted by the absence of an agreed industry methodology. As such, this is a complex and inherently subjective area of analysis. Nevertheless, we appreciate and support Ofwat's objectives in this area – namely that we all need to consider the relationship between costs and service levels.

As far as possible, our analysis has built on two of the initial steps outlined by Ofwat, as part of its broader determination of what base buys (and its implications for PR24 performance targets):

- Determining the baseline performance level that efficient companies are expected to achieve by 2024/25 (as 'year 0')
- Forecasting the performance level based on what base buys, based on the service level improvements that the notional efficient company's base cost has historically bought. For our approach, we assume that (at least as a first step), Ofwat will consider forecasts based on the performance level improvements achieved by the efficient (upper-quartile) base cost companies. Given the concern around the appropriateness of a cost-based benchmark, alone, as the appropriate proxy – we also consider the industry weighted average performance trends. The forecasts based on respective industry and base cost benchmark trends, in turn, are based on the service levels achieved by the relevant benchmark from past base spend, and forecasting the historical benchmark performance improvement trend into the PR24 period from the 2024/25 baseline.

Our main concern is that companies cannot informatively describe enhancement areas that provide step changes in performance changes when in many cases base and enhancement occur together over a period of time, and when enhancement in general is offsetting risks to performance, and step changes then come from optimising base level of service having enhanced service levels.

We summarise in the table in appendix A3 our assessment of industry what base buys and whether past enhancement expenditure contributes to the performance levels, against Ofwat's view set out in IN23/07 (**Assessing the influence of enhancement expenditure on historical performance trends for PR24**). This analysis has been considered when setting ourselves stretching performance improvements.

Further information on our methodology for assessing what base buys can be found in the analysis developed with third-party support from Oxera.¹²

¹² Oxera (September 2023) Proposed methodology to assess What Base Buys in terms of service quality

Outcomes and Priorities

We consider our targets to be stretching across our outcomes. We have iteratively tested our performance commitment targets with customers – and challenged ourselves to deliver more in those areas where customers told us we needed to do more for less.

The outcomes framework holds water companies to account for the outcomes that customers pay for and incentivises companies to go further where it is in the interests of customers and the environment. We do this by defining performance commitments (PCs) which measure the level of service provided for a particular outcome. This section explains our approach to establishing our proposed outcomes and performance commitments and how we have ensured that our outcomes and incentive design decisions:

- Reflect what is important to our customers
- Simplifies the approach to ODI rate setting
- Reflects a balanced and symmetrical risk and return range
- Is ambitious in the performance targets that we want to deliver, but it is also deliverable
- Reflects consistency with regulatory precedent and is consistent with future statutory and regulatory objectives

The key changes to the Ofwat approach we are proposing include:

- On ODI definitions, there are certain ODIs where there is significant risk for third-party impacts which are not excluded. We are proposing that we should take our fair share of risk, (such as third party supply interruptions), but not for more extreme events (such as Carland Cross)
- For some target levels we are proposing targets to reflect the circumstances of our region (for example taste, smell and colour contacts given over 90% of our water resources are derived from rivers and reservoirs)
- On incentive rates, following delays to its initial approach to setting incentive rates, Ofwat has proposed ‘top-down’ incentive rates which does not reflect customer research and therefore we will be proposing our alternative incentives anchored in our customer views
- Deadbands are included to reflect factors outside of our control (i.e. weather) on a greater number of ODIs to minimise the potential impact on performance against the target
- Caps/collars are also proposed for each ODI to manage the risk. For new measures in particular (biodiversity, greenhouse gas emissions, business demand, river water quality) we have adopted caps and collars to recognise uncertainty in future performance; these protections are required due to the unreliability of historic and comparative data.

One additional alternative, when considering target levels and incentives, is a move to dynamic incentives. This is an alternative approach to absolute/static performance for target-setting, when there is uncertainty on data or external factors that can affect industry performance. Where industry targets are being used, it is possible to use a deadband between rewards and penalties in between the actual industry median performance and the performance target assumed at the price review. Combined with the top-down ODI allocation approach we believe is required to calibrate incentives, caps and collars also ensure that incentives in circumstances is focused on normal ranges of performance, removing some of the judgement needed in calibration of ODI design. There is experience in the industry already over the design of such targets, such as for C-MeX and D-MeX. The approach will be more appropriate for some incentives than others and we have identified in the following Outcomes and Priorities sections which performance commitments may be appropriate for dynamic incentives.

Despite these deviations from the methodology, we have also prioritised consistency with Ofwat's broader aim of an appropriate balance of risk and return. Our approach reflects the views of customers in our region and also provides a more balanced profile of risk and return.

There are also other areas of the outcome design where we have mostly adopted the methodology proposals, with some minor adjustments. For example, Ofwat expect all ODI payments annually through in-period revenue adjustments. We have assumed this form of incentive applies to all ODIs. The only exception to this rule is for our bespoke performance commitment on embodied greenhouse gas emissions.

We have adopted Ofwat's approach to setting enhanced outcome delivery incentives. Namely, we have proposed enhanced ODIs for six common performance commitments and no bespoke performance commitments.

Although we understand that Ofwat will set enhanced thresholds on a consistent and streamlined basis, we have applied an assumed enhanced threshold. As per the PR24 methodology, we have taken into account the current frontier level of performance for each performance commitment, informed by historical and forecast performance. Set enhanced incentive rates at twice the size of standard rates. We have only set enhanced caps for leakage and per capita consumption. Whilst we considered Ofwat's guidance that these caps should be equivalent to 1% of RORE, we have considered the balance of the risk framework.

Ofwat intends to use an aggregate sharing mechanism that shares net ODI payments between customers and companies once they reach certain thresholds each year. This acts as a form of protective backstop to reduce (but not remove) the financial impacts of very high or very low performance. As a starting point, companies can earn or incur up to +3% or -3% RORE without any sharing of payments, beyond which payments are reduced by 50%. Beyond +5% and -5% RORE, payments would instead be reduced by 90%. We have assumed this aggregate sharing mechanism applies to our price controls. In addition, our WaterShare framework allows for further smoothing of large incentive payments to help keep customer bills stable.

These ODI design factors are considered in the Outcomes and Priorities sections for all our performance commitments and summarised in the table on the page overleaf. In addition, for each performance commitment (where applicable), we have included performance improvements plans. Further information on our AMP7 performance can be found in our Platform for the Future: Track Record of Performance document. Likewise, we have included (where applicable), the impact of enhancement expenditure (this is considered as part of our 'what base buys' analysis). Further information on our investments is included in our supporting enhancement investment cases.

Finally, we propose to have separate performance levels and incentive rates applied to the SWB price controls and the BRL price control. As part of the acquisition by Pennon Group plc of Bristol Water Holdings UK Limited, a number of undertakings were given to the CMA. This is consistent with the CMA undertakings and reflects the preferences expressed by the WaterShare+ Panel and our customers.

In regards to the Isles of Scilly, whilst many ODIs have included Isles of Scilly in SWB for AMP7, those that have been separate (or shadow reported) are also linked to other regulatory requirements. Therefore, we are proposing the following in setting SWB outcomes:

- Separate IoS targets noted for: CRI, Water quality contacts, Total pollution Incidents and Serious Pollution Incidents (water and wastewater combined)
- Exclusions from SWB numbers for Bathing Waters and Numeric Discharge Permit Compliance (as there are currently no permitted or designated sites and there are not records on this)
- New storm overflow measure will also be separate as there are no records on this (rivers are not relevant on the Isles of Scilly).

Summary table – how our alternative ODI design compares to Ofwat’s PR24 methodology

Key

As per Ofwat’s PR24 methodology	
A deviation from the PR24 methodology	

It is not possible to show incentives design in OUT7 and Ofwat has previously confirmed that OUT7 is not intended to show deadbands, caps and collars (as confirmed in response to query 67)¹³. This table summarises where we have proposed revisions to the ODI design that deviate from the PR24 final methodology. For each performance commitment, in the Outcomes and Priorities sections we have explained in detail our rationale for our ODI package.

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap
Water supply interruptions		Common			N/A
Compliance risk index (CRI)		Common			N/A
Customer contacts about water quality		Company-specific			
Internal sewer flooding		Common			
External sewer flooding		Common			
Biodiversity		Company-specific			
Operational greenhouse gas emissions (water)		Company-specific			
Operational greenhouse gas emissions (wastewater)		Company-specific			
Leakage		Company-specific			
Per capita consumption		Company-specific			
Business demand		Company-specific			
Total pollution incidents		Common but set at the lowest number of unnormalised incidents			
Serious pollution incidents		Common			N/A
Discharge permit compliance		Common			N/A
Bathing water quality		Common			
River water quality (phosphorus)		Company-specific			
Storm overflows		Company-specific			
Mains repairs		Company-specific			
Unplanned outage		Common			
Sewer collapses		Company-specific			
Embodied greenhouse gas emissions (bespoke)		Company-specific			
Catchment management (bespoke)		Company-specific			

¹³ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 26

Outcomes and Priorities: Water Quality and Resilience

Water Quality and Resilience

A clean safe supply of water is our customers' number one priority. We need to make sure everyone has water that looks good, tastes great and is safe to drink. Our plans address emerging risks to water quality, and ensure sufficient supplies across the region in the future.

Our customers rightly expect high quality water drinking water to be there when they turn on the tap.

We will improve drinking water quality and maintain customer confidence by reducing water quality risks from source to tap.

We will focus on addressing issues in source waters and therefore allow us to promote the most sustainable level of treatment in the future.

We plan to continue to innovate in our water treatment processes to provide the best possible performance and fit with our low carbon future. We also plan to continue our programme to tackle lead pipes on our network and in customers' homes and work places to reduce the small risk to public health.

We plan to create smarter water networks which can remotely and continuously monitor water flows and quality, and diagnose emerging problems. Combined with smart metering at customers' properties, this will help to identify water quality issues quickly, and prevent small issues from escalating into problems which impact on our customers. They will also help us to reduce energy use by optimising flows around our network.

And we will continue to champion extending our networks to residents who are private supplies – so they can have access to world class drinking water.

Not having enough water in the future is not only a threat to the customers we serve, but also to the environment and to the economy of the South West. Our plans show that if we do nothing, there will be a gap of nearly 200 million litres per day by 2050. Whilst reducing demand is our primary course of action, this does not completely close the gap across all our supply zones. We must work in harmony with our catchments to secure resilient supplies into the future and to protect our lifestyles and the places that we love.

Performance Commitment ¹⁴	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
Leakage (Ml/d)	SWB	To improve the long-term water resources supply-demand balance, reduce the need for water abstraction and increase water supply network resilience	105.6	85.9
Leakage (Ml/d)	BRL		34.7	29.9
Per Capita Consumption (L/p/d)	SWB	To help customers reduce their consumption (helping them save money on their bills too)	149.0	135.9
Per Capita Consumption (L/p/d)	BRL		151.9	142.4
Business Demand (Ml/d)	SWB	To promote benefits of water efficiency to business customers	161.5	157.4

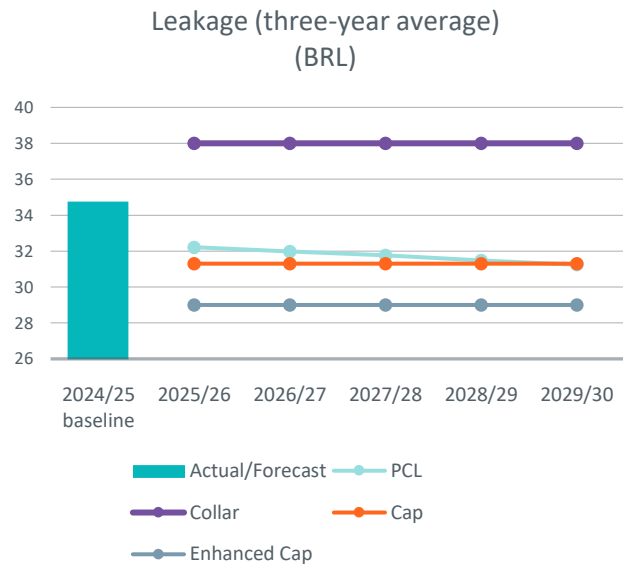
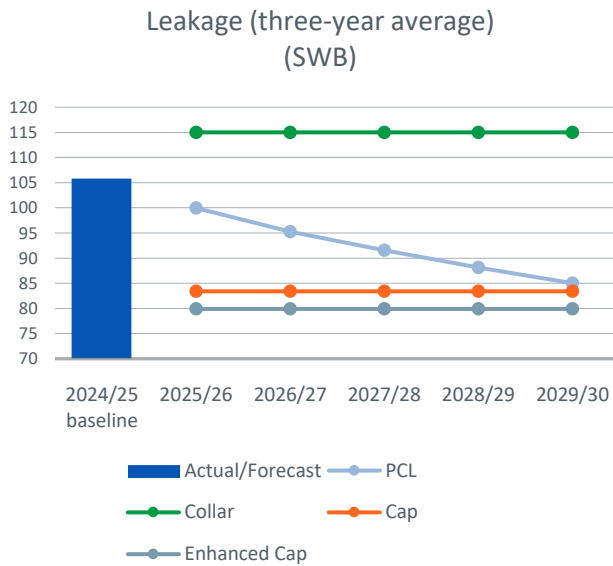
¹⁴ Leakage, per capita consumption and business demand are showing as three-year averages in this table i.e. performance shown in 2029/30 is the average performance of levels in 2027/28, 2028/29 and 2029/30.

Performance Commitment ¹⁴	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
Business Demand (MI/d)	BRL		57.5	57.8
Compliance risk index (Numerical CRI score)	SWB	Maintaining compliance with DWI water quality standards – to resolve water quality failures and ensure our customers have confidence that their water is clean and safe to drink	2.00	0.00 (1.50 deadband)
Compliance risk index (Numerical CRI score)	BRL		4.71	0.00 (1.50 deadband)
Customer contacts about water quality (Number of contacts per 1,000 population)	SWB	Reduce the number of times our customers contact us due to the taste and odour of drinking water or because the drinking water is not clear	1.33 (PR19 definition)	0.87
Customer contacts about water quality (Number of contacts per 1,000 population)	BRL		0.83 (PR19 definition)	0.82
Water supply interruptions (Hours:minutes:seconds)	SWB	Reducing the number of minutes our customers experience of having no water	0:05:00	0:04:00
Water supply interruptions (Hours:minutes:seconds)	BRL		0:05:00	0:04:00
Mains repairs (Number of repairs per 1000km of mains)	SWB	To maintain and improve the asset health of our infrastructure and below ground water mains network	131.6	130.0
Mains repairs (Number of repairs per 1000km of mains)	BRL		130.7	128.2
Unplanned outage (%)	SWB	To ensure that our treatment works are maintained and to reduce the risk that unplanned outage occurs when capacity is required	1.20 (PR19 definition)	3.00 ¹⁵
Unplanned outage (%)	BRL		2.34 (PR19 definition)	3.00

¹⁵ Our recommendation for the industry performance commitment level reflects the removal of the exception for changes in raw water quality in the performance commitment definition

Leakage

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Leakage				Revision		Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We have set out plans and targets to reduce leakage by 50% by 2050. Our targets for AMP8 are part of this trajectory. We also need to reduce leakage to meet our supply demand targets.

Following the acquisition of Bristol we have been able to deploy best practice across both companies, learning from the techniques employed in each company, adapting our organisation and resource management to optimise our approach in this area.

Whilst the key components of managing leakage remain similar for Bristol and South West (including Bournemouth Water) we also recognise that delivery in each area also requires geographically targeted plans, for example Bristol is already at the forefront of leakage management in the UK, Bournemouth is in an area defined as water stressed and recently we have needed to apply a different approach to managing leakage in South West Water as part of our drought plans.

To specifically meet our leakage targets we plan to increase investment in leakage through the renewal of mains and service pipes. We are also planning to enhance our activities in the following areas:

- **Active leakage** – we will continue to use a range of techniques to detect leaks and we will continue to deploy innovative tools and processes to both find and fix leaks – for example the use of satellites, drones and leak detection dogs have now become part our approach to detect leaks in areas where more traditional techniques are less impactful
- **Customer side leakage** – our asset renewal programme targets both mains and communication pipes. In AMP7 we have offered both free and subsidised customer side leak repairs. We will continue to develop our approach in this area to support the reduction of leaks on our customers pipework

- **Pressure management** – we will continue to optimise existing pressure control valves, with digital time and flow control profilers and to install new pressure reducing valves on our networks allowing us to actively control and manage local pressure. Our plans for AMP8 include the installation of Aqua Advanced/Optimatics energy tools which are targeting better management of power consumption from our water pumping stations and will support delivering lower pressure and reduced leakage within our network – this is part of our calm networks programme of work which is being trialled in AMP7
- **Targeting of trunk mains leakage** remains a priority for us. We plan to install further flow and pressure monitoring and active controls on our trunk mains. Our investment plans, alongside our flushing and conditioning programmes will also reduce the risk on these vital assets
- **Reducing water demand** and leakage performance are interlinked. Our plans to both understand usage and detect leaks through metering, as well as helping customers to reduce their consumption has dual benefit. We will compulsorily meter Bournemouth customers in AMP8 as the area is declared water stressed by the Environment Agency. We will move the rest of South West to Advanced Metering Infrastructure by 2030 and we will start a programme of universal metering in Bristol (again using advanced metering infrastructure. Through our metering strategy our plans to continue optant metering, selective metering, metering of non-household customers, reactive meter replacement and retrofitting AMI meters will all support the drive to reduce leakage.

In terms of our reactive response to leakage, many of the operational response activities we will put in place to deal with supply interruptions will also help reduce the impact on customers when we have bursts on our network. As mentioned elsewhere in this document we will employ further AWS teams with the skills to cut in valves, hydrants, carry out overland transfers, support with tankering and carry out other activities to keep customers in supply.

Finally, reducing the amount of water our customers use also enables us to reduce both the amount and pressure of water we distribute, and the latter of these also supports a reduction in leakage. We have described our approach to supporting a reduction in customer use in the Per Capita Consumption (PCC) section of this document.

Government targets and statutory requirements

Ofwat expect companies, as a minimum, to meet a 50% reduction in leakage by 2050 from a 2017-18 baseline.

The government's Environmental Improvement Plan 2023 sets targets to reduce leakage by 20% by 31 March 2027 and 30% by 31 March 2032. The government's strategic policy statement challenges water companies to halve leakage (a 50% reduction) across the industry by 2050 (based on 2017/18 levels).

Although not a statutory commitment, the Water UK Public Interest Commitment included a commitment for the water sector to triple the rate of leakage reduction by 2030 and to half leakage by 2050. Bristol has already achieved the level required to meet the rate by 2030.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Looking toward PR19 targets for 2024/25, these trends suggest that the efficient cost benchmark, on average, will reach its targets if historical improvement trends continue. However, the industry is not on track to reach its target based on historical trends. In addition, when we consider performance without enhancement spend impact, the improvement trend flattens and both the industry and benchmark would no longer have been on track to reach their 2024/25 targets; enhancement funding is required for this performance commitment.

Target setting conclusion – setting stretching levels of performance

Target setting for this performance commitment is company-specific and will be driven by WRMP and supply-demand solutions.

For the South West, our proposed targets reflect a 30.8% reduction from the 2019/20 baseline. This is also a 33.0% reduction from 2017/18, ensuring that we are on track to meet the government's long-term targets of a 50% reduction by 2050. For Bristol, our proposed targets reflect a 26% reduction from the 2019/20 baseline. This is also a 31.8% reduction from 2017/18, ensuring that we are on track to meet the government's long-term targets of a 50% reduction by 2050.

ODI design protections (caps, collars, deadbands)

In terms of regulatory precedent, caps and collars applied to this performance commitment at PR19 (for both SWB and BRL). The CMA also noted as part of the PR19 redetermination that collars mitigate the risk that underperformance on one could lead to extreme penalty levels for firms – individuals performance commitment collars, rather than relying on the aggregate sharing mechanism, is appropriate. The collar has been set beyond the P10 level and sufficient to provide symmetrical leakage Incentives.

Incentive rates and Customer preferences

Customers view the need to reduce leakage as a fairly high priority relative to other areas of service. Leakage is ranked as 6th in relative importance in Devon and Cornwall (after other environmental investment areas), and 2nd in the Bristol and Bournemouth regions (after the provision of clean water) when comparing 17 service areas regarding priority.¹⁶ Bristol Water customers rated leakage of the highest importance relative to the bills, showing that its importance has grown from PR19.¹⁷

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment. However, we have not set the enhanced cap at the equivalent to 1% of RORE, as this was resulting in excessive outperformance.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.154
Outperformance payment – standard	0.154
Outperformance payment – enhanced	0.308

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.154
Outperformance payment – standard	0.154
Outperformance payment – enhanced	0.308

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

On SWB leakage, our performance commitment levels do not directly correspond to the WRMP leakage levels, due to the dry year adjustments.

¹⁶ Report 1.7- Verve, PR24 Customer Priorities, February 2023

¹⁷ Report 2.2- ICS Consulting, Bristol Water PR24 Willingness to Pay Research, Final findings, December 2022.

SWB	Unit	Baseline forecast	Committed performance level				
			2019-20 ¹⁸	2025-26	2026-27	2027-28	2028-29
Performance commitment level	MI/d	124.2	100.1	95.8	92.6	89.4	85.9
P10	MI/d		112.2	112.2	112.2	112.2	112.2
P90	MI/d		83.4	83.4	83.4	83.4	83.4
Standard underperformance collar	MI/d		115.0	115.0	115.0	115.0	115.0
Underperformance deadband	MI/d		NA	NA	NA	NA	NA
Outperformance deadband	MI/d		NA	NA	NA	NA	NA
Standard outperformance cap	MI/d		98.1	93.8	90.6	87.4	83.9
Enhanced outperformance cap	MI/d		74.9	74.9	74.9	74.9	74.9

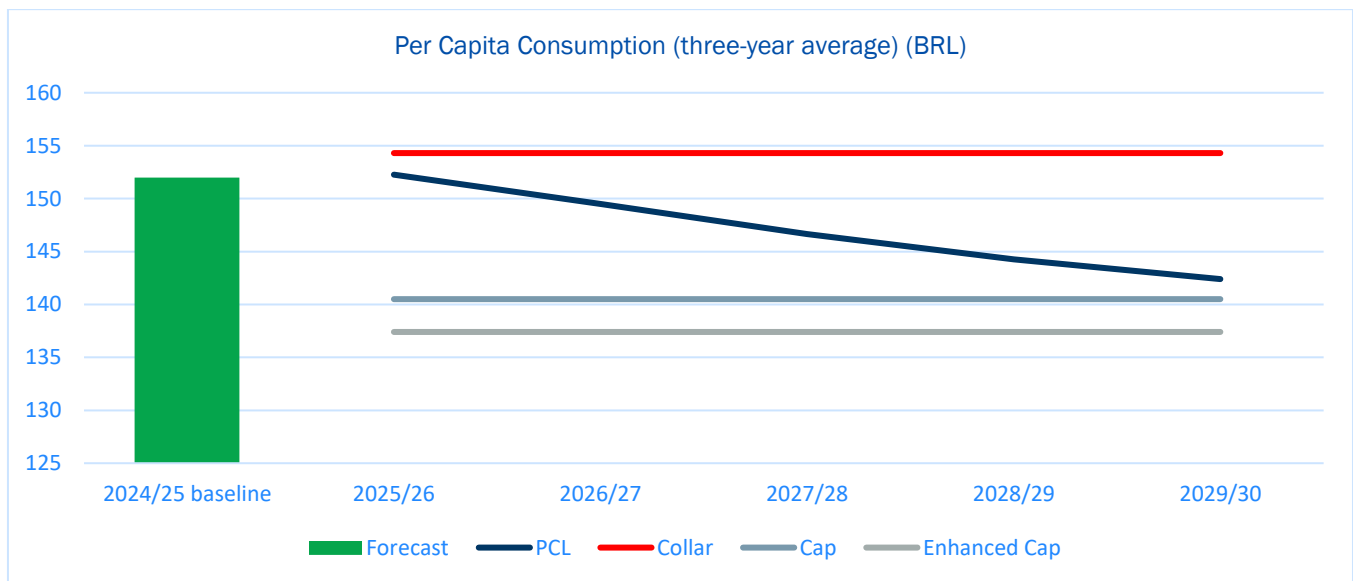
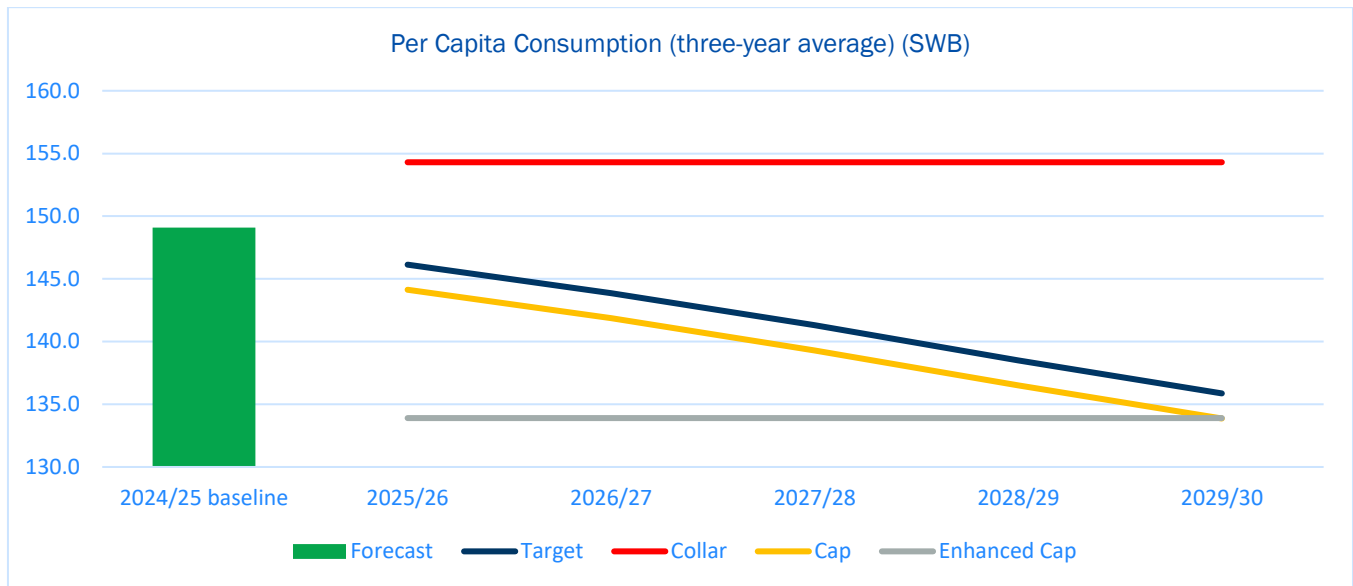
BRL	Unit	Baseline forecast	Committed performance level				
			2019-20 ¹⁹	2025-26	2026-27	2027-28	2028-29
Performance commitment level	MI/d	40.7	32.1	31.6	31.1	30.5	29.9
P10	MI/d		39.5	39.5	39.5	39.5	39.5
P90	MI/d		29.9	29.9	29.9	29.9	29.9
Standard underperformance collar	MI/d		40.0	40.0	40.0	40.0	40.0
Underperformance deadband	MI/d		NA	NA	NA	NA	NA
Outperformance deadband	MI/d		NA	NA	NA	NA	NA
Standard outperformance cap	MI/d		30.1	29.6	29.1	28.5	27.9
Enhanced outperformance cap	MI/d		27.0	27.0	27.0	27.0	27.0

¹⁸ Performance commitment levels are set as percentage reduction from 2019-20 three-year average baseline. Incentive payments relate to performance changes expressed in megalitres per day (MI/d)

¹⁹ Performance commitment levels are set as percentage reduction from 2019-20 three-year baseline. Incentive payments relate to performance changes expressed in megalitres per day (MI/d)

Per capita consumption (PCC)

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Per capita consumption				Revision		Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We have worked with a number of partners across Bristol and South West to understand customers attitude and behaviours surrounding water usage. Taking this forward into AMP8 we will consolidate our campaigns via our successful 'Stop the Drop' campaign. We have delivered success through both locally and seasonally targeted campaigns for example by placing adverts in motorway service stations and through working directly with service providers (such as holiday camps) to target all water users in our region.

We will continue to run our direct home visits to advise on water efficiency and provide water saving devices such as shower heads, tap diffusers and toilet devices. Within the Pennon group we will provide (through Pennon Water Services and Water2Business) advice and support to commercial customers on water efficiency.

Our community education programme will increase during AMP8. We will use local partners to support our water efficiency campaigns as well as many of the other issues that we engage with our communities about (eg environmental performance). We will also continue to run our school's education programme in AMP8 as we did in AMP7.

We will continue to expand meter coverage through optant metering, selective metering, metering of non-household customers, reactive meter replacement and retrofitting AMI meters. Driving this increase is key to helping customers understand water usage and making savings.

More generally the way in which we operate our networks will support a reduction in PCC. For example, reducing high pressure at customers properties also benefits PCC.

Our progressive charges have a key objective of helping to reduce PCC – tariff trials of seasonal and Rising Block Tariffs, with cohorts with and without additional water efficiency support will be a key innovation to reduce PCC. For more information see our *Progressive Charges* document.

Government targets and statutory requirements

Ofwat expect companies, as a minimum, to achieve 110 l/h/d of per capita consumption (PCC) by 2050.

Ofwat also expect companies, as a minimum, to reduce the use of public water supply in England per head of population by 20% from the 2019 to 2020 baseline reporting year figures, by 31 March 2038.

The government's Environmental Improvement Plan 2023 sets targets to reduce the use of public water supply in England per head of population by 20% from the 2019 to 2020 baseline reporting figures, by 31 March 2038, with interim targets of 9% by 31 March 2027 and 14% by 31 March 2032. The government's strategic policy statement challenges companies to contribute towards reducing personal water consumption to 110 litres of water per head per day (l/h/d) by 2050.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Historical trends on PCC performance show a notable and significant departure from Ofwat's position that company base cost allowances buy performance improvements. Although this is company-specific our analysis of the industry's performance indicates a performance level of 155.1 litres/person/day (based on base investment only) and a performance level of 143.8 litres/person/day (based on base and enhancement investment). The efficient cost benchmark companies consistently perform worse than the industry average. There has also been a general deterioration in the PCC performance of the cost benchmark companies (notably, to an even greater extent than is the case for the industry on average).

For PCC, COVID-19 has no doubt contributed to the general increasing trend in household consumption. This impact has been factored into our forecast assumptions – but our ambitions are to deliver consumption to levels by the end of AMP8 to a level that is lower than the original end of AMP7 target levels.

Target setting conclusion -- setting stretching levels of performance

Target setting for this performance commitment is company-specific and has been driven by WRMP, supply-demand solutions and COVID-19. We note that Ofwat also recognised that PCC historical levels of performance proved that calculating incentives became too uncertain. There was an uplift in AMP7 due to COVID-19, and our analysis of industry trends shows this uplift impacts the entire industry (not just the areas of South West and Bristol).

ODI design protections (caps, collars, deadbands)

In terms of regulatory precedent, caps and collars applied to this performance commitment at PR19 (for both SWB and BRL). The CMA also noted as part of the PR19 redetermination that collars mitigate the risk that underperformance on one could lead to extreme penalty levels for companies – individuals performance commitment collars, rather than relying on the aggregate sharing mechanism, is appropriate. The collar has been set beyond the P10 level and sufficient to allow for symmetrical Incentives. It has been Informed by the Industry base level of performance from the OXERA 'What Base Buys' analysis.

Incentive rates and Customer preferences

In response to Ofwat's top-down indicative rates, we alerted Ofwat to our concerns that PCC and business demand were double-counting and that Ofwat confirmed this would be considered as part of the calibration of final Incentive rates during the draft determinations (as confirmed in response to query 341).²⁰

We have adopted alternative top-down incentive rates for this performance commitment and we have removed the potential for double-counting. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.209
Outperformance payment – standard	0.209
Outperformance payment – enhanced	0.418

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.099
Outperformance payment – standard	0.099
Outperformance payment – enhanced	0.199

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast 2019-20 ²¹	Committed performance level				
			2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	l/p/d	146.0	146.1	143.9	141.3	138.5	135.9
P10	l/p/d		154.0	154.0	154.0	154.0	154.0
P90	l/p/d		139.0	139.0	139.0	139.0	139.0
Standard underperformance collar	l/p/d		160.0	160.0	160.0	160.0	160.0

²⁰ Ofwat (2023) PR24 final methodology queries and responses – 7 September 2023, page 97

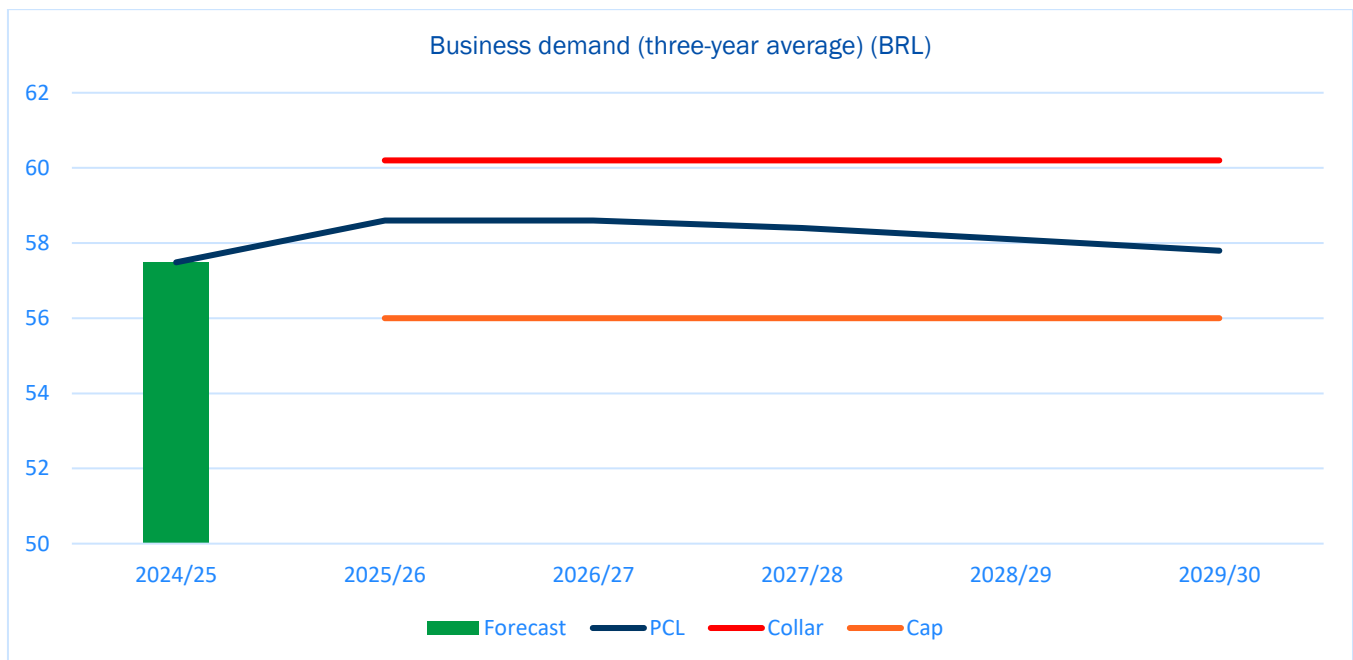
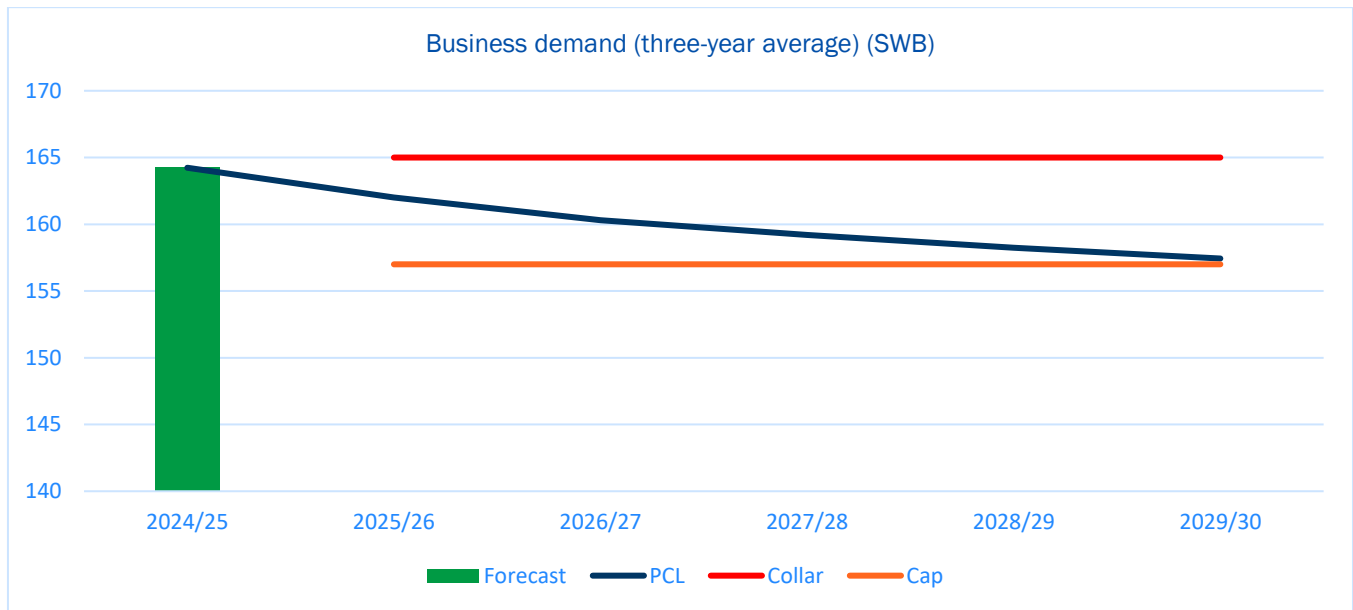
²¹ Performance commitment levels are set as percentage reduction from 2019-20 three-year average baseline. Incentive payments relate to performance changes expressed in litres/person/day (l/p/d).

Underperformance deadband	l/p/d		NA	NA	NA	NA	NA
Outperformance deadband	l/p/d		NA	NA	NA	NA	NA
Standard outperformance cap	l/p/d		144.1	141.9	139.3	136.5	133.9
Enhanced outperformance cap	l/p/d		133.9	133.9	133.9	133.9	133.9

BRL	Unit	Baseline forecast	Committed performance level				
		2019-20	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	l/p/d	148.9	152.3	149.5	146.7	144.3	142.4
P10	l/p/d		152.8	152.8	152.8	152.8	152.8
P90	l/p/d		137.4	137.4	137.4	137.4	137.4
Standard underperformance collar	l/p/d		154.3	154.3	154.3	154.3	154.3
Underperformance deadband	l/p/d		NA	NA	NA	NA	NA
Outperformance deadband	l/p/d		NA	NA	NA	NA	NA
Standard outperformance cap	l/p/d		140.5	140.5	140.5	140.5	140.5
Enhanced outperformance cap	l/p/d		137.4	137.4	137.4	137.4	137.4

Business demand

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Business demand						Revision	



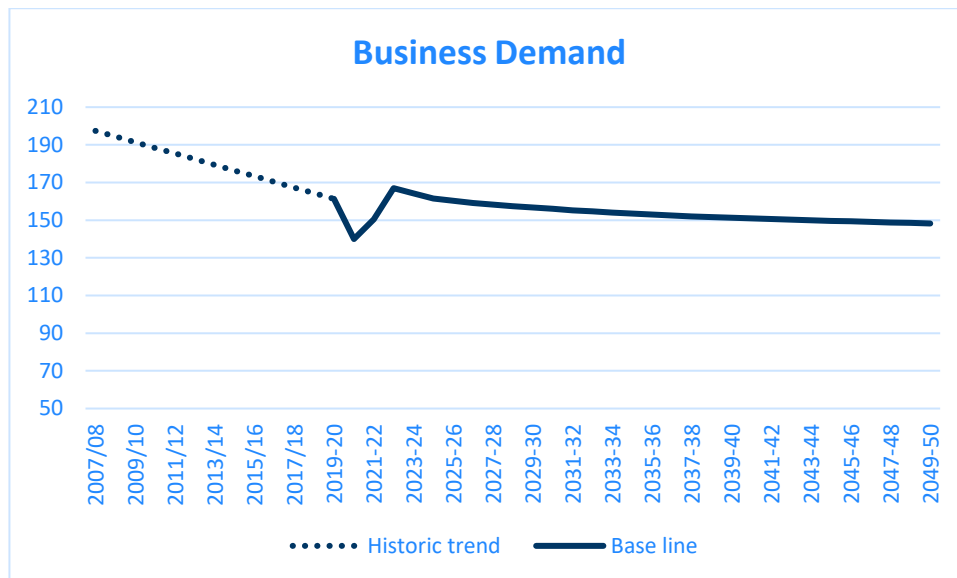
Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

In the South West non-household water consumption level decreased by 15% from 2007/08 to 2019/20 and the Bournemouth region declined by 22.5% over the same period.



Whilst there is a sharp decline in business demand on historic trends, there diminishing returns.

Over the longer-term, we will deliver a reduction in business demand largely through the actions we put in place to deliver the reduction in PCC. For example, our campaigns and messaging will have benefits in increasing all customer awareness, not just domestic customers. Our approach to metering commercial customers and overall reduction in pressure also directly support delivery of this target.

In addition to this we will specifically target water efficiency for our business customer through the support we provide to businesses to help reduce consumption through water efficiency audits, targeting high users such as food and beverage manufacturers as well as supporting businesses with advice on water recycling and rainwater harvesting.

Our progressive charges have a key objective of helping to reduce business demand– tariff trials of seasonal tariffs will be a key innovation. For more information see our *Progressive Charges* document.

Government targets and statutory requirements

The final Environmental long-term targets under the Environment Act 2021 include ambitions over water demand, including reductions in non-household demand of 9% by 2037/38, from the 2019/20 baseline, and a 15% reduction in non-household water use by 2050.

Common or company specific level of performance

Ofwat’s expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Business demand does not show clear trends for either industry or cost benchmark companies anyway. In addition, as this is a metric not previously included in the outcomes framework, the historic data is not a reliable source for estimating future performance improvements.

Target setting conclusion – setting stretching levels of performance

Target setting for this performance commitment is company-specific and will be driven by WRMP and supply-demand solutions.

ODI design protections (caps, collars, deadbands)

Ofwat’s PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. As this is a new performance commitment for PR24 we have applied caps and collars to the performance commitment levels.

Incentive rates and Customer preferences

In response to Ofwat's top-down indicative rates, we alerted Ofwat to our concerns that PCC and business demand were double-counting and that Ofwat confirmed this would be considered as part of the calibration of final Incentive rates during the draft determinations (as confirmed in response to query 341).²²

We have adopted alternative top-down incentive rates for this performance commitment and we have removed the potential for double-counting. Based on our approach to applying top-down incentives, the customer ranking would be 'low'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.084
Outperformance payment – standard	0.084
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.084
Outperformance payment – standard	0.084
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast 2019-20 ²³	Committed performance level				
			2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	MI/d	150.2	162.0	160.3	159.2	158.2	157.4
P10	MI/d		163.3	163.3	163.3	163.3	163.3
P90	MI/d		150.5	150.5	150.5	150.5	150.5
Standard underperformance collar	MI/d		165.0	165.0	165.0	165.0	165.0
Underperformance deadband	MI/d		NA	NA	NA	NA	NA
Outperformance deadband	MI/d		NA	NA	NA	NA	NA
Standard outperformance cap	MI/d		157.0	157.0	157.0	157.0	157.0
Enhanced outperformance cap	MI/d		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
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²² Ofwat (2023) PR24 final methodology queries and responses – 7 September 2023, page 97

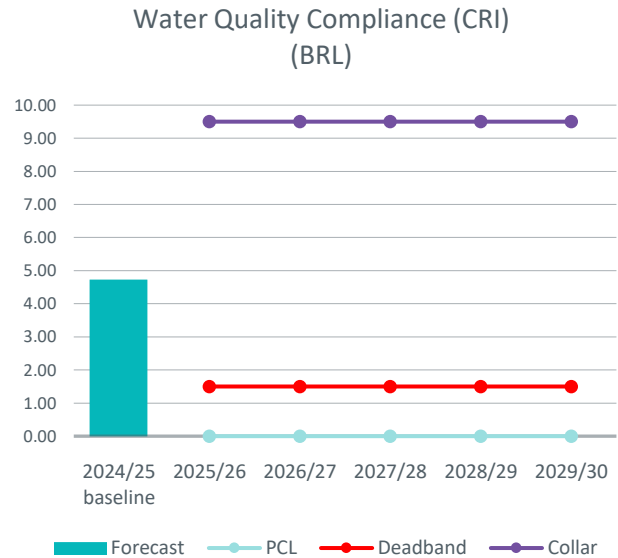
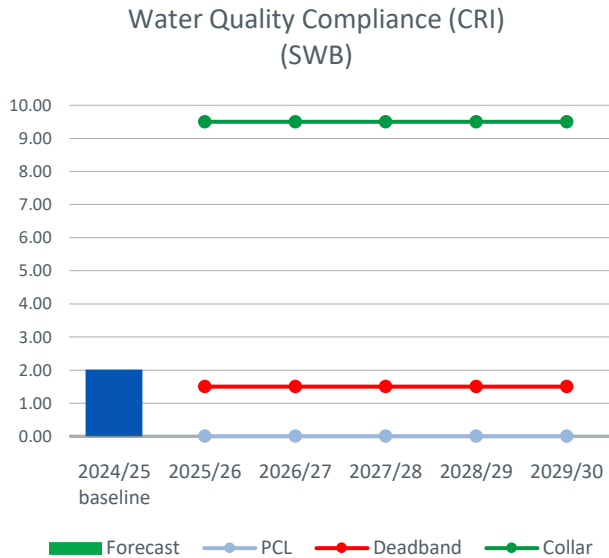
²³ Performance commitment levels are set as percentage reduction from 2019-20 three-year average baseline. Incentive payments relate to performance changes expressed in Mega litres/day (MI/d).

	Unit	2019-2020 ²⁴	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	MI/d	59.5	58.3	58.6	58.4	58.1	57.8
P10	MI/d		58.1	58.1	58.1	58.1	58.1
P90	MI/d		49.8	49.8	49.8	49.8	49.8
Standard underperformance collar	MI/d		60.2	60.2	60.2	60.2	60.2
Underperformance deadband	MI/d		NA	NA	NA	NA	NA
Outperformance deadband	MI/d		NA	NA	NA	NA	NA
Standard outperformance cap	MI/d		56.0	56.0	56.0	56.0	56.0
Enhanced outperformance cap	MI/d		NA	NA	NA	NA	NA

²⁴ Performance commitment levels are set as percentage reduction from 2019-20 three-year baseline. Incentive payments relate to performance changes expressed in Mega litres/day (MI/d).

Compliance risk index (CRI)

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Compliance risk index (CRI)			Revision	Revision	N/A	Revision	



Definition

We have adopted the common definition as published.

In addition, we propose that separate targets apply to the Isles of Scilly for this performance commitment.

Target Setting

Track record of performance and delivery strategy

We will deliver improvements to our CRI score through investing in our water assets and through improvements to our operations that operate and maintain these assets. Combining our strategies to deliver improved water quality and provide resilience through investment in new, and upgrades to works will improve our CRI performance. We will continue to deliver the key learnings from the operational changes made in AMP7 into AMP8 around our Quality First programme of cleaning and operational maintenance and by extending the learning from South West into Bristol.

We have assessed the CRI risk at each of our water treatment works. We are proposing to invest at the following sites:

South West (SWB)

- Upgrading **Dotton WTW** with new dedicated manganese filters, UV treatment and de-chlorination
- Upgrading **Woodgreen WTW** with membrane treatment and secondary manganese filters
- Providing new GAC treatment at **Lowermoor WTW**
- Improving disinfection via a new contact tank at **Greatwell WTW**
- We are also investing in Allers and Pynes WTW's to deal with manganese and associated discolouration risk. These actions will also have an impact on reducing CRI at these sites.

Bristol (BRL)

- Upgrading the UV treatment at **Cheddar** and **Littleton WTW**

- Enhanced pH correction and slow sand filter options at Cheddar WTW to prevent algae growth and improve final water corrosivity as part of our long term strategy to reduce consumer contacts and CRI
- Installing additional chlorination points and chlorine monitoring, in addition to investigations and treatability studies to understand the biological stability of water supplies to inform our long term plan for treatment and chlorination in the Bristol region.

We will also deliver low cost, low regrets solutions at seven sites to mitigate the risk of deteriorating raw water quality impacting our ability to treat and supply water at Delank, St Cleer, Bastreet, Dousland, Prewley, Avon and Venford WTWs.

In addition to the specifically targeted plans above, new works will be developed at the following sites to improve water quality and address future raw water deterioration by:

- Rebuilding **Stowey WTWs** in our mid- Bristol region (BRL) – consisting of the reconstruction of a conventional Water Treatment Works, and (subject to review) potentially consisting of; Coagulation, DAF, RGF, Ozone dosing & contact tank, GAC, Chlorine disinfection
- Rebuilding **Littleton WTWs** in our North-Bristol region (BRL) – we are proposing to undertake a sing initially of a technology evaluation at the earliest opportunity to confirm the most appropriate and economic water treatment solution, this scheme will progress within AMP8 to realise a full rebuild at the site
- Rebuilding (and/or potentially relocating) **Bratton Fleming WTWs** in support of our wider North Devon (SWB) supply resilience strategy which is linked to our Green Recovery investment plans – consisting of the construction of a new 10 MLD works utilising modern technology of: Ceramic membranes, advanced oxidation prior to Granular Activated Carbon adsorption, disinfection and enhanced Manganese removal.

We will also carry out research, investigations and enhanced analytical capability for emerging contaminants and future potential chemical and biological risks to drinking water quality.

Our operational plans will extend the learning from South West into Bristol, we will continue our enhanced programme of tank cleans across all regions extending the MEICA MOTs that we have carried out across the West. We will continue to put a strong emphasis on the culture within our organisation through the delivery of our Quality first, Calm Network, Production technician competency, LTO and Scientific monitor training programmes which have proved successful in AMP7.

Government targets and statutory requirements

Ofwat's PR24 final methodology sets out an expectation for 100% compliance. We have complied with this ambition.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

The historical performance trends suggest that the cost benchmark is at least set to reach the industry deadband target, whilst the industry performance trends suggest other companies would not; industry performance is predicated to be at around a CRI score of 3 – we have taken this into consideration for the underperformance deadband but have set this at the lower level, to ensure regulatory consistency with the deadband level at PR19. There is also no indication from historical performance trends that the statutory requirement of a zero CRI score will be achieved in the relevant time period.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

The volatility in company performance on this performance commitment suggest that for CRI one should be cautious to make firm conclusions on what the base buys. Historical performance trends suggest that the cost benchmark is at least set to reach the deadband target (at 2.0), whilst the industry would not. However, there is no indication from historical performance trends that the statutory requirement of a zero CRI score will be achieved in the relevant time period.

Target setting conclusion – setting stretching levels of performance

We have complied with the expectations as per the PR24 methodology; for CRI the common performance level has been set at 0.00 CRI for 2025 to 2030.

ODI design protections (caps, collars, deadbands)

We recognise that Ofwat have previously stated that companies do not need to propose a level for the deadband (as confirmed in response to query 126)²⁵. Ofwat’s PR24 methodology states “we will only set a deadband on the compliance risk index performance commitment, reflecting stakeholders' feedback, including from the Drinking Water Inspectorate, that it is challenging to achieve full compliance, particularly because performance against the measure can be affected by customers' internal pipes or fittings, responsibility for which is not within the statutory functions of water companies.” Industry performance trends would suggest a deadband of 3 CRI points. However, to ensure consistency with regulatory precedent, we have proposed a deadband level of 1.50 CRI for all years. This reflects the deadband level as per the CMA PR19 redeterminations, post reflecting the metaldehyde ban.

Ofwat’s PR24 methodology does not refer to a collar for CRI. However, at PR19 Ofwat set the collar for CRI at a score of 9.50, which was the upper quartile of the collars that companies proposed in their revised PR19 business plans. Relying solely on historic performance to establish collar levels is complex; for simplicity and consistency we have aligned to regulatory precedent; we have assumed a collar of 9.50 continues to apply to the CRI performance commitment.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘high’.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.290
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.147
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

Scaled for population, the Isles of Scilly incentive rate would be £0.0003m / unit.

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitments.

SWB	Unit	Baseline forecast	Committed performance level				
			2024-25	2025-26	2026-27	2027-28	2028-29
Performance commitment level	Number	2.00	0.00	0.00	0.00	0.00	0.00
P10	Number		6.54	6.54	6.54	6.54	6.54

²⁵ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 38

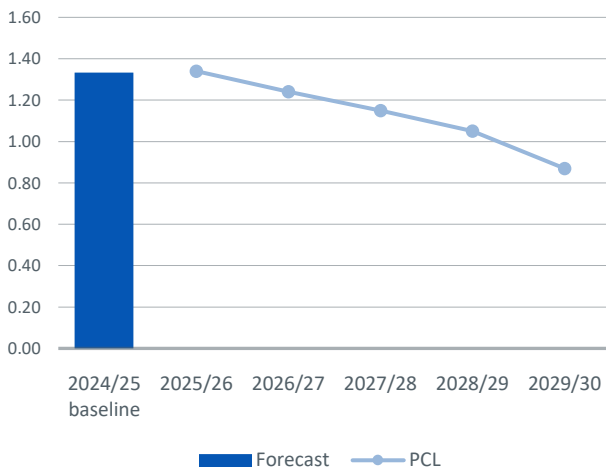
P90	Number		0.80	0.80	0.80	0.80	0.80
Standard underperformance collar	Number		9.50	9.50	9.50	9.50	9.50
Underperformance deadband	Number		1.50	1.50	1.50	1.50	1.50
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	4.71	0.00	0.00	0.00	0.00	0.00
P10	Number		6.54	6.54	6.54	6.54	6.54
P90	Number		0.80	0.80	0.80	0.80	0.80
Standard underperformance collar	Number		9.50	9.50	9.50	9.50	9.50
Underperformance deadband	Number		1.50	1.50	1.50	1.50	1.50
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

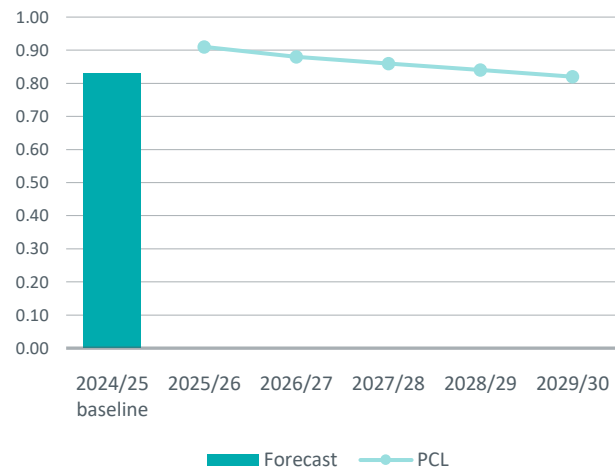
Customer contacts about water quality

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Customer contacts about water quality		Revision				Revision	

Customer contacts about water quality (SWB)



Customer contacts about water quality (BRL)



Definition

We have adopted the common definition as published. We have taken into consideration the revision to the definition within our proposed PCLs.

In addition, we propose that separate targets apply to the Isles of Scilly for this performance commitment.

Target Setting

Track record of performance and delivery strategy

We will continue to upgrade our water treatment works as part of our quality improvement programme, work started in AMP7. The elements of the programme focus on manganese and GAC specifically target reducing contacts about water quality.

Whilst all the sites listed in our delivery plans for improving CRI can have benefit in reducing the number of customer contacts about water quality, the sites we have specifically targeted to improve this measure are at Dotton, Pynes, Allers and Woodgreen in South West where improvements will address issues of appearance, and at Bratton Fleming and Lowermoor where we will address issues of taste and odour alongside delivering seven PAC schemes.

The plan will deliver 105km (SWB) & 34km (BRL) of replacement water mains, targeting our legacy iron pipework. The total proposed investment in AMP8 is £50m totex after efficiencies, for which £38m is for SWB and £12m BRL. This represents an increase from AMP7 levels due to need for mains replacement to achieve our long-term targets and to establish resilience against the potential for flushing restrictions during years of drought.

Our distribution operations and maintenance strategies (DOMS) will focus on proactive interventions to ensure we reduce the risk of contacts about water quality. Namely this will be carried out by our DOMS flushing programme for distribution mains where we will increase the number of areas, we flush per annum to 250 in AMP8 (against 150 AMP7). We have improved our processes and increased the amount of trunk mains conditioning carried out in AMP7 and we will continue this into AMP8.

Our upstream thinking catchment management programme which will continue to deliver green solutions to reduce our water quality risk. Our leakage and mains repairs activities (described elsewhere in this document) will also reduce the risk of quality contact through proactive interventions ahead of burst mains that could cause customer impact. The operational plans we are putting in place to deal with Supply interruptions (by rapid response and reducing the numbers of customers impacted through the deployment of AWS teams) will all feed into a reduction in the number of contacts about quality that could arise following burst mains.

Government targets and statutory requirements

Ofwat's PR24 final methodology outlines an expectation that performance commitment levels should be set on a common basis for this performance commitment.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance. However, we propose that this is a company-specific measure, to take account of local factors, for example raw water sources.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

On the old definition, our analysis of the industry's performance indicates a performance level of 3.40 contacts per 1,000 population (based on base investment only) and a performance level of 0.53 contacts per 1,000 population (based on base and enhancement investment). Where improvements are seen across the industry, these are being driven by enhancement investment. For base performance we therefore trend to 0.8 contacts per 1,000 customers by 2030 from current levels of performance, adjusted for change in definition.

We have included a 0.1 Increase beyond the performance Information to reflect the available Information on the change in definition to reflect social media and counting contacts on multiple Issues more than once (which does not apply for DWI reporting until 1 January 2024).

Target setting conclusion - setting stretching levels of performance

As previously signalled in our response to the PR24 draft methodology consultation, we do not agree that the performance commitment levels can be set based on common industry performance. We have therefore proposed company-specific performance commitment levels to applied to both the South West and Bristol regions.

ODI design protections (caps, collars, deadbands)

The common definition for this performance commitment has been materially revised since PR19. Due to the introduction of new communication channels and the process behind the reporting of repeat contacts, historic data is not a reliable source for target setting.

We flagged in our response to the draft methodology our opposition to the proposal for this performance commitment to be set using common performance commitment levels. Whilst we agree that the measure can be consistently reported and compared between companies, we disagree with Ofwat's rationale for it being a common measure. Water quality contacts are impacted by local factors, for example, raw water sources, the material of companies watermains and companies operating regimes, e.g., pressure/flow rates/variance in peak demands. Companies have also received varying levels of enhancement expenditure to reduce water quality contacts in the past – particularly cast iron watermains rehabilitation programmes in AMP4/5. We believe as a minimum there should be a continued glidepath towards common performance in AMP8 (and potentially AMP9).

Addressing aesthetic water quality is a long-term issue, particularly where companies are moving back again towards cast iron mains replacement, following a tackling of these issues at source. In the South West the approach has been to spread improvements inter-generationally so that no single cohort of consumers pays disproportionately for improvements to consumer contacts. This has meant a sustained improvement in consumer contacts over several AMPs, which would continue under our current plans. Bristol have been targeting significant improving without enhancement investment to better inform targeted investment proposals.

For simplicity we have proposed alternative incentive rates, without any further ODI protections. If our proposed incentive rates were rejected we would need to consider ODI protections – the industry top-down rates were implausibly high for this performance commitment. Deadbands, caps and collars are not necessary for a relatively stable metric.

Incentive rates and Customer preferences

We note that within Ofwat's indicative incentive rates (where these were based on the mapping of the original collaborative ODI rates research or via the top-down approach) this resulted in ODIs for this performance commitment that were not reflective of our customer's valuations and which resulted in an unacceptable level of downside skew.

Taste, smell and discoloration are very linked in customers minds to overall water quality and our customers think that 'maintaining a safe water supply, which looks and tastes good to drink' should be our main priority.²⁶

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'low'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	1.784
Outperformance payment – standard	1.784
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.906
Outperformance payment – standard	0.906
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	1.33	1.34	1.24	1.15	1.05	0.87
P10	Number		1.28	1.28	1.28	1.28	1.28
P90	Number		0.80	0.80	0.80	0.80	0.80
Standard underperformance collar	Number		NA	NA	NA	NA	NA
Underperformance deadband	Number		NA	NA	NA	NA	NA
Outperformance deadband	Number		NA	NA	NA	NA	NA

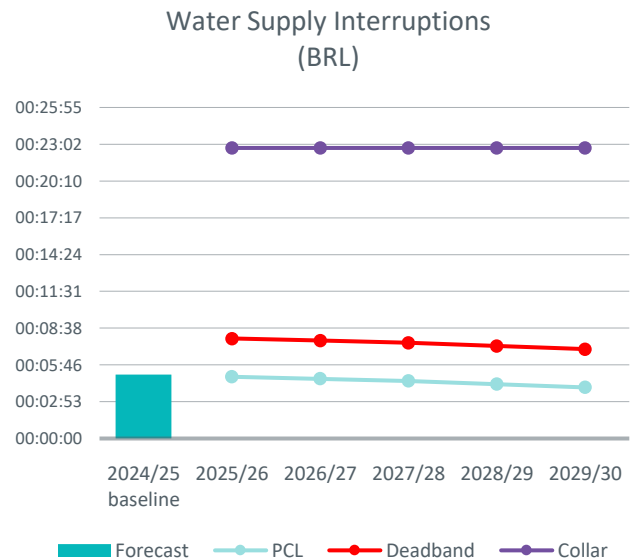
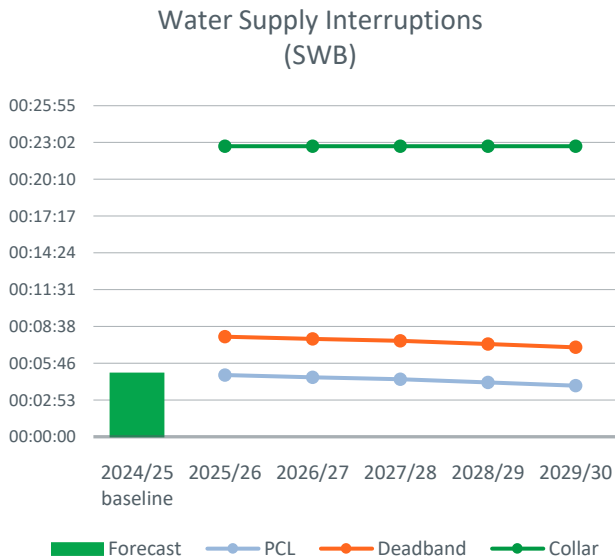
²⁶ ICS Consulting, PR19 Priorities Research, 2017 & Report 1.7- Verve, PR24 Customer Priorities, February 2023

Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	0.83	0.91	0.88	0.86	0.84	0.82
P10	Number		1.28	1.28	1.28	1.28	1.28
P90	Number		0.80	0.80	0.80	0.80	0.80
Standard underperformance collar	Number		NA	NA	NA	NA	NA
Underperformance deadband	Number		NA	NA	NA	NA	NA
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

Water supply interruptions

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Water supply interruptions	Revision		Revision			Revision	



Definition

The common definition for this performance commitment has been materially revised since PR19. In the previous reporting period, companies could make a representation to Ofwat for an exception to be granted on the basis of a civil emergency under the Civil Contingencies Act 2004, where the supply interruption was not the cause of the emergency. Despite this exclusion now being removed, we have proposed that a stretching target below 5 minutes be applied to the 2025-2030 reporting period.

We have adopted the common definition as published. However, we have considered the impact of third-party events on reported performance across the industry. Our quantitative top-down ODI research found support for exemptions is strongest for third party damage and extreme weather. We propose that a threshold be added to the definition for the exclusion of third-party events, where such events exceed 20% of the target in a reporting year. This provides enough protection for major events sufficient to allow for symmetrical risk, but does not require detailed analysis of many events to justify the exclusion.

Target Setting

Track record of performance and delivery strategy

Over the period up to 2025 we have significantly reduced risk of supply interruptions through increased interconnectivity and community specific resilience improvement projects. This is despite the impact of third-party one-off incidents and the impact of extreme weather events.

We have challenged ourselves with further operational interventions (such as additional alternative water supplies in the South West region) to deliver our proposed performance commitment levels.

Under SEMD we are proposing to invest in additional resources, fleet and logistical capability to support our response and to reduce the impact on any outage on our customers. Many of the operational activities we undertake to reduce leakage also positively target reducing bursts and hence reduce supply interruptions - for example pressure management and trunk mains conditioning. We are currently extending learning from Bristol regarding best practice management of pressure within the network and we will be carrying out further calm network management activities (currently being trialled in AMP7) across other areas.

Government targets and statutory requirements

Ofwat's PR24 final methodology outlines an expectation that performance commitment levels should be set on a common basis for this performance commitment. We have factored this into our proposal for a common target that is below the 2024-25 Industry performance commitment level.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

For supply interruptions all companies in the industry face a target for 2024/25 of five minutes per property. On a forward-looking basis, an extrapolation of historical trends suggests that whilst the benchmark will reach this target, the industry will underperform on average. Our analysis of the industry's performance indicates a performance level of 14 mins and 58 seconds (based on base investment only). When factoring in the upper quartile cost benchmark companies, a performance of 1 minute and 18 seconds could potentially be achieved. Whilst there has been historical improvement in water supply interruptions performance, there are some signs of diminishing marginal improvement at the frontier (as evident in the decreasing incremental improvements for the upper quartile benchmark). By averaging the difference based on the industry performance and the cost benchmark companies, the level of performance is likely to be at 7 minutes 54 seconds. We have therefore applied a deadband to the stretching performance commitment level around this level.

Target setting conclusion – setting stretching levels of performance

In line with Ofwat's expectations, we have not identified any specific supply interruption enhancement investments to improve performance in AMP8. Our analysis of improvements from base suggests that performance flatlines, i.e., reaches maximum achievable gains, in and around 2024/25. However, we have proposed a stretching target below 5 minutes be applied to the 2025-2030 reporting period.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets out an expectation that a collar is adopted for this performance commitment.

At PR19, whilst the design of the ODI protections for supply interruptions for South West did not include a collar, the design of the ODI protections for supply interruptions for Bristol did include a collar, at 22 minutes and 45 seconds. For simplicity and consistency we have aligned to regulatory precedent; we have assumed a collar of 22 minutes and 45 seconds applies to the supply interruptions performance commitment. The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period. This collar level is beyond our estimate of P10 and is proposed to reflect the balance of ODI risk.

In addition, we have proposed an underperformance deadband at three minutes above the performance commitment level. This is to reflect the uncertainty for weather impacts on performance; weather events experienced in AMP6 and AMP7 indicated that there is material downside risk (rather than any upside risk) which is why we have proposed an underperformance deadband only. This is justified based on the What Base Buys analysis - there is an increasing trend in supply interruptions from base expenditure which suggests a much higher deadband. The UQ efficient base spend forecast for 2025 is 8 minutes, compared to a 5 minute target, which provides justification for a 3 minute deadband.

The existence and severity of weather events are outside of the control of the water and wastewater companies; and when those events arise there are – by the nature of the event – substantial impacts on customers. Therefore, when that event does happen, we recognise that our customers will want their water company to focus on what is needed during and in the immediate aftermath of that event. Our severe weather taskforce continues to plan to minimise the impact of weather events on customers supplies. However, the inclusion of a deadband is intended to balance risk - the inclusion of a deadband does not impact our obligations of service we wish to provide to our customers (we may still be reporting of a failure to meet the target) but this approach does reduce the exposure of water and wastewater companies to risks that they cannot control.

A regulatory precedent should be noted, regarding the adoption of a deadband for this metric; the CMA was supportive of deadbands where circumstances outside management control could lead to a small underperformance. Given the strength of the WBB analysis, we have strong evidence to justify this precedent and service-cost relationship based on our groundbreaking approach.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment. As per the PR24 methodology, no enhanced cap applies. For the enhanced threshold, we have considered the industry upper quartile and frontier levels of performance in the 2020-2025 reporting period.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.211
Outperformance payment – standard	0.211
Outperformance payment – enhanced	0.421

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.108
Outperformance payment – standard	0.108
Outperformance payment – enhanced	0.215

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitments.

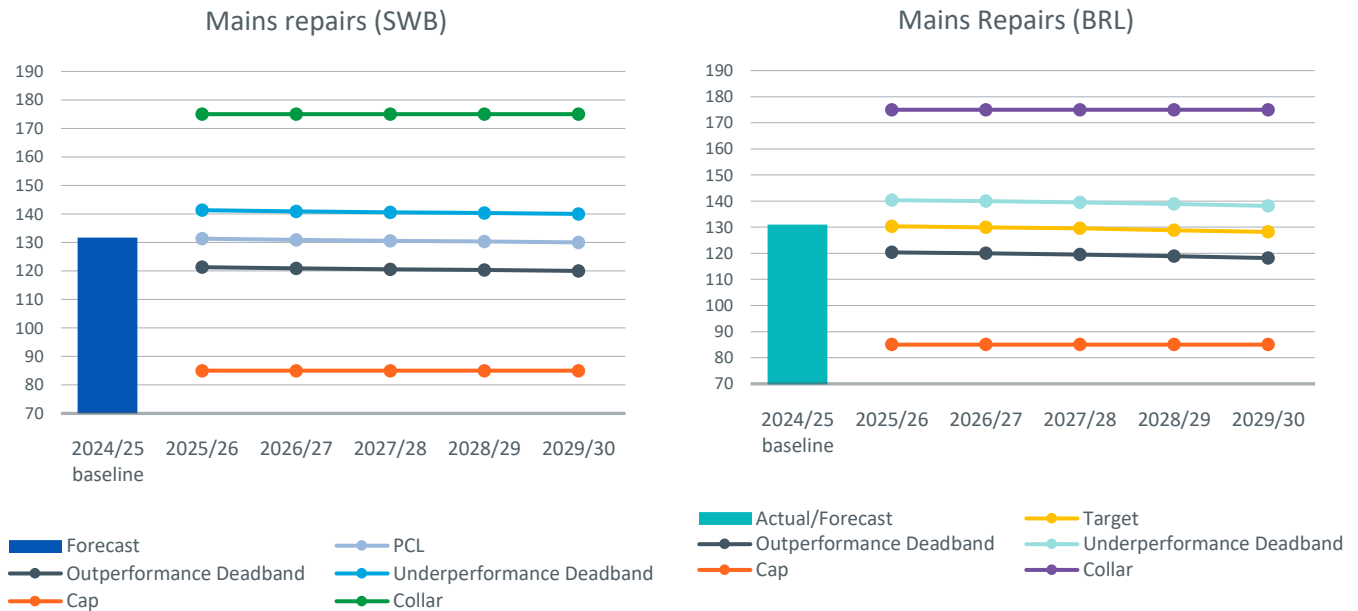
SWB	Unit	Baseline forecast	Committed performance level				
			2024-25	2025-26	2026-27	2027-28	2028-29
Performance commitment level	HH:MM:SS	00:05:00	00:04:50	00:04:40	00:04:30	00:04:15	00:04:00
P10	HH:MM:SS		00:13:40	00:13:40	00:13:40	00:13:40	00:13:40
P90	HH:MM:SS		00:03:12	00:03:12	00:03:12	00:03:12	00:03:12
Standard underperformance collar	HH:MM:SS		00:22:45	00:22:45	00:22:45	00:22:45	00:22:45
Underperformance deadband	HH:MM:SS		00:07:50	00:07:40	00:07:30	00:07:15	00:07:00
Outperformance deadband	HH:MM:SS		N/A	N/A	N/A	N/A	N/A
Standard outperformance cap	HH:MM:SS		00:03:30	00:03:30	00:03:30	00:03:30	00:03:30
Enhanced outperformance cap	HH:MM:SS		00:00:00	00:00:00	00:00:00	00:00:00	00:00:00

BRL	Baseline forecast	Committed performance level				
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	Unit	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	HH:MM:SS	00:05:00	00:04:50	00:04:40	00:04:30	00:04:15	00:04:00
P10	HH:MM:SS		00:13:40	00:13:40	00:13:40	00:13:40	00:13:40
P90	HH:MM:SS		00:03:12	00:03:12	00:03:12	00:03:12	00:03:12
Standard underperformance collar	HH:MM:SS		00:22:45	00:22:45	00:22:45	00:22:45	00:22:45
Underperformance deadband	HH:MM:SS		00:07:50	00:07:40	00:07:30	00:07:15	00:07:00
Outperformance deadband	HH:MM:SS		N/A	N/A	N/A	N/A	N/A
Standard outperformance cap	HH:MM:SS		00:03:30	00:03:30	00:03:30	00:03:30	00:03:30
Enhanced outperformance cap	HH:MM:SS		00:00:00	00:00:00	00:00:00	00:00:00	00:00:00

Mains repairs

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Mains repairs			Revision			Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

Our mains repairs performance will largely be driven through our capital investment programme, targeting higher risk mains for early intervention ahead of failure. Key to this is our strategy for replacing cast iron mains where we are proposing a £50m investment in AMP8. We are focussing our plans on renewal of assets and will continue to explore and utilise innovative technology to reduce unit costs in this area, for example we have already successfully deployed vactoring as an approach to reducing risk and cost in difficult operational circumstances.

Our approach to leakage is to renew rather than repair mains to ensure a more sustained reduction of future risk. There is a downside to this approach however, as we increase our leakage performance and carry out further renewals we are likely to see an increase in our mains repair numbers. We believe this is still the right thing to do, by investing in this way we will safeguard our customers and in the long-term. We have included the impact of additional leakage activities in our mains repair forecasts.

Whilst performance in this area will largely be driven through our asset investment plans, reducing pressure in our networks, both through our ongoing pressure reducing valve (PRV) programme and through the new approach we intend to take in AMP8, using control strategies, new system technology, installation of new pumps able to smooth transients on our network alongside our approach to delivering greater resilience within our water operations will ultimately, though the overall reduction of pressure in our system prevent mains bursts and as a consequence drive down the number of mains repairs we need to undertake.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Although this is company-specific our analysis of the industry's performance indicates a performance level of 147.8 mains repairs (based on base investment only) and a performance level of 139.2 mains repairs (based on base and enhancement investment).

The average of company-specific targets compared to the trend forecast of companies' historical performance suggest that the benchmark average will reach its PR19 targets. On the other hand, on industry average performance, while with a downward trend, the trends suggest that some companies will not reach their PR19 targets. Nevertheless, both the downward trend across benchmark companies, as well as the benchmark's consistent outperformance relative to the industry average, suggest that base buys service improvements in mains repairs; we have challenged ourselves for our performance commitment levels as a result.

Target setting conclusion – setting stretching levels of performance

Our stretching targets are based on the level of base improvements. These have been derived from a bottom-up analysis of our expected improvement from base and our enhancement programmes.

ODI design protections (caps, collars, deadbands)

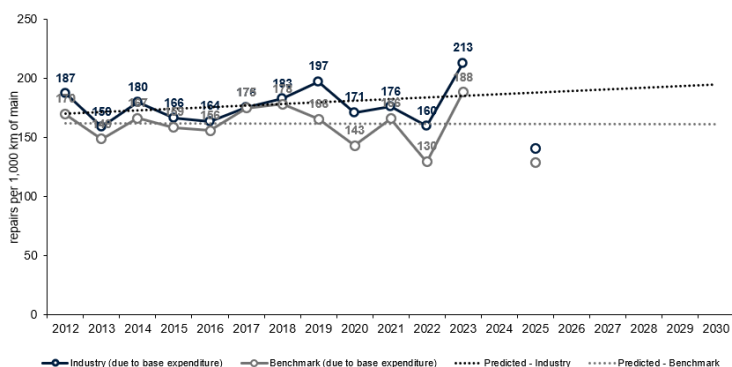
Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

We have proposed an underperformance and outperformance deadband for this performance commitment. This is to reflect the uncertainty for weather impacts on performance. The existence and severity of weather events are outside of the control of the water and wastewater companies; and when those events arise there are – by the nature of the event – substantial impacts on customers. Therefore when that event does happen, we recognise that our customers will want their water company to focus on what is needed during and in the immediate aftermath of that event. However, the inclusion of a deadband is intended to mitigate ODI risk - the inclusion of a deadband does not impact our obligations of service we wish to provide to our customers (we may still be reporting of a failure to meet the target) but this approach does reduce the exposure of water and wastewater companies to risks that they cannot control.

A regulatory precedent should also be noted, regarding the adoption of a deadband for this metric; the CMA was supportive of deadbands for asset health measures such as mains repairs and unplanned outage.

We note that on 26 April Ofwat sent an email to the company, outlining its position, namely that a deadband would not be appropriate. However, Ofwat's statement that "setting a deadband would weaken incentives on companies to improve the asset health of their networks, potentially leading to poorer outcomes for customers and the environment now and in the longer term" does not align to the regulatory precedent set by the CMA.

We have therefore proposed the narrow deadband range of 10 repairs per 1,000 km above the PC for underperformance and outperformance. This is justified from the WBB analysis, which shows an increasing trend in the industry, from weather events and in response to lower leakage targets providing less tolerance in achieving mains repairs (as smaller leaks need to be repaired to maintain lower leakage).



Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.076
Outperformance payment – standard	0.076
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.028
Outperformance payment – standard	0.028
Outperformance payment – enhanced	N/A

Performance commitment levels

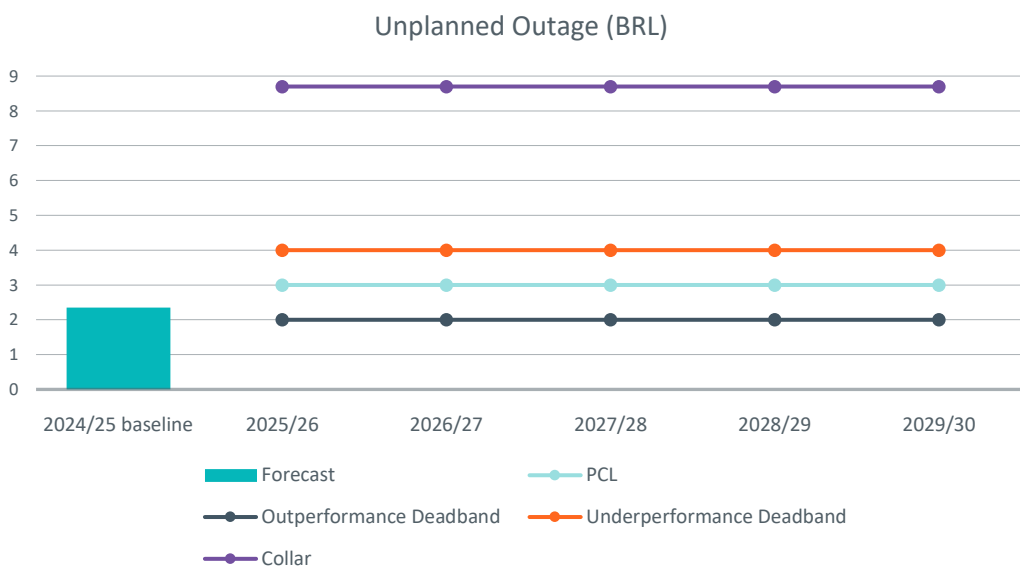
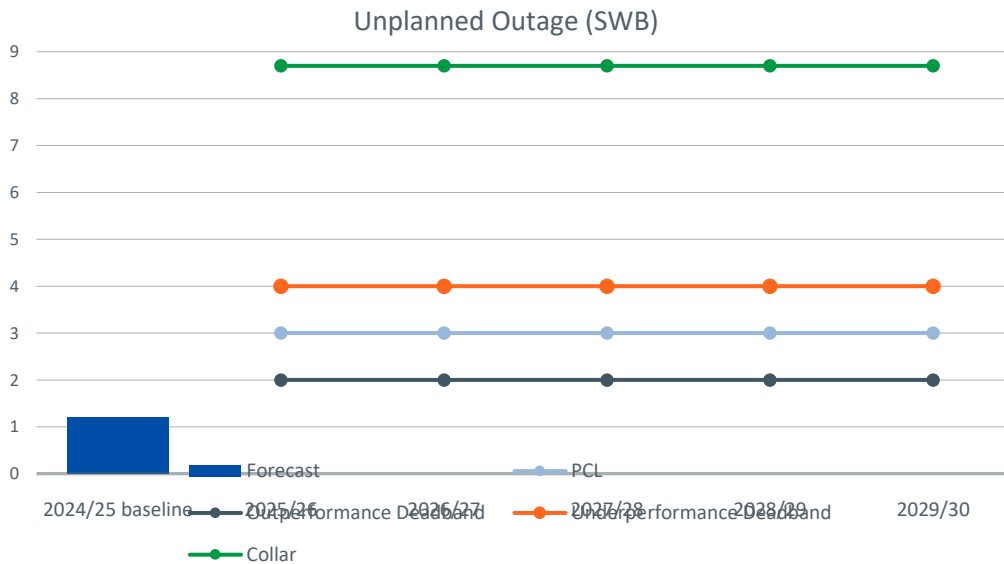
The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	131.6	131.3	130.9	130.6	130.3	130.0
P10	Number		163.0	163.0	163.0	163.0	163.0
P90	Number		106.0	106.0	106.0	106.0	106.0
Standard underperformance collar	Number		175.0	175.0	175.0	175.0	175.0
Underperformance deadband	Number		141.3	140.9	140.6	140.3	140.0
Outperformance deadband	Number		121.3	120.9	120.6	120.3	120.0
Standard outperformance cap	Number		85.0	85.0	85.0	85.0	85.0
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	130.7	130.3	130.0	129.5	128.9	128.2
P10	Number		163.0	163.0	163.0	163.0	163.0
P90	Number		106.0	106.0	106.0	106.0	106.0
Standard underperformance collar	Number		175.0	175.0	175.0	175.0	175.0
Underperformance deadband	Number		140.3	140.0	139.5	138.9	138.2
Outperformance deadband	Number		120.3	120.0	119.5	118.9	118.2
Standard outperformance cap	Number		85.0	85.0	85.0	85.0	85.0
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

Unplanned outage

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Unplanned outage			Revision			Revision	



Definition

We have adopted the common definition as published. We do however remain concerned over the removal of the exception for changes in raw water quality. Our proposed PCLs reflect this change to the definition.

Target Setting

Track record of performance and delivery strategy

The investments we intend to make at our water treatment works to improve CRI and water quality will also improve our risk against unplanned outages. Newer more efficient sites, and upgrades to older sites with enhanced control systems will positively impact our performance in this area. The details of our proposed upgrades are highlighted in sections on CRI and Water quality contacts within this document.

Our operational plans to reduce unplanned outages will continue the work we have carried out in AMP7 around the management and maintenance of our plants. We will continue the MEICA MOT programme which has proved successful in delivering a consistent planned maintenance approach across our water treatment sites alongside our programme of planned outages across AMP8. We are strengthening our overall approach to maintenance in AMP8 by sharing positive operational activities.

Whilst the key drivers for meeting our target in this area are our approach to operational maintenance alongside our investment in new works, in addition the work we are carrying out within our control functions that support the overall calming of networks, energy management, and further strengthen our supply demand balance will also support an approach that provides a calmer operation of our works that will also lead to a reduction in risk of unplanned outages.

Supply of chemicals to the water industry in recent years has been more volatile than previously. Our management, storage, and procurement arrangements have meant that we have not suffered issues as a result. We are conscious this wider risk may continue and we will through the design of both new and upgrades to our work aim to eliminate this risk as well as continuing to create resilience in both our operations and procurement. We will continue to work with Water UK to support and manage this risk across the industry.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance and we support this approach.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Cost benchmark performance trends suggest that base buys performance improvements on unplanned outages, but to a diminishing extent over time.

Target setting conclusion – setting stretching levels of performance

The common definition for this performance commitment has been materially revised since PR19. In the previous reporting period, companies could exclude unplanned outage arising from changes in raw water quality. Due to the definition revision, historic data is not a reliable source for target setting.

ODI design protections (caps, collars, deadbands)

We have proposed an underperformance and outperformance deadband for this performance commitment. This is to reflect the uncertainty for weather impacts on performance. The existence and severity of weather events are outside of the control of the water and wastewater companies; and when those events arise there are – by the nature of the event – substantial impacts on customers. Therefore, when that event does happen, we recognise that our customers will want their water company to focus on what is needed during and in the immediate aftermath of that event. However, the inclusion of a deadband is intended to mitigate ODI risk - the inclusion of a deadband does not impact our obligations of service we wish to provide to our customers (we may still be reporting of a failure to meet the target) but this approach does reduce the exposure of water and wastewater companies to risks that they cannot control.

A regulatory precedent should also be noted, regarding the adoption of a deadband for this metric; the CMA was supportive of deadbands for asset health measures such as mains repairs and unplanned outage.

We have therefore proposed the narrow deadband range of 1% above the PC level for underperformance and 1% below the PC level for outperformance.

For the change in definition to include water quality, we have based on our target on the estimated 0.66 increase on the current 2.34 unplanned outage target, in order to the proposed 3.0 target level. The variability in raw water quality between works and sites means we have included deadbands, and reflected caps and collars (collar beyond P10 performance) in order to allow for balanced incentives.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.408
Outperformance payment – standard	0.408
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.238
Outperformance payment – standard	0.238
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitment.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	%	1.20 (old definition)	3.00	3.00	3.00	3.00	3.00
P10	%		4.00	4.00	4.00	4.00	4.00
P90	%		0.57	0.57	0.57	0.57	0.57
Standard underperformance collar	%		8.70	8.70	8.70	8.70	8.70
Underperformance deadband	%		4.00	4.00	4.00	4.00	4.00
Outperformance deadband	%		2.00	2.00	2.00	2.00	2.00
Standard outperformance cap	%		0.00	0.00	0.00	0.00	0.00
Enhanced outperformance cap	%		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	%	2.34 (old definition)	3.00	3.00	3.00	3.00	3.00
P10	%		4.00	4.00	4.00	4.00	4.00
P90	%		0.57	0.57	0.57	0.57	0.57

Standard underperformance collar	%		8.70	8.70	8.70	8.70	8.70
Underperformance deadband	%		4.00	4.00	4.00	4.00	4.00
Outperformance deadband	%		2.00	2.00	2.00	2.00	2.00
Standard outperformance cap	%		0.00	0.00	0.00	0.00	0.00
Enhanced outperformance cap	%		NA	NA	NA	NA	NA

Outcomes and Priorities: Storm Overflows and Pollution

Storm Overflows and Pollution

Storm overflows and pollution can cause environmental damage and make it more difficult for customers and visitors to enjoy coastal waters and rivers. Our plans address public concern that storm overflows and pollutions are occurring too often - with spills happening when there has not been significant rainfall. We know that the current levels of storm overflow discharges cannot continue, and we are taking steps to tackle this.

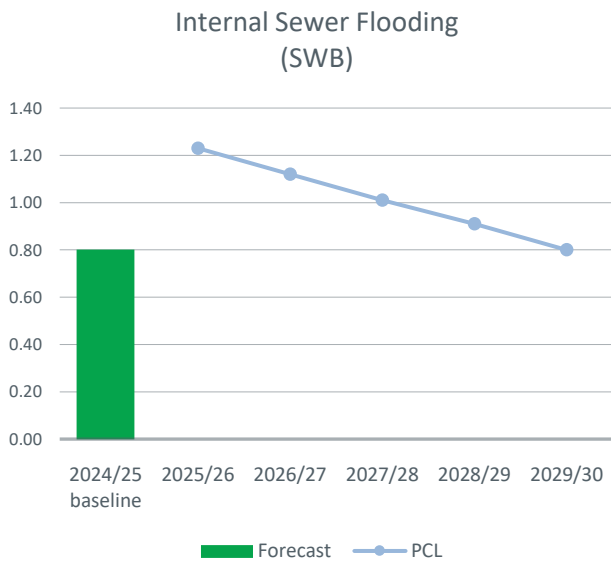
As we install technology and learn more from our monitors, the more we discover about the limitations of the Victorian sewage system in our region and the reliance on safety valves in the network, it is clear we need to evolve our water recycling and sewerage system into one that future generations can be proud of.

We plan to significantly reduce sewer spills to rivers and sea by increasing the capacity of our sewers and adopting nature based solutions to attenuate surface water input from rainfall and ensure there is zero harm to rivers from our operations.

Performance Commitment	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
Internal sewer flooding (No. incidents per 10,000 sewer connections)	SWB	Reduce the number of flooding events our customers experience and thereby minimise disruption for our customers	0.80	0.80
External sewer flooding (No. incidents per 10,000 sewer connections)	SWB	Reduce the number of flooding events our customers experience and thereby minimise disruption for our customers	14.09	12.36
Total pollution incidents (number)	SWB	To reduce our impact on the environment	45	45
Serious pollution incidents (number)	SWB	To reduce our impact on the environment	2	0
Serious pollution incidents (number)	BRL		0	0
Storm overflows (Average number of spills per storm overflow)	SWB	To reduce the use of storm overflows, which should only be used in exceptional circumstances	20	17.5
Discharge permit compliance (%)	SWB	To meet discharge permits, thereby helping to protect the environment	99.00	100.00
Discharge permit compliance (%)	BRL		100.00	100.00
Bathing water quality (%)	SWB	To improve water quality at surface waters designated for swimming within our region	93.5	89.7
Sewer collapses (No. per 1,000km of sewer network)	SWB	To maintain and improve the asset health of our infrastructure and below-ground wastewater assets	10.50	9.96

Internal sewer flooding

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Internal sewer flooding						Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We have historically performed well in this area but recognise the impact internal flooding has on our customers so will continue to look for innovative solutions to reduce the risk of flooding. Our operational plans will extend the length of sewers we clean in AMP8. Sewer cleaning has multiple benefits; impacting internal and external flooding as well as reducing blockages, pollutions and, with the additional CCTV activities associated with this work also helping identify sewers at risk of collapse.

We have been rolling out an increasing number of sewer depth monitors throughout our network (20,000 by the end of AMP7) and through our approach to proactive control, installing tools to pre-empt the risk of a spill from our networks. Work on the development of these and focus on control systems along with further improvements to our alarm estate will support the continued approach to early warning and prevention of impact from spills from our network that can result in Internal flooding.

We also recognise sewer misuse can have an impact on the number floodings, blockages and pollutions. Our AMP8 plans also continue to promote customer education, we have started successful targeting of food establishments to reduce FOG (fat/oil/grease) entering our sewers, as well as targeting illegal connections across our area. These operational work streams will extend further in AMP8. We welcome the approach across the industry in lobbying for the reduction of wet wipes and will continue to support and promote activities in this area.

Government targets and statutory requirements

Not applicable.

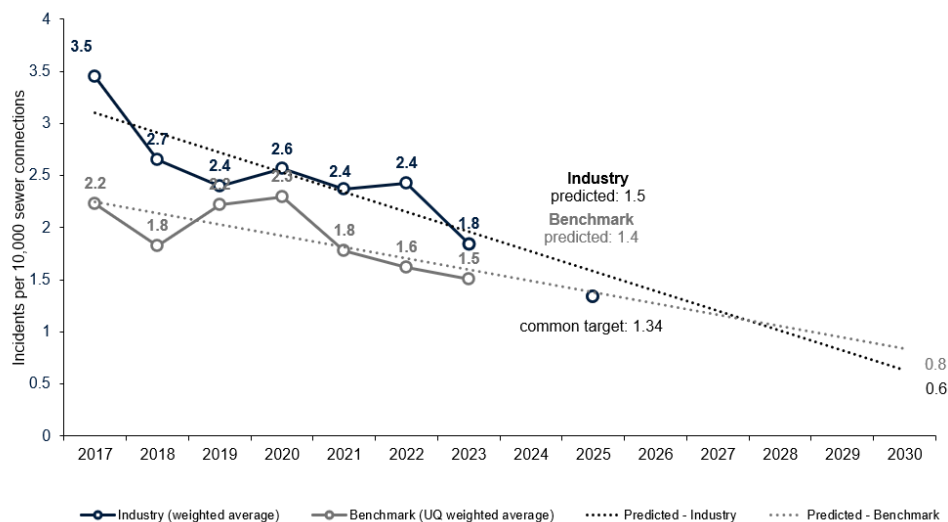
Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance and we agree with this approach.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Over the last reporting period we are proud to have achieved frontier levels of service for our customers.

There is a clear downward trend for both the cost-efficient benchmark companies and the industry (with the benchmark consistently performing better than industry). As such, base cost allowances do buy an improvement in internal sewer flooding incidents. However, compared to the extrapolation of historical trends, both the cost benchmark and the industry on average are not on track to reach the current PR19 target. Our analysis of the industry's performance indicates a performance level of 1.60 incidents (based on base investment only) and a performance level of 0.39 incidents (based on base and enhancement investment). Our target reflects the expected performance trend for benchmark companies.



Target setting conclusion – setting stretching levels of performance

As a frontier company in this area of performance, we have considered the cost-efficient benchmark companies and the average industry performance in proposing the common performance commitment level. We have proposed performance commitment levels for the industry that differ to the data showing in OUT5, due to our Industry-leading levels of performance.

ODI design protections (caps, collars, deadbands)

At PR19 a collar level of 8.47 applied to this metric for. We have however complied with Ofwat’s expectations and removed this collar.

Incentive rates and Customer preferences

When testing our performance in this area, customers acknowledge that we perform well, particularly on internal flooding in relation to other companies. The overall willingness to pay to avoid sewer flooding have increased from PR19, showing that this is an area of continued focus.

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘medium’.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment. As per the PR24 methodology, no enhanced cap applies.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	1.243
Outperformance payment – standard	1.243
Outperformance payment – enhanced	2.486

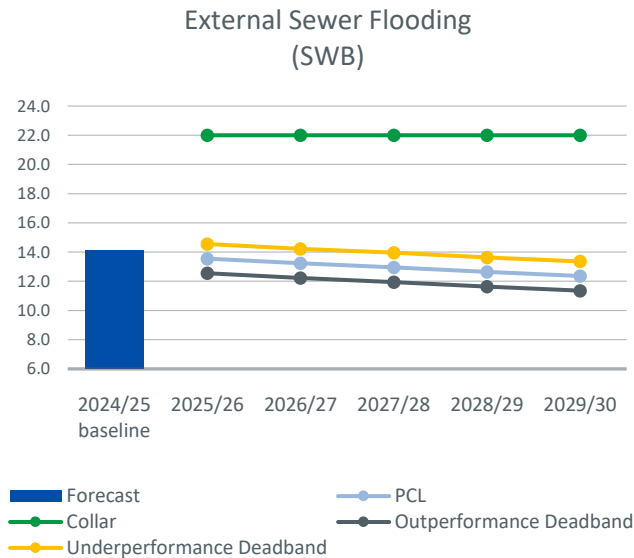
Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitments.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	0.80	1.23	1.12	1.01	0.91	0.80
P10	Number		2.25	2.25	2.25	2.25	2.25
P90	Number		0.60	0.60	0.60	0.60	0.60
Standard underperformance collar	Number		NA	NA	NA	NA	NA
Underperformance deadband	Number		NA	NA	NA	NA	NA
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		0.80	0.80	0.80	0.80	0.80
Enhanced outperformance cap	Number		0.00	0.00	0.00	0.00	0.00

External sewer flooding

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
External sewer flooding			Revision	Revision		Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We will invest in catchment solutions that tackle flooding, pollution and storm overflow reductions alongside a specific targeting of external flooding hotspots. The operational interventions that prevent external flooding are the same as those that prevent internal flooding.

We will extend the length of sewers we clean in AMP8. Sewer cleaning has multiple benefits; impacting internal and external flooding as well as reducing blockages, pollutions and, with the additional CCTV activities associated with this work also helping identify sewers at risk of collapse.

We have been rolling out an increasing number of sewer depth monitors throughout our network (20,000 by the end of AMP7) and through our approach to proactive control, installing tools to pre-empt the risk of a spill from our networks. Work on the development of these and focus on control systems along with further improvements to our alarm estate will support the continued approach to early warning and prevention of impact from spills from our network that can result in internal flooding.

We also recognise sewer misuse can have an impact on the number of floodings, blockages and pollutions. Our AMP8 plans also continue to promote customer education, we have started successful targeting of food establishments to reduce FOG (fat/oil/grease) entering our sewers, as well as targeting misconnections across our area. These operational work streams will extend further in AMP8. We welcome the approach across the industry in lobbying for the reduction of wet wipes and will continue to support and promote activities in this area.

We have assumed 'average' rainfall across AMP8 in our setting of both internal and external flooding targets. Whilst this statement applies to both internal and external flooding, our data shows a more marked impact on external flooding than internal from adverse weather events, hence average rainfall is a key dependency in the delivery of performance in this area.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

For external sewer flooding there is evidence that base has bought performance improvements. However, as there have not been common targets for this performance commitments at PR19, we caution against relying solely on past performance.

Target setting conclusion - setting stretching levels of performance

We have considered a level of stretch from our end of AMP7 position, as well as deliverability from our plans.

ODI design protections (caps, collars, deadbands)

We have proposed an underperformance and outperformance deadband at one incident per 10,000 connections above the performance commitment level. This is to reflect the uncertainty for weather impacts on performance. The existence and severity of weather events are outside of the control of the water and wastewater companies; and when those events arise there are – by the nature of the event – substantial impacts on customers. Therefore, when that event does happen, we recognise that our customers will want their water company to focus on what is needed during and in the immediate aftermath of that event. However, the inclusion of a deadband is intended to mitigate ODI risk - the inclusion of a deadband does not impact our obligations of service we wish to provide to our customers (we may still be reporting of a failure to meet the target) but this approach does reduce the exposure of water and wastewater companies to risks that they cannot control.

The deadband has been informed by our WBB analysis which suggests an industry prediction benchmark of 14 for 2024/25. Given our performance is below this level, we have set underperformance at this level and made this symmetrical (a deadband of +/- 1).

The same collar level has been set for all years beyond the P10 level. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'medium'.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment. As per the PR24 methodology, no enhanced cap applies.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.582
Outperformance payment – standard	0.582
Outperformance payment – enhanced	1.165

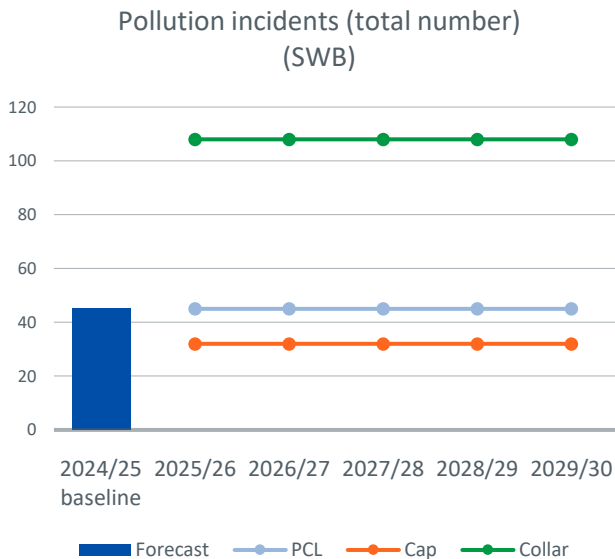
Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitments.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	14.09	13.55	13.23	12.95	12.64	12.36
P10	Number		19.49	19.49	19.49	19.49	19.49
P90	Number		10.04	10.04	10.04	10.04	10.04
Standard underperformance collar	Number		22.00	22.00	22.00	22.00	22.00
Underperformance deadband	Number		14.55	14.23	13.95	13.64	13.36
Outperformance deadband	Number		12.55	12.23	11.95	11.64	11.36
Standard outperformance cap	Number		7.80	7.80	7.80	7.80	7.80
Enhanced outperformance cap	Number		0	0	0	0	0

Total pollution incidents

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Total pollution incidents	Revision	Revision		Revision		Revision	



Definition

We propose that this measure is not normalised and reflects the absolute number of pollution incidents. This approach reflects the differing environments, the nature of assets and where pollution incidents occur across companies. Our alternative target number, at 45 incidents, would be the lowest number of absolute incidents in the industry.

In addition, we propose that separate targets apply to the Isles of Scilly for this performance commitment.

Target Setting

Track record of performance and delivery strategy

We have reduced pollutions by c.50% since 2020. Our ambitious targets set at the start of the period will mean South West is industry leading in terms of absolute numbers of pollutions at the end of AMP7. Through the delivery of our Pollutions Incident Reduction Plan (PIRP), now our third published plan, we continue to evolve our approach to delivering a reduction in both overall numbers alongside reducing the impact to the environment when pollutions do occur.

Our PIRP is not just being delivered within the current AMP, it provides an approach to sustaining the industry low levels of pollutions into AMP8 and beyond. Our investment plans in AMP8 will continue to target our wastewater network, treatment works and pumping stations. We will continue to identify and target hotspots, and focus increasingly on the identification of areas that have the propensity to pollute ensuring early intervention to prevent issues in the first place.

We will continue to focus on both the maintenance and management of our assets to ensure we deliver exemplary asset operation and provide further resilience.

We have strengthened our operational capability considerably during AMP7 and will continue to focus on this during AMP8. Our organisational alignment to catchments and the communities they serve will strengthen our approach, delivering the focus on what matters to our customers. Our resource and logistical capability to respond to any pollution is now well established and we will continue to operate our current model in AMP8. Our resources are largely direct employees with support from key supplier contracts. We will continue this approach in AMP8.

We will continue to expand our sewer cleaning activities, which deliver a reduction in sewer flooding and less blockages, as well as reducing the numbers of pollutions.

We will continue to invest in proactive systems and tools to spot pollutions before they occur. We will further refine our alarm estate as well as develop our innovative smart alarms that use multiple alarm points to trigger a response to an emerging risk. We have significantly expanded control teams to provide enhanced response to alarms and incidents and will continue to grow this area in AMP8.

Spotting a potential pollution before it occurs and intervention remains a key strategy for us in AMP8. Our approach to 'proactive control' will expand further in AMP8, using the tools we have already installed tools (Meniscus /CSO dashboard/burst detect) refining the algorithms and learning within these as well as looking at new tools within the market and constantly benchmarking our work in this area across the industry.

We, along with many others, have started an ambitious programme of sewer depth monitoring that provides intelligence about our networks, supporting our operations, maintenance and asset investment targeting, but also providing another early system as part of our approach to proactive control. During AMP8 we will have 20,000 monitors installed on our network.

We will continue to learn from all pollutions and near misses, developing the tools that capture root cause analysis further.

There is a clear link between the activities that drive performance in this area those that drive performance with wastewater compliance, sewer flooding, collapses and also storm overflows. Our programmes that tackle storm overflow will also reduce the risk of pollutions and we have deliberately targeted early delivery of within this area to have the maximum impact on our environmental performance.

Government targets and statutory requirements

Preventing pollutions is a statutory obligation. The Water industry strategic environmental requirements (WISER) sets out the expectation of at least a 30% reduction of all pollution incidents (category 1 to 3) by 2030 on current 2025 targets. The government's strategic policy statement also sets an expectation that water companies significantly reduce all pollution incidents. This percentage reduction is based on the normalised metric, but we have proposed a metric based on the total number of pollutions and set this at the lowest level in the industry. The performance improvement comes from increasing mains length, but reporting per incident is clearer.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

Ofwat's PR24 final methodology also outlines an expectation that performance commitment levels should be set on a common basis for this performance commitment. However, we propose that the target become unnormalised i.e. for the performance commitment to not be measured per 10,000 km of the wastewater network.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Base cost allowances do buy an improvement in total pollution incidents, but with diminishing marginal improvements.

Target setting conclusion - setting stretching levels of performance

We are proposing to set a target based on the lowest number of pollution incidents ever achieved.

ODI design protections (caps, collars, deadbands)

Whilst Ofwat states that there will be “targeted use of caps and collars” and does not specifically mention this performance commitment, Ofwat do state that the targeted use of caps and collars should be applied to performance commitment that have “a significant source of skew”.

The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

Our WBB analysis shows that the industry is not on track to hit 2024/25 levels when normalised, which makes the information problematic to set targets on a scaled basis. The more recent industry trend is increasing from base expenditure. This could justify deadbands, however tacking every pollution means we believe it is justified to set an unscaled target without a deadband.

Incentive rates and Customer preferences

Our customers see reducing pollution incidents as a high priority (second only to a clean, safe supply of water). Customers do care about the type and severity of events – with pollution stemming from storm overflows or pollution that impacts on bathing water amenity or quality particularly important to avoid.²⁷

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘low’.

As per the PR24 methodology, enhanced incentives, at twice the size of standard rates, have been adopted for this performance commitment. As per the PR24 methodology, no enhanced cap applies.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.175
Outperformance payment – standard	0.175
Outperformance payment – enhanced	0.349

The incentive rate scaled by population for the Isles of Scilly would be £0.0002m/unit.

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. If however a normalised target is preferred, then an additional consideration would be whether dynamic ODIs should apply to this performance commitments.

We propose an absolute dynamic target at the lowest level of pollutions in England for that year. The target level below (at 45 total pollutions) is our forecast lowest level of pollutions achieved in the industry. If a company in England achieves a lower level then we would propose our committed performance level to be revised down to match the new low level of pollutions.

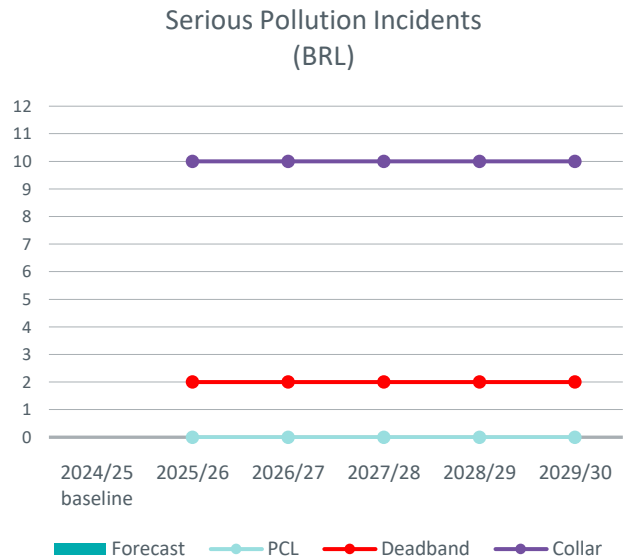
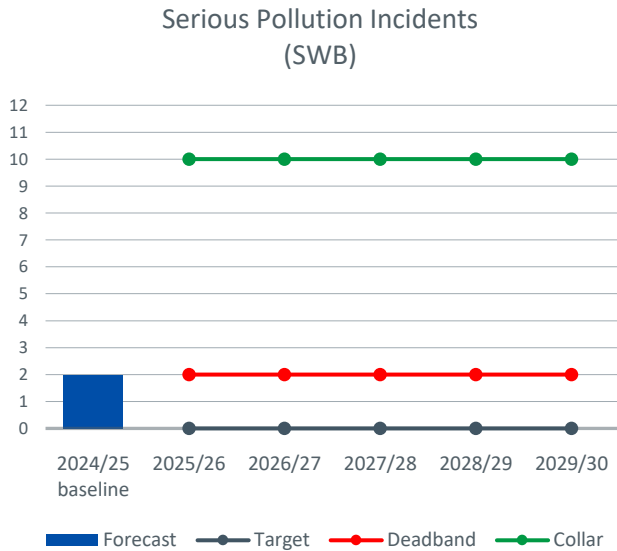
SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	45	45	45	45	45	45
P10	Number		142	142	142	142	142
P90	Number		35	35	35	35	35
Standard underperformance collar	Number		108	108	108	108	108

²⁷ Report 1.7- Verve, PR24 Customer Priorities, February 2023

Underperformance deadband	Number		NA	NA	NA	NA	NA
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		32	32	32	32	32
Enhanced outperformance cap	Number		0	0	0	0	0

Serious pollution incidents

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Serious pollution incidents			Revision	Revision	N/A	Revision	



Definition

We have adopted the common definition as published.

We still reserve caution over the inclusion of this metric within the outcomes framework due to potential double-counting with environmental fines. We would urge Ofwat at the draft determinations to consider in particular how performance commitments complement and interact with existing enforcement regimes that hold companies to account to comply with their statutory duties – i.e., that there should not be unjustified duplication in the penalty frameworks, which this performance commitment may result in.

In addition, we propose that separate targets apply to the Isles of Scilly for this performance commitment.

Target Setting

Track record of performance and delivery strategy

Our strategy for delivering this performance commitment does not differ from that we are employing to deliver our total pollutions commitment. Our asset investment plans target the highest risk areas, both from the perspective of propensity to pollute but also target areas that will have the highest impact. By targeting the latter of these we will ensure we focus on reducing the risk of serious pollution. We have throughout AMP7 with previous iterations of our Pollution Incident Reduction Plan (PIRP) operated a targeting of ‘Hotspots’ for both asset and operational interventions. We will continue this approach into AMP8, continually removing the highest risk assets, catchments, and areas from their potential to pollute.

Our Operational response – particularly around our speed of response, through early warning, field team deployment, extent of available response activities (tankers/vactors/resource/pumps/generators) has significantly increased during AMP7 and we will continue to review and increase these areas in AMP8. Through this approach we will reduce the impact from all pollutions, as well as specifically aiming to ensure no serious pollutions occur.

Government targets and statutory requirements

Preventing pollutions is a statutory obligation. The Water industry strategic environmental requirements (WISER) sets out the expectation for zero serious pollution incidents (category 1 and 2). The government's strategic policy statement sets an expectation that water companies achieve zero serious pollution incidents, and significantly reduce all pollution incidents.

Ofwat's PR24 final methodology sets out an expectation for zero incidents by 2025-26 with the zero level maintained throughout the 2025-30 period. We have complied with this ambition.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Both industry and benchmark trends show improvements over the years. However, neither would reach the common target, if this were to be set at zero. This, along with the potential for double-jeopardy (due to the uncapped variable monetary penalties).

Target setting conclusion - setting stretching levels of performance

We have complied with the expectations as per the PR24 methodology; for serious pollution incidents the common performance level has been set at 0 incidents for 2025 to 2030.

ODI design protections (caps, collars, deadbands)

A regulatory precedent should be noted, regarding the adoption of a deadband for this metric; the CMA was supportive of deadbands for statutory measures and where the measure itself allows very little tolerance, i.e. a score of 0. We have therefore proposed a deadband at 2 serious pollution incidents.

A collar level has also been applied, to prevent extreme ODI risk, and in recognition of the potential for other penalty frameworks.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'high'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.705
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.781
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

The incentive rate for the Isles of Scilly scaled by population would be £0.0007m

Performance commitment levels

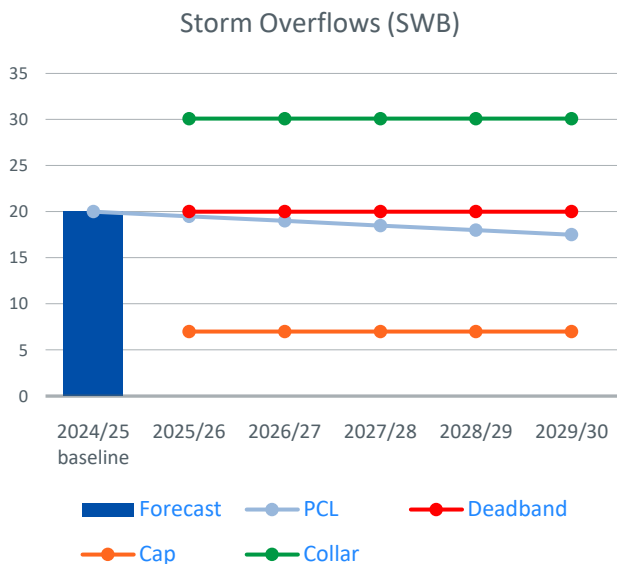
The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
			2024-25	2025-26	2026-27	2027-28	2028-29
Performance commitment level	Number	2	0	0	0	0	0
P10	Number		8	8	8	8	8
P90	Number		2	2	2	2	2
Standard underperformance collar	Number		10	10	10	10	10
Underperformance deadband	Number		2	2	2	2	2
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
			2024-25	2025-26	2026-27	2027-28	2028-29
Performance commitment level	Number	0	0	0	0	0	0
P10	Number		2	2	2	2	2
P90	Number		0	0	0	0	0
Standard underperformance collar	Number		10	10	10	10	10
Underperformance deadband	Number		2	2	2	2	2
Outperformance deadband	Number		NA	NA	NA	NA	NA
Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

Storm overflows

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Storm overflows	Revision		Revision	Revision	Revision	Revision	



Definition and the unmonitored storm overflows adjustment for even duration monitors (EDMs)

Reporting of storm overflows is significantly affected by Ofwat’s assumption of a 100 spill rate for EDM availability (we are targeting 100%, but assume 90% is achieved in line with current EA expectations). This recognises the challenging operating environment for this equipment and that multiple EDMs is neither economic nor practical. Given the environment in which EDM monitors exist and even small changes or debris can cause incorrect readings, the assumption of 100% throughout the reporting year is not a proportionate expectation. We do not propose accepting a EDM availability target of 100% in our plan.

The implied incentive penalty on 10 average spills would be £3.06m per annum based on our incentive rates and therefore would contribute to skewed incentives. There are a number of alternative approaches that were set out in our response to Ofwat’s consultation on this topic, which were not considered in the Ofwat decisions document. These included separate targets (to avoid conflicting actual and ODI performance) and the potential for gateway qualification for outperformance. We note that Ofwat only consulted on a “50” spills penalty rate in any case.

If the unmonitored EDM adjustment is set to 100% then this should add an additional 10 average spills per overflows to our proposed performance commitment level.

In addition, we propose that separate targets apply to the Isles of Scilly for this performance commitment.

Target Setting

Track record of performance and delivery strategy

The document ‘Enhancement business case for storm overflows’ details our plans to deliver our targets in this area. To highlight some of the key deliverables from this:

During AMP8 we will invest in improvements to 283 of our storm overflows as well as tackle a number of the root cause issues that impact storm overflows for example by: separating surface water from our sewage network and creating sustainable urban drainage solutions (352 hectares removed), adding 154Km² of additional storage to our network, increasing capacity at 3 sewage treatment works, upgrading 29 of our waste water treatment works for nutrients and investing in 715km of our sewer network. Our approach is to tackle issues where possible using a variety of ‘green’ solutions.

In addition to the investment listed, our operational improvement plans continue the actions we have commenced in AMP7 that improve the overall operation of our wastewater system. The activities we undertake from influencing customer regarding sewer misuse, through the activities we undertake to clean and maintain our sewers (including all the ancillary equipment such as air valves and hydrobreaks) maintenance of all our pumping stations and equipment, through the work we are carrying out to monitor and provide early warning of issues to the maintenance we are carrying out at our works all support delivery of a reduction in the number of spills from our storm overflows. We are (as mentioned elsewhere in this document) increasing capacity of our maintenance activities to support delivery of a number of targets across our wastewater system.

Our ongoing programme to improve our wastewater control activities: alarm management, proactive tools, strengthening of our control teams will also support this area, but specifically within AMP8 we will increase the flow and overflow operation monitoring, installing further 'smart alarms' and automated systems to control flow within our networks enabling us to balance flow and reduce the impact of storm overflows.

We already have 100% cover of our storm overflows, including emergency overflows and we have created dedicated maintenance teams. In addition to the systems and processes we have in place to respond to warnings of spills we have and will continue to learn from the data from our EDMs to further drive our targeting of operational and investment plans during AMP8

Government targets and statutory requirements

Our DWMP includes commitments of 75% of storm overflows discharging into or close to high priority sites to be addressed by 2035, 100% of storm overflows discharging into or close to high priority sites are addressed by 2045, 100% of all storm overflows are addressed by 2050, consistent with the storm overflow reduction plan

The government's strategic policy statement outlines how the government expects to see far less reliance on storm overflows which discharge sewage into our water courses. The Environment Act 2021 places clear duties on water and sewerage companies to progressively reduce the adverse impacts of discharges from storm overflows and improve transparency of reporting when discharges occur.

Ofwat expect all companies to reduce their use of storm overflows and, where appropriate, go beyond an annual average of 20 spills per overflow from 2025 onwards, without additional expenditure allowances.

The Water industry strategic environmental requirements (WISER) sets out the expectation that water companies will reduce the frequency and volume of sewage discharges from storm overflows in line with the Storm Overflow Discharge Reduction Plan. The government's Storm Overflows Discharge Reduction Plan sets an expectation to cut the annual average spill frequency of storm overflows to 10 rainfall events per year by 2050. We have complied with this ambition.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Target-setting for this performance commitment will be company-specific and will be driven by industry DWMPs. Whilst downward trends can be observed in performance, when considering trends with only base expenditure, the industry would likely not meet the 2024/25 targets; enhancement funding is required for this performance commitment.

Target setting conclusion - setting stretching levels of performance

The level of stretch has been determined by the enhancement programme in WINEP, starting from the assumed base level of performance of average 20 spills per storm overflow in 2024/25. We have set a target that is focused on delivering for the most sensitive areas – tackling all beaches by 2030, two decades ahead of regulatory requirements and reflecting the preferences of customers.

ODI design protections (caps, collars, deadbands)

The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

We have proposed an underperformance deadband, set at the 2024-25 baseline for every year of AMP8, in order to protect the company against small variations in performance beyond management’s control.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘low’.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.306
Outperformance payment – standard	0.306
Outperformance payment – enhanced	N/A

It may not be practical to set a separate incentive for the Isles of Scilly, as there are no records for these.

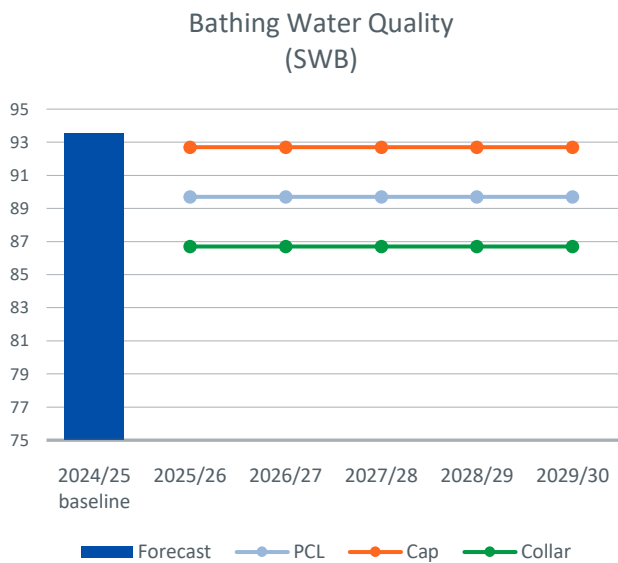
Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. Our performance levels assume the EDM uptime is set at 90%. If this is set at 100% then the 2029-30 performance level would show at 27.5 spills.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Average number of spills per storm overflow	20.0	19.5	19.0	18.5	18.0	17.5
P10	Average number of spills per storm overflow		24.2	24.2	24.2	24.2	24.2
P90	Average number of spills per storm overflow		17.0	17.0	17.0	17.0	17.0
Standard underperformance collar	Average number of spills per storm overflow		30.1	30.1	30.1	30.1	30.1
Underperformance deadband	Average number of spills per storm overflow		20.0	20.0	20.0	20.0	20.0
Outperformance deadband	Average number of spills per storm overflow		NA	NA	NA	NA	NA
Standard outperformance cap	Average number of spills per storm overflow		7.0	7.0	7.0	7.0	7.0
Enhanced outperformance cap	Average number of spills per storm overflow		NA	NA	NA	NA	NA

Bathing water quality

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Bathing water quality		Revision				Revision	



Definition

We have adopted the common definition as published. However we recommend a company-specific exclusion, to exclude the Isles of Scilly, as bathing beach designation has yet to occur and may be challenging to define given the nature of the islands.

We also found some inconsistencies in the historic data that Ofwat has been referring to. The performance data to which the top-down incentives were calculated over assumed:

- Excludes historic de-designated bathing water (Rock, Instow, Lyme Regis Church Cliff & Ilfracombe Wildersmouth)
- The source for classifications was the Environment Agency's Swimfo website (rather than the published annual outcome)
- It only includes classified bathing waters which are impacted by our assets (i.e. unimpacted non-CSO)

Whilst we have set our performance data as per these assumptions, we note that:

- The common definition assumptions as written have not been carried through in the incentives model (inclusion of PRF discounted samples in compliance assessment (i.e. EA/Ofwat planning class) and the exclusion of bathing waters with no potentially impacting assets)
- Neither the incentives model calculation nor the common definition allows WaSCs to negate from the metric a reduction in bathing water class at a site where it is not solely due to WaSc asset performance. So the presumption is all classification risk is down to WaSC assets (even if we do not have any potentially impacting assets e.g. Porthluney – predicted to 'poor' in 2023)
- Defra Storm Overflow strategy (improvement of CSOs with 1km of bathing water area) may change the number of bathing water with associated (EDM reportable) WaSC assets and hence non-impacted list of bathing waters

Therefore if further calibrations or applications of this definition change, then the target considerations should be revised to reflect this change in approach.

Target Setting

Track record of performance and delivery strategy

The performance of the entire wastewater system has an impact on this measure. We will deliver this target through compliance at our treatment works and pumping stations, and by ensuring our networks are managed in a way that reduces pollutions. Across all areas of our operations, we reduce the number of discharges from our storm overflows.

Whilst it is clear where our impact on bathing water quality lies in respect of the management of our assets and operations. Our upstream thinking programmes, our biodiversity strategies and our stewardship of environmental impact has positive benefit on the quality of rivers and ultimately the seas in our region.

We will continue to work closely with beach managers in AMP8 to support and promote the quality of bathing waters in our regions. Through Waterfit live we will continue to provide information and updates to our communities and visitors to the area regarding the quality of bathing water in our area.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Our analysis of the industry's performance indicates a base performance level of 89.7% for the cost benchmarked companies. As this is a new metric we used the benchmark predicted performance in 2024/25.

Target setting conclusion - setting stretching levels of performance

We have proposed a performance level of 89.7% as a common performance commitment level for the industry.

ODI design protections (caps, collars, deadbands)

The same collar level has been set for all years - we have considered the amount of RORE at risk - this reflects the importance our customers place on this metric. The same cap level has been set for all years. Due to the frontier levels of service our customers rightfully expect from our bathing waters, we recognise that a cap is appropriate in this instance, otherwise the incentives would not be consistent with the ± 1 to $\pm 3\%$ return on regulatory equity (RORE) each year that was set out in the final methodology.

Incentive rates and Customer preferences

In our quantitative top-down ODI research, bathing water quality was one of the most important metrics for our customers.

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'high'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	5.278
Outperformance payment – standard	5.278
Outperformance payment – enhanced	N/A

Performance commitment levels

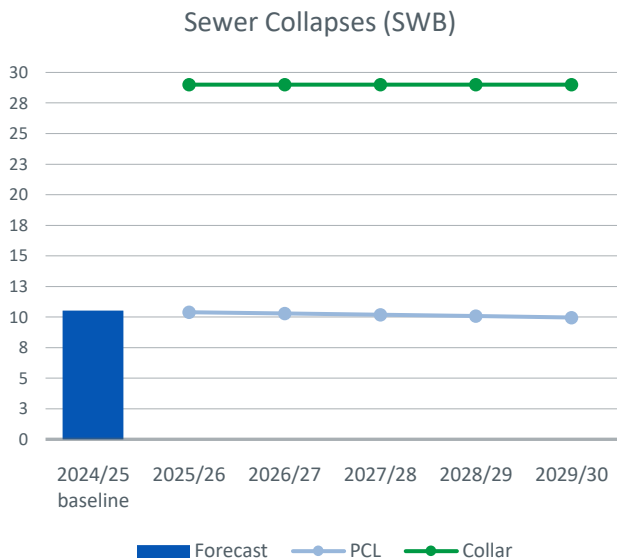
The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. As we are proposing this become a common performance commitment an additional consideration would be whether dynamic ODIs should apply to this performance commitments.

Our observations on the definition assumed for Ofwat's incentive calculations may require these performance levels to be further calibrated at the draft determinations.

SWB	Unit	Baseline forecast	Committed performance level					
			2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	%	93.5	89.7	89.7	89.7	89.7	89.7	89.7
P10	%		89.7	89.7	89.7	89.7	89.7	89.7
P90	%		92.7	92.7	92.7	92.7	92.7	92.7
Standard underperformance collar	%		86.7	86.7	86.7	86.7	86.7	86.7
Underperformance deadband	%		NA	NA	NA	NA	NA	NA
Outperformance deadband	%		NA	NA	NA	NA	NA	NA
Standard outperformance cap	%		92.7	92.7	92.7	92.7	92.7	92.7
Enhanced outperformance cap	%		NA	NA	NA	NA	NA	NA

Sewer collapses

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Sewer collapses						Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We will continue to replace and re-line sewers to prevent risk of collapse. During AMP8 we will strengthen our focus on asset intelligence to further drive our targeting of investments. We are increasing our field capture and knowledge that supports the intelligence behind our targeting: for example we are increasing the length of sewer cleaning and installing sewer depth monitors as part of our sewer flooding and pollutions plans that through additional CCTV surveys and analysis of monitoring data provide us wealth of information that supports this targeting.

We have been in partnership with Exeter University trialling an AI tool that auto-records sewer condition, negating the need for coding activities associated with CCTV inspections. If successful we aim to roll this activity out in AMP8 and believe the increase in data regarding deterioration of sewer condition leading to blockages and collapses will be significant and help us deliver much earlier interventions.

We believe our approach to re-lining, more latterly using UV curing as well as traditional epoxy lining provides a 'best fit/best value' approach to increasing the amount of sewer rehabilitation we are capable of delivering.

We are also targeting rising mains as a particular issue within this performance measure, due to the age, materials and on occasion pumping regimes (driven by the topography of our area) within our network that have resulted in both collapse and pollution incidents. We have started a programme of rising main replacement in AMP7 that will continue into AMP8. Our operational plans in this area also focus on the prediction (via our 'burst detect' tool) and interventions that will prevent potential surges on our rising mains through installation of variable speed drives, new control systems and operating regimes. This will continue to be an area of focus into AMP8.

Investments in our waste network that target pollution, flooding and blockage performance will also positively impact this measure, for example reducing sewer misuse (as detailed in our pollutions and flooding plans) will reduce the stress on sewers that ultimately can lead to collapses.

The solutions we put in place to deliver our storm overflow target will increase storage or reduce the volume of water (through infiltration) in our sewers – this will reduce the stress on our network and hence also support further reduction in the risk of collapse.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat’s expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Target-setting for this performance commitment will be company-specific but there is lack of a definitive performance trend and so it would not be possible to draw definitive conclusions regarding what the base buys on this performance metric.

Target setting conclusion - setting stretching levels of performance

Although a company-specific measure, we have set ourselves an improving profile.

ODI design protections (caps, collars, deadbands)

The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘medium’.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.215
Outperformance payment – standard	0.215
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Number	10.50	10.39	10.28	10.18	10.07	9.96
P10	Number		12.80	12.80	12.80	12.80	12.80
P90	Number		6.02	6.02	6.02	6.02	6.02
Standard underperformance collar	Number		29.00	29.00	29.00	29.00	29.00
Underperformance deadband	Number		NA	NA	NA	NA	NA
Outperformance deadband	Number		NA	NA	NA	NA	NA

Standard outperformance cap	Number		NA	NA	NA	NA	NA
Enhanced outperformance cap	Number		NA	NA	NA	NA	NA

Outcomes and Priorities: Net Zero and Environmental Gains

Net Zero and Environmental Gains

Achieving Net Zero and improving the environment is part of a responsible company plans. Our plans embrace the environment, and in doing so provides opportunities, builds resilience, allows us to attract and grow talent.

Despite the beauty of our coasts, rivers and countryside, nature and biodiversity in the region is in decline. To achieve a low carbon future where the environment is protected, we need to maximise the wider value our water and wastewater resources at every stage of our operations and continue to meet the treatment standards to protect our rivers and seas.

Like others we have a duty to take action to halt the decline of nature and we are committed to ensuring that our operational activities – where we take water from the natural water cycle and return when it is safe to do so – supports the natural environment helping our wildlife and habitats to survive and thrive.

As well as the benefits to our wellbeing, biodiversity brings wider benefits such as clean air, clean water, water and carbon storage and cooling temperatures. This can help protect rivers and reduce the risk of water shortages, flooding or overheating, all of which helps to provide resilience to our changing climate. We will protect the best species and habitats that we have on our landholdings and we will take action to enhance biodiversity across the rest of our estate.

We will continue to collaborate and work in partnership to create a nature recovery network, through creating woodlands, restoring peatlands, and planting hedges. We also want to understand the benefits of seagrass and marine restoration – for nature and climate resilience.

To reverse the decline in nature we need joined-up action across the public, private and third sector. We have a long established history of successfully delivering biodiversity enhancement in collaboration with others which we will continue to build on.

We will continue to decarbonise our operations and use our land and resources to significantly increase renewable energy generation.

Our operational activities will continue to maintain environmental permit compliance as wastewater treatment standards tighten, protecting our rivers and the coast from pathogens and high levels of nutrients.

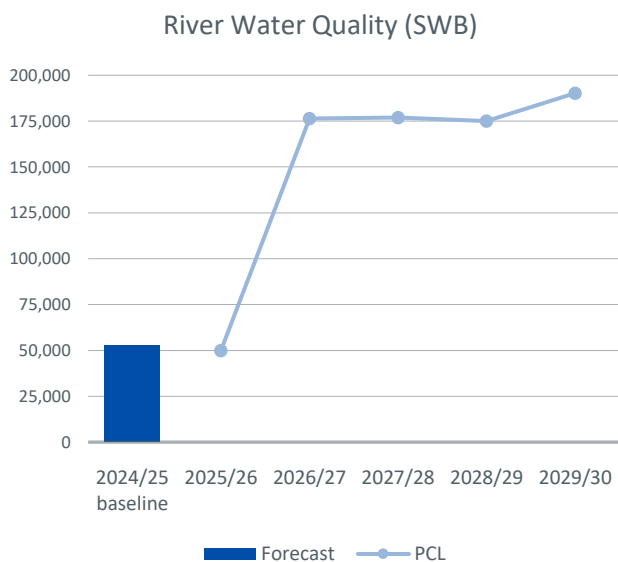
We are committed to taking action to deliver nature recovery and net zero across our operations and to working in partnership to achieve the greatest possible impact.

Performance Commitment	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
River water quality (phosphorus) (Kg of phosphorus)	SWB	To improve water quality in the rivers within our area by reducing the amount of phosphorus entering rivers from our activities	52,622	190,183
Biodiversity (Biodiversity units per 100km ² of land in the company's area)	SWB	Improvements in habitats e.g. hedgerow and watercourses	0	2.44
Biodiversity (Biodiversity units per 100km ² of land in the company's area)	BRL		0	2.12

Performance Commitment	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
Discharge permit compliance (%)	SWB	To meet discharge permits, thereby helping to protect the environment	99.00	100.00
Discharge permit compliance (%)	BRL		100.00	100.00
Operational greenhouse gas emissions – water (Tonnes CO2e)	SWB	To support national interim and 2050 net zero targets	67,329	70,045
Operational greenhouse gas emissions – water (Tonnes CO2e)	BRL		30,651	29,689
Operational greenhouse gas emissions – wastewater (Tonnes CO2e)	SWB		83,752	89,562
Embodied greenhouse gas emissions (bespoke) (Tonnes CO2e per £1m)	SWB		385	347
Catchment management (bespoke) (Hectares)	SWB	To manage our catchments, for the benefits of water quality and the environment	134000	146500

River water quality (phosphorous)

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
River water quality (phosphorus)						Revision	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

As a new measure the actual reduction in phosphorous has not been monitored or reported in this way. In AMP7 we are completing a programme of investments to reduce phosphorous from circa 30 sites by 2025.

Government targets and statutory requirements

The government's Environmental Improvement Plan 2023 sets national targets to reduce phosphorus loadings from treated wastewater by 80% by 2038 against a 2020 baseline. The final Environmental long-term targets under the Environment Act 2021 include ambitions over wastewater, including reductions in phosphorus loadings from treated wastewater by 80% by 2038 against a 2020 baseline. We have a large number of P schemes but our plans will ensure that we contribute to achieving the national 2038 target.

Our plans to deliver this commitment have been put forward as part of our WINEP proposals. We will upgrade 29 sewage treatment works to meet the new quality requirements for phosphorous discharge.

As part of the plans we have put forward plans to ensure that we meet 100% permit compliance across all of our works we will, deliver further operational improvements to the way we manage our maintenance activities, deliver proactive intervention and through the strengthening of our teams deliver improved operational response to any issues that occur. This will, alongside the additional investments identified, enable delivery of this measure.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

No historical data for this new metric.

Target setting conclusion - setting stretching levels of performance

No historical data for this new metric.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. As this is a new performance commitment for PR24 we have applied caps and collars to the performance commitment levels.

There is also a potential large sensitivity to forecast performance levels for this novel performance commitment. Our preference would be that this performance commitment be a reputational ODI but we recognise that the methodology for PR24 does not accept such a proposal. As a result, we have proposed a narrow range for the cap and collar. Following five years of reporting (i.e. for PR29) the cap and collar levels should then be considered again.

Incentive rates and Customer preferences

River water and the 'ecological health of rivers' is important for many customers - and especially for households who see river health quality as an important measure of environmental performance.²⁸ It is ranked as one of the top ten priorities and is aligned with their views and priorities in other areas for environmental improvement.²⁹

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'high'.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.000335
Outperformance payment – standard	0.000335
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
			2020-2021	2025-26	2026-27	2027-28	2028-29
Performance commitment level	Kg of P	1,825,004.7	49,984.7	176,477.2	176,951.6	174,940.3	190,182.6
P10	Kg of P		184,390.4	184,390.4	184,390.4	184,390.4	184,390.4
P90	Kg of P		201,268.0	201,268.0	201,268.0	201,268.0	201,268.0
Standard underperformance collar	Kg of P		50,388.0	181,117.8	181,685.2	179,780.7	196,236.3
Underperformance deadband	Kg of P		NA	NA	NA	NA	NA

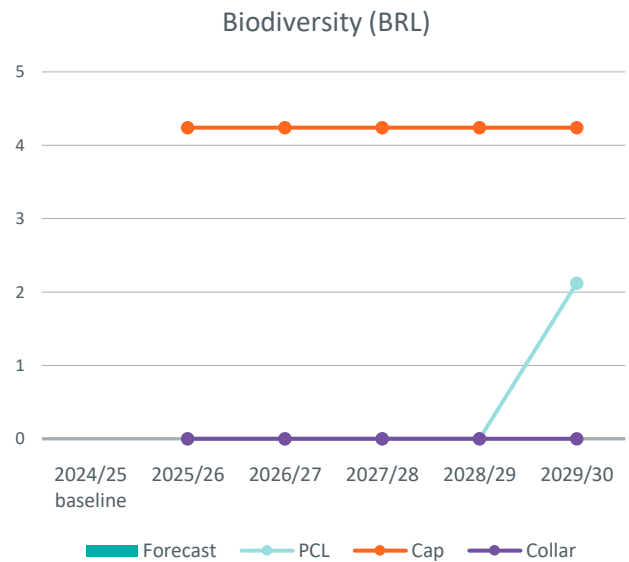
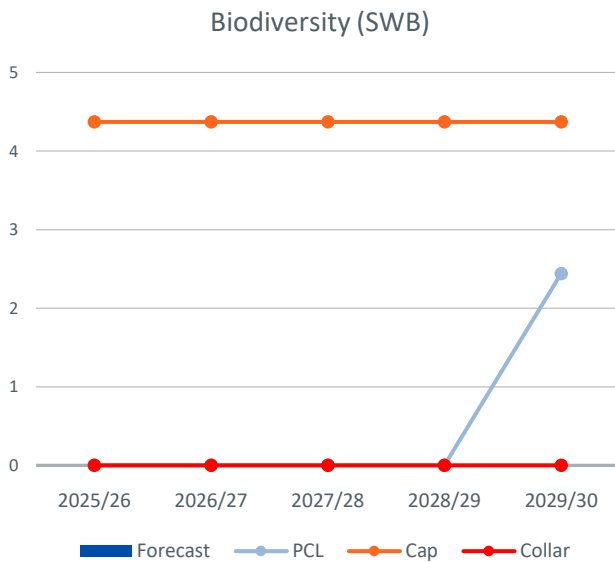
²⁸ ICS Consulting and eftec, Main Stage Stated Preference Study, 2018

²⁹ Report 1.7 - Verve, PR24 Customer Priorities, February 2023 (page 8,10 and 14)

Outperformance deadband	Kg of P		NA	NA	NA	NA	NA
Standard outperformance cap	Kg of P		52,972.0	190,405.9	191,002.4	189,000.2	206,299.7
Enhanced outperformance cap	Kg of P		NA	NA	NA	NA	NA

Biodiversity

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Biodiversity						N/A	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

As part of the suite documents framing the PR24 Business Plan, we are updating our Biodiversity Strategy which follows three principles:

- taking action to protect the valuable biodiversity we have on our landholdings
- taking action on our landholding and operational infrastructure to enhance biodiversity in the everyday management of our sites
- working in partnership with others across the region to deliver biodiversity enhancement and nature recovery.

Initially in the South West area, we will deliver biodiversity enhancement units through the Upstream Thinking catchment management programme which continues into AMP 8. This will include planting a further 300,000 trees in AMP8 (250,000 in AMP7) and we will continue to work with farmers to deliver improved biodiversity beyond our own landholdings through catchment management. We will also continue to deliver peatland restoration through our Upstream Thinking catchment management programme, which includes our role in leading the South West Peatland Partnership. This work, whilst increasing biodiversity in some key natural habitats in our region, also provides valuable water resilience and supports carbon capture.

In the Bristol area, we will continue our investment at 13 sites that commenced in AMP6 and continued using the existing biodiversity net gain ODI at PR19, which has delivered a range of biodiversity enhancements which arise from bespoke site management plans. Expanding this activity in AMP8 will be a key component in the delivery of our targets in the Bristol area.

In line with the South West Biodiversity Strategy and the methodology of the performance commitment, we will continue to seek opportunities for the delivery of additional biodiversity enhancement units over and above the forecast currently set out for AMP 8 on our land and beyond. Furthermore, WINEP projects previously identified for AMP 8 and now deferred into AMP 9, will also deliver more biodiversity enhancement on South West owned land following WINEP investigations in AMP 7.

Government targets and statutory requirements

Not applicable.

Common or company specific level of performance

Ofwat’s expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

There is no historical data for this new metric.

Target setting conclusion - setting stretching levels of performance

There is no historical data for this new metric. Given the activity required to maintain habitats at existing status, any gain on this metric reflects a stretching level of performance. Evidence for this is provided by the existing Bristol Water biodiversity net gain ODI which is equivalent to this new common performance commitment.

ODI design protections (caps, collars, deadbands)

Ofwat’s PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. As this is a new performance commitment for PR24 we have applied caps and collars to the performance commitment levels.

The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

Incentive rates and Customer preferences

In the PR24 methodology Ofwat confirmed that an alternative approach for the biodiversity performance commitment would be taken - Ofwat did not publish any incentives for this performance commitment and instead confirmed that external valuations would be adopted at the draft determinations.

We recognise that Ofwat intends to use external valuations for the basis of incentive rates for this performance commitment. We also recognise that the incentive rates for this performance commitment are not in the scope for the minimum expectations of the quality and ambition assessment (as confirmed in response to query 27).³⁰

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘medium’.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	1.307
Outperformance payment – standard	1.307
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.212
Outperformance payment – standard	0.212
Outperformance payment – enhanced	N/A

³⁰ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 10-11

Performance commitment levels

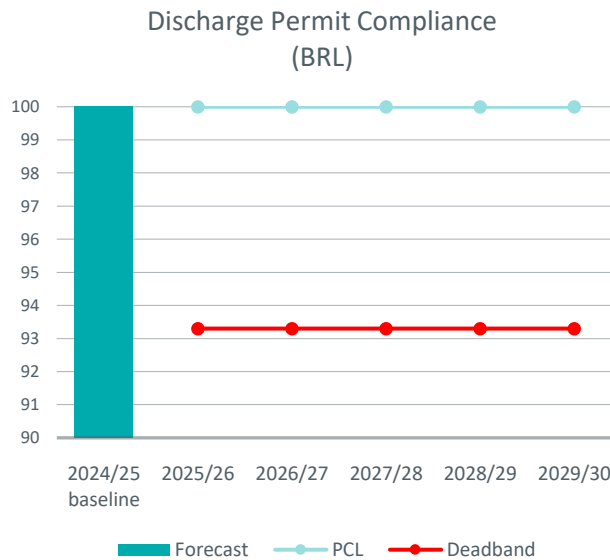
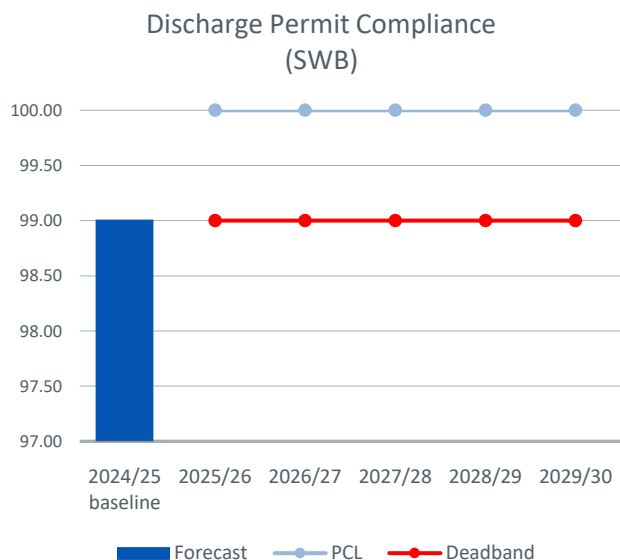
The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Biodiversity units for area of land served (per 100km ²)	0.00	0.00	0.00	0.00	0.00	2.44
P10	Biodiversity units for area of land served (per 100km ²)		0.00	0.00	0.00	0.00	2.44
P90	Biodiversity units for area of land served (per 100km ²)		0.00	0.00	0.00	0.00	4.37
Standard underperformance collar	Biodiversity units for area of land served (per 100km ²)		0.00	0.00	0.00	0.00	0.00
Underperformance deadband	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA
Outperformance deadband	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA
Standard outperformance cap	Biodiversity units for area of land served (per 100km ²)		4.88	4.88	4.88	4.88	4.88
Enhanced outperformance cap	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Biodiversity units for area of land served (per 100km ²)	0.00	0.00	0.00	0.00	0.00	2.12
P10	Biodiversity units for area of land served (per 100km ²)		0.00	0.00	0.00	0.00	2.12
P90	Biodiversity units for area of land served (per 100km ²)		0.00	0.00	0.00	0.00	4.24
Standard underperformance collar	Biodiversity units for area of land served (per 100km ²)		4.00	0.00	0.00	0.00	0.00
Underperformance deadband	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA
Outperformance deadband	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA
Standard outperformance cap	Biodiversity units for area of land served (per 100km ²)		4.24	4.24	4.24	4.24	4.24
Enhanced outperformance cap	Biodiversity units for area of land served (per 100km ²)		NA	NA	NA	NA	NA

Discharge permit compliance

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Discharge permit compliance			Revision		N/A	Revision	



Definition

We have adopted the common definition as published. However, we recommend a company-specific exclusion, to exclude the Isles of Scilly, as their works are yet to have permits defined and therefore are not part of the baseline.

Target Setting

Track record of performance and delivery strategy

Our approach to meeting compliance for flow, nutrients, non-nutrient and carrying out investigations is set out within our WINEP plans under which we will deliver:

- Upgrading or installation of 588 storm overflow monitors to MCERTs standards
- 34x phosphorus removal schemes at WwTWs
- 3x interventions to address dissolved zinc at 3x WwTWs and cypermethrin at one WwTW
- 11x septic tank upgrade to secondary treatment
- 33x investigations (including partnership in national CIP programme)
- 33x schemes to upgrade WwTWs with descriptive permits to numeric permit standard.
- Over 66km of river quality improvements.

We have significant investment plans at Plymouth central and Maer lane to ensure compliance. We are increasing capacity to deal with supply demand at Countess Wear and Cullumpton and creating a new works at Saltash which will relieve issues at Ernesettle. Our P scheme improvements driven by WINEP will also impact this area across numerous sites the key ones being identified are: Menagwins, Nanstallon, North Fal, Luxulyan, Kilmington, Feniton, Scarletts Well, St Denis and Colyton.

We have focused on the delivery of our operational maintenance plans during AMP7, improving the way we manage our maintenance programme, increasing the capacity and capability within our maintenance workshops reducing the time we take to repair and replace assets. We plan to take this further in AMP8 with further structural strengthening of our maintenance activities, as we continually move the dial from reactive to proactive maintenance being driven by stronger asset management insight and intelligence.

We have added additional resources to our front-line teams and changed our working patterns to continually drive the relentless focus in this area. Development of our teams through training and upskilling has been a very important part of our strategy for delivering a cultural change across our front line operations, accepting nothing less than 100% compliance is engrained and will continue to be a core to our delivery strategy in AMP8

Development of our control systems, alarms, proactive tools (as detailed in the 'total pollutions' section of this document) along with the continued strengthening of our Service Support Centre (control room) also support delivery of performance in this area. We have successfully trialled monitoring of effluent arriving at our works through our 'clear upstream' trials which following validation will be rolled out in time for AMP8.

Having taken over responsibility for the infrastructure on the Isles of Scilly in 2020, we are continuing our series of improvements by providing of a number of first-time sewage schemes and secondary treatment at a number of sites across the islands. These improvements will help to protect the environment, as well as safeguarding a number of groundwater sources.

For AMP8 the measure also includes water treatment works within Bristol. Whilst we have not experienced issues previously in this area the work we are doing to deliver CRI and unplanned outages will also support delivery of our permit compliance in the Bristol area.

Government targets and statutory requirements

Ofwat's PR24 final methodology sets out an expectation for 100% compliance. We have complied with this ambition. Discharge permit compliance is also a statutory obligation, as the Environment Agency's Water industry strategic environmental requirements (WISER) states that if 100% compliance not achieved, plans must be in place to improve performance.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as common level of performance from the efficient base expenditure allowance.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

There are diminishing marginal improvements in performance for this metric; we have factored this into our considerations for a deadband.

Target setting conclusion - setting stretching levels of performance

We have complied with the expectations as per the PR24 methodology; for discharge permit compliance the common performance level has been set at 100% compliance for 2025 to 2030.

ODI design protections (caps, collars, deadbands)

At PR19, a deadband at 99% was set for this performance commitment for all companies (with the exception of Hafren Dyfrdwy). At the time, Ofwat noted that deadbands were considered appropriate for performance commitments with full compliance to provide for some fluctuation in performance, whilst providing a strong incentive to minimise compliance failures.

At 99%, this deadband level would also be in line with the Environment Agency guidance, where performance less than 99% is considered not acceptable and attracts an Amber rating in the Environmental Performance Assessment (EPA).

A regulatory precedent should be noted, regarding the adoption of a deadband for this metric; the CMA was supportive of deadbands for statutory measures and where the measure itself allows very little tolerance, such as discharge permit compliance.

In addition, the removal of deadbands for statutory compliance performance commitments means that many companies will expect penalties as the base case. This aligns with precedents and comments set through the CMA.

“We consider that deadbands are required for compliance related performance commitments such as CRI and Treatment Works Compliance because the relevant regulatory bodies (DWI and Environment Agency) require 100% compliance (e.g. no quality related failures). However, in practice this is very difficult to achieve and it is likely that almost every company would be subject to an underperformance penalty in each year of the period if there were no deadbands. Both quality regulators are supportive of deadbands for these performance commitments. Their inclusion and value was agreed with both regulators at the [PR19] initial assessment of plans, draft and final determination phases.”³¹

We have therefore proposed a deadband at 99% compliance.

Incentive rates and Customer preferences

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be ‘high’.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	1.251
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.044
Outperformance payment – standard	N/A
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below. An additional consideration would be whether dynamic ODIs should apply to this performance commitments.

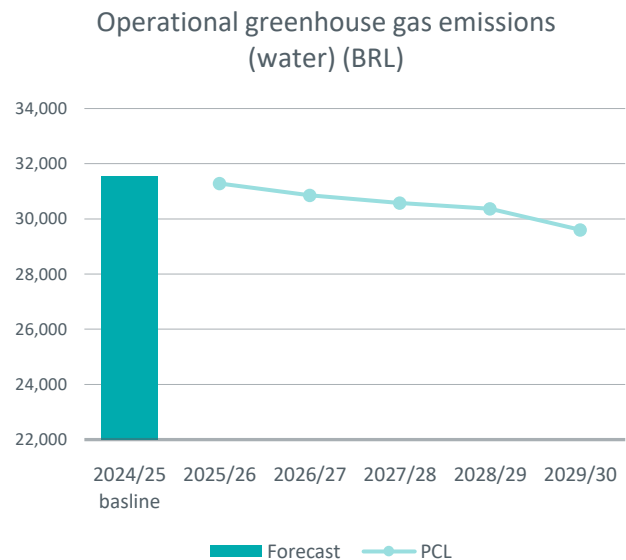
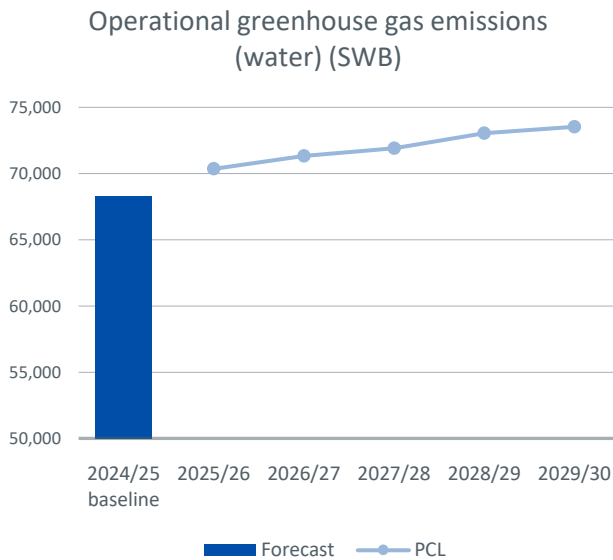
SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	%	99.0	100.0	100.0	100.0	100.0	100.0
P10	%		97.47	97.47	97.47	97.47	97.47
P90	%		99.50	99.50	99.50	99.50	99.50
Standard underperformance collar	%		NA	NA	NA	NA	NA
Underperformance deadband	%		99.0	99.0	99.0	99.0	99.0
Outperformance deadband	%		NA	NA	NA	NA	NA

Standard outperformance cap	%		NA	NA	NA	NA	NA
Enhanced outperformance cap	%		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	%	100.0	100.0	100.0	100.0	100.0	100.0
P10	%		93.3	93.3	93.3	93.3	93.3
P90	%		100.0	100.0	100.0	100.0	100.0
Standard underperformance collar	%		NA	NA	NA	NA	NA
Underperformance deadband	%		93.3	93.3	93.3	93.3	93.3
Outperformance deadband	%		NA	NA	NA	NA	NA
Standard outperformance cap	%		NA	NA	NA	NA	NA
Enhanced outperformance cap	%		NA	NA	NA	NA	NA

Operational greenhouse gas emissions – water

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Operational greenhouse gas emissions (water)						N/A	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

We are implementing our plans to make our business resilient to the continuing climatic changes we are all likely to experience in the future but the summer of 2022 is a reminder that extremes of weather tend to have an adverse impact on our carbon emissions position.

Our AMP8 plans to deliver operational greenhouse emissions for both water and waste constitute one element of our net zero strategy which sets out our commitment to delivering net zero by 2050 across the group.

To deliver our water commitments we are focusing on the following areas of work: energy efficiency, renewable energy, and transport.

Energy Efficiency: Our AMP8 plans extend the activities already underway in AMP7 specifically focusing on the maintenance (through active monitoring and control) of our water asset base, ensuring we are carrying out efficient pumping, both through our utilisation of pumps, managing our buildings and plant for heating and lighting savings (specifically moving to heat pumps and further LED installations in AMP8). We intend to rollout system wide control of our pumping activities in water using Aqua Advanced and Optimatics tools in the South West areas that will mirror the arrangements delivered by IPSOS in Bristol. Further refinement of our approach to energy management through the rollout of ISO 50001 certification in Bristol to mirror the approach in the South West. We aim to replace all fossil fuel usage for stationary applications by 2030, this includes switching away from our current natural gas, liquid petroleum gas and white diesel needs towards using electric alternatives and lower carbon fuels.

Renewable energy: Our investment in renewable energy for AMP8 includes investment options for new roof and ground mount ‘behind the meter’ Solar PV on our sites, working with solar providers on private wire opportunities, deploying floating Solar PV on our reservoirs, exploring options for investment in grid connected Solar PV design and build projects, installing new hydro-electric turbines, and linking our bioresources for energy generation, we are also progressing multiple ownership options with third party private wire options and on-site owned systems.

Transport: To meet the governments confirmed ban on the sale of internal combustion engines (ICE) by 2030 we will replace 1,238 (994 SWB and 244 BRL) ICE vehicles with electric/AFC alternatives. We have already started on this journey both through the edition of new fleet (53 vehicles to date) and the installation of both on site and home charging points to ensure optimum capability across our operations.

Finally, we will continue to explore, develop and adopt new technologies in this ever-evolving market, we are already exploring options around energy storage, hydrolysis and hydrogen generation.

Government targets and statutory requirements

The UK government's strategic policy statement expects water companies to have regard for the policies and proposals set out in the UK Net Zero Strategy, and to contribute to net zero by 2050.

Whilst not a regulatory requirement, we have pledged to target zero net operational emissions by 2030.

To achieve net zero in a phased manner by 2050, the UK government has agreed to a series of interim targets, notably an overall 78% cut in UK emissions by 2035. Ofwat's Net Zero principles position paper set out its expectations that companies' plans should align with national government net zero targets. Our proposal to introduce a bespoke performance commitment on embedded greenhouse gas emissions complies with this expectation.

Common or company specific level of performance

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance and we agree with this approach.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

The historical data has not allowed what base buys analysis to be performed.

Target setting conclusion - setting stretching levels of performance

The increase in enhancement investment means that progress towards net zero reflects a stretching level of performance.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. As this is a new performance commitment for PR24 we have applied caps and collars to the performance commitment levels.

Incentive rates and Customer preferences

Achieving a zero-carbon footprint is ranked lower for South West to deliver as this is seen as a national issue to address.³²

In the PR24 methodology Ofwat confirmed that an alternative approach for the operational greenhouse gas emissions performance commitments would be taken - Ofwat did not publish any incentives for this performance commitment and instead confirmed that external valuations would be adopted at the draft determinations. We recognise that Ofwat intends to use external valuations for the basis of incentive rates for this performance commitment. We also recognise that the incentive rates for this performance commitment are not in the scope for the minimum expectations of the quality and ambition assessment (as confirmed in response to query 27).³³

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'low'. Our alternative rates have been applied as a percentage reduction of £0.250m per 1% for SWB and £0.087m per 1% for BRL; we have converted these to the unit of tonnes CO₂e.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

³² Report 1.7- Verve, PR24 Customer Priorities, February 2023

³³ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 10-11

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.000409
Outperformance payment – standard	0.000409
Outperformance payment – enhanced	N/A

BRL Incentive type	BRL Incentive rate (£m/ unit)
Underperformance payment – standard	0.000326
Outperformance payment – standard	0.000326
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2021-22 ³⁴	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Tonnes CO2e	61,137	67,194	65,944	66,042	67,405	70,045
P10	Tonnes CO2e		63,960	63,960	63,960	63,960	63,960
P90	Tonnes CO2e		70,692	70,692	70,692	70,692	70,692
Standard underperformance collar	Tonnes CO2e		63,960	63,960	63,960	63,960	63,960
Underperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Outperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Standard outperformance cap	Tonnes CO2e		70,692	70,692	70,692	70,692	70,692
Enhanced outperformance cap	Tonnes CO2e		NA	NA	NA	NA	NA

BRL	Unit	Baseline forecast	Committed performance level				
		2021-22 ³⁵	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Tonnes CO2e	26,575	30,548	29,985	29,851	29,714	29,689
P10	Tonnes CO2e		31,455	31,455	31,455	31,455	31,455
P90	Tonnes CO2e		28,460	28,460	28,460	28,460	28,460

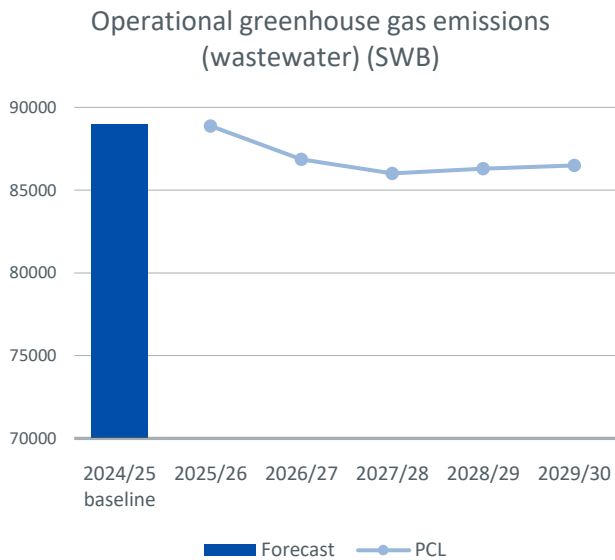
³⁴ Tonnes CO2e reported to two decimal places and the percentage reduction since 2021-22; and this is also reported as kgCO2e per megalitre of distribution input (pre-MLE)

³⁵ Tonnes CO2e reported to two decimal places and the percentage reduction since 2021-22; and this is also reported as kgCO2e per megalitre of distribution input (pre-MLE)

Standard underperformance collar	Tonnes CO2e		31,455	31,455	31,455	31,455	31,455
Underperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Outperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Standard outperformance cap	Tonnes CO2e		28,460	28,460	28,460	28,460	28,460
Enhanced outperformance cap	Tonnes CO2e		NA	NA	NA	NA	NA

Operational greenhouse gas emissions – wastewater

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Operational greenhouse gas emissions (wastewater)						N/A	



Definition

We have adopted the common definition as published.

Target Setting

Track record of performance and delivery strategy

Our AMP8 plans to deliver operational greenhouse emissions for both water and waste constitute one element of our net zero strategy which sets out our commitment to delivering net zero by 2050 across the group.

To deliver our waste GHG commitments we are focusing on 4 key areas of work: Energy efficiency, renewable energy, controlling process and fugitive emissions of N₂O and transport. A key pillar of reducing our overall GHG emissions will be via in the waste business will be delivered through our bioresources strategy.

Energy Efficiency: Our AMP8 plans extend the activities already underway in AMP7 specifically focusing on the maintenance (through active monitoring and control) of our waste asset base, ensuring we are carrying out efficient pumping, both through our utilisation of pumps and aeration equipment, managing our buildings and plant for heating and lighting savings (specifically moving to heat pumps and further LED installations in AMP8). Further refinement of our approach to energy management through the rollout of ISO 50001 certification in Bristol to mirror the approach in the South West. We aim to replace all fossil fuel usage for stationary applications by 2030, this includes switching away from our current natural gas, liquid petroleum gas and white diesel needs towards using electric alternatives and lower carbon fuels.

Renewable energy: Our investment in renewable energy for AMP8 includes investment options for new roof and ground mount 'behind the meter' Solar PV on our sites, working with solar providers on private wire opportunities, deploying floating Solar PV on our reservoirs, exploring options for investment in grid connected Solar PV design and build projects, installing new hydro-electric turbines, and linking our bioresources for energy generation, we are also progressing multiple ownership options with third party private wire options and on-site owned systems.

Fugitive emissions: Nitrous Oxide (N₂O) and Methane (CH₄) are potent, high global warming potential gases emitted during routine wastewater operations. N₂O is created by wastewater (WW) nitrification and denitrification, while CH₄ can be produced in sludge treatment. Our plans to reduce levels of these emissions targets a step-by-step approach to monitoring, control and optimisation of SWB wastewater plant to minimise the formation of N₂O on a sustainable basis across a programme of schemes on our sites.

Transport: To meet the governments confirmed ban on the sale of internal combustion engines (ICE) by 2030 we will replace 1,238 (994 SWB and 244 BRL) ICE vehicles with electric/AFC alternatives. We have already started on this journey both through the edition of new fleet (53 vehicles to date) and the installation of both on site and home charging points to ensure optimum capability across our operations.

As mentioned, our bioresources strategy is a key pillar of delivering our GHG targets. Our bioresources plan has included the Carbon and energy valuation in our proposed strategy with the objective of maximising the energy and carbon recovery from sludge. The strategy aims to increase from under 30% to 95% of all sludge though an adaptive strategy linked to wider sludge and sludge to land regulation. Energy recovery to biomethanes represent a significant contributor to our 50% renewable energy target, (c.60GWh by 2030).

Finally, we will continue to explore, develop and adopt new technologies in this ever-evolving market, we are already exploring options around energy storage, hydrolysis and hydrogen generation.

Government targets and statutory requirements

The UK government's strategic policy statement expects water companies to have regard for the policies and proposals set out in the UK Net Zero Strategy, and to contribute to net zero by 2050.

Whilst not a regulatory requirement, South West Water and Bristol Water pledged to target zero net operational emissions by 2030.

To achieve net zero in a phased manner by 2050, the UK government has agreed to a series of interim targets, notably an overall 78% cut in UK emissions by 2035. Ofwat's Net Zero principles position paper set out its expectations that companies' plans should align with national government net zero targets. Our proposal to introduce a bespoke performance commitment on embedded greenhouse gas emissions complies with this expectation.

Common or company specific level of performance

This is a company specific proposed level of performance, as there is insufficient comparative data or appropriate scalars to set on a common level.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

Ofwat's expectations are that this performance commitment be set as a company-specific performance level from the efficient base expenditure allowance.

Target setting conclusion - setting stretching levels of performance

The increase in enhancement investment means that progress towards net zero reflects a stretching level of performance.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE for this performance commitment. As this is a new performance commitment for PR24 we have applied caps and collars to the performance commitment levels.

Incentive rates and Customer preferences

In the PR24 methodology Ofwat confirmed that an alternative approach for the operational greenhouse gas emissions performance commitments would be taken - Ofwat did not publish any incentives for this performance commitment and instead confirmed that external valuations would be adopted at the draft determinations.

We recognise that Ofwat intends to use external valuations for the basis of incentive rates for this performance commitment. We also recognise that the incentive rates for this performance commitment are not in the scope for the minimum expectations of the quality and ambition assessment (as confirmed in response to query 27).³⁶

We have adopted alternative top-down incentive rates for this performance commitment. Based on our approach to applying top-down incentives, the customer ranking would be 'low'. Our alternative rates have been applied as a percentage reduction of £0.473m per 1%; we have converted these to the unit of tonnes CO2e.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.000572
Outperformance payment – standard	0.000572
Outperformance payment – enhanced	N/A

Performance commitment levels

The committed performance levels, deadbands, caps and collars that we have proposed based on our alternative approach to ODIs is summarised in the table below.

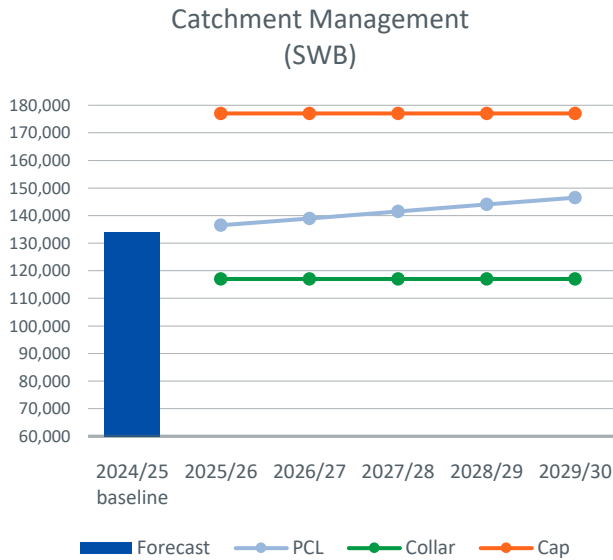
SWB	Unit	Baseline forecast	Committed performance level				
		2021-22 ³⁷	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Tonnes CO2e	83,001	83,707	82,606	84,377	86,932	89,562
P10	Tonnes CO2e		81,165	81,165	81,165	81,165	81,165
P90	Tonnes CO2e		89,709	89,709	89,709	89,709	89,709
Standard underperformance collar	Tonnes CO2e		81,165	81,165	81,165	81,165	81,165
Underperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Outperformance deadband	Tonnes CO2e		NA	NA	NA	NA	NA
Standard outperformance cap	Tonnes CO2e		89,709	89,709	89,709	89,709	89,709
Enhanced outperformance cap	Tonnes CO2e		NA	NA	NA	NA	NA

³⁶ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 10-11

³⁷ Tonnes CO2e reported to two decimal places and the percentage reduction since 2021-22; and this is also reported as kgCO2e per megalitre of volume of wastewater received at sewage treatment works

Catchment management (Bespoke Performance Commitment)

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Catchment management						Revision	



Definition

The definition is as per our early submission to Ofwat in April 2023. We have included in an appendix our reflections following Ofwat's feedback on the early submission on the bespoke performance commitment definitions.

Detailed definition of performance measure

The performance commitment is defined as the hectares of the 'Upstream Thinking' project catchments that are under active improved catchment management as part of 'Upstream Thinking' project interventions. The active improved management area is defined as:

- Active plan areas - land within Upstream thinking farm plans which have actions being carried out
- Areas of habitat improvement not in farm plans- for example Mires and Culm grassland projects
- Other Upstream thinking actions not in farm plans – for example areas of land which have been improved by use of the Upstream thinking sub-soil equipment.

Additional detail on measurement units

'Upstream Thinking' is South West Water's catchment management programme in the major drinking water abstraction catchments of the region. It uses a range of interventions to reduce pollutant load in water sources to improve water quality or to slow water within catchment and thereby increase resilience to both drought and flood events. In doing so it delivers benefits to the environment through:

- improved biodiversity - due to land restoration and habitat creation;
- reduced carbon emissions - through carbon sequestration and reduced fertilizer use;
- climate change mitigation – through slowing water flows and reducing carbon emissions; and
- social benefits - through improved farm productivity and in turn income generation.

Specific exclusions

None.

Reporting and assurance

The company will maintain a methodology statement. It should record any changes in approach compared to previous years.

The company will maintain verifiable data records for all reported interventions irrespective of whether they are included. The aim of the records is to provide an auditable method for identifying the specific interventions that are included and excluded from the return.

The company shall ensure that its outcome delivery incentive payments only relate to real performance changes and not definitional, methodological or data changes in performance commitments.

Target Setting

Track record of performance and delivery strategy

Our Upstream Thinking project is a multi-award-winning catchment management scheme which applies natural landscape-scale solutions to improve water quality and supply. The project is delivered through a unique range of partnerships between ourselves, Westcountry Rivers Trust and Devon and Cornwall Wildlife Trusts, government agencies, environmental experts, landowners and tenant farmers, whilst the evaluation of the change in water quality at catchment scale is undertaken by the University of Exeter.

As demonstrated by our performance in 2020-25 and our Green Recovery commitments, we believe we offer excellent service in this area.

We will continue the successful approach adopted in AMP7 into AMP8: working closely and incentivising farmers to stop the risk of land run off through improved management practices for example the management of fields and boundaries to reduce and prevent run-off, sediment and nutrient losses. Our plans for AMP8 include addressing Geosmin, MIB and Manganese in the Fowey/Colliford catchment, Geosmin, and MIB in the Avon Dam reservoir and Venford catchments, TOC, DOC and Manganese in the Meldon reservoir catchment, MIB, Manganese and DOC in the Lower River Tavy catchment, and implement fisheries management plans along with investigations to support reduction of algae in Tamar lakes.

Our peatland restoration programme, which we will deliver through our leading role in the South West Peatland Partnership is a key component in the delivery of this target. We have established a good network of partners, including regional and national contactors, local partners and NGO's. Our plans will also be supported through the research carried out by the University of Exeter Centre for Resilience in Environment, Water and Waste (CREWW) Partnership with SWW.

Government targets and statutory requirements

As a bespoke metric, this is not applicable.

Common or company specific level of performance

This is a company specific level of performance as this is a bespoke metric.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

As a bespoke metric, this is not applicable.

Target setting conclusion – setting stretching levels of performance

The target has been set based on building on existing Upstream Thinking areas.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE and suggests caps and collars are appropriate for bespoke performance commitments.

The collar level at 2024-25 for our bespoke metric was 117,028; this collar level has been applied. The same collar level has been set for all years. As our proposed performance commitment levels become progressively more stretching over the period, this means that the potential financial consequence of not meeting the performance commitment level increases in each year of the 2025-30 period.

The cap level as been set symmetrically to the collar level; it has been set at 60,000 hectares above the collar level.

Incentive rates and Customer preferences

In our qualitative top-down incentives research, our customers told us that they wanted a balanced package of ODIs, including both common and bespoke performance commitments, to provide a focus on regional delivery of local customer priorities. Our customers said that catchment management is a very important issue, that is should be a top priority and that they agreed that there should be a bespoke target in this area. Customers also told us that they would like to see company activities focus on prevention of problems where possible and are open to new, non-traditional infrastructure ways of doing this, such as catchment management.

Our customers also said they preferred to see a greater emphasis on bespoke performance commitments in the allocation of ODIs and RORE. We have taken this into consideration for the allocation of incentives for our bespoke metrics.

We note Ofwat’s guidance that for bespoke performance commitments, for a ‘top-down’ incentive rate, companies should assume a 0.5% RORE allocation (as confirmed in response to query 345)³⁸. Our customers do not support an allocation at this range, so we have applied a narrower performance range to the incentives.

We have adopted alternative top-down incentive rates for this performance commitment.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.000204
Outperformance payment – standard	0.000204
Outperformance payment – enhanced	N/A

Performance commitment levels

The applicable proposed committed performance levels, deadbands, caps and collars are summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Hectares	134000	136500	139000	141500	144000	146500
P10	Hectares		134000	134000	134000	134000	134000
P90	Hectares		151,500	151,500	151,500	151,500	151,500
Standard underperformance collar	Hectares		117,028	117,028	117,028	117,028	117,028
Underperformance deadband	Hectares		NA	NA	NA	NA	NA
Outperformance deadband	Hectares		NA	NA	NA	NA	NA
Standard outperformance cap	Hectares		177,028	177,028	177,028	177,028	177,028
Enhanced outperformance cap	Hectares		NA	NA	NA	NA	NA

³⁸ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 101

Embodied greenhouse gas emissions (Bespoke Performance Commitment)

Performance Commitment	Definition	Target Setting	Deadband	Collar	Cap	Standard ODIs	Enhanced ODIs
Embodied greenhouse gas emissions						Revision	

Definition

This is a revised measurement compared to Ofwat's design in data table OUT10. We have included in an appendix our reflections following Ofwat's feedback on the early submission on the bespoke performance commitment definitions. In summary:

- This performance commitment is designed to incentivise South West Water to reduce embodied carbon emission associated with our capital investment programme during Asset Management Period 8 (AMP 8). By implementing sustainable practices and adopting low-carbon technologies to minimise the carbon footprint of projects while ensuring efficient delivery of essential water and wastewater services
- There is only one performance commitment for both water and wastewater based on how data is currently recorded
- The framework used for cradle to gate and cradle to build activities will be PAS2080. This framework looks at the whole value chain, aiming to reduce carbon and reduce cost through more intelligent design, construction and use.

Target Setting

Track record of performance and delivery strategy

We are proposing to significantly increase our capital investment programme in AMP8. This will generate an increase in embodied carbon unless there is a proactive carbon reduction approach within the programme. Reducing embodied carbon is a key element in our plan to deliver Net Zero commitments

We have developed a methodology and target that is designed to incentivise a reduction in embodied carbon emissions associated with our capital investment programme. We will achieve this by implementing sustainable practices and adopting low-carbon technologies to minimise the carbon footprint of projects while ensuring efficient delivery of essential water and wastewater services.

We will be able to account for the way in which we reduce our relative amount of embodied carbon whilst recognising the increase in size of our capital programme during AMP8. We will deliver this target through the introduction of new processes and procedures that challenge the entire supply chain centred around PAS 2080 implementation. This will improve collaboration with supply chain and provide a fair challenge to the business to reduce embodied carbon, whole life carbon will be considered in whole life TOTEX financial accounting on deliverable options during the end-to-end key stage decision making process and the new framework contractors will be contracted to supply project specific carbon data based on the lifecycle analysis (LCA).

Common or company specific level of performance

This is a company specific level of performance as this is a bespoke metric.

What base buys (setting the level of performance improvement expected from base and enhancement expenditure)

As a bespoke metric, this is not applicable.

Target setting conclusion - setting stretching levels of performance

The performance levels are based on hitting a 100% reduction in tonnes CO₂e by 2050.

ODI design protections (caps, collars, deadbands)

Ofwat's PR24 methodology sets an expectation that caps and collars are set at levels equivalent to $\pm 0.5\%$ RORE and suggests caps and collars are appropriate for bespoke performance commitments.

As this is a novel performance commitment, we recommend that the ODI timing and form be an end-of-period revenue adjustment. Outperformance and underperformance payments would also only apply for 2029-30 i.e. no ODI would apply for the first four years of AMP8 and the ODI would only apply to performance in 2029-30 (there is no cumulative impact for the ODI).

Incentive rates and Customer preferences

Our alternative rates have been applied as a percentage reduction; we have converted these to the unit of tonnes CO₂e.

In qualitative top-down incentives research, most customers consider net zero a very important performance measure. Some customers have reservations about whether achieving net zero is the most cost-effective solution. As a result, they prioritise other measures ahead of this performance commitment. We have nevertheless continued to include it within our outcomes framework, due to the importance we as a company place on net zero.

Our customers also said they preferred to see a greater emphasis on bespoke performance commitments in the allocation of ODIs and RORE. We have taken this into consideration for the allocation of incentives for our bespoke metrics.

We note Ofwat's guidance that for bespoke performance commitments, for a 'top-down' incentive rate, companies should assume a 0.5% RORE allocation (as confirmed in response to query 345)³⁹.

As per the PR24 methodology, enhanced incentives have not been adopted for this performance commitment. Our alternative rates have been applied as a percentage reduction of £0.482m per 1%; we have converted these to the unit of tonnes CO₂e.

SWB Incentive type	SWB Incentive rate (£m/ unit)
Underperformance payment – standard	0.125
Outperformance payment – standard	0.125
Outperformance payment – enhanced	N/A

Performance commitment levels

The applicable proposed committed performance levels, deadbands, caps and collars are summarised in the table below.

SWB	Unit	Baseline forecast	Committed performance level				
		2021-22	2025-26	2026-27	2027-28	2028-29	2029-30
Performance commitment level	Tonnes CO ₂ e per £1m	385	382	378	362	355	347
P10	Tonnes CO ₂ e per £1m		NA	NA	NA	NA	350
P90	Tonnes CO ₂ e per £1m		NA	NA	NA	NA	343
Standard underperformance collar	Tonnes CO ₂ e per £1m		NA	NA	NA	NA	350

³⁹ Ofwat (2023) PR24 final methodology queries and responses –31 July 2023, pages 101

SWB	Unit	Baseline forecast	Committed performance level				
		2021-22	2025-26	2026-27	2027-28	2028-29	2029-30
Underperformance deadband	Tonnes CO2e per £1m		NA	NA	NA	NA	NA
Outperformance deadband	Tonnes CO2e per £1m		NA	NA	NA	NA	NA
Standard outperformance cap	Tonnes CO2e per £1m		NA	NA	NA	NA	343
Enhanced outperformance cap	Tonnes CO2e per £1m		NA	NA	NA	NA	NA

Outcomes and Priorities: Delivering for Customers and Addressing Affordability

Delivering for Customers and Addressing Affordability

In the South West 3% of the population pays for 36% of the nation's bathing waters. Our plans consist of our affordability toolkit and innovative tariffs to ensure affordable bills for all.

The challenges of the future are pressing and we need to come together in society to resolve them together. We will encourage active participation through education and through customers and communities having a stake in our success and a direct say in our business.

To do this, customer and stakeholders need to be better informed. This is why we will be open with our data through online publication, which will help to stimulate new ideas and partnerships so we can provide better services for customers and protect the environment.

High levels of investment to meet statutory requirements will create significant upward pressures on our bills. We will seek to be innovative and efficient to reduce bills as far as possible, as well as phasing investment to fit with customer and stakeholder priorities. We will also seek new ways to manage affordability through additional forms of support and by changing the way in which we charge for our services.

We recognise that we need to be trusted by customers to ask them to make changes like reducing consumption. We need to continue to earn trust, through delivering great service, demonstrating transparency and listening to the changing needs of our customers.

Performance Commitment	SWB or BRL	Purpose	2024/25 Baseline	2029/30 Performance Commitment Level
C-MeX	SWB	To provide an excellent customer experience for residential customers	9th in industry	9th in industry
C-MeX	BRL		9th in industry	9th in industry
D-MeX	SWB	To provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers (SLPs), and new appointments and variations (NAVs)	9th in industry	9th in industry
D-MeX	BRL		9th in industry	9th in industry
BR-MeX	SWB	To provide an excellent customer experience to business customers and to retailers in the business retail market.	9th in industry	9th in industry
BR-MeX	BRL		9th in industry	9th in industry

Customer service metrics – C-MeX, D-MeX and BR-MeX

We have developed a plan and underpinning strategy that delivers for all of our customers. Our plan has also taken into account a wide range of customer research and feedback, media scrutiny, and our plans for change and investment. We have listened to and understand the specific needs and the tailored approach required for households, visitors, businesses, retailers and developers. To do this we have developed a strategy which is structured across four pillars;

- Improving our service and customer experience through digital channels as well as seamless customer journeys;
- supporting behavioural change, to help enable efficient water use and on topics such as sewer misuse.
- supporting those customers with financial and non-financial vulnerabilities, by providing high quality priority services, coupled with industry leading water poverty support.
- sharing the work we are doing to engage our customers with the progress and impact we are making, and the delivery of the commitments we have made.

Every aspect of our interface with our customers and communities drives how our customers perceive us. We will deliver our targets by implementing all of our PR24 plans, and we have detailed our approach to this in the document 'Addressing affordability and delivering for customers'. Our customers' top 5 long term priorities are: top quality drinking water, drought resilience, controlled and managed wastewater flows, and trusted customer experiences, specifically supporting the local environment (through, for example, preventing pollution, tackling storm overflows and protecting plants and wildlife) and ensuring our infrastructure is resilient (by, for example, reducing leaks, failures and blockages) and keeping bills affordable and protecting those who struggle to pay.

We have highlighted throughout this (outcomes) document the changes we will make in AMP8 to improve performance delivering a better service for customers. Our plans also include changes to how we interface with our customers, again there is detail within our 'Addressing affordability and delivering for customers' document which specifically covers these areas as well as how we will approach our wider societal role, and through WaterShare+ help customers have a direct stake in the Company.

We recognise all customers are not the same, and whilst the delivery of our overall plan will ensure we meet our targets, specific aspects of our plans also target delivery for domestic, business and developer services customers.

The integration of South West and Bristol has allowed us to adopt best practice in how we interface with customers as part of our 'best of the best' strategy. We have begun to see benefits already e.g. in our current D-Mex scores through this work. We will continue this approach across all areas of the business into AMP8.

Risk and Reward

Balance of risk and reward

We have considered customer insights, regulatory precedent and the overall balance of risk as part of our assessment for estimating ODI risk. We have also undertaken Monte Carlo analysis for estimating ODI risk. Based on Ofwat's indicative ODI rates and PR24 methodology expectations for ODI protections, this does not result in ODI framework that contributes to an appropriate balance of risk and return.

The approach proposed by Ofwat at PR24 results in a risk-return that is not balanced and has significant potential financial penalties +/- RORE of 5+%. At PR19, for South West Water there was a ± 1.5 ODI return on RORE each year. At PR19, for Bristol Water there was a +0.7% to -3.0% ODI return on RORE each year (post-CMA19 redetermination). Our analysis of Ofwat's incentives results in a long tail of potentially large downside risks (the "downside skew"), and with small practical areas for outperformance. As most bespoke metrics are removed and as targets become tighter, this challenge is even more important.

The ODI package, along with the allowed cost of capital, other incentives mechanisms and tools like return on regulated equity (RORE) and financeability, play a key role in determining the overall risk and reward package. The ODI package is therefore critical to achieving an appropriate balance of risks and rewards between customers, management and our shareholders.

Setting the wrong incentives may mean that management are subject to performance risk in areas beyond their control, or are overly incentivised to perform on certain areas. Subjecting management to too much risk has the potential to increase financing costs. Our incentives package should therefore be aimed at areas that our customers value, be proportionate in terms of willingness-to-pay and the impact on RORE and reflect the regulatory framework we must operate within.

Designing an appropriate package of incentives not a straightforward matter. The regulatory framework however includes a broad range of levers for Ofwat and water companies to use in order to reward more robust business-planning, greater efficiency in expenditure and financing, and the delivery of outcomes that customers want. This range of levers increases the importance of considering risks and rewards as a coherent package so that, for example, companies are incentivised to deliver sustainable services over the longer term. We think our ODI package strikes the right balance of risk and reward. In this section we explain how we have ensured balance across the package of ODIs.

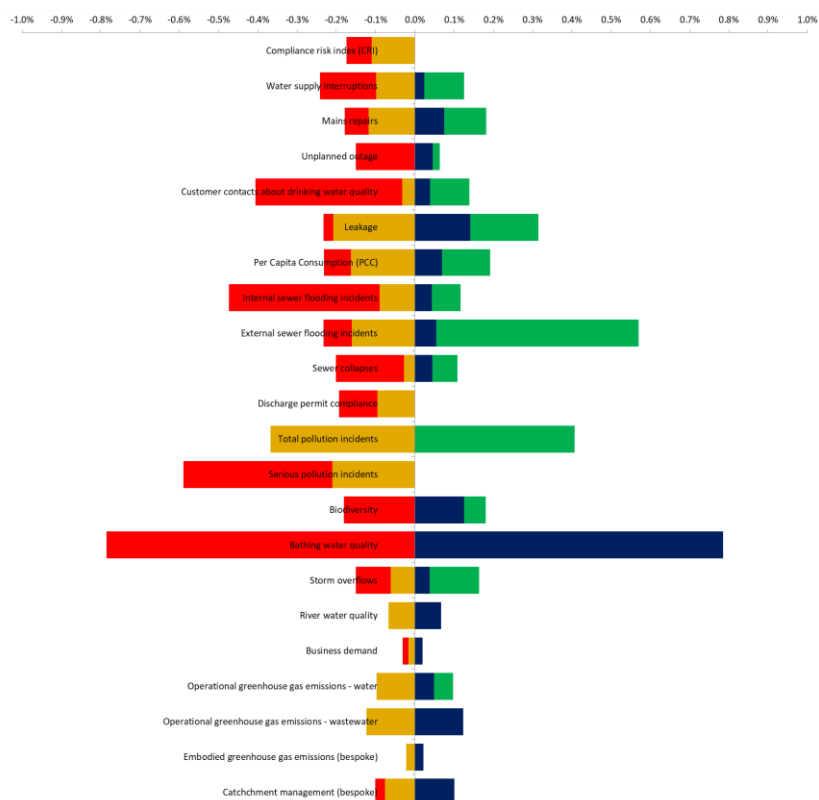
Customers have played a pivotal role in ensuring we have the right balance that reflects their views and priorities. We have undertaken research on key aspects of our ODI package asking customers their views on incentives, bespoke performance commitments, and specific ODI caps collars and deadbands.

Moreover, we have challenged ourselves and tested our package of ODIs to ensure it drives a strong focus on service performance and represents the right balance of risk and return for our customers.

Our assessment of the appropriateness of our ODI package and focus on service performance has been guided by the following principles:

- Reflecting what is important to customers
- Simplifying the approach to ODI rate setting
- Reflecting a balanced and symmetrical risk and return range
- Being ambitious in the performance targets that we want to deliver, but also balancing this ambition with deliverability.

Our alternative ODIs will result in an ODI RORE range (including bespoke ODIs), at an estimated at 3.8% outperformance (+£76m p.a.) and 5.2% underperformance (-£105m p.a.) at the appointee level. Within the 'plausible range' (including bespoke ODIs), there is an estimated 1.9% outperformance (+£38m) and 2.1% underperformance (-£43m) at the appointee level. This range meets our customer expectations. This is the additive value and we undertake sensitivity analysis shown in our *Risk and Return* document to derive the risk adjusted RORE range.



Finally, our ODI package must be considered alongside the allowed cost of equity. Ofwat has stated that it does not intend to aim this up (as the CMA did in the PR19 re-determinations). The CMA aimed up the allowed cost of equity on the basis of the regulatory framework (in particular ODIs) being negatively asymmetric, and to avoid the negative consequences of setting the allowed cost of capital too low. In order for Ofwat to depart from the CMA’s approach, we would expect Ofwat to demonstrate that its ODI framework is indeed symmetrical. However, the Ofwat top-down approach results in an incentive package that implies a disproportionate level of downside risk across a large number of performance commitments, taking into account the achievability of further stretching performance levels, revisions to established definitions, the size of ODI rates and the methodology’s limits on the ODI protections. If Ofwat do decide to further calibrate our alternative ODI rates at the draft determinations, we would urge Ofwat to consider the wider balance of risk and return.

Balancing risk and reward: P10s and P90s

To assess the impact of our incentives we have looked at the performance commitment sensitivity based on a high and low probability of events occurring.

We use estimates of P10 for the downside risk and P90 for the upside risk for each performance commitment and for the overall ODI package to help us understand both the risks to customers and to the company. This range spans the performance that is most likely to occur in a five year period and so provides a useful point of reference.

As well as understanding the sum of P10 and P90 positions for all performance commitments, we have undertaken scenario analysis to produce 80% confidence intervals around expected under and outperformance payments across all performance commitments (i.e. at the appointee level).

Given that the P10 or P90 values for each performance commitment are highly likely to all occur together, we have used Monte Carlo simulation methods to estimate the confidence intervals around under and outperformance payments. In doing so we have recognised that:

- Some measures are interrelated. Our historical performance data shows us that some performance commitments are positively correlated, such as bursts and supply interruptions; and sewer blockages and external flooding; sewer collapse and pollution incidents, etc. We have used historical performance data to estimate correlations between all performance commitments.

- Our performance in one year can impact on performance in subsequent years as investment is incremental across the years. We have built knock-on impacts into our approach across all years.

We have applied Monte Carlo across the whole business and by price control to understand the 10% and 90% confidence intervals across the whole five year period.

Given customers tell us that optimal incentives are in the range 1%-3%, we believe our incentives reflect what customers want.

Our P10 and P90s have been set with reference to the Ofwat P10 and P90 levels. Further analysis on our deviations from the Ofwat levels are included in the appendix.

More details on our RORE scenario modelling can be found in the Risk and Return supporting document.



For more information see
Risk and return

WaterShare+ Advisory Panel: engagement, monitoring and assurance

The WaterShare+ Advisory Panel is an independent group of customer, business and social representatives.

In response to customer feedback we launched our WaterShare+ initiative in 2020. For our New Deal Business Plan for 2020-25, we promised lower bills, improved service, better environmental protection, a stake and greater say in what we do, and a commitment to share successes if we beat our targets. In the space of three years, we have achieved something never seen before. 90,000 customers, four times the number of institutional shareholders, now have a direct say in how South West Water is run. This is the equivalent of 1 in 14 households in the South West

As customers help shape and deliver our plans, it is only right that they are offered a real stake in the business and a greater say in what we do and how we do it. So, in 2020 we launched a first-of-its-kind shareholder scheme for customers – giving them the opportunity to get involved, hold us to account, and share in successes.

Alongside, an independent WaterShare+ Advisory Panel was established to protect the interests of our customers – it provides an independent review of our commitments and delivery of our promises as the voice of the customer. Customers from all regions have the opportunity to join the regular public meetings held by the Panel, to find out how we are delivering our business plan for the benefit of customers, communities and the environment.

Since 2020 the WaterShare+ Panel has operated and provided independent challenge on our actions and performance. This is a role that will continue until 2025 and beyond.

The Panel is an independent group of customer, business and social representatives. It is regarded by Ofwat as the Independent Challenge Group (ICG) for South West Water and Bristol Water. The Panel members have extensive experience in customer behaviour and engagement, customer representation, customer vulnerability and social welfare, business planning, both within the water industry and elsewhere, and water industry engineering and operations. Most of the members have been through several water industry price reviews.

The Panel is chaired by Lord Matthew Taylor, with Peaches Golding OBE (Chair of the BWCP) as Deputy Chair. The membership of the Panel is strengthened with attendance by expert advisors from the Consumer Council for Water (CCW), Environment Agency (EA) and Natural England (NE).

The Panel's primary objectives are to:

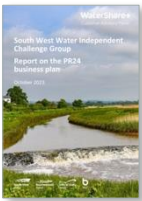
- Contribute to the development of the PR24 Business Plan by challenging the company's proposals, particularly through the review and scrutiny of the associated customer engagement and the drivers of expenditure
- Ensure that the Business Plan fairly represents the views of the company's customers and communities.

For the outcomes framework, the Panel spent substantial time investigating and challenging our deviations from the methodology on outcomes and incentives, including receiving independent advice on the quality of the research, and on ensuring that we included compelling and sufficient evidence for the deviations. Through lengthy and detailed discussions with us and third party subject matter experts, the Panel reviewed and challenged our:

- Customer research, which included quantitative and qualitative top-down ODI rates, our research segmentation strategy and triangulated valuations. The Panel supported the development of research materials and observed a number of customer engagement sessions
- Willingness to pay triangulation; commissioning an academic peer review of our studies
- Approach to outcome valuation research, taking into account the preferences of local customers
- Current regulatory performance and its relationship to the rest of the sector in England and Wales
- The deliverability of commitments both currently and in the future.

Due to their ongoing review and challenge of our AMP7 delivery, the Panel are uniquely placed to understand our baseline performance as well as our future plans and ambitions. The Panel have concluded that our outcomes:

- Are both in the best interests of customers and are rooted in customers evidenced preferences
- Support our evidenced local customer priorities and willingness to pay into the Business Plan as much as possible
- Are satisfied that the company's Strategy is based on sound customer engagement consisting of some 50 studies. It aligns with the well-evidenced preferences of customers across its regions (Devon and Cornwall, Bristol and Bournemouth) and the statutory obligations that we have to meet
- Include two bespoke performance commitments, one on embodied greenhouse gas emissions and the other associated with catchment management, as they see clear evidence that these reflect customer priorities and would appropriately best hold us to account for delivering on these specifics
- Incorporates findings from customer research activities to inform incentive rate setting
- Is in the best interests of customers and reflects their clearly evidenced preferences.



For more information see
[Report on the PR24 business plan](#)

Assurance

Area	Board assurance requirements	How the Board considered this aspect of its assurance
Costs and outcomes	<p>That the board has challenged and satisfied itself that:</p> <ul style="list-style-type: none"> the performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure 	<ul style="list-style-type: none"> Development of outcomes in line with track record of prior delivery External technical assurance covering: <ul style="list-style-type: none"> Historical performance in line with previously assured data Forecast 2023/24 and 2024/25 performance in line with reasonability of forecasts 2025/26 performance in line with long-term delivery strategies

Our outcomes, performance commitments and outcome delivery incentives are grounded in what customers have told us and reflect their preferences for stretching levels of performance. Our internal governance and assurance framework, supplemented by the independent WaterShare+ Panel provides a robust and reliable approach to accurate and transparent reporting of our performance commitments, ODIs and projections of performance.

The Board has guided the development of the outcomes framework and ultimately approved it. The Board has challenged the outcomes and targets to ensure they are stretching but achievable given the proposed continuing improvements through our base plan and enhanced investment. It has assured itself that it would work in the interest of consumers, the region and the company. It is confident that the company will deliver on it.





For more information see [Data, information and assurance](#)

Ofwat's Quality and Ambition Assessment

This document is part of the overall business plan providing key information about our proposals and how it answers the quality and ambition expectations associated with the business plan incentive assessment.

The expectations relevant to this document are summarised in the table below. Whilst there are only three directly relevant outcomes expectations listed under the minimum expectations for the quality assessment, we have also considered the wider expectations that outcomes are impacted by.

Assessment	Test areas	Expectations	How we have met these
Quality	Data, information and assurance	The company provides sufficient and convincing evidence to demonstrate how its track record of performance, or lessons learnt from poor performance, support the credible delivery of the proposals in its plan.	 For each performance commitment (where applicable), we have included performance improvements plans. Further information on our AMP7 performance can be found in our Track Record for Delivery document.
Quality	Costs	The business plan sets out the benefits of the company's proposals, specifically: <ul style="list-style-type: none"> The impact on performance levels delivered through base for all performance commitments; 	 We have put forward performance commitment levels that are stretching for us and have tested this against wider industry performance where information is available. Most of our plan outcomes come from base expenditure, except for WRMP measures (such as leakage) and storm overflows.
Quality	Costs	<ul style="list-style-type: none"> The impact of enhancement expenditure on performance commitments for 2025-30 and the longer term (i.e. to at least 2050); and 	 For each performance commitment (where applicable), we have included the impact of enhancement expenditure (this is considered as part of our 'what base buys' analysis).
Quality	Costs	The business plan is consistent with the achievement of statutory requirements and relevant government targets.	 Our outcomes framework (our proposed performance commitments, incentives and performance commitment levels) is fully integrated with the investment and operational initiatives for the PR24 period; it will enable us to meet our legislative obligations throughout PR24 and beyond. For each performance commitment, we have highlighted any regulatory or statutory obligations and we have considered these as part of our target-setting process.
Quality	Outcomes	For ODI rates for common PCs the company uses: <ul style="list-style-type: none"> our view of indicative marginal benefits, or provides compelling evidence for any alternatives; and 	 We have proposed alternative marginal benefits – these are shown in data table OUT7. We have provided evidence within this document to justify our alternative ODI rates. The adoption of these rates are unequivocally necessary to ensure that the ODI framework is balanced, consistent with regulatory precedent and reflective of our customers' priorities.
Quality	Outcomes	<ul style="list-style-type: none"> our view of indicative benefit sharing factors, or alternatives supported by sufficient and convincing evidence consistent with the considerations we have set out in our final methodology. 	 Ofwat's approach to setting ODI rates was revised following the publication of the PR24 methodology. Ofwat's top-down incentives were determined using RORE insights. The marginal benefits, with the assumed benefit sharing factor, were then calculated after the incentive rates. We have applied the same approach to our top-down incentive rates; the marginal benefits and benefit sharing factor shown in data table OUT7.

Assessment	Test areas	Expectations	How we have met these
Quality	Outcomes	If the company's business plan includes bespoke performance commitments, the company sufficiently demonstrates how it has responded to any feedback we have provided on its bespoke performance commitment submission. The company should also provide complete, consistent and well-evidenced incentive rates for bespoke performance commitments, demonstrating how its proposals are consistent with our final methodology and any relevant guidance.	 We have included two bespoke performance commitments in our business plan; both of these were included in the early submission to Ofwat in April 2023. We were disappointed that Ofwat did not consider the long term benefits of “pay on delivery” outputs from a customer and community perspective where they deliver long-term benefits to water industry outcomes. We believe these options may have value in business plan calibration but we have removed these proposals as per Ofwat’s feedback.
Ambition	Stretch and efficiency	Evidence demonstrating that a stretching performance from base expenditure allowances will be delivered.	 The level of stretching performance from base expenditure allowances has been transparently set out in our plan, based on our own operational and delivery evidence and external analysis by Oxera, developing a service-cost relationship tool we presented as part of our “performance from enhancement and base” early submissions. This tool has been further considered in establishing appropriate stretch In performance from base expenditure (particularly for data table OUT2). For some performance commitments we have had to balance stretching performance from base expenditure allowances with the objective of a balanced ODI framework.

Appendix A1: Ofwat Feedback on Early Bespoke Performance Commitment Submission

On 23 February 2023 Ofwat published information notice (IN) 23/02 “Submission guidance for PR24 bespoke performance commitment definitions”. Within IN 23/02 Ofwat stated that companies should provide any proposed definitions for bespoke performance commitments by 14 April 2023 using the templates provided. On 14 April our submission included the following bespoke performance commitment proposals:

- Catchment management
- Community wetlands and ponds
- Surface water separation
- Smarter healthier homes – smart meters
- Smarter healthier homes – lead replacement
- Smarter healthier homes – smart water butts
- Sewer blockages
- Embodied greenhouse gas emissions
- Water available for use (WAFU)

On 9 June Ofwat provided its initial assessment of bespoke performance commitments. In summary, Ofwat considered that only one of the nine proposals we submitted – embodied greenhouse gas emissions – was potentially appropriate as a bespoke performance commitment.

Following the initial feedback, on 23 June 2023 we wrote to Ofwat regarding our proposed bespoke performance commitments. We said that we believed that the context of PR24 had shifted significantly since the original methodology was finalised. In particular, we stated that we appear not to have a clear approach to establishing the industry level of service that accompanies base levels of expenditure, and that a top down RCV allocation approach was now being taken to ODIs and goes part of the way towards our original suggestion, but has not allowed for the allocation to include a bespoke ODI element.

In our early submission we included supporting customer research for our view that customers want us to be able to manage uncertainty in the delivery of long term outcomes, by helping customers and communities to take steps through catchment management, community wetlands, surface water separation, meters, lead pipe replacement, preventing housing surface water run-off and sewer blockages. In the short term they may appear as regulatory outputs as activities, but from the customer and community perspective they are the outcomes that help us provide leadership in the communities we serve. This is an essential part of a least cost and best value adaptive pathway within our Long Term Delivery Strategy. It was not possible to include all relevant customer research at the time of this early submission, as some of our planned activities were taking place over the Spring and Summer of 2023.

We have summarised Ofwat's initial feedback and included our further reflections below.

Catchment management

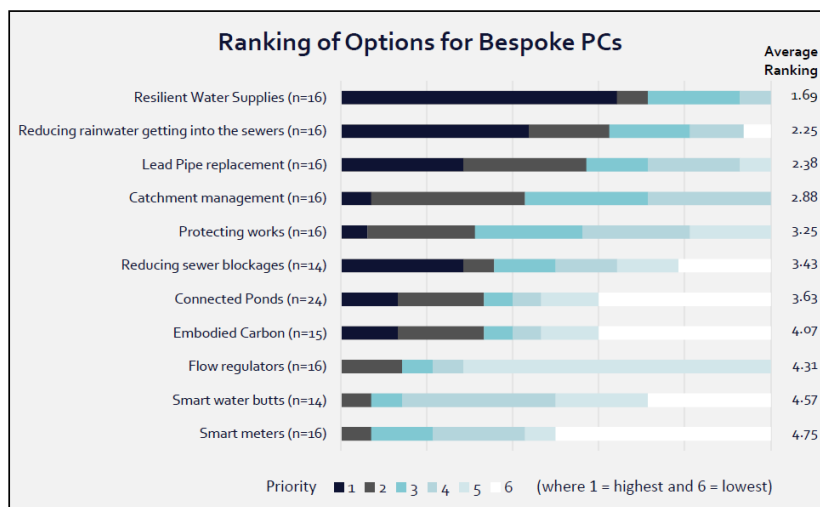
Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including biodiversity, operational greenhouse gas emissions and river water quality.

Ofwat also said that there are already incentives for a company to move away from end of pipe solutions and instead work with stakeholders to manage problems at source. Ofwat said that Catchment management as well as other nature-based solutions will also be supported by their emphasis on best value and by taking account of wider environmental and social benefits when assessing enhancement schemes as part of the WINEP.

We recognise Ofwat's concerns over the potential overlapping with other performance commitments. This performance commitment would not materially overlap with biodiversity, operational greenhouse gas emissions or river water quality, as it is based on discrete projects. Whilst our work on Upstream Thinking contributes to biodiversity improvements, the biodiversity units are a negligible by-product of this work. This should be included in our outcomes framework for the following reasons:

- A unique breadth of catchment management outcomes need to be captured in a single metric. Our catchment schemes cover multiple water quality and security of supply risks, with a new focus on catchment management for both clean and wastewater outcomes.
- The large scale reach of Upstream Thinking is a performance success. We have been pioneering this initiative, which has scaled up exponentially since its timely establishment in AMP5.
- The metric reflects both statutory obligations and our own strategic ambitions. Whilst investment is related to WINEP, a significant amount of this investment is also non-WINEP, therefore the use of a Catchment Management performance commitment enables a framework to formalise the outcomes from this delivery.
- It facilitates ongoing stakeholder relationships. This drives the real value of the Upstream Thinking partnership approach, sustaining long term investment in quality farm advice and guidance over successive AMPs through coherent programmes.

We included this bespoke performance commitment in our customer engagement activities in our qualitative and quantitative top-down incentives research. In the qualitative research, customers told us that they would like to see company activities focus on prevention of problems where possible and are open to new, non-traditional infrastructure ways of doing this, such as catchment management. They also told us that they believe a collective response across local agencies and water companies working with the community was a good way forward.



In the quantitative research, support for catchment management was higher than for unplanned outages, business demand and operational carbon emissions.

We have retained this bespoke performance commitment within our outcomes framework for PR24. This will only apply to the region of South West Water (not the region of Bristol Water).

Community wetlands and ponds

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including storm overflows and biodiversity, as well as our other proposed bespoke performance commitment on surface water separation.

Ofwat also said that this proposal featured in the accelerated infrastructure programme where Ofwat's draft decisions highlighted that there was no quantified need for investment (i.e. supply risk to customers to be addressed) nor evidence why this is the best option to support it. Ofwat considered that these schemes were likely to be addressed through water resource management plans (WRMP), drainage water management plans (DWMP) or WINEP programmes.

We have removed this bespoke performance commitment from our outcomes framework for PR24.

Surface water separation

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including storm overflows, sewer flooding, business demand and per capita consumption.

Ofwat also said that reducing the amount of water that enters sewers is part of the solution to reduce pollution and flooding incidents but that these schemes are likely to be addressed through the drainage water management plans (DWMPs).

We have removed this bespoke performance commitment from our outcomes framework for PR24.

Smarter healthier homes – smart meters

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including per capita consumption and leakage.

Ofwat said that whilst the installation of smart meters is not best addressed as a bespoke performance commitment, that it might be suitable for enhancement cost requests and tracked through a price control deliverable.

We have removed this bespoke performance commitment from our outcomes framework for PR24 but we have included smart metering within our price control deliverable proposals.

Smarter healthier homes – lead free (lead pipe replacement)

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, compliance risk index.

Ofwat said that whilst replacement of lead pipes is not best addressed as a bespoke performance commitment, that it might be suitable for enhancement cost requests and tracked through a price control deliverable.

We have removed this bespoke performance commitment from our outcomes framework for PR24 but we have included lead pipe removal within our price control deliverable proposals.

Smarter healthier homes – smart water butts

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including storm overflows and per capita consumption, as well as our other proposed bespoke performance commitment on surface water separation.

We have removed this bespoke performance commitment from our outcomes framework for PR24.

Sewer blockages

Ofwat said that there was insufficient evidence of benefits, that the measure was focused on the delivery of outputs rather than an outcome and that the measure overlaps in scope with other common performance commitments, including sewer flooding and pollution incidents.

We included this bespoke performance commitment in our customer engagement activities in our qualitative and quantitative top-down incentives research. In the April 2023 focus groups, customers told us that they felt that prevention is better than cure as they did not think constantly investing in the sewer system was a viable long-term solution.

We have removed this bespoke performance commitment from our outcomes framework for PR24.

Water available for use (WAFU)

Ofwat said that there was insufficient evidence of benefits and that the measure was focused on the delivery of outputs rather than an outcome. Ofwat also says that maintaining a resilient water supply is a fundamental duty of the licence operator and that this measure would duplicate the funding available for these schemes through the water resources management programme.

We have removed this bespoke performance commitment from our outcomes framework for PR24.

Embodied greenhouse gas emissions

In the initial assessment of bespoke performance commitments Ofwat said that it considered that this measure could be suitable for a bespoke performance commitment. On 30 June Ofwat confirmed its detailed assessment of potentially suitable bespoke performance commitments. On embodied greenhouse gas emissions, overall, Ofwat stated that definition should be more detailed and noted the following:

- that more details on the performance measure were needed
- that we referred to both 'embodied' and 'embedded' emissions interchangeably
- it would not be appropriate to measure the change in both -to-build and cradle-to-gate measures against a 2024-25 baseline and that we should instead define one metric for the measure
- we should define the terms and the activities we include in the PC definition, using one of the widely recognised frameworks, such as PAS2080, to align to best practice industry standards.
- we should make it clear in our business plan how the emissions reductions incentivised by the performance commitment will contribute to government and company targets on net zero
- whilst the implementation of our Capital Carbon Tool was acceptable, that we provide more clarity within the definition on how the bespoke metric will be based on a hybrid approach between data from the Capital Carbon Tool and spent data.
- whilst it was acceptable that the definition excluded GHG emissions beyond the build phase, i.e. emissions under the cradle-to-grave approach, that we should also reference to one of the widely recognised frameworks, such as PAS2080
- Unless we have compelling reasons why it should be outperformance payments only, that Ofwat expect that it will have out and underperformance payments
- We need to be clearer regarding the price control allocation and whether this applies to water, wastewater or both.

We have retained this bespoke performance commitment within our outcomes framework for PR24. This will only apply to the region of South West Water (not the region of Bristol Water). This will apply to water and wastewater based on how data is currently recorded, reflecting a 50:50 price control allocation.

The framework used for cradle to gate and cradle to build activities will be PAS2080. This framework looks at the whole value chain, aiming to reduce carbon and reduce cost through more intelligent design, construction and use.

This performance commitment is designed to incentivise South West Water to reduce embodied carbon emission associated with our capital investment programme during Asset Management Period 8 (AMP 8). By implementing sustainable practices and adopting low-carbon technologies to minimise the carbon footprint of projects while ensuring efficient delivery of essential water and wastewater services.

There are several ways to approach reporting for this novel metric:

- **Supplier-specific method** – collects product level cradle to gate GHG inventory data from goods or services suppliers
- **Hybrid method** – uses a combination of supplier specific activity data (where available) and secondary data to fill the gaps. The method involves:
 - Collecting allocated scope 1 and scope 2 emissions data directly from suppliers

- Calculating upstream emissions of goods and services from suppliers' activity data on the amount of material, fuel, electricity used, distance transported, and waste generated from the production of goods and services and applying appropriate emissions factors and
- Using secondary data to calculate upstream emissions wherever supplier specific data is not available.
- **Average-data method** – estimates emissions for goods and services by collecting data on the mass (e.g., kilograms or pounds) or other relevant units of goods or services purchased and multiplying by the relevant secondary (e.g., industry average) emissions factors (e.g., average emissions per unit of good or service).
- **Spend-based method** – estimated emissions for goods and services by collecting data on the economic value of goods and services purchased and multiplying it by the relevant secondary (e.g., industry average) emissions factors (e.g., average emissions per monetary value of goods).

Due to the limited data that is available there was only one option available and that is the '**Spend-based method**'. The limited data is impacted by the low level of supplier activity data, the low level of actual usage data, including materials, and the fact that the Carbon Accounting Tool is in its infancy and therefore, is untested. However, to be able to develop a performance commitment, the 'Spend-based method' needs to be extended further to be able to track year on year performance. Therefore, we have adopted the approach of 'tonnes carbon per £1M'. A key benefit of this approach is that this builds upon and continues to align with the CEDA (the Comprehensive Environmental Data Archive) carbon conversation factor used as part of the Pennon annual performance reporting.

Appendix A2: Outcomes Framework Summary

The tables below summarise the outcomes framework for the regions of SWB and BRL each performance commitment is shown based on the PR24 methodology and as per our proposed alternatives. This is intended to be as transparent as possible and highlight to Ofwat where further calibrations at the draft determinations could have wider implications for our overall risk and return proposals. We would therefore caution Ofwat from a 'pick and mix' approach to any such calibrations, but we have offered further proposals, such as dynamic incentives and triangulated bottom-up valuations that may further benefit the ODIs in the round.

SWB (excluding C-MeX, D-MeX and BR-MeX)												
Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Internal sewer flooding	Initial designs	Number per 10,000 sewer connections	0.80	0.80	NA	NA	NA	NA	70%	4.874	3.412	6.82
Internal sewer flooding	Our Business Plan proposal	Number per 10,000 sewer connections	0.80	0.80	NA	NA	NA	NA	70%	1.776	1.243	2.486
External sewer flooding	Initial designs	Number per 10,000 sewer connections	14.09	12.36	NA	NA	NA	NA	70%	2.182	1.53	3.055
External sewer flooding	Our Business Plan proposal	Number per 10,000 sewer connections	14.09	12.36	0.5% RORE	NA	NA	NA	70%	0.832	0.582	1.165
Bathing water quality	Initial designs	% (weighted score for excellent, good, sufficient and poor)	93.5	89.7	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	12.025	8.417	-
Bathing water quality	Our Business Plan proposal	% (weighted score for excellent, good, sufficient and poor)	93.5	89.7	-3% below target	NA	NA	+3% below target	70%	7.540	5.278	-
Customer contacts about water quality	Initial designs	Customer contacts per 1,000 population	1.33	0.87	NA	NA	NA	NA	70%	9.017	6.312	-
Customer contacts about water quality	Our Business Plan proposal	Customer contacts per 1,000 population	1.33	0.87	NA	NA	NA	NA	70%	2.549	1.784	-
Compliance risk index	Initial designs	Numerical CRI score	2.00	0.00	NA	0.50	NA	NA	70%	0.897	0.628	-
Compliance risk index	Our Business Plan proposal	Numerical CRI score	2.00	0.00	9.50	1.50	NA	NA	70%	0.414	0.290	-

SWB (excluding C-MeX, D-MeX and BR-MeX)

Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Water supply interruptions	Initial designs	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00	Set collar at a high level	NA	NA	NA	70%	0.928	0.650	1.300
Water supply interruptions	Our Business Plan proposal	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00	00:22:45	+3 minutes above target	NA	NA	70%	0.301	0.211	0.421
Mains repairs	Initial designs	Number per 1,000 kilometers of mains	131.6	130.0	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.25% RORE	70%	0.231	0.162	-
Mains repairs	Our Business Plan proposal	Number per 1,000 kilometers of mains	131.6	130.0	0.3% RORE	+10 above target	-10 below target	0.3% RORE	70%	0.108	0.076	-
Unplanned outage	Initial designs	% (as of peak capacity)	1.20	3.00	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.25% RORE	70%	1.587	1.111	-
Unplanned outage	Our Business Plan proposal	% (as of peak capacity)	1.20	3.00	0.24% RORE	+1% above target	-1% below target	0.10% RORE	70%	0.582	0.408	-
Sewer collapses	Initial designs	Number per 1,000 kilometers of sewer network	10.50	9.96	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.25% RORE	70%	0.712	0.498	-
Sewer collapses	Our Business Plan proposal	Number per 1,000 kilometers of sewer network	10.50	9.96	0.44% RORE	NA	NA	0.24% RORE	70%	0.307	0.215	-
Total pollution incidents	Initial designs	Number (categories 1 to 3 – wastewater only) per 10,000 km of sewer length	25.80 (or 19.54 on new sewer length)	19.54	NA	NA	NA	NA	70%	0.740	0.518	1.036
Total pollution incidents	Our Business Plan proposal	Number (categories 1 to 3 – wastewater only)	45	45	NA	NA	NA	NA	70%	0.250	0.175	0.349

SWB (excluding C-MeX, D-MeX and BR-MeX)

Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Serious pollution incidents	Initial designs	Number (categories 1 and 2 from sewerage or water assets)	2	0	NA	NA	NA	NA	70%	1.626	1.138	-
Serious pollution incidents	Our Business Plan proposal	Number (categories 1 and 2 from sewerage or water assets)	2	0	0.6% RORE	+2 above target	NA	NA	70%	1.007	0.705	
Discharge permit compliance	Initial designs	% treatment work compliance	99.01	100.00	NA	NA	NA	NA	70%	3.546	2.482	-
Discharge permit compliance	Our Business Plan proposal	% treatment work compliance	99.01	100.00	NA	-1% below target	NA	NA	70%	1.787	1.251	
Storm overflows	Initial designs	Average number of spills per overflow	20.00	17.50	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	1.240	0.868	-
Storm overflows	Our Business Plan proposal	Average number of spills per overflow	20.00	17.50	0.3% RORE	Equal to 24/25baseline	NA	0.3% RORE	70%	0.437	0.306	
Leakage (three-year average)	Initial designs	Megalitres per day (Ml/d)	105.6	85.9	NA	NA	NA	Enhanced cap equivalent to 1.0% RORE	70%	0.521	0.365	0.730
Leakage (three-year average)	Our Business Plan proposal	Megalitres per day (Ml/d)	105.6	85.9	0.4% RORE	NA	NA	Enhanced cap at 0.6% RORE	70%	0.220	0.154	0.308
Per Capita Consumption (three-year average)	Initial designs	Litres/ person/ day (l/p/d)	149.0	135.9	NA	NA	NA	Enhanced cap equivalent to 1.0% RORE	70%	1.296	0.907	1.814
Per Capita Consumption (three-year average)	Our Business Plan proposal	Litres/ person/ day (l/p/d)	149.0	135.9	0.5% RORE	NA	NA	Enhanced cap at 0.27% RORE	70%	0.299	0.209	0.418
Business demand (three-year average)	Initial designs	Megalitres per day (Ml/d)	161.5	157.4	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	0.521	0.365	-

SWB (excluding C-MeX, D-MeX and BR-MeX)

Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Business demand (three-year average)	Our Business Plan proposal	Megalitres per day (Ml/d)	161.5	157.4	0.06% RORE	NA	NA	0.03% RORE	70%	0.120	0.084	-
River water quality	Initial designs	Kilogrammes (kg) of phosphorus	52,622	190,183	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	0.000944	0.000661	-
River water quality	Our Business Plan proposal	Kilogrammes (kg) of phosphorus	52,622	190,183	0.15% RORE	NA	NA	0.15% RORE	70%	0.000479	0.000335	-
Biodiversity	Initial designs	Biodiversity units per 100km ² of land in the company's area	0.00	2.44	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	To be confirmed at draft determinations	To be confirmed at draft determinations	To be confirmed at draft determinations	-
Biodiversity	Our Business Plan proposal	Biodiversity units per 100km ² of land in the company's area	0.00	2.44	0.4% RORE	NA	NA	0.4% RORE	70%	1.867	1.307	-
Operational greenhouse gas emissions (water)	Initial designs	Tonnes CO2e	67,329	70,045	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	To be confirmed at draft determinations	To be confirmed at draft determinations	To be confirmed at draft determinations	-
Operational greenhouse gas emissions (water)	Our Business Plan proposal	Tonnes CO2e	67,329	70,045	0.2% RORE	NA	NA	0.2% RORE	70%	0.000584	0.000409	-
Operational greenhouse gas emissions (wastewater)	Initial designs	Tonnes CO2e	83,752	89,562	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	To be confirmed at draft determinations	To be confirmed at draft determinations	To be confirmed at draft determinations	-
Operational greenhouse gas emissions (wastewater)	Our Business Plan proposal	Tonnes CO2e	83,752	89,562	0.3% RORE	NA	NA	0.3% RORE	70%	0.000817	0.000572	-
Embodied greenhouse gas emissions (bespoke)	Initial designs	Tonnes CO2e per £1m	385	347	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	To be confirmed at draft determinations	To be confirmed at draft determinations	-

SWB (excluding C-MeX, D-MeX and BR-MeX)

Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Embodied greenhouse gas emissions (bespoke)	Our Business Plan proposal	Tonnes CO2e per £1m	385	347	0.05% RORE	NA	NA	0.05% RORE	70%	0.179	0.125	-
Catchment management (bespoke)	Initial designs	Hectares of 'Upstream Thinking' project interventions	134,000	146,500	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	To be confirmed at draft determinations	To be confirmed at draft determinations	-
Catchment management (bespoke)	Our Business Plan proposal	Hectares of 'Upstream Thinking' project interventions	134,000	146,500	0.25% RORE	NA	NA	0.25% RORE	70%	0.000291	0.000204	-

BRL (excluding C-MeX, D-MeX and BR-MeX)

Performance Commitment (PC)	Initial ODI designs vs Our Business Plan proposal	Unit	2024/25 baseline	2029/30 target	Collar	Deadband	Deadband	Cap	Benefit sharing factor (%)	Marginal benefit (£m)	Outcome Delivery Incentive (standard) (£m)	Outcome Delivery Incentive (enhanced) (£m)
					Under-performance	Under-performance	Out-performance	Out-performance				
Customer contacts about water quality	Initial designs	Customer contacts per 1,000 population	0.83	0.82	NA	NA	NA	NA	70%	4.577	3.204	-
Customer contacts about water quality	Our Business Plan proposal	Customer contacts per 1,000 population	0.83	0.82	NA	NA	NA	NA	70%	1.294	0.906	-
Compliance risk index	Initial designs	Numerical CRI score	4.71	0.00	NA	0.50	NA	NA	70%	0.455	0.319	-
Compliance risk index	Our Business Plan proposal	Numerical CRI score	4.71	0.00	9.50	1.50	NA	NA	70%	0.210	0.147	-
Water supply interruptions	Initial designs	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00	Set collar at a high level	NA	NA	NA	70%	0.474	0.332	0.663
Water supply interruptions	Our Business Plan proposal	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00	00:22:45	+3 minutes above target	NA	NA	70%	0.154	0.108	0.215
Mains repairs	Initial designs	Number per 1,000 kilometers of mains	130.7	128.2	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.25% RORE	70%	0.087	0.061	-
Mains repairs	Our Business Plan proposal	Number per 1,000 kilometers of mains	130.7	128.2	0.36% RORE	+10 above target	-10 below target	0.35% RORE	70%	0.040	0.028	-
Unplanned outage	Initial designs	% (as of peak capacity)	2.34	3.00	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.25% RORE	70%	0.927	0.649	-
Unplanned outage	Our Business Plan proposal	% (as of peak capacity)	2.34	3.00	0.4% RORE	+1% above target	-1% below target	0.17% RORE	70%	0.340	0.238	-
Serious pollution incidents	Initial designs	Number (categories 1 and 2 from sewerage or water assets)	0	0	NA	NA	NA	NA	70%	1.948	1.363	-
Serious pollution incidents	Our Business Plan proposal	Number (categories 1 and 2 from sewerage or water assets)	0	0	2.2% RORE	+2 above target	NA	NA	70%	1.116	0.781	-

BRL (excluding C-MeX, D-MeX and BR-MeX)

Discharge permit compliance	Initial designs	% treatment work compliance	100.00	100.00	NA	NA	NA	NA	70%	0.126	0.088	-
Discharge permit compliance	Our Business Plan proposal	% treatment work compliance	100.00	100.00	NA	-6.7% below target	NA	NA	70%	0.063	0.044	-
Leakage (three-year average)	Initial designs	Megalitres per day (Ml/d)	34.7	29.9	NA	NA	NA	Enhanced cap equivalent to 1.0% RORE	70%	0.521	0.365	0.730
Leakage (three-year average)	Our Business Plan proposal	Megalitres per day (Ml/d)	34.7	29.9	0.45% RORE	NA	NA	Enhanced cap at 0.3% RORE	70%	0.220	0.154	0.308
Per Capita Consumption (three-year average)	Initial designs	Litres/ person/ day (l/p/d)	151.9	142.4	NA	NA	NA	Enhanced cap equivalent to 1.0% RORE	70%	0.616	0.431	0.862
Per Capita Consumption (three-year average)	Our Business Plan proposal	Litres/ person/ day (l/p/d)	151.9	142.4	0.26% RORE	NA	NA	Enhanced cap at 0.2% RORE	70%	0.142	0.099	0.199
Business demand (three-year average)	Initial designs	Megalitres per day (Ml/d)	57.5	57.8	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	70%	0.521	0.365	-
Business demand (three-year average)	Our Business Plan proposal	Megalitres per day (Ml/d)	57.5	57.8	0.07% RORE	NA	NA	0.07% RORE	70%	0.120	0.084	-
Biodiversity	Initial designs	Biodiversity units per 100km ² of land in the company's area	0.00	2.12	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	To be confirmed at draft determinations	To be confirmed at draft determinations	To be confirmed at draft determinations	-
Biodiversity	Our Business Plan proposal	Biodiversity units per 100km ² of land in the company's area	0.00	2.12	0.16% RORE	NA	NA	0.16% RORE	70%	0.303	0.212	-
Operational greenhouse gas emissions (water)	Initial designs	Tonnes CO2e	30,651	29,689	Equivalent to 0.5% RORE	NA	NA	Equivalent to 0.5% RORE	To be confirmed at draft determinations	To be confirmed at draft determinations	To be confirmed at draft determinations	-

BRL (excluding C-MeX, D-MeX and BR-MeX)

Operational greenhouse gas emissions (water)	Our Business Plan proposal	Tonnes CO2e	30,651	29,689	0.18% RORE	NA	NA	0.18% RORE	70%	0.000466	0.000326	-
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Appendix A3: Summary of What Base Buys Analysis

Building on Ofwat's proposed approach, we commissioned Oxera to examine trends in individual PCs for the industry (on a weighted average basis) and for the upper quartile cost benchmark companies.⁴⁰ The summary results are stated in the tables below.

Benchmark company results (industry)	Common / company specific PCL	Performance improvement trend	2025 Target aligned with historical trend	Ofwat view of base/ enhancement	Company view of base/ enhancement	Description	2024/25	2029/30
Water		(yes / no)	(yes / no)	(B) / (B+E)	(B) / (B+E)			
Leakage	Specific	yes	no	B+E	B+E	litres per km of main per day	7.80	6.69
<i>Above, without enhancement</i>		yes	no	B	B	litres per km of main per day	7.80	7.18
Mains repairs	Specific	yes	no	B	B+E	repairs per 1,000 km of main	141	139
<i>Above, without enhancement (sensitivity)</i>		no	no		B	repairs per 1,000 km of main	141	148
Per capita Consumption (PCC)	Specific	no	no	B+E	B+E	litres per head per day	143	144
<i>Above, without enhancement</i>		no	no	B	B	litres per head per day	152	155
Business Demand (not normalised)	Specific	yes	N/A	B	B	megalitres/day	424	419
<i>Above, with suggested normalisation</i>		yes	N/A	B	B	megalitres/day per 10,000 business connections	1893	1871
Water Supply Interruptions	Common	no	no	B+E	B+E	minutes per property per year	5.00	5.37
<i>Above, without enhancement (sensitivity)</i>		no	no	B	B	minutes per property per year	5.00	14.97
Unplanned outages	Common	yes	yes	B	B	outages as % of peak capacity	2.34	1.40
Water quality contacts (PR19 definition)	Common	yes	yes (for company specific, historic PCL) no (new common proxy PCL suggested)	B+E	B+E	contacts per 1,000 population	0.95	0.53
<i>Above, without enhancement</i>		no	no	B	B	contacts per 1,000 population	3.21	3.40
Waste								
Sewer collapses	Specific	yes	yes	B+E	B+E	sewer collapses/1000km of mains	8.19	5.50
Bathing water quality	Specific	no	no	E		Average score per site	87.4	87.4
Storm overflows	Specific	yes	yes	B	B+E	Adjusted spills per overflow	18.6	9.3
<i>Above, without enhancement (assumption-based sens.)</i>		yes	no		B	Adjusted spills per overflow	18.6	16.3
Pollution Incidents	Common	yes	no	B	B+E	Incidents per 10,000 sewer connections	19.5	13.9

⁴⁰ Ofwat (2021) Assessing base costs at PR24, page 69 and Ofwat (2023) Creating tomorrow, together: Our final methodology for PR24. Appendix 9 – Setting expenditure allowances

Benchmark company results (industry)	Common / company specific PCL	Performance improvement trend	2025 Target aligned with historical trend	Ofwat view of base/ enhancement	Company view of base/ enhancement	Description	2024/25	2029/30
<i>Above, without enhancement (sensitivity)</i>		yes	no		B	<i>Incidents per 10,000 sewer connections</i>	19.5	14.7
Internal Sewer Flooding	Common	yes	no	B+E	B+E	<i>incidents per 10,000 properties</i>	1.34	0.39
<i>Above, without enhancement</i>		no	no	<i>(in Base models)</i>	B	<i>incidents per 10,000 properties</i>	1.34	1.60
External Sewer Flooding	Common	yes	N/A	B+E	B+E	<i>incidents per 10,000 properties</i>	14.2	11.4
<i>Above, without enhancement</i>		yes	N/A	<i>(in Base models)</i>	B	<i>incidents per 10,000 properties</i>	14.2	11.8

Benchmark company results (upper quartile cost benchmark companies)	Common / company specific	Performance improvement trend	2025 Target aligned with historical trend	Ofwat view	Company view	Description	2024/25	2029/30
Water		(yes / no)	(yes / no)	(B) / (B+E)	(B) / (B+E)			
Data available								
Leakage	Specific	yes	yes	B+E	B+E	litres per km of main per day	7.43	5.55
<i>Above, without enhancement</i>		yes	no	B	B	litres per km of main per day	7.43	6.50
Mains repairs	Specific	yes	yes	B	B+E	repairs per 1,000 km of main	129	122
<i>Above, without enhancement (sensitivity)</i>		yes	no		B	repairs per 1,000 km of main	129	129
Per capita Consumption (PCC)	Specific	no	no	B+E	B+E	litres per head per day	148	135
<i>Above, without enhancement</i>		no	no	B	B	litres per head per day	148	135
Business Demand (not normalised)	Specific	no	N/A	B	B	megalitres/day	407	400
<i>Above, with suggested normalisation</i>		no	N/A	B	B	megalitres/day per 10,000 business connections	2012	2038
Water Supply Interruptions	Common	yes	yes	B+E	B+E	minutes per property per year	5.00	2.82
<i>Above, without enhancement (sensitivity)</i>		yes	no	B	B	minutes per property per year	8.11	4.07
Unplanned outages	Common	yes	yes	B	B	outages as % of peak capacity	2.34	1.80
Water quality contacts (PR19 definition)	Common	yes	yes (for company specific, historic PCL) no (new common proxy PCL suggested)	B+E	B+E	contacts per 1,000 population	0.79	0.50
<i>Above, without enhancement</i>		yes	no	B	B	contacts per 1,000 population	2.46	2.09
Waste								
Data available								
Sewer collapses	Specific	yes	yes	B+E	B+E	sewer collapses/1000km of mains	7.66	6.71
Bathing water quality	Specific	no	no	E		Average score per site	87.4	87.4
Storm overflows	Specific	yes	yes	B	B+E	Adjusted spills per overflow	11.9	4.8
<i>Above, without enhancement (assumption-based sens.)</i>		yes	yes		B	Adjusted spills per overflow	11.9	2.5
Pollution Incidents	Common	yes	yes	B	B+E	Incidents per 10,000 sewer connections	19.5	14.7
<i>Above, without enhancement (sensitivity)</i>		yes	no		B	Incidents per 10,000 sewer connections	19.5	15.0
Internal Sewer Flooding	Common	yes	no	B+E	B+E	incidents per 10,000 properties	1.34	0.80
<i>Above, without enhancement</i>		no	no	(in Base models)	B	incidents per 10,000 properties	1.34	1.73
External Sewer Flooding	Common	yes	N/A	B+E	B+E	incidents per 10,000 properties	14.0	11.9
<i>Above, without enhancement</i>		yes	N/A	(in Base models)	B	incidents per 10,000 properties	14.0	10.2

Appendix A4: Balancing risk and reward: P10 and P90

To assess the impact of our incentives we have looked at the performance commitment sensitivity based on a high and low probability of events occurring. This is based on a realistic assessment of the range of outturn levels of performance we can expect to see.

Our estimates consider historical performance, a forward-looking assessment of the risk to performance from natural variations in external factors (e.g. weather, third party damage, etc.) and a further calibration overlaid with an assessment of where we believe we can target further cost efficiencies and improve performance further, economically and efficiently.

We have, in addition, considered our customers' preferred overall risk package level, by referring to our ODI customer research.

Given customers tell us that optimal incentives are in the range 1%-3%, we believe our incentives reflect what customers want.

We then also considered the P10 and P90 ranges included in Ofwat's top-down approach to setting incentives. We did however disagree with Ofwat's P10 and P90 ranges for the following reasons:

- Ofwat's approach is notional, rather than company-specific
- Ofwat's approach sets risk by looking backwards but this approach does not consider that as performance improves (particularly if from base rather than enhancement), then the asymmetry of risk may well increase
- Ofwat's approach is mechanical, whereas we also consider expert judgement in the calibration
- Ofwat used selective and inconsistent performance data ranges, whereas we have considered performance as far back as 2011-12.

Despite these disagreements, we have considered Ofwat's statistical modelling alongside our Monte Carlo analysis to establish an improved understanding of the risk distribution for the South West and Bristol. We have therefore checked our assumptions against Ofwat's, as a cross-check to ensure our probability levels are realistic. Given that the P10 or P90 values for each performance commitment are highly likely to all occur together, we have used Monte Carlo simulation methods to estimate the confidence intervals around under and outperformance payments. This analysis is explored further in our Risk and Return supporting document.

South West (example) Performance Commitment	Ofwat		Our view	
	P10	P90	P10	P90
Compliance Risk Index	6.54	0.27	6.54	0.8
Supply interruptions	11.083	2.433	13.67	3.2
WQ contacts	1.18	0.27	1.28	0.6
Mains repairs	144.2	100.6	163	106
Unplanned outage	2.67	0.57	4	0.57
Pollutions	24.78	11.48	61.93	15.2
Serious pollution incidents	3	2	8	2
Discharge permit compliance	97.47	99.75	97.47	99.5
Internal flooding	2.61	0.98	2.25	0.6
External flooding	16.61	11.81	19.49	10.04
Sewer collapses	19.5	6.02	12.8	6.02
Storm overflows	27.75	12.25	24.2	17
Leakage	110.5	102.7	112.2	83.4
PCC	143.3	133.2	154	139
Business demand	161.87	150.46	163.3	150.46
Bathing water quality	89	95.5	83	93

Appendix A5: Professional credentials of third parties

ICS Consulting

ICS Consulting was established in 2000 and specialises in providing consultancy and support services to infrastructure businesses and regulators in the UK, Europe and Middle East.

Their expertise covers:

- Customer and stakeholder engagement
- Regulatory economics, covering policy analysis and development
- Economics analysis, including assessing monetary benefits of investment and cost-benefit analysis
- Investment appraisal and optimisation, covering the design and implementation of bespoke asset management systems.

ICS is highly experienced in all aspects of the regulatory and business planning processes in the water industry and supports a number of key periodic review activities, namely:

- Customer research (priorities, willingness to pay, acceptability testing)
- Regulatory analyses (outcomes and incentives design, tariff formulation)
- Investment optimisation and business plan development (cost benefit analyses, scenario planning, business case development)
- Risk assessment (risk appraisal and assessment).

eftec

eftec was established in 1992 and is a leading environmental economics consultancy across the UK and Europe. Services are provided in four key areas:

- Economic valuation – primary research using revealed preference and stated preference methods and value transfer methods
- Policy and project appraisal – cost benefit analysis, cost effectiveness analysis, impact assessment
- Design and evaluation of policy instruments – taxes, tradable permits, voluntary agreements, payments for ecosystem services
- Training and guidance –providing bespoke training course and guidance handbooks for students, economists and non-economists in public and private sectors.

eftec are experts in:

- Understanding and practical application of all valuation methods (stated preference methods, revealed preference methods, value transfer)
- Design, implementation and analysis of stated preference methods)
- Value transfer studies, helping water companies maximise the use of the academic and government literature, particularly around environmental improvements and including the inter-generational valuation of resources
- Expertise in undertaking cost-benefit analysis (CBA) of water industry investment programmes
- Expertise in providing training to water industry clients to assist staff in understanding the application and use of valuation methods and CBA
- Support to water industry clients in engaging with external stakeholders
- Application of natural capital accounting methods in the water sector.

Oxera

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Professor Ken Willis

Professor Ken Willis is Emeritus Professor of Economics of the Environment at Newcastle University. He is also Director for the Centre for Research in Environmental Appraisal & Management; and Editor of the Journal of Environmental Planning and Management.

He is one of the prominent economists in the world in environmental and customer valuation methods. His research interests include environmental benefit estimation techniques such as travel-cost models, hedonic price models, contingent valuation methods, stated preference or choice experiment methods, and contingent ranking techniques.

He has directed and worked on dozens of contingent valuation studies with both academic and commercial applications. This has included stated preference choice experiment) studies which have covered a wide variety of issues from air pollution, bathing water, biodiversity, conservation areas, cultural heritage, earthquake risk mitigation, electricity supply interruptions, environmentally sensitive areas, fishing, forests, green belts, historic buildings, recreation values of waterbodies, landscape, low flow alleviation in rivers, property attributes, quarries, SSSI, traffic calming schemes, utility networks, waiting time for social housing, waste disposal, water quality, and wildlife preservation.

Professor Ken Willis has applied his extensive knowledge in the UK and worldwide. He has a successful track record in supporting water companies' customer valuation programmes since PR04.