

April 2025

PR24 redeterminations

Outcomes – common issues

Executive summary

This document sets out Ofwat's response to the common issues raised by the disputing companies in relation to the outcomes framework. Outcomes issues which are specific to individual companies are addressed in the respective company-specific documents.¹

The outcomes framework – including performance commitments and outcome delivery incentives (ODIs) – is an essential part of our regulatory toolkit. It provides a clear link between company performance and financial returns, aligning "the interests of companies and their investors with the interests of customers and the needs of the environment".² The outcomes framework creates stronger incentives for companies to deliver better performance over time to the benefit of customers and the environment. Without such a regime in place, there would be a significant risk that companies focus on maximising profits by reducing costs in ways that undermine service quality.

PR24 builds on the approach developed in PR19, carefully balancing our drive for simplification with the need to conduct our regulatory responsibilities effectively and act in accordance with our statutory duties. We set performance commitment levels which are grounded in company and sector evidence, tied to financial incentives, and supported by appropriate risk protections. Our final determinations are intended to be stretching yet achievable for companies, to deliver improved levels of service across the 2025-30 period. This is an ambitious package – including, for example, a 17% reduction in leakage and a 27% reduction in internal sewer flooding – but one we consider within the reach of a well-performing company.³

At PR24 we focused on:

- 24 common performance commitments, which reflect outcomes most important to customers and the environment;
- reducing the number of bespoke performance commitments, from 19 proposals submitted by companies to a final set of seven;
- metrics suitable for financial incentives, while setting appropriate risk protections; and
- using performance commitments levels to drive outcomes, and price control deliverables (PCDs) to track outputs.

¹ We have identified common themes from the disputing companies' statements of cases for Anglian Water, Southern Water and South East Water (in the case of Northumbrian Water, we identified a theme specifically relating to our approach to exclusions). For the company-specific documents, please see Ofwat, PR24 redeterminations – response to Anglian Water's statement of case; Ofwat, PR24 redeterminations – response to Southern Water's statement of case; Ofwat, PR24 redeterminations – response to South East Water's statement of case; Ofwat, PR24 redeterminations – response to Northumbrian Water's statement of case

² [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.3

³ [OF-OA-011] Ofwat, PR24 final determinations: Our final determinations for the 2024 price review – Sector summary, December 2024 (republished 11 April 2025) pp.18-23 (ss.3-5)

Considered in the round, our final determinations deliver a well-balanced outcomes package. Through iterative adjustments to PCLs, ODI rates and risk protections, we produced an outcomes package that balances this risk from outcomes for the median efficient company. We estimate that the expected payment from the outcomes package is -0.20% ⁴ appointee RoRE for the median efficient company with a notional capital structure.^{5 6}

[REDACTED]

The outcomes framework is integral to the balance of the overall PR24 package, particularly given its interdependencies with the cost assessment and risk and return policy areas. We note that, relative to the other areas in the PR24 overall package, the disputing companies have raised limited comments, mostly related to issues that have already been discussed during the consultation process leading up to the PR24 final determinations. The following sections provide our response to the common issues raised by the disputing companies, where the vast majority of arguments have already been considered as part of our previous determinations processes rather than being new.

We stand by our PR24 determinations. We do not consider the recommendations in the companies' statements of case to better serve the interests of customers and the environment than our final determinations. However, there are some exceptions: given the PR19 claw-back mechanism for Anglian Water on leakage, we consider the PCL for leakage should be updated when the 2024-25 assured data is available. We have previously discussed this with Anglian Water through the query process. We discuss this in more detail in the PR24 redeterminations – response to Anglian Water's statement of case.⁸ We also committed to reviewing the total pollution incidents performance commitment level outside of the redetermination process (see section 6 of this document).⁹

Table 1 summarises our assessment of the common issues raised by the disputing companies. We consider each theme in more detail in turn in the sections below.

⁴ As explained in paragraph 5.5, section 5 of this document, subsequent checks conducted as part of the redetermination process indicate a value of -0.26% , a movement of 0.05% from the unrounded value of 0.21% at for final determinations.

⁵ [OF-OU-001] Ofwat, PR24 FD OC25 Monte Carlo RoRE Payments model, December 2024, 'P10 P90 by company', cells H51:I67

⁶ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p. 2

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⁸ Ofwat, PR24 redeterminations – response to Anglian Water's statement of case, April 2025, s.4

⁹ [OF-OA-017], Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.180 (s.11.6)

Table 1: Ofwat's response to companies' statements of case in relation to the outcomes framework – common themes¹⁰

Theme	Company	Companies' proposed changes to FD	Our response	Rationale
Approach to setting common PCLs – water supply interruptions (section 2)	Anglian Water, Southern Water, South East Water	Companies are proposing less stretching PCLs on water supply interruptions than the PR24 level of 5 minutes	We consider that there is no compelling evidence to set less stretching PCLs for the disputing companies	This is a performance commitment where we consider the sector needs to prioritise improvements for customers in the short term as well as the long term given its high importance to customers. Setting less stretching PCLs would incentivise these companies to deliver lower levels of performance for customers in terms of more or longer water supply interruptions
Approach to setting common PCLs – pollution incidents (section 2)	Anglian Water, Southern Water	Companies are proposing less stretching PCLs on total pollution incidents	We consider there is no compelling evidence to set less stretching PCLs for poorer performing companies' regions	These companies are poor performers for total pollution incidents and they need to improve their performance. Less stretching PCLs would incentivise companies to greater number of total pollution incidents compared to our final determinations
Calibration of ODI rates and risk protections (section 3)	Anglian Water, Southern Water, South East Water	Our approach to setting ODI rates leads – companies argue – to an excessive downside risk that does not reflect individual customers' preferences. Companies propose introducing tighter caps and collars	There is no compelling evidence to justify a change to the ODI rates or risk protections from our final determinations	Our ODI rates are stronger at PR24 than at PR19, which is consistent with our ambitions for the outcomes regime at PR24 to incentivise better performance for customers and the environment in return for the expected increase in customer bills. Introducing tighter caps and collars than our final determinations would overly restrict the performance ranges within which incentives apply. Our caps and collars are calibrated at a level that would be met infrequently and therefore maintain incentives whilst protecting against excessive payments Overall, we consider that our ODI rates and risk protections at final determinations result in a balanced PR24 incentives package
Approach to exclusions (section 4)	Anglian Water, Southern Water, South East Water,	(1) Impact of extreme weather should be excluded from the	We do not consider that it is appropriate to have general exclusions for exogenous factors, or to	Companies are best placed to manage risks, otherwise they are transferred to customers. We have accounted for companies' concerns through setting company specific PCLs for certain performance commitments, applying risk

¹⁰ This table summarises our response (and rationale) to the common issues raised by the disputing companies. Outcomes which are unique to a specific company are set out in the respective company specific documents

	Northumbrian Water	<p>PCL for water supply interruptions.</p> <p>(2) Changes should be applied to PCLs, ODIs and risk protections to account for external factors for water supply interruptions, total pollution incidents, serious pollution incidents and storm overflows</p> <p>(3) Resilience investment requested to mitigate exposure to ODI underperformance payments due to weather-related incidents</p>	change PCLs, ODIs and risk protections because of exogenous factors	protections and providing specific cost allowances. We have also included urban rainfall in our wastewater network models. Moreover, our risk modelling explicitly tests for extreme correlations across performance commitments that could be impacted by a single event (e.g. heavy rainfall). Our analysis does not indicate increased negative skew, as our calibrated risk protections (including caps, collars and deadbands, alongside the aggregate sharing mechanism and the outturn adjustment mechanism) are designed to mitigate such outcomes
Outcomes risk modelling (section 5)	Anglian Water, Southern Water, South East Water	Companies raised concerns over Ofwat's underlying assumptions, which would lead to too optimistic risk ranges, even with the changes we introduced for final determinations	The assumptions we have made are consistent with our intention to model realistically and robustly ODI risk for the efficient company	Our final determinations are based on an external review of our risk modelling by Grant Thornton and align reasonably closely to industry models. Any remaining differences are well evidenced and reflect our intention to model ODI risk for the efficient company
Changes to total pollution incidents from 2026 onwards (section 6)	Anglian Water, Southern Water	Request changes to the PCL and ODI rate to account for reporting changes being consulted on by the Environment Agency	We suggest that this is excluded from the redetermination process and dealt with through the consultation process we will be running	Reporting changes being proposed by the Environment Agency and Natural Resources Wales are expected to affect all companies from 2026. We plan to consult in line with our change control process to determine if and how to reset the relevant aspects of the performance commitment. We consider it would be challenging for the CMA to make these changes given the uncertainty involved and the redetermination timescales. We propose that our consultation process should run its course to deliver an appropriate approach

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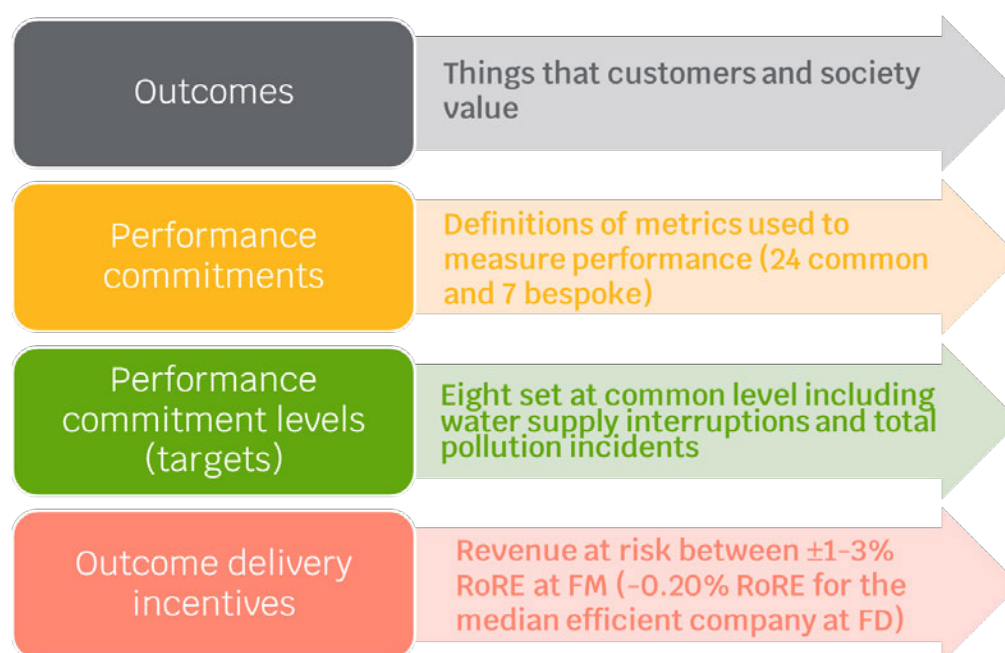
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1. Introduction to outcomes

- 1.1 This section provides background to the outcomes framework at PR24.¹¹
- 1.2 The outcomes framework is an essential part of our regulatory toolkit. By directly linking company performance with expected financial returns, the outcomes framework incentivises companies to deliver better performance over time to the benefit of customers and the environment.
- 1.3 Prior to PR14, only limited financial incentives were in place to encourage water companies to improve their service performance. Financial incentives were introduced more widely in 2015-16 as part of PR14 in response to the UK and Welsh government's 2011 review of Ofwat (Gray Review). They implement the recommendation that Ofwat should adopt an outcomes-based approach for improving the water sector's performance.¹² The introduction of the outcomes framework marked a shift from focusing on specific outputs to emphasising the broader outcomes that matter for customers and the environment.
- 1.4 Water companies do not face the competitive pressure or threat of new entrants that typically drive companies to improve service and efficiency. That is why the outcomes framework plays a crucial role: put simply, companies are rewarded for better performance and penalised for poorer performance. Our aim is to mirror the incentives found in a competitive marketplace, by providing companies with greater flexibility to innovate than under the previous outputs-focused approach. Without such a regime in place that provides a clear link between outcomes and returns, there would be a significant risk that companies would focus on maximising profits by reducing costs in ways that undermine service quality.
- 1.5 As shown in Figure 1 below, the key elements of our outcomes framework include outcomes, performance commitments, PCLs, and outcome delivery incentives (ODIs).

¹¹ [OF-OU-002] Ofwat, Creating tomorrow, together: Our final methodology for PR24, December 2022, pp.57-71, s.5

¹² [OF-OU-003] UK government, Review of Ofwat and consumer representation in the water sector, 2011, p. 26

Figure 1: Outcomes framework – our terminology

- 1.6 Outcomes are the high-level and long-term goals that customers want, or the environmental stewardship that society requires from the water and wastewater service companies.
- 1.7 Performance commitments are the performance measures through which we monitor whether companies are delivering outcomes that matter to customers and the environment. At PR24, we set 24 common performance commitments (applying to every water and sewerage company in England and/or Wales) and seven bespoke performance commitments (targeting the needs of individual companies' customers).
- 1.8 Within the outcomes framework, we set achievable yet stretching performance targets for the sector in the form of performance commitment levels (PCLs). These targets are based on a set of common and comparable areas of performance that reflect customer, as well as environmental and wider strategic priorities.¹³ "PCLs set the service levels companies are expected to deliver for customers and the environment from both base and enhancement expenditure".¹⁴ PCLs are based on companies' business plans and set in accordance with the UK government's objectives for Ofwat.
- 1.9 Outcome delivery incentives (ODIs) are the incentives which allow a company to recover more revenue from its customers, if its performance is better than we expect

¹³ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 20 (s.3)

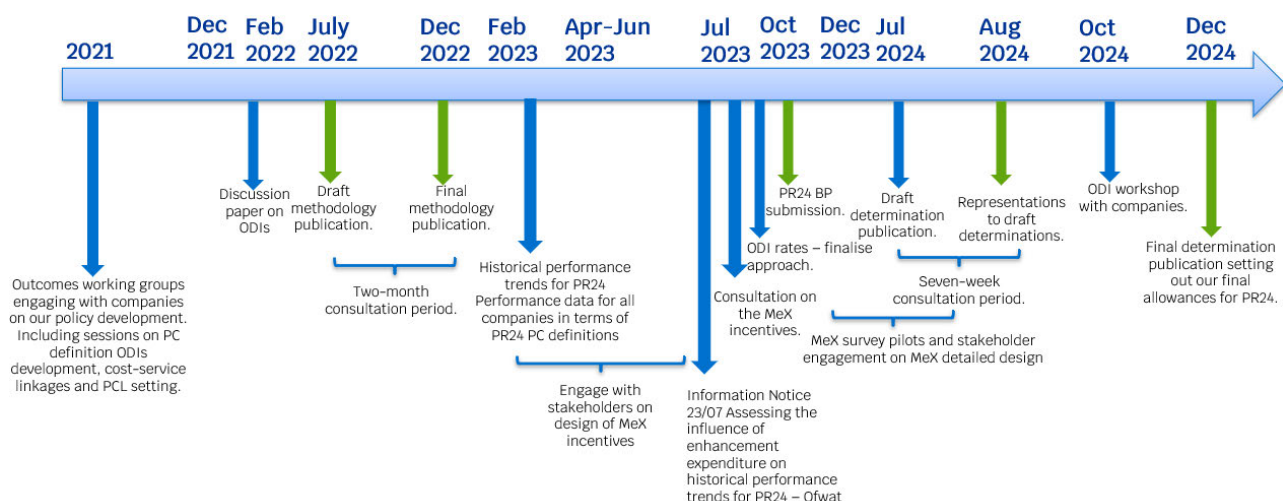
¹⁴ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, p. 153 (s.3.4.1)

(outperformance payments), or to recover less revenue from customers, if its performance is worse than we expect (underperformance payments).

- 1.10 In incentivising improvements in performance, ODIs create financial risk to both customers and companies. We use a range of risk protections, which ensure an appropriate balance of risk between customers and companies. Our general guiding principle is to place the risk with the entity best placed to manage it.¹⁵
- 1.11 In our review of PR19, which laid the groundwork for the PR24 process, we recognised the need for greater simplicity in our regulatory approach.¹⁶ While we have challenged ourselves to streamline our processes wherever possible, we have balanced this ambition with the recognition that each element of the price review serves a specific purpose. Moreover, there is an increasing expectation from society for Ofwat and other regulators to maintain vigilant oversight of the sector. At PR24, we have carefully balanced our drive for simplification with the need to conduct our regulatory responsibilities effectively.
- 1.12 For outcomes, our goals for PR24 were to:
- focus on key common performance commitments which are important to customers;
 - focus performance commitments on delivery of outcomes only, and use price control deliverables (PCDs) to track outputs; and
 - focus on metrics that are suitable for financial incentives, recognising this would also require setting appropriate risk protections.
- 1.13 Throughout the PR24 process, we have engaged with companies and stakeholders. We provide examples of key points of engagement and consultation in Figure 2 below.

¹⁵ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, pp. 12-15 (s.2.4)

¹⁶ [OF-OU-006] Ofwat, PR24 and beyond: Our reflections on lessons learnt from PR19, December 2020, p. 5

Figure 2: PR24 timeline for arriving at our outcomes package

Focus on key common performance commitments

- 1.14 Building on PR19, we have put significant emphasis on common performance commitments.¹⁷ At PR24, we have expanded the number of standardised metrics for measuring performance, from 15 that were in place at PR19 to 24. At the same time, we significantly reduced the number of performance commitments that are specific to individual companies (or 'bespoke') – from over 400 at PR19 to seven at PR24.^{18 19}
- 1.15 This reduction in bespoke performance commitments reflects a natural progression in our approach to measuring outcomes. While bespoke performance commitments at PR19 enabled tailored approaches, many were focused on measuring outcomes that were broadly applicable across the sector. Consolidating these into common performance commitments offers clear advantages in benchmarking companies against each other, facilitating a more robust and consistent assessment for challenging companies to improve their services. For example, at PR19 we had 12 bespoke performance commitments for biodiversity and 10 for river water quality, whereas at PR24 we have set these as common performance commitments.
- 1.16 Setting common performance commitments gives us the ability to also set PCLs on a common basis so that the performance of all companies is directly comparable to one another. We consider that customers should not expect varying levels of service across key performance commitments depending on the region they live in, unless there are clear reasons for this. This means we set the PCLs on a common basis – or the same

¹⁷ Common performance commitments apply to every water and sewerage company in England and/or Wales, while bespoke performance commitments target the needs of a specific company's customers

¹⁸ [OF-OU-007] Ofwat, Response to common issues, May 2020, p.4 (s.1)

¹⁹ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 4

target applies for the whole sector – for ten performance commitments.²⁰ The remaining 14 performance commitments have PCLs set on a company-specific basis using a common definition.

- 1.17 Finally, around 50 of the bespoke performance commitments at PR19 were monitoring output-based scheme delivery, which is now monitored with price control deliverables (PCDs).²¹
- 1.18 At PR24, we gave water companies the option of applying for bespoke performance commitments. However, we only accepted them if the company either:
- had company-specific or local circumstances that would justify a performance commitment to bring significant benefits to customers and the environment; or
 - provided poor service on a common issue where other companies' performance was generally adequate.
- 1.19 We agreed the definitions of the common performance commitments through an extensive consultation process, which began in December 2020 with the first meeting of the Outcomes Working Group. These discussions led to our November 2021 proposals for performance commitments.²² The process continued to involve regular engagement with the outcomes working group, a group of stakeholders that includes water companies, regulators, and consumer representatives.²³ Between 2021 and 2023, the outcomes working group convened over 20 times to discuss potential common performance commitments, focusing on those that measure excellent service for customers and environmental outcomes.²⁴
- 1.20 For instance, in January 2021 the group discussed common performance commitments related to sewer flooding focusing on improving both service reliability and environmental impact. Subsequent meetings focused on common performance commitments that measure asset health and operational resilience outcomes (including leakage and water supply interruptions).²⁵ By fostering an open dialogue among stakeholders, the outcomes working group contributed to developing a

²⁰ This includes water supply interruptions, compliance risk index, internal sewer flooding, biodiversity, total and serious pollution incidents, discharge permit compliance, unplanned outage, C-Mex and D-Mex.

²¹ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, p.6 (s.2.1.4)

²² [OF-OU-008] Ofwat, PR24 and beyond Performance commitments for future price reviews, November 2021

²³ [OF-OU-009] Ofwat, Outcomes Working Group

²⁴ [OF-OU-008] Ofwat, PR24 and beyond Performance commitments for future price reviews, November 2021, pp 5–6 (s.1)

²⁵ We have then further tested our proposed common performance commitments with customers, and we have also consulted more widely, taking into account the final UK and Welsh Government strategic policy statements (SPSS) to ensure alignment with broader policy goals. See also [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments.pdf, December 2022, p.4 (s.2)

framework that balances the interests of customers the environment, and the water industry.

- 1.21 This process informed our methodology for PR24, published in December 2022 alongside definitions for each of the 24 common performance commitments.²⁶ Following that, we continued to engage with stakeholders, ensuring their feedback shaped the final determination performance commitment definitions, which were published in December 2024.²⁷

Price control deliverables to track outputs

- 1.22 While our goal is to specify outcomes rather than outputs, we recognised that there may still be a need to link funding to specific outputs. At PR24, we have introduced price control deliverables (PCDs) as an incentive mechanism alongside performance commitments and ODIs.
- 1.23 Water companies receive enhancement expenditure allowances through the price review process to deliver permanent service improvements and/or the provision to new customers of the current service. This funding can support environmental improvements required to meet new statutory obligations, improving service quality and resilience and provide new solutions for water provision in drought conditions.²⁸
- 1.24 We have introduced PCDs at PR24 to set out the key outcomes or outputs from enhancement and related expenditure, so that stakeholders and customers know what to expect from the funding provided. Where these outcomes or outputs are not delivered, price control deliverables allow funding to be returned to customers.²⁹

Focus on financial incentives

- 1.25 As part of our streamlined approach at PR24, we have made greater use of financial incentives. We set financial incentives for performance (or outcome delivery incentives, ODIs) in a common or standardised way for the whole sector. We took this approach to provide companies with simple and powerful incentives to deliver better performance in the interest of consumers and the environment. We have maintained this approach for final determinations for all bespoke performance commitments and for 23 out of the 24

²⁶ [OF-OU-002] Ofwat, Creating tomorrow together: Our final methodology for PR24, December 2022

²⁷ [OF-OU-010] Ofwat, PR24 final determinations performance commitment definitions, December 2024 (republished 31 March 2025)

²⁸ [OF-OA-022] Ofwat, PR24 final determinations Expenditure allowances, December 2024, p.3

²⁹ Common issues raised by the disputing companies in relation to PCDs are addressed in the relevant document: Ofwat, PR24 redeterminations – expenditure allowances – common issues, p. 209 (s7)

common performance commitments (with the sole exception being river quality, which is reputational only).³⁰

- 1.26 In earlier price reviews, companies proposed their own ODI rates based on marginal cost and marginal benefit estimates. These estimates were based on companies' own customer research and the resulting incentive rates varied significantly across companies. However, much of this variation was attributable to differences in research design, rather than underlying consumer preferences.³¹ Because of challenges in achieving comparable and robust survey-based bottom-up estimates, at PR24 we moved away from using marginal benefit values as the basis for the majority of ODI rates. For biodiversity and the two greenhouse gas emissions performance commitments we implemented our PR24 methodology proposal to use external valuations to set robust rates to incentivise performance improvements.³² At PR24, we have set more powerful yet simple incentives by:
- setting the ODI rates on a common basis, using an approach based on equity at risk for the majority of performance commitments.³³ This ensures consistency in how we set rates across the package of ODIs;
 - moving from the more asymmetric approach at PR19 to predominantly symmetric incentives, with almost all performance commitment having both financial underperformance and outperformance payments by default, and using symmetrical rates;³⁴ and
 - maintaining the strength of these incentives to be at least as strong as those in place for PR19.³⁵

³⁰ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, p.2

³¹ [OF-OU-012] Ofwat, PR24: Using collaborative customer research to set outcome delivery incentive rates, August 2023, pp. 6–7. See also [OF-OU-013], Metcalfe and Sen, 'Sensitivity to scope of water and wastewater service valuations: A meta-analysis of findings from water price reviews in Great Britain', Journal of Environmental Economics and Policy, Volume 11, Issue 1 (2022), pp. 21 – 38

³² [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, pp. 22–23 (s.4.1.5)

³³ The top-down methodology attributes a percentage of equity at risk to each area of performance based on PR19 performance

³⁴ The only exceptions are for statutory compliance performance commitments, or where a bespoke performance commitment is needed to address poor performance in an area. [OF-OU-014] Ofwat, PR24 final methodology Appendix 8 Outcome delivery incentives, December 2022 p. 7 (2.2.1)

³⁵ [OF-OA-017] Ofwat, PR24 final determinations: delivering for outcomes for customers and the environment, December 2024, (republished 6 February 2025), p. 4

Risk protections

- 1.27 The financial incentives regime is designed to incentivise water companies to improve their performance. Risk protection is integral to balancing the incentives for water companies while safeguarding the interests of customers and the environment.
- 1.28 In competitive markets, companies bear the full risk of underperformance, but they are also rewarded through market share growth when they outperform. On the other hand, in a sector consisting of natural monopolies, such as the water sector, we need to strike a careful balance. We achieve this balance by setting strong incentives to drive performance and innovation while protecting customers and companies from excessive financial volatility.
- 1.29 A key principle behind the financial incentives is that shareholders' returns should feel the impact of operational performance that is better or worse than our expectations for the sector as a whole. We expect that the revenues at risk from ODIs are between $\pm 1\%$ to $\pm 3\%$ return on regulatory equity (RoRE) each year.³⁶ We consider that this range, which is consistent with our approach at PR19, is appropriate to continue to incentivise performance on outcomes.³⁷
- 1.30 Compared to PR19, our approach at PR24 reflects a more integrated and flexible application of risk protections, alongside increased levels of risk protections for companies. At PR24, we:
- set risk protections on individual performance commitments – such as caps, collars, and deadbands – to mitigate the effects of extremes in performance on customer bills and company finances. However, these protections can also weaken and distort incentives at the margin. For this reason, while PR19 relied more heavily on caps and collars, at PR24 we apply them in a more targeted way;³⁸
 - place greater emphasis on the aggregate sharing mechanism (ASM) to further limit payments at extreme ranges. This tool essentially requires that payments will be shared between customers and companies if total payments reach certain thresholds; and
 - introduce the outturn adjustment mechanism (OAM). The OAM is designed to adjust returns across all companies if sector-wide performance turns out to be materially different from expectations, and is intended to apply only in exceptional cases.
- 1.31 We recalibrated the outcomes package between draft and final determinations in response to stakeholder feedback and updated evidence. Following publication of the

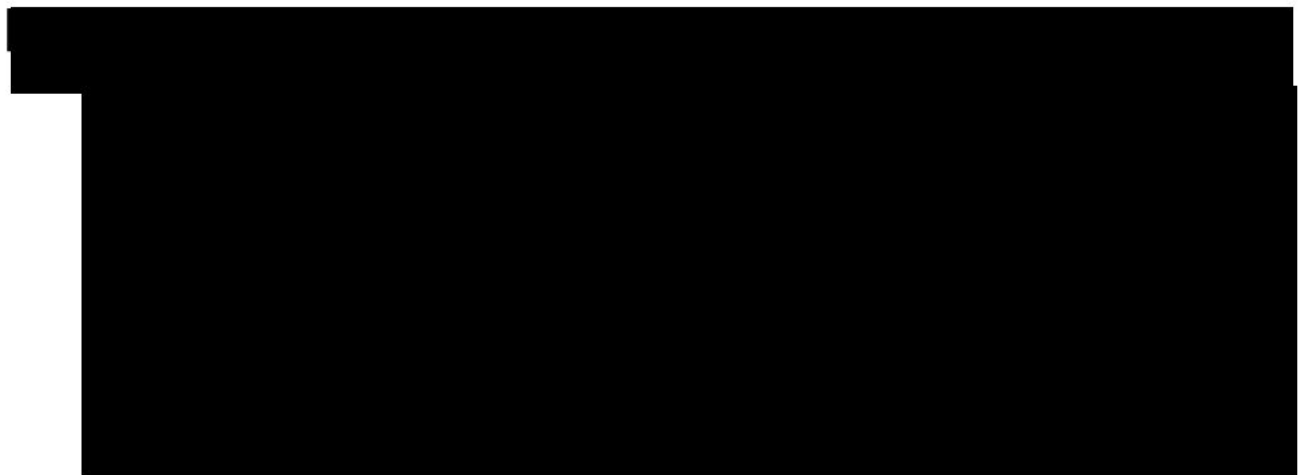
³⁶ [OF-OU-002] Ofwat, Creating tomorrow, together: Our final methodology for PR24, December 2022, p. 69 (s.5.5.4)

³⁷ [OF-OU-015] Ofwat, PR24 final methodology for PR24 Appendix 10 – Aligning risk and return, December 2022, p. 15 (s.2.2.4)

³⁸ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024, (republished 6 February 2025), p.3

draft determinations, a number of companies raised concerns about the asymmetry of risk, particularly the potential for downside skew in ODIs. We listened to feedback and responded to it, reassessing the combination of PCLs, ODI rates, and risk protection tools. Additionally, the 2023–24 outturn performance data – which was not available at draft determinations – gave us a more pessimistic view of the likely performance in the 2025–30 period. This prompted a more cautious stance in our own risk modelling. The final determinations reflected targeted adjustments – including the introduction of the OAM – to better balance risk to water companies while keeping strong incentives in place.

- 1.32 Through iterative changes made to PCLs, ODI rates and risk protections, we produced an outcomes package that balances this risk from outcomes for the median efficient company. We estimate that the expected payment from the outcomes package is – 0.20%³⁹ appointee RoRE for the median efficient company with a notional capital structure. To get to this value, we calculate the expected payments for each company (midpoint of the P10 and P90), and take the median value.^{40, 41}



- 1.34 Southern Water and South East Water both make arguments that the existence of GSS payments as justification for changes to the ODI regime.^{43,44} The GSS concern guaranteed minimum standards of service, providing important recognition for customers when key standards are not met by requiring companies to make payments to affected customers. However, the GSS is not a mechanism by which to compensate customers, as payments in most cases do not reflect the full level of damage or harm

³⁹ As explained in paragraph 5.5, section 5 of this document, subsequent checks conducted as part of the redetermination process indicate a value of –0.26%. This is a difference of –0.5% based on the unrounded figure at final determinations of –0.21%

⁴⁰ [OF-OU-001] Ofwat, PR24 FD OC25 Monte Carlo RoRE Payments model, December 2024, 'P10 P90 by company', cells H51:I67

⁴¹ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024. p. 2

⁴³ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, p. 378

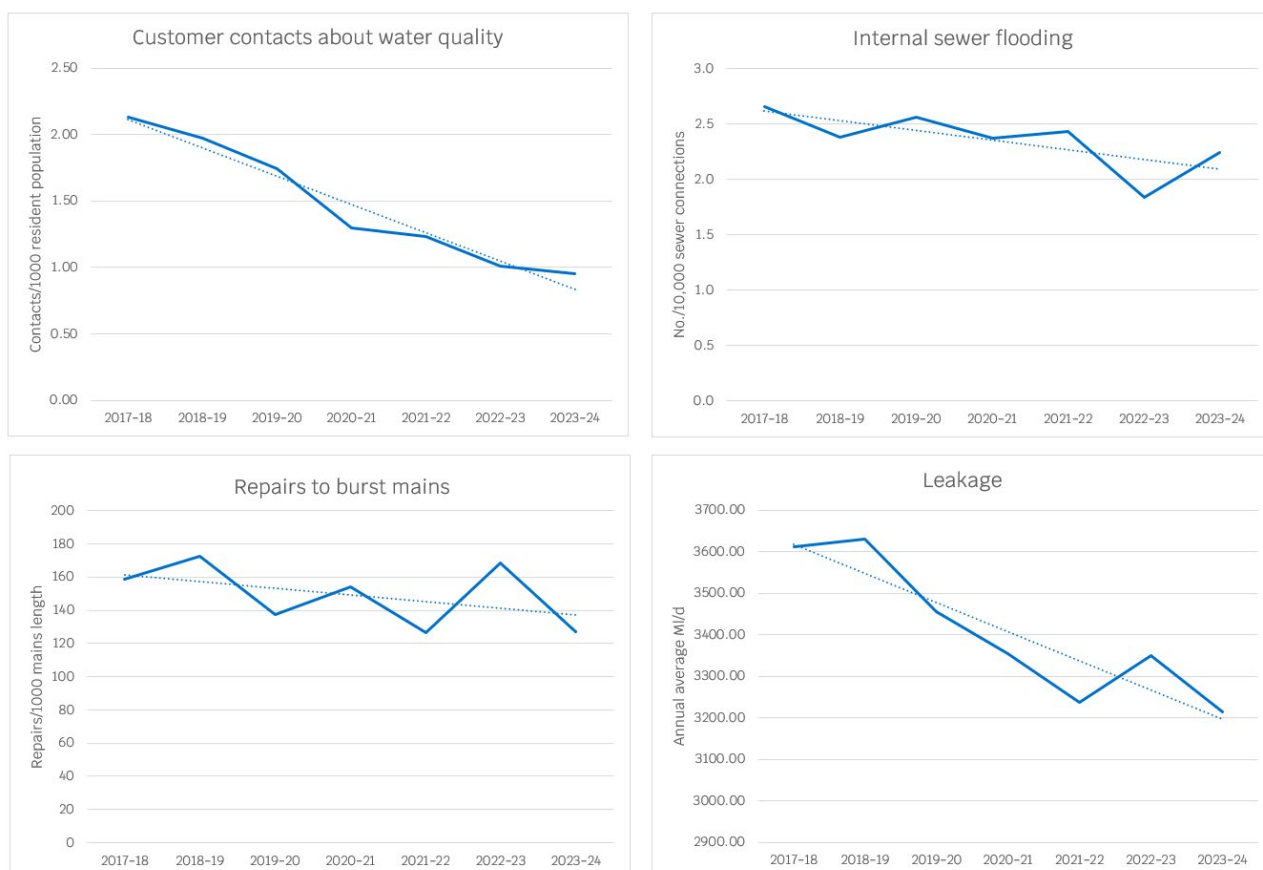
⁴⁴ [OF-OU-027] South East Water, Annex F – Outcomes and Water Supply Interruption, March 2025, p.17

experienced by the customer. GSS payments operate separately to our ODI framework: which incentivise companies to improve performance for all customers.

Impact of the outcomes regime

- 1.35 Despite 2020–2024 performance showing companies making progress in some areas, more needs to be done by companies to improve their performance at PR24, especially in priority areas. Our latest Water Company Performance Report (2023–24) shows that companies are not providing "the sustained improvements that customers rightly expect" and called for companies to "[...] implement actions now to improve performance."⁴⁵ Nonetheless, the outcomes framework supports improvements of individual performance commitments and companies.
- 1.36 Looking at industry-wide performance, we have seen improvements in several performance commitments including in internal sewer flooding, leakage, customer contacts about water quality and repairs to burst mains as shown in the diagram below.

Figure 3: Performance trends in service areas⁴⁶



- 1.37 Looking at individual companies, while media attention is often focused on companies perceived to be poor performers, like Thames Water and Southern Water, some

⁴⁵ [OF-OU-017] Ofwat, Water company performance report 2023–24, October 2024, p. 2

⁴⁶ Ofwat analysis. Data from published PR24 Outcomes models

companies demonstrated during 2020–24 that delivering high quality and high efficiency at the same time is achievable. They did this by improving their performance across key metrics. For example, as shown in Figure 4 below:

- Water supply interruptions: In 2018–19, Severn Trent and Thames Water experienced a broadly similar number of minutes of water supply interruptions. However, over the following five years, Severn Trent improved its performance, and by 2023–24 its results were significantly better than those of Thames Water. We note that Severn Trent is a fair comparator to Thames Water, as they are both large water and sewerage companies (WaSCs) serving a mixed urban and rural customer base, similar in scale and demographic diversity. We've also seen companies such as SES Water and Affinity Water demonstrate improvements over time.
- Pollution incidents: Figure 4 shows that in 2018–19, the total number of pollution incidents recorded by Severn Trent was higher compared to Thames Water. By 2023–24, however, Severn Trent achieved a noticeable reduction in pollution incidents, while Thames Water's numbers increased. We have also seen the performance of other disputing companies (particularly Anglian Water and Wessex Water) deteriorating over time.
- Performance across other metrics presents a more mixed picture. As shown in Figure 4, Thames Water had a better record than Severn Trent on internal sewer flooding in 2019–20. However, Thames Water experienced a sharp deterioration in 2021–22, after which its performance improved but remained slightly below that of Severn Trent in the latest years. Northumbrian Water, on the other hand, has shown a significant improvement in this area over time.

Figure 4: Key performance metrics for different companies⁴⁷

- 1.38 In summary, and in light of the varied performance across companies between 2018-19 and 2023-24, PR24 was designed to respond decisively to the need for improved and sustained performance. PR24 builds on the approach developed in previous price reviews and sets out a comprehensive package of outcomes and incentives to support a step change in performance over the 2025 – 2030 period and beyond, driving delivery, innovation, and long-term growth.
- 1.39 In the following sections, we respond to common issues or themes raised by the disputing companies.

⁴⁷ Ofwat analysis based on data from published PR24 Outcomes models. To aid clarity, we have not shown performance for all disputing companies (for example, we have not shown the evolution of South East Water's performance on water supply interruptions, due to its different scale). Performance data for all companies is publicly available on the PR24 webpage.

2. Approach to setting common performance commitment levels

Final determinations

We set performance commitment levels (PCLs) on a common basis wherever possible. This is because we consider that customers should not expect varying levels of service across key performance commitments depending on the region they live in.

Companies' statements of case

- On water supply interruptions, both Anglian Water and Southern Water suggest that the PCL should be adjusted to account for more recent industry performance.
- South East Water considers that it is exposed to company-specific factors which would require a company specific supply interruption PCL for it.
- On total pollution incidents, Anglian Water and Southern Water also propose less stretching common PCLs.

Our response

We consider that there is no compelling evidence to set less stretching PCLs for poorer performing companies' regions. This would result in companies being incentivised to deliver lower levels of performance for customers and the environment in terms of more and/or longer water supply interruptions and/or greater numbers of total pollution incidents.

Final determinations

- 2.1 At PR24, we set common performance commitment levels (PCLs) across the sector wherever we could. We did this for ten performance commitments. However, we set performance commitment levels that were specific to individual companies for the remaining 14 performance commitments where compelling evidence was provided.⁴⁸ As stated in our PR24 methodology, setting PCLs at a common level "[...] is particularly

⁴⁸ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 25 (s.4)

important for performance commitments relating to customer service and reducing the environmental impact of water companies."⁴⁹

- 2.2 Our preference for setting PCLs common to the sector was because this approach provides significant benefits for customers and the environment. "Common PCLs aid comparison across companies, helping to set efficient and stretching performance, and make expectations clear across the sector".⁵⁰ We also continue to consider that "customers should not expect varying levels of service across key performance commitments depending on the region they live in."⁵¹
- 2.3 We set out our expectations on whether we anticipate to set PCLs at a common or company-specific level (PCL 'specificity') for each performance commitment in the PR24 methodology.⁵² As part of their business plan submissions, and representations to our draft determinations, companies had the opportunity to provide us with evidence for setting PCLs on a company-specific basis.
- 2.4 Our approach to setting PCLs at a common level for the sector was linked to the allowances we provided through the base cost models, especially the use of 'explanatory variables'. We consider that our base cost models included explanatory variables that cover key exogenous factors that vary between regions that could impact companies' performance, such as urban rainfall and density. Consequently, some companies receive higher efficient expenditure allowances to reflect the extra challenges they face. In addition to this, there are cases where we provide companies with additional cost allowances to meet the common level. For example, for Hafren Dyfrdwy we provide additional allowances to address issues with its Wrexham ring main.⁵³ ⁵⁴ Therefore, adjusting PCLs for the same regional factors that are accounted for by our base cost models would have double counted the impact of regional factors and may have resulted in customers paying twice for them, which is not appropriate.⁵⁵

⁴⁹ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, p.61

⁵⁰ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, p.61 (s.4.4.1)

⁵¹ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, p.61 (s.4.4.1)

⁵² [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.18 (s.3)

⁵³ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, p.82, footnote 57 (s.2.4)

⁵⁴ [OF-OU-083] Ofwat, PR24 final determinations: Base cost adjustment feeder model – Hafren Dyfrdwy, December 2024, 'HDD_CAC1'

⁵⁵ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 80 (s.9.2)

- 2.5 There are certain cases where we make company specific adjustments in our general PR24 approach. For example, for United Utilities we set a company-specific PCL for internal sewer flooding reflecting regional factors.⁵⁶
- 2.6 For PCLs set on a common basis, we considered median sector performance as an appropriate benchmark for our expectations of sector-wide performance. For total pollution incidents, water supply interruptions and internal sewer flooding, we recognised that poorer performing companies would have to deliver very significant improvements to meet the median sector performance. However, we did not consider it appropriate to set less challenging PCLs solely on the basis of a company performing poorly in comparison to others, which would mean it was managing its operational performance less effectively than others.
- 2.7 To do so would be to reward poor performance and would not be in the interests of customers and the environment. If we did not challenge poorer performers to achieve the median achieved by the sector, it would mean we would be financially incentivising these companies to deliver longer and more frequent interruptions to customer supplies or higher numbers of sewer flooding or pollution incidents in their regions compared to others. Instead, failure to meet these levels will result in these companies having to return money to customers, which is appropriate considering the level of performance their customers are receiving compared to others.
- 2.8 Water supply interruptions measures how long over three hours a customer does not have a continuous supply of water. It is intended to incentivise a reduced number and duration of water supply interruptions that customers experience and to improve the reliability of water supply. The three-hour benchmark reflects that it will be difficult for companies to immediately deal with the issue. However, when they do, we expect companies to minimise impact on customers by fixing interruptions quickly and communicating well. It provides a measure not only of companies' asset management capabilities but their response and recovery abilities. It has been a sector-wide target for more than ten years, since PR14.
- 2.9 For final determinations, we retained the use of the PR19 2024-25 PCL of 5 minutes for the water supply interruptions performance commitment, which we proposed at draft determinations. We did not adjust the 2024-25 baseline position to align more closely with recent performance, which was different to our approach for setting the PCLs in relation to total pollution incidents and internal sewer flooding.
- 2.10 We took this approach for water supply interruptions to retain the PCL of 5 minutes due to the following considerations:

⁵⁶ [OF-OU-063] Ofwat, PR24 final determinations: United Utilities – Outcomes appendix, December 2024, p.3-7 (s.1.1)

- eight companies in the 2020–24 period met or exceeded this performance commitment level;⁵⁷
- companies have a range of options to improve performance, including operational interventions such as improving incident response times and enhanced network monitoring;
- company commentaries in their annual performance reports support the case that more can be done to improve performance from current levels, including the avoidance of a single large event and its associated impacts; and
- 10 companies forecast to deliver or outperform a performance of 5 minutes by 2025–26 and 14 companies by 2029–30.⁵⁸

Companies' statement of case

2.11 In their statements of case, Anglian Water, Southern Water and South East Water all raise proposals to set less stretching PCLs for water supply interruptions. Anglian Water and Southern Water also propose less stretching PCLs for total pollution incidents. We discuss individual company proposals in more detail in the company-specific documents.

Our response

- 2.12 We consider that there is no compelling evidence to set less stretching PCLs for poorer performing companies' regions. This would result in companies being incentivised to deliver lower levels of performance for customers and the environment in terms of more and/or longer water supply interruptions and/or greater numbers of total pollution incidents.
- 2.13 For water supply interruptions, Anglian Water, Southern Water and South East Water are ranked 9th, 16th and 17th out of 17 companies respectively over the 2020–24 period. For total pollution incidents performance, Anglian Water and Southern Water are ranked 8th and 10th out of 10 respectively over the 2020–24 period.⁵⁹ These are companies that need to address their performance issues and deliver improvements in these performance areas for customers and the environment.
- 2.14 It is worth noting that neither Northumbrian Water nor Wessex Water prioritise adjustments to water supply interruption or total pollution incidents PCLs in their statements of case.

⁵⁷ Companies include Affinity Water, Bristol Water (now acquired by Penlon Group plc), Northumbrian Water, SES Water, South Staffordshire Water, Portsmouth Water, Wessex Water and United Utilities

⁵⁸ [OF–OA–017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 89 (s.9.3)

⁵⁹ Note Hafren Dyfrdwy has been excluded from this comparison due to the scale of the company

- 2.15 No disputing company is requesting an increase in stretch on common PCLs where it is forecasting to perform at or beyond the PR24 PCLs. For example, using our published ODI payments calculator, company forecasts suggest that Southern Water and South East Water will outperform on leakage while Southern Water will also outperform on external sewer flooding and Anglian Water on unplanned outages. Our risk modelling, which includes some adjustments to some companies forecasts to account for potential optimism/pessimism bias, suggests that Anglian Water could also outperform on leakage and external sewer flooding.⁶⁰
- 2.16 For any redeterminations in the outcomes area, when evaluating if there is a requirement to adjust individual PCLs, we consider the CMA should adopt an approach that assesses the package in the round both at the company level and sector level. We also consider that any changes to common PCLs should be applied consistently across all disputing companies unless there is compelling evidence to support a company-specific adjustment.
- 2.17 For water supply interruptions, it is important to bear in mind that this is a performance area that is prioritised by customers, which can cause considerable disruption to both residential and business customers. This disruption is additionally further magnified for vulnerable customers.^{61,62}
- 2.18 For total pollution incidents, we also note that section 6 discusses companies' requests to adjust the PCL and ODI rate to account certain reporting changes being consulted on by the Environment Agency. In that section, we propose that our consultation process should run its course and suggest to the CMA that this could be an area it deprioritises.

⁶⁰ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p.21 (s.3.2.4)

⁶¹ [OF-OU-065] Ofwat, CCW, Yonder preferences research, April 2022, p.27, p.31 and p.37

⁶² [OF-OU-050] Blue Marble, Research into incident response: June 2023 water supply interruption in the South East Water region, November 2023, pp. 11-12

3. Calibration of ODI rates and risk protections

Final determination

At PR24, we set simple yet powerful incentives that better align the interests of companies and investors with those of customers and the environment. We also put robust yet sensible risk protections in place.

Companies' statements of case

Anglian Water, Southern Water and South East Water argue that Ofwat's ODI rates and risk protections are mis-calibrated, resulting in large expected negative payments or excessive downside risk.

Our response

We carefully considered PR24 company representations on draft determinations regarding our top-down approach and rate setting methodology. For final determinations, we made a number of adjustments that reduced the strength of rates for most performance commitments. Our risk modelling gives us confidence that we achieved a balanced PR24 package overall – setting stretching yet achievable targets alongside strong incentives.

Final determinations

- 3.1 At PR24, we set simple yet powerful incentives that better align the interests of companies and investors with those of customers and the environment. We also put robust yet sensible risk protections in place.
- 3.2 Compared to draft determinations, our final determinations reduced ODI rates for 15 performance commitments, which is more than half of the 24 common performance commitments. However, in relation to the eleven rates that we can compare across PR19 and PR24, eight rates are stronger and three are similar to PR19 rates for final determinations. Considered in the round, the changes we made to ODI rates contributed to an outcomes package that balances this risk from outcomes for the median efficient company. Our ODI rates and their feeder models are published on the Ofwat website.⁶³
- 3.3 For final determinations, we put collars and deadbands (i.e. a ranges around the PCL where ODI payments do not apply) on more performance commitments than for draft

⁶³ [OF-OA-031] Ofwat, Final determinations models – Ofwat, December 2024

determinations. Their introduction was focused on those performance commitments that were a significant source of net expected negative ODI payments at draft determinations. They include:

- additional collars on internal and external sewer flooding and total pollution incidents; and
- additional deadbands on discharge permit compliance, repairs to burst mains and serious pollution incidents.

- 3.4 Our risk protections are described in our final determinations and are published in our outcomes key dataset.^{64 65} As well as protections that apply to all companies, we also assessed caps, collars and deadbands for each performance commitment on a company-by-company basis. However, because these tools can weaken and distort incentives at the margin, we use them in a targeted way only. We explained these in the individual performance commitment sections of the final determination documents and in the company specific appendices.^{66 67}
- 3.5 We use risk protections also to address the impact of external factors. Rather than relying on exclusions, we ensure that companies have a reasonable balance of risk and return on their overall packages using tools such as caps (to protect customers against unexpectedly high payments), collars (to protect companies against large underperformance payments on specific performance commitments) and deadbands. These protections are particularly relevant where downside risks from external factors are larger than upside risks, or when we want to mitigate the risk that customers or companies might unduly benefit from external factors affecting performance.^{68,69}
- 3.6 As mentioned in section 1 of this document, there are also further risk protections at the level of the overall outcomes package, such as the aggregate sharing mechanism (ASM) and the outcome adjustment mechanism (OAM). The ASM mitigates customers' and companies risk exposure beyond $\pm 3\%$ RoRE while the OAM adjusts the rate of return if the median outturn performance for the sector is materially different from zero (by 0.5% RoRE).

⁶⁴ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), pp.39 – 49 (s.5)⁶⁵ [OF-OA-031], Ofwat, Final determinations models – Ofwat, Key Dataset1: Outcomes data, December 2024 (republished 19 March 2025)

⁶⁵ [OF-OA-031], Ofwat, Final determinations models – Ofwat, Key Dataset1: Outcomes data, December 2024 (republished 19 March 2025)

⁶⁶ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), pp.69–262 (ss.9–14)

⁶⁷ [OF-OU-055] Ofwat, PR24 final determinations: South East Water – Outcomes appendix, December 2024, pp. 6–7 (s.2)

⁶⁸ [OF-OU-005], Ofwat, PR24 final methodology Appendix 7 Performance commitments December 2022, p. 34 (s.3.8.2)

⁶⁹ Our approach to exclusions is explained in section 4 of this document

Companies' statements of case

- 3.7 In their statements of case, Anglian Water,⁷⁰ Southern Water,⁷¹ and South East Water⁷² all argue that Ofwat's ODI rates and risk protections are mis-calibrated, resulting in large expected negative payments or excessive downside risk. They also challenge the large variation in incentive rates between consecutive price control periods, which they say is unjustified and undermines incentives for long-term investment.
- 3.8 The three companies broadly argue that the top-down ODI rates approach:
- has moved away from reflecting individual companies' customer preferences and may require customers to pay more than suggested by their valuations; and
 - results in mis-calibrated rates that are too strong and negatively skewed.
- 3.9 Southern Water attributes this to the use of a starting allocation of RoRE at risk of 0.5%, which it considers arbitrary and too high. It also states that there is no evidence to support the magnitude or the direction of the adjustments made within the RoRE 0.4%–0.6% range.⁷³ Southern Water also challenges our approach, criticising it for creating scenarios for some performance commitments where the maximum upside for outperformance is unrealistic, such as requiring compliance above 100% or zero minutes of supply lost. It says these factors all result in a negatively skewed overall package.⁷⁴
- 3.10 The disputing companies also raise specific points about the assumptions and data that have been used in applying the top-down approach to generate rates to specific performance commitments, which we consider and respond to in the company specific documents.
- 3.11 On risk protections, Southern Water points out that several performance commitments have no individual collar, including in some instances where there is a cap but no corresponding symmetrical collar. It argues that this absence contributes to the asymmetric risk profile.⁷⁵ Similarly, South East Water raises concerns with the approach we have taken to setting the collar at –2 % RoRE for its water supply interruptions performance commitment.⁷⁶

⁷⁰ [OF-OA-001] Anglian Water, PR24 redeterminations – Statement of Case, March 2025, p. 140 (chapter G.1)

⁷¹ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, p.380 (chapter 3)

⁷² [OF-OA-005] South East Water, PR24 redeterminations – Statement of Case, March 2025, p.66 (s.5)

⁷³ For final determinations we adjusted upwards to 0.6% of RoRE for 9 common performance commitments and downwards to 0.4% for 2 common performance commitments

⁷⁴ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, pp. 381–382 (chapter 3)

⁷⁵ This applies to serious pollution incidents, discharge permit compliance, leakage, compliance risk index and water quality contacts

⁷⁶ [OF-OA-005] South East Water, PR24 redeterminations – Statement of Case, March 2025, p. 67 (s.5)

- 3.12 We provide our response to common issues in this document and further detail in the relevant company-specific documents.⁷⁷

Our response

- 3.13 We carefully considered PR24 company representations on draft determinations regarding our top-down approach and rate setting methodology. For final determinations, we made a number of adjustments to the top-down methodology, including updating for 2023-24 outturn performance data and limiting the difference of the impact on RoRE at to within the 0.4%-0.6% range.⁷⁸ For the eleven rates that we can compare across PR19 and PR24 performance commitments, eight rates are stronger and three are similar to PR19 rates for final determinations.⁷⁹
- 3.14 As explained above in this section, considered in the round, our risk modelling gives us confidence that the changes we made to ODI rates result in a balanced PR24 incentives package overall. We assess them as setting strong financial incentives alongside stretching yet achievable performance targets. [REDACTED]
- 3.15 Setting ODI rates based on individual companies' customer valuation rates, as proposed by Anglian Water for total pollution incidents, would deviate from our top-down methodology and lead to inconsistent rates across companies, as was seen at PR19. Although we understand companies' concerns about having continuity of rates across price control periods, we decided not to cap changes to individual company PR19 rates, as doing so would have maintained the lack of consistency we are aiming to resolve and in some cases significantly weaken incentives.
- 3.16 In our August 2023 publication, we explained how we had tested our approach by applying the research results on a company-by-company basis.⁸¹ We placed the performance commitments in one of the three priority categories (high, medium, or low) categories based on existing research carried out by PJM Economics.⁸² We then

⁷⁷ Ofwat, PR24 redeterminations – response to Anglian Water's statement of case, April 2025, s.4; Ofwat, PR24 redeterminations – response to Southern Water's statement of case, April 2025, s.4; Ofwat, PR24 redeterminations – response to South East Water's statement of case, April 2025, s.4

⁷⁸ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), pp.27-33 (s.4)

⁷⁹ [OF-OA-017], Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 3

⁸¹ [OF-OU-012] Ofwat, PR24: Using collaborative customer research to set outcome delivery incentive rates, August 2023, p. 42 (s.6.1)

⁸² [OF-OU-012] Ofwat, PR24: Using collaborative customer research to set outcome delivery incentive rates, August 2023 (ss. 4 and 6.12)

compared these to the average of the regional PJM Economics results against two research pieces by Yonder⁸³ and Savanta⁸⁴ to understand how these differ from the rankings across England and Wales. In practice, we found that almost all of the company-by-company based customer valuations aligned with the national valuations.⁸⁵

- 3.17 Our methodology for setting the starting RoRE allocation of 0.5% was set out in our August 2023 publication on setting ODI rates.⁸⁶ It reflects our judgement of an appropriate level of risk that provides strong incentives and was informed by analysis of hypothetical payments from common performance commitments during PR19. In balancing risk overall, we assess the size of total outcomes risk for each company. Our risk outputs, even in some of the more extreme scenarios we test, are within the range of $\pm 1\text{--}3\%$ RoRE we were aiming for in the PR24 methodology.⁸⁷
- 3.18 Our analysis of hypothetical payments calculates the mid-point of the upper quartile and 90th percentile of payments in RoRE terms separately for water and wastewater performance commitments. We judged that a 'stretching yet achievable' level of theoretical outcomes performance risk was within this range. We set our starting RoRE allocation at the lower bound of the two midpoint values, i.e. 0.5% RoRE, to strike an appropriate balance of RoRE at risk while maintaining strong incentives.⁸⁸
- 3.19 Contrary to the claims made by the disputing companies, the adjustments within the 0.4%– 0.6% RoRE range reflect customer preferences. For draft determinations, we stated that "as part of ensuring that we deliver on these priorities we have made the decision to amplify certain performance commitments ODI rates to further incentivise performance improvements in those areas. We have done this by shifting the starting RoRE category to 'high' for those targeted performance commitments." This affected the total pollution incidents and per capita consumption performance commitments.⁸⁹
- 3.20 In response to Southern Water's criticism that some upside performance scenarios are not achievable and our lack of recognition of these natural limits contributes to a negatively skewed overall package, we do not agree that our approach to calculating the performance range results in a miscalibration of risk on the downside. The top-down approach is intended to provide consistency in how we set rates across the

⁸³ [OF-OU-065] Ofwat, CCW, Yonder preferences research, April 2022

⁸⁴ [OF-OU-084] CCW, Savanta customer spotlight: People's views and experiences of Water, April 2022

⁸⁵ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, p. 22 (s.4.1.4)

⁸⁶ [OF-OU-012] Ofwat, PR24: Using collaborative customer research to set outcome delivery incentive rates, August 2023, pp. 41–42 (s.6.1.1)

⁸⁷ [OF-OU-002] Ofwat, Creating tomorrow, together: Our final methodology for PR24, December 2022, p. 69 (s.5.5)

⁸⁸ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), table 7, p. 31 (s.4.6)

⁸⁹ [OF-OU-011] Ofwat, PR24 draft determinations: Delivering outcomes for customers and the environment, July 2024, p. 24 (s.4.4.2)

package of ODIs, and applying the performance range is just one step in this process. The other steps – along with our risk modelling – serve as checks and balances to provide companies with simple and powerful incentives to deliver better performance where it is in the interests of consumers and the environment. For example, our risk modelling takes into account natural limits to performance by assuming a truncated normal distribution for relevant performance commitments. This avoids overstating the likelihood of a company performing at the natural limit and more closely reflects historical levels of performance. We explain this further in our risk modelling appendix which includes a table explaining how we have arrived at the truncated distributions for performance commitments with natural limits.⁹⁰

- 3.21 At PR24, companies can also earn additional outperformance through enhanced ODIs for well-established performance commitments that have natural limits, such as water supply interruptions and internal and external sewer flooding. These enhanced ODIs provide upside incentives for companies to push towards frontier performance.

Risk protections

- 3.22 Our view is that there is no compelling evidence to justify a change from our final determinations.
- 3.23 We note that for final determinations, we applied collars to almost 80% and caps to 70% of all performance commitments (compared to 60% for both at draft determinations).⁹¹ We targeted performance commitments with historically higher performance volatility, which creates the risk of high variability, or extremes of performance, in the future. We then calibrated the level of caps and collars to balance maintaining incentives with limiting excessive risk on a particular performance commitment for customers and companies.
- 3.24 In our final determinations, we also recognised that companies may occasionally just fall short of performance targets, due to operational challenges. To reflect this, we applied deadbands to a limited number of performance commitments that were contributing to negative skew. We were also confident that would still be incentivised to perform close to the PCL with this deadband in place for these performance commitments companies.
- 3.25 Based on these criteria, we applied deadbands for all companies in three areas: discharge permit compliance, repairs to burst mains, and serious pollution incidents.⁹²

⁹⁰ [OF-OA-018] Ofwat, Outcomes approach to risk modelling appendix, December 2024, table 2, P. 14

⁹¹ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.5 and p.40 (s.5.1)

⁹² We have included additional deadbands for a small number of companies on customer contacts about water quality, bathing water quality, operational greenhouse gas emissions

These deadbands were not included as risk protections for managing factors exogenous to a company's operation.

- 3.26 These new deadbands are in addition to the deadband we included in our draft determinations for the compliance risk index. In that case, we applied a deadband because performance can be affected by the internal pipework and fittings at customer properties – the responsibility for which is outside companies' statutory obligations.⁹³ This level was set through consultation with the DWI and represents a realistic level of performance that could be impacted by this exogeneous factor.
- 3.27 Finally, in addition to the ASM, at final determinations we introduced the Outturn Adjustment Mechanism (OAM), which is designed to recalibrate investor returns in the event there is systematic out or underperformance across the sector.
- 3.28 It is important that risk protections balance protecting companies and customers from excessive ODI payments, while maintaining incentives for companies to improve their performance. Introducing tighter caps and collars – as the disputing companies propose – would overly restrict the performance ranges within which incentives apply. Our caps and collars are calibrated at a level that would be met infrequently and therefore maintain incentives whilst protecting against excessive payments.⁹⁴
- 3.29 We have reviewed individual company arguments for additional protections. However, we do not consider these meet our assessment criteria for introducing caps and collars.^{95,96} We set the rationale and evidence for this view in more detail in company specific documents.⁹⁷

⁹³ [OF-OA-017], Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), pp.41-45 (s.5.2)

⁹⁴ 15 out of 428 performance commitments had ODI payments that were beyond $\pm 0.5\%$ RoRE either in terms of water RoRE, wastewater RoRE or appointee RoRE in 2020-21 and 25 out of 428 in 2021-22

⁹⁵ [OF-OU-014] Ofwat, PR24 final methodology Appendix 8 Outcome delivery incentives, December 2022, p. 57 (s.5.1)

⁹⁶ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 41 (s.5.2)

⁹⁷ Ofwat, PR24 redeterminations – response to Southern Water's statement of case, April 2025, s.4; Ofwat, PR24 redeterminations – response to South East Water's statement of case, April 2025, s.4

4. Approach to exclusions

Final determinations

We do not consider that it is appropriate to have general exclusions in place for exogenous factors, such as weather events.

Companies' statements of case

Anglian Water, Southern Water and South East Water ask for a number of changes to the outcomes package related to exclusions. Their different requests can be summarised as:

- exclusions added to performance commitment definitions, relating to extreme weather; and/or
- changes to performance commitment levels (PCLs), ODIs, risk protections to take better account of external factors, especially extreme weather.^{98 99 100}

Northumbrian Water asks for resilience investment to mitigate its exposure to ODI underperformance payments due to weather-related incidents.¹⁰¹ We discuss this in our company-specific response document.¹⁰²

Our response

We stand by our final determinations. Exclusions of this type undermine our outcomes regime which focuses on improving the service customers and the environment receive. We consider that companies are best placed to manage these risks and it is appropriate to have performance commitments to incentivise companies to manage them effectively. We have taken the companies' concerns into account through risk protections and specific cost allowances.

Final determinations

- 4.1 Our general approach is not to allow exclusions for exogenous factors. We make limited exceptions in specific circumstances, where companies cannot manage or mitigate potential impacts on customers and the environment or where these are outside the

⁹⁸ [OF-OA-001] Anglian Water, PR24 redeterminations – Statement of Case, March 2025, p.128, p.130, p.144 (chapter G.1)

⁹⁹ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, pp. 378–380 (chapter 6)

¹⁰⁰ [OF-OA-005] South East Water, PR24 redeterminations – Statement of Case, March 2025, p.72 (s.5)

¹⁰¹ [OF-OA-002] Northumbrian Water, PR24 redeterminations – Statement of Case, March 2025, p.104 (s.4)

¹⁰² Ofwat, PR24 redeterminations – response to Northumbrian Water's statement of case, April 2025, s.3

scope of their statutory functions. For example, we exclude the impacts of internal or external flooding events that are not caused by the water company's assets, such as during very high river floods.^{103 104}

- 4.2 Otherwise, our approach (including in relation to water supply interruptions, pollution incidents and storm overflows) is that we do not consider that it is appropriate to have exclusions for factors that are outside a company's control, such as weather events.¹⁰⁵ This approach was set out in our PR24 methodology and we maintained it as part of our final determinations.
- 4.3 Our PR24 methodology explains our rationale for the approach to exclusions, describing how "the outcomes we specify relate to companies' functions and so they have significant control over these. External factors may also have an effect but, in many cases, companies can mitigate the impact of external factors, such as weather events, on customers through how they prepare for and respond to such factors, including by working with third parties. We want to incentivise companies to stretch their influence in this way when delivering their functions."¹⁰⁶ We consider this is necessary to meet their statutory obligations (for example, sections 37 and 94 of the Water Industry Act 1991) and the expectations and needs of customers and the environment. We therefore do not consider exclusions for such factors are appropriate.¹⁰⁷
- 4.4 This aligns with the principle that it is important that risks lie with those that can best mitigate or bear them and, as customers cannot mitigate these risks, we consider that it is appropriate to have performance commitments to incentivise companies to manage them effectively. Otherwise, if companies do not bear these risks, they are transferred to customers.¹⁰⁸
- 4.5 Moreover, this approach recognises that external factors can have positive and negative impacts on companies' performance. Our regime does not aim to insure companies against all risks outside of their control. Just like in a competitive market, there will be some risks that regulated companies bear the consequences of, even if the cause was not their fault. However, the flip side of the regime is that there are instances where companies benefit from improved performance when the circumstances are more favourable and may gain outperformance payments as a result. For example, if there is

¹⁰³ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.14 (s.2.2)

¹⁰⁴ [OF-OU-018] Ofwat, PR24 Common performance commitments – internal sewer flooding, December 2024

¹⁰⁵ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.13, pp. 86–87, and p. 148

¹⁰⁶ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, p.14 (s.2.4.4)

¹⁰⁷ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, p.14 (s.2.4.4)

¹⁰⁸ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, p.14 (s.2.4.4)

a wet summer, per capita consumption will be lower than normal, even without company action, as people tend to water their gardens less.¹⁰⁹

- 4.6 As explained in the previous section, PR24 places greater emphasis on symmetric incentives.¹¹⁰ To exclude only for events that have negative impacts on companies' performance would not align with our aim of having an outcomes package that balances risk for the median efficient company with a notional capital structure.¹¹¹
- 4.7 Another key way we address the impact of external factors is through risk protections. As explained in section 3 of this document, rather than relying on exclusions, we ensure that companies have a reasonable balance of risk and return on their overall packages using tools such as caps, collars and deadbands. These protections are particularly relevant where downside risks from external factors are larger than upside risks, or when we want to mitigate the risk that customers or companies might unduly benefit from external factors affecting performance.¹¹²
- 4.8 As mentioned in sections 1 and 3 of this document, there are also further risk protections at the level of the overall outcomes package, such as the aggregate sharing mechanism (ASM) and the outcome adjustment mechanism (OAM), which provides an additional protection that was not included at PR19.
- 4.9 In addition, the overall PR24 package contains specific cost allowances for companies to manage and mitigate risks from external factors. For example, our final determination included climate change resilience expenditure allowances of £354 million, £142 million for water and £212 million for wastewater. This represented a £50 million increase from £304 million at draft determinations.¹¹³ These allowances are also subject to cost sharing, which means that customers bear a portion of any company overspend (generally 50%).¹¹⁴
- 4.10 These mitigations – both the tools we use to limit money at risk for companies and the cost allowances we provide to support their mitigation efforts – do not reduce our expectations, or those of society, of what companies should deliver. We expect companies to do their best to mitigate and manage the effects of external factors on customers, even when those factors are outside their control.

¹⁰⁹ [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 – Performance commitments, December 2022, p.14 (s.2.4.4.)

¹¹⁰ [OF-OU-014] Ofwat, PR24 final methodology Appendix 8 Outcome delivery incentives, December 2022, p. 7 (s.2.2.1)

¹¹¹ [OF-OU-005], Ofwat, PR24 final methodology Appendix 7 Performance commitments, December 2022, p. 12 (s.2.4.1)

¹¹² [OF-OU-005] Ofwat, PR24 final methodology Appendix 7 Performance commitments December 2022, p. 34 (s.3.8.4)

¹¹³ [OF-OA-022] Ofwat, PR24 final determinations Expenditure allowances, December 2024, pp. 227–230 (s.3.8.2)

¹¹⁴ [OF-OU-004] Ofwat, PR24 final methodology: Appendix 9 Setting Expenditure Allowances, December 2022, table 2.3, p. 43 (s.2.4.5)

- 4.11 Other regulators operating in different industries might take a different approach to exclusions than us, to take account of their different challenges as well as their legal and regulatory frameworks. We would urge caution in pointing to individual differences between regimes without wider comparison of those regimes. A particular element of a price or revenue control regime cannot be separated from the regime as a whole because there are often interlinkages. It should not be assumed that what is appropriate in a revenue control regime for a water company will be appropriate in some other sector, or vice versa.

Companies' statements of case

- 4.12 In their statements of case, Anglian Water, Southern Water and South East Water ask for a number of changes related to exclusions. South East Water proposes the impact of extreme weather should be excluded from the PCL for water supply interruptions.¹¹⁵ Anglian Water and Southern Water request changes to performance commitment levels (PCLs), ODIs, and risk protections to account for external factors – particularly extreme weather.^{116 117} These requests are focused on water supply interruptions, total pollution incidents, serious pollution incidents and storm overflows.
- 4.13 Northumbrian Water asks for resilience investment to mitigate its exposure to ODI underperformance payments due to weather-related incidents. We discuss this in our company-specific response document.¹¹⁸

Our response

- 4.14 Our view is unchanged from our final determinations:
- exclusions should not be used in performance commitments in general; and
 - companies are best placed on behalf of customers to mitigate and manage risks associated with the impact of external factors, such as weather events.
- 4.15 We do not consider a test based on whether matters are within the company's control is appropriate in light of our duties. Where a company does not deliver the expected level of service, this means customers are affected. A company's customers bear the impact of a reduction of service, no matter what the cause or reason for that service failure.
- 4.16 Our price review determinations recognise that companies bear risk, including some external risk, and so have a degree of variability in their returns that is outside of their

¹¹⁵ [OF-OA-005] South East Water, PR24 redeterminations – Statement of Case, March 2025, p.72 (s.5)

¹¹⁶ [OF-OA-001] Anglian Water, PR24 redeterminations – Statement of Case, March 2025, p.128, p.130, p.144 (chapter G.1)

¹¹⁷ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, pp. 378–380 (chapter 6)

¹¹⁸ Ofwat PR24 redeterminations – response to Northumbrian Water's statement of case, April 2025, s.3

control. What is important is that the upside and downside risks for an efficient company are broadly balanced so that it anticipates a "fair bet" on a forward-looking basis. As pointed out above, although we consider companies should bear some risk, we limit the extent of this through a range of protection mechanisms applied on individual performance commitments and to the outcomes package overall.

- 4.17 Whether the balance is right overall is a matter of regulatory judgement, where we have relied on our modelling results. In light of these results, and while remaining consistent with our methodology, we introduced additional caps, collars and deadbands at final determinations to reduce net negative ODI payments expected at draft determinations.
- 4.18 As mentioned in section 3 of this document, for final determinations we applied (i) collars to almost 80% and caps to 70% of all performance commitments (compared to 60% for both at draft determinations),¹¹⁹ and (ii) deadbands to a limited number of performance commitments that were contributing to negative skew and where we were confident that incentives would be maintained to perform close to the PCL with a deadband in place.
- 4.19 Moreover, and as explained in section 3, in addition to the ASM, at final determinations we introduced the Outturn Adjustment Mechanism (OAM). The OAM may act as a protection in the instance that severe weather leads to materially different sector performance than expected.
- 4.20 Overall, the PR24 regime requires companies to take on risks, and their allowances within the regulatory package take account of the risk they are bearing. The PR24 framework includes a range of protections mechanisms – cost sharing, caps, collars, and limited exclusions – all of which are designed to mitigate the level of risk the companies bear. We consider that moving away from our decisions on exclusions, PCLs, ODIs or risk protections to account for exogenous factors, as proposed by the disputing companies, is likely to result in suboptimal outcomes for customers and the environment.

¹¹⁹ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p.5 and p.40 (s.5.1)

5. Outcomes risk modelling

Final determinations

At PR24, we aimed to use an easy-to-follow and realistic approach to model risk from the outcomes package to allow us to make transparent and well-informed decisions on its various components as a whole.

Companies' statements of case

Companies acknowledge the changes we have made to our risk modelling since draft determinations, which have aligned our risk model closer to industry models. However, due to differences in remaining assumptions, the disputing companies find our risk modelling to be an optimistic view of likely future performance.

Our response

We have had our modelling approach independently reviewed by an external party and the assumptions we have made are consistent with our intention to model ODI risk for the efficient company.

Final determinations

5.1 At PR24, we aimed to have an approach to risk modelling that was:

- easy to understand and follow; and
- and realistic and robust.

5.2 These objectives facilitated the transparency of our decision-making as well as ensuring that our decisions are well informed and as targeted as possible. We wanted stakeholders to be able to judge as much as possible whether we had achieved our aim of giving companies a fair chance of achieving as much outperformance as underperformance across the PR24 package, despite the existence of downside-only performance commitments. A key underlying assumption for this test is that the water companies operate efficiently.

5.3 We model risk from the outcomes package to better understand the size and balance of risk to customers and companies. This modelling has informed our decisions at PR24 about:

- the stretch of the performance commitment level;
- the strength of ODI incentives; and
- individual risk protections.

- 5.4 Companies raised concerns with some of the assumptions we made in our risk modelling for draft determinations saying this meant that our estimated risk ranges were too optimistic.¹²⁰ Following the publication of draft determinations, we commissioned an external review of our risk modelling by Grant Thornton.¹²¹ For final determinations, we made well-evidenced changes to our modelling assumptions. As a result of these changes, our risk modelling approach for final determinations was more closely aligned with industry models.¹²²
- 5.5 As explained in section 1, through iterative changes made to PCLs, ODI rates and risk protections, we produced an outcomes package that balances this risk from outcomes for the median efficient company. In our final determinations, we estimated that the expected payment from the outcomes package is -0.20% appointee RoRE for the median efficient company with a notional capital structure. To get to this value, we calculated the expected payments for each company (midpoint of the P10 and P90), and took the median value.^{123, 124} We note that subsequent checks conducted as part of the redetermination process indicate a slightly lower value of -0.26%.^{125 126} This adjustment reflects a recalibration in the risk modelling for water supply interruptions, made to ensure consistency with how we made adjustments to align more to company specific historical performance ranges for the risk modelling of other performance commitments.

Companies' statements of case

- 5.6 The majority of disputing companies relied on modelling carried out by KPMG on outcomes risk to inform their statements of case. Based on this analysis, companies state that the final determinations outcomes package is skewed towards

¹²⁰ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p.10 (s.2)

¹²¹ [OF-OU-087] Grant Thornton, Review of Ofwat PR24 Modelled Risk of the Outcomes Package, August 2024

¹²² [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p.23 (s.3)

¹²³ [OF-OU-001] Ofwat, PR24 FD OC25 Monte Carlo RoRE Payments model, December 2024, 'P10 P90 by company', cells H51:I67

¹²⁴ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p. 2

¹²⁵ This is a difference of -0.5% based on the unrounded figure at final determinations of -0.21%

¹²⁶ [OF-OU-096] Ofwat, PR24 FD OC25 Monte Carlo RoRE payments model (corrected version), May 2025, 'P10 P90 by company', cells H51 to I67

underperformance payments with unrealistic performance expectations and disproportionately high underperformance rates.^{127 128 129}

5.7 Even with the changes made for final determinations, there are still differences in the results of our risk analysis and the disputing companies' risk analysis submitted as part of their statements of case. For example, we estimated risk ranges of -1.92% to +1.44% and -2.24% to +1.61% appointee RoRE for the median water and sewerage company (WaSC) and water only company (WoC) respectively.¹³⁰ These values represent our view of risk following a recalibration of our risk modelling, as explained in paragraph 5.5 of this section.¹³¹¹³² KPMG's analysis estimates a risks range of -1.55% to +0.55% and -2.55% to +0.71%. This is due to differences across assumptions used in the models about the:

- central estimate of performance (or 'anchor point');
- choice of performance distributions;
- range of historical performance data used; and
- choice of correlation in performance across performance commitments

5.8 The companies also make different assumptions to take into account what they view to be company specific factors or circumstances that could affect impact on future performance. For example, Southern Water adjusts its dataset by including pollution incidents that it suggests had been disallowed under a prior exemption from the Environment Agency for pollution incidents arising due to a named storm.¹³³

Our response

5.9 We used maximum years of historical data and assumed normal, truncated normal and log normal distributions for performance. Our dataset included PR19 and PR14 performance data, depending on availability for each performance commitment. For performance commitments where the definition has been broadly consistent since 2015, we used the full dataset. This included water supply interruptions, compliance risk index, internal sewer flooding, total pollution incidents and repairs to burst mains. The KPMG model used by companies used PR19 performance data to define a Metalog distribution to capture observed asymmetry in performance. Using only PR19 data provides limited information to define the shape of a performance distribution,

¹²⁷ [OF-OA-001] Anglian Water, PR24 redeterminations – Statement of Case, March 2025, p. 140 (chapter G.1)

¹²⁸ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, p.380 (chapter 3)

¹²⁹ [OF-OA-005] South East Water, PR24 redeterminations – Statement of Case, March 2025, p.66 (s.5)

¹³⁰ [OF-OU-096] Ofwat, PR24 FD OC25 Monte Carlo RoRE payments model (Corrected version), May 2025, 'P10 P90 by company', cells H51 to I67

¹³¹ Our risk range estimates for final determination were -1.89% to +1.48% and -2.12% to +1.66% appointee RoRE for the median WaSC and median WoC, respectively.

¹³² [OF-OU-001] Ofwat, PR24 FD OC25 Monte Carlo RoRE payments model, December 2024, 'P10 P90 by company', cells H51 to I67

¹³³ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, pp. 67–68 (chapter 1)

which we do not consider to be sufficiently robust. Instead we manage this uncertainty by adjusting the distribution parameters in our model on a company specific level as part of our performance range calibrations.¹³⁴ These adjustments align our performance estimates for each company more closely with its own historical performance.

- 5.10 In KPMG's risk analysis, the central performance estimate (or 'anchor point') is derived from PR19 outturn performance and companies' business plan forecasts. We anchor our analysis using the PR24 PCL because this represents our view of what the efficient company should achieve. Our view is that the KPMG anchor point risks capturing historical poor performance and does not sufficiently build in expected performance improvements particularly from companies' cost allowances for final determinations.
- 5.11 If we combined company forecasts with historical performance to inform our central estimate for PR24 performance, alongside the company specific adjustments we have made to performance ranges, this would lead to levels of performance which are too far removed from what we expect an efficient company to achieve.¹³⁵
- 5.12 Given that there is limited availability of data to inform statistically significant correlations, we used correlations more sparingly in our model compared to the KPMG analysis. However, we tested the robustness of the ODI framework to deliver overall balance of risk when more extreme correlation scenarios are included. Our results showed that negative skew does not increase from including extra correlations, as increases in payments are curtailed by risk protections.¹³⁶
- 5.13 In response to Southern Water's suggestion that we should include incidents from named storms in our risk modelling for total pollution incidents, we observe that although the Environment Agency historically used discretion in excluding these from performance, these exclusions have not been in place since 2023. All pollution incidents are now included in the annual Environmental Performance Assessment without exception. This change reflects the Environment Agency's expectation that water companies will have planned capability to prevent incidents, mitigate impacts that might occur and restore the operation of affected assets. We therefore consider it appropriate to use historical data as reported at the time – this includes performance data where incidents have been excluded due to named storms – within our performance range for the ODI rate and risk modelling. This reflects our view that companies are ultimately responsible for making sure their assets are properly maintained and should plan reasonable mitigations against the impacts of extreme

¹³⁴ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p. 18 (s.3.2.2)

¹³⁵ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p. 21 (s.3.2.4)

¹³⁶ [OF-OA-018] Ofwat, PR24 final determinations: Outcomes approach to risk modelling appendix, December 2024, p. 23 (s.3.2.5)

weather. For final determinations we set a collar of - 0.75% RoRE for this performance commitment.¹³⁷

- 5.14 Therefore, we do not consider that changes to our risk modelling approach is appropriate given the material presented by companies in their statements of case.

¹³⁷ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 103 and p. 186

6. Changes to total pollution incidents

Final determinations

We set the PCL and ODI rate for total pollution incidents based on current reporting/incident categorisation by the Environment Agency.

Companies' statements of case

Anglian Water and Southern Water ask that the CMA adjust the PCL and ODI rate to account for certain reporting changes being consulted on by the Environment Agency. [REDACTED]

Our response

Reporting changes being proposed by the Environment Agency and Natural Resources Wales are expected to affect all companies from 2026. We plan to consult in line with our change control process to reset relevant aspects of the performance commitment. We consider it would be challenging for the CMA to make these changes given the redetermination timescales and uncertainty surrounding the impact of these reporting changes. Instead, we propose that our consultation process should run its course and suggest to the CMA that this could be an area it deprioritises.

Final determinations

- 6.1 Our total pollution incidents performance commitment is defined in line with the reporting guidance from the Environment Agency's (EA) and Natural Resources Wales' (NRW) water and sewerage company Environmental Performance Assessment (EPA) methodology version 11, February 2024. Total pollution incidents are reported as the total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length.
- 6.2 A consultation with all companies on changes to the EPA closed in January 2025 [REDACTED]
[REDACTED] A further consultation with companies by the EA on reporting, recording and managing

pollution incidents closed in March 2025 [REDACTED] At final determinations, we said that we would "consider the impacts of any change in the EPA following the stakeholders' consultation of the Environment Agency and Natural Resources Wales and manage the change according to our change control process".¹⁴²

Companies' statements of case

6.3 Two disputing companies have raised concerns regarding the impact reporting changes will have on the calibration of the PCL and ODI rate for total pollution incidents.

6.4 Anglian Water proposes the CMA should:

- exclude category 4 incidents from the PCL; or
- adjust the underperformance rate and funding allocated to improve performance.¹⁴³

6.5 Southern Water requests the CMA adjust the PCL by resetting the baseline to account for 2024/25 performance, including changes to the reporting methodology and technology used to capture data (Event Duration Monitoring (EDM)) which they state has led to an increase in recorded pollution incidents.¹⁴⁴ We discuss the impact of future reporting changes in this section and address the impact of EDMs on 2024/25 performance in the company-specific document.¹⁴⁵

Our response

[REDACTED]

[REDACTED]

[REDACTED]

¹⁴² [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024, pp. 67–69 (s.8)

¹⁴³ [OF-OA-001] Anglian Water, PR24 redeterminations, Statement of Case, March 2025, p.153 (chapter G.1)

¹⁴⁴ [OF-OA-003] Southern Water, PR24 redeterminations – Statement of Case, March 2025, pp. 390–394 (chapter 6)

¹⁴⁵ Ofwat, PR24 redeterminations – response to Southern Water's statement of case, April 2025, s.3

[REDACTED]

- [REDACTED]
- 6.8 This will have a material impact on the total pollution incidents performance commitment, as the PCL and ODI rate set at final determinations are based on the existing reporting guidance from the Environment Agency's and Natural Resources Wales' water and sewerage company EPA and levels of historical performance. If the PCL and ODI rate were left unchanged, all water and sewerage companies would face significant underperformance payments from 2026-27 until the end of the period.¹⁴⁹
- [REDACTED]
- [REDACTED]

- 6.9 Consequently, we expect to consult in line with our change control process to determine if and how best to reset relevant aspects of the performance commitment from 2026-27 (Year 2) until 2029-30 (Year 5) of the period.

¹⁴⁹ Note underperformance payments for total pollution incidents are capped at 0.75% for all companies except for South West Water where they are capped at 1.5%

¹⁵⁰ [OF-OU-077] Ofwat, PR24 ODI Rates – Payments calculator – with performance forecasts, December 2024

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 6.11 The proposed changes would 'maintain the level of stretch and performance payments in line with our intention in our final determination' as their overall aim.¹⁵¹
- 6.12 We will consider stakeholder responses to the consultation before determining what changes need to be made to the performance commitment, PCL and ODI in Autumn 2025. While the CMA can redetermine any aspects of our final determinations, we consider that it would be challenging for the CMA to deal with these issues within the timescales of a redetermination, given the amount of uncertainty involved. The changes will need to be made for all companies, not just those seeking redetermination. In light of this, the CMA may consider it better to deprioritise the redetermination of PCLs and ODIs for total pollution incidents, in favour of it being dealt with through the consultation process which we will be running.

¹⁵¹ [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), pp. 67–68 (s.8)

¹⁵² [OF-OA-017] Ofwat, PR24 final determinations: Delivering outcomes for customers and the environment, December 2024 (republished 6 February 2025), p. 65 (s.8)

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Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.