

WATER PR24 REFERENCES

Provisional Determinations Volume 3: Outcomes – Chapter 6

09 October 2025

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The Competition and Markets Authority has excluded from this published version of the provisional determination information which the group considers should be excluded having regard to section 206 of the Water Industry Act 1991.

Any omissions are indicated by [§]. Any non-sensitive replacement content is indicated in square brackets.

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6. Outcomes

Introduction

- 6.1 The aim of Ofwat's Outcomes framework for PR24 is to hold water companies to account for the outcomes for which customers are charged through their water bills, and to incentivise companies to go further where it is in the interests of customers and the environment. Ofwat holds companies accountable by defining deliverables that companies are required to provide, and performance commitments which measure the level of service for a particular outcome.¹ The Outcomes framework results in companies returning money to customers if they do not provide the defined deliverables or achieve their performance targets, but they can earn more money if they outperform the targets and deliver greater benefits to customers.
- 6.2 In this chapter we consider the various components of Ofwat's PR24 FD Outcomes framework.
- (a) **PCDs (ie Price Control Deliverables), including PCDs applied to base and enhancement expenditure, non-delivery PCDs and time-incentive PCDs.** PCDs set out the key outputs or outcomes that are expected from expenditure allowances, so that stakeholders and customers know what to expect from the funding provided. Non-delivery PCDs are clawback mechanisms that provide for funding to be returned to customers where a company has not delivered a stated benefit by the end of the price control period (31 March 2030).² Time incentive (TI) PCDs are two-way incentives that apply in addition to non-delivery PCDs, and are intended to encourage timely delivery by rewarding on-time delivery and penalising late delivery by reference to annual delivery targets.³ Ofwat's PR24 FD applied non-delivery PCDs to 80% of enhancement expenditure allowances and to 8% of base expenditure allowances,⁴ and applied TI PCDs to 40% of enhancement expenditure and 6% of base expenditure.⁵ The PR24 FD PCD arrangements are summarised in Figure 6.1 and described further in paragraphs 6.9 to 6.11 below.

¹ Ofwat (2025) [PR24 final determinations performance commitment definitions](#) (accessed 18 August 2025).

² Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

³ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306 and p314.

⁴ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

⁵ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

Figure 6.1: Ofwat's PR24 FD PCDs

Two incentive types:	Non-delivery PCDs	Time incentives PCDs
Incentive structure	One-way incentive	Two-way incentive
Financial consequence	Claw-back	Late delivery penalty / On-time delivery reward
Timing of delivery	Target set by 31 March 2030	Target set by 31 March of each year of AMP
Coverage	80% of enhancement expenditure + 8% of base expenditure (c.£40bn)	40% of enhancement expenditure + 6% of base expenditure (c.£22bn)
Reconciliation	End of regulatory period	

Source: Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

- (b) **ODIs (ie Outcome Delivery Incentives which apply to performance commitments), including Performance Commitment Levels (PCLs), ODI rates and Individual Risk Protections (including caps, collars and deadbands).** Ofwat set PCLs across 24 common performance commitments that Ofwat identified as related to customer facing, environmental, demand, compliance-based, asset health, and customer experience outcomes (see Figure 6.2). It also set seven bespoke PCLs that applied to specific companies. ODIs provide financial payments to water companies from customers for performing beyond the PCL (outperformance payments, ie rewards) or from companies to customers for performing below their committed levels (underperformance payments, ie penalties).⁶ ODI rates determine the magnitude of those financial payments. Individual risk protections limit the range of performance outcomes over which ODI rates apply (eg by limiting the overall level of financial exposure faced by customers and companies in relation to a given ODI).

⁶ Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p1.

Figure 6.2: Ofwat's PR24 FD financial performance commitments



Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 6.

Note: Ofwat's PR24 FD set PCLs across 24 common performance commitments and seven bespoke performance commitments. One performance commitment, river water quality, was reputational only (see Figure 6.3 below).

6.3 Ofwat's PR24 FD built on the Outcomes framework that existed in the previous price control period. Ofwat sought to streamline the framework in some ways, but also extended and strengthened its application.

6.4 For PR24, three key changes were made to the Outcomes framework.

- (a) Greater use of PCDs. In developing its PR24 approach, Ofwat recognised that it can be difficult to set performance measures that capture all aspects of short and long-term outcomes, and therefore that some output measures need to be specified to hold companies to be account. For example, specifying asset improvements that customers are funding companies to deliver.⁷ As such, in particular given the significant step up in investment for PR24, Ofwat's PR24 FD significantly developed and extended the use of PCDs to specify output requirements (see Figure 6.1).⁸
- (b) Increased use of common performance commitments. At PR19, most performance commitments were bespoke. 'Up to 15' of the performance commitments were common across companies.⁹ At PR24, Ofwat sought to

⁷ Ofwat (2021) [PR24 and Beyond: Creating tomorrow together](#), p87.

⁸ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306 and 314; and Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

⁹ Ofwat (2021) [PR24 and Beyond: Creating tomorrow together](#), p87.

use common performance commitments for most areas of companies' performance. The aim was to ensure that robust PCLs were applied in areas that were important to all customers.¹⁰ As noted above, Ofwat's PR24 FD set PCLs across 24 common performance commitments. Ofwat applied only seven bespoke PCLs. Ofwat used bespoke PCLs to address issues of specific local importance or where a company was performing poorly on an aspect of service that was not a key concern for other companies.¹¹

- (c) Strengthened ODI rates. Ofwat's PR24 FD strengthened ODI rates relative to those that applied in PR19. Ofwat identified 11 ODI rates which could be compared to PR19, eight of which were strengthened in its PR24 FD, with the other three rates set at a similar level to PR19.¹²

- 6.5 For each element of the framework, in this chapter we first explain Ofwat's PR24 FD approach and outline our approach to considering the Disputing Companies' requests and submissions. We then provide an overview of the Disputing Companies' detailed requests, and summarise submissions received before setting out our assessment and provisional decisions. Similarly, we have also considered CCW's request in relation to C-MeX.
- 6.6 It is critical that companies have strong incentives to deliver the projects and outcomes for which they have been funded and are held to account when they do not. A complete reset of the Outcomes framework for the Disputing Companies (which would not apply to other water companies) would not be appropriate or achievable in the context of our redeterminations. More fundamental changes to the regulatory framework are best addressed through industry-wide policy work. We have therefore focused our assessment on the Disputing Companies' specific requests and CCW's request in relation to C-MeX.
- 6.7 In total, the Disputing Companies submitted 41 requests related to Ofwat's PR24 FD Outcomes framework. Most of these requests were for less stretching performance targets, lower incentive rates, more flexibility in the definition of deliverables, or additional risk protections. We have examined the evidence for each request. In each case, we considered whether the requirements and targets were appropriate. We bore in mind the aim of the Outcomes framework, namely to hold companies to account for outcomes for which customers are charged through their water bills. We have provisionally rejected 33 of the requests, partially accepted six, and fully accepted two. That is, we have largely upheld Ofwat's PR24 FD Outcomes framework, and the protections for customers and the environment that it entails.

¹⁰ Ofwat (2022) [PR24 Final Methodology](#), p58.

¹¹ Ofwat (2022) [PR24 Final Methodology](#), p58.

¹² Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p5.

- 6.8 We have provisionally decided not to introduce the C-MeX complaints data metric requested by CCW given concerns over the quality and reliability of complaints data but support Ofwat and CCW continuing to work together to strengthen the data for PR29.

Price Control Deliverables (PCDs)

- 6.9 PCDs set out the key outputs or outcomes that are expected from expenditure allowances and were applied to most enhancement and some base expenditure in Ofwat's PR24 FD. Ofwat used similar mechanisms at PR19, but at PR24 it significantly developed and extended the use of PCDs (see paragraph 6.2(a)).¹³ As set out below, all of the Disputing Companies raised concerns with, and requested that changes be made to, the PCD arrangements in the PR24 FD.

Ofwat's PR24 FD approach

- 6.10 Ofwat's PR24 FD introduced the following two types of PCDs.
- (a) **Non-delivery PCDs:** these are clawback mechanisms that provide for funding to be returned to customers where a company has not delivered a stated benefit by the end of the regulatory period (31 March 2030).¹⁴ Ofwat's PR24 FD applied non-delivery PCDs to 80% of enhancement expenditure allowances and to 8% of base expenditure allowances.¹⁵ The non-delivery PCD payment rate was set for each PCD as the associated PR24 FD cost allowance divided by the number of relevant units (eg water meters) to be delivered during the regulatory period.¹⁶
 - (b) **Time incentive (TI) PCDs:** these are two-way incentives that apply in addition to non-delivery PCDs, and are intended to encourage timely delivery by rewarding on-time delivery and penalising late delivery by reference to annual delivery targets.¹⁷ Ofwat's PR24 FD applied TI PCDs to 40% of enhancement expenditure and 6% of base expenditure.¹⁸ The TI underperformance rate (to be applied to late delivery) was set equal to the relevant non-delivery PCD payment rate multiplied by the wholesale weighted average cost of capital (**WACC**). The TI outperformance rate (to be applied to on-time or early delivery) was set equal to one third of the TI underperformance rate.¹⁹

¹³ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

¹⁴ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

¹⁵ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

¹⁶ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 28.

¹⁷ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306 and p314.

¹⁸ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

¹⁹ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 28.

6.11 Ofwat's PR24 FD included PCD reporting and assurance requirements through which progress against deliverables would be monitored.²⁰

6.12 Table 6.1 shows the PCDs that were included in Ofwat's PR24 FD.²¹

Table 6.1: Base and enhancement expenditure areas subject to PCDs in Ofwat's PR24 FD

<i>Base/Enhancement expenditure areas</i>	<i>PCD</i>
Base expenditure PCDs	Mains renewals Network reinforcement
Scheme level PCDs	Storm overflows Phosphorus removal Growth at Sewage Treatment Works Sanitary parameters Supply interconnectors
Water enhancement – WINEP PCDs	Biodiversity and Conservation Drinking Water Protected Areas Water Framework Directive Water investigations
Water enhancement – Supply and demand balance PCDs	Water Supply Schemes (excluding interconnectors) Metering Water Efficiency
Water enhancement – Drinking water quality PCDs	Lead Raw Water Deterioration and Taste, Odour and Colour
Water enhancement – Resilience and security	Water resilience Resilience – Interconnectors Reservoir safety Security (SEMD) Cyber
Wastewater enhancement – WINEP/NEP Flow and Monitoring PCDs	Continuous river quality monitoring Flow monitoring at sewage treatment works Monitoring of emergency overflows at network sewage pumping stations Increase in flow to full treatment Storm overflows – screen only Storm overflows – pass forward flow Storm overflows – wetlands
Wastewater enhancement – WINEP/NEP Treatment PCDs	Treatment for total nitrogen removal Treatment for chemical removal Nature-based solutions for treatment for nutrients and/or sanitary determinands Catchment solutions for nutrients and sanitary determinands Habitat restoration Microbiological treatment Septic tanks 25 year environment plan (wastewater)
Wastewater enhancement – other WINEP PCDs	Wastewater investigations A-WINEP: Anglian Water
Wastewater enhancement – Net Zero PCDs	
Wastewater enhancement – Bioresources PCDs	Sludge storage (tanks) – WINEP Sludge storage (Cake pads) – WINEP Sludge thickening and dewatering – WINEP Sludge treatment (Other) – WINEP Industrial Emissions Directive
Wastewater enhancement – Other PCDs	Climate change resilience uplift (water and wastewater) Northumbrian Water – Climate Change Resilience Southern Water – Infiltration First time sewerage

Source: Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#).

Note: The table excludes PCDs that do not apply to any of the Disputing Companies and PCDs that were applied as part of the carry-over of requirements from the previous price control period.

²⁰ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp10–13.

²¹ Excluding PCDs that do not apply to any of the Disputing Companies and PCDs that were applied as part of the carry-over of requirements from AMP8.

Our approach to assessing Disputing Company requests related to PCDs

Disputing Company submissions on Ofwat's PR24 FD approach to PCDs

- 6.13 The Disputing Companies overall agreed with the principle of PCDs, noting that it was an important part of the framework and the 'core package' to protect customers.²² In the Outcomes hearing, Northumbrian stated on behalf of the Disputing Companies that:²³

'... we are not against the principle of PCDs. We already have a version of them in the current regulatory framework. And we totally agree that customers should not pay for things we do not deliver. That point is fairly obvious. What we are asking for is a bit more flexibility than the FD currently provides. And we believe that this will benefit customers.'

- 6.14 The Disputing Companies expressed concern that Ofwat's PR24 FD on PCDs is insufficiently flexible. For example:
- (a) Anglian stated that the overly prescriptive nature of the PCDs, lack of flexibility and significant administrative burden introduced a real risk of inefficient delivery, exacerbating the overall risk levels in the PR24 FD, which had not been adequately mitigated;²⁴
 - (b) Northumbrian considered that the introduction of PCDs and the inflexibility in the regime exacerbated existing asset risk management challenges;²⁵
 - (c) South East stated that Ofwat's approach was overly prescriptive, reduced flexibility and undermined companies' ability to make efficient decisions;²⁶
 - (d) Southern stated that the design of the PR24 FD PCD framework was excessively punitive, inflexible and overly complicated, as well as extending significantly beyond Ofwat's original objective for the PCD framework,²⁷ which created significant delivery risk for companies;²⁸ and
 - (e) Wessex said that the design of the PCD framework materially restricted companies' flexibility to deliver customer outcomes in the most efficient way.²⁹

²² (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p6, lines 23–25, and p7, lines 1–7; [South East SoC](#), p66, paragraph 5.1; and [Southern SoC](#), p332, paragraphs 39, 142 and 143.

²³ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p6, lines 2–6.

²⁴ [Anglian SoC](#), paragraph 626.

²⁵ [Northumbrian SoC](#), paragraph 26; Northumbrian (2025) [Response to other Disputing Companies' SoCs](#), pp16–17.

²⁶ South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 2.17.

²⁷ [Southern SoC](#), p332, paragraph 39.

²⁸ [Southern SoC](#), p333, paragraph 47.

²⁹ [Wessex SoC](#), p8, Table 1.

- 6.15 The Disputing Companies submitted that the PCD arrangements would have a negative impact on their expected returns that had not been taken into account in Ofwat's PR24 FD,³⁰ and the KPMG report quantified estimates of this risk.³¹ We consider these quantified estimates in chapter 8 (Risk and Return).
- 6.16 Southern was concerned that Ofwat's PR24 FD moved away from an 'outcome-based approach' to 'output-based deliverables'³² and prevented companies from embracing innovative solutions.³³ In its statement of case, Southern proposed an alternative high-level framework that it said would be a light touch, comprehensive and workable alternative to the Ofwat PR24 framework³⁴. The alternative framework would comprise: a non-delivery PCD mechanism; a two-way time-incentive PCD; amendments to the scope of Ofwat's base expenditure PCDs; a within-AMP adjustment mechanism; and an offset mechanism.³⁵ Southern proposed amendments to the framework it considered would be workable in operation and proportionate to the objective it sought to deliver.³⁶ South East also supported the CMA taking a more in-depth assessment of the PCD framework and considering whether some or all of Disputing Companies' proposed remedies would address the problems identified with Ofwat's PR24 FD PCD framework.³⁷

Third party submissions on Ofwat's PR24 FD approach to PCDs

- 6.17 We also received submissions on Ofwat's PCDs framework from third parties, such as the following.
- (a) Blueprint for Water submitted that mechanisms to ensure company investment is focused on delivering outcomes are important in rebuilding trust in the sector. It requested that, where Disputing Companies raised concerns about the restrictiveness of PCDs, the CMA considers whether environmental outcomes would be better or worse served by any changes.³⁸
 - (b) Citizens Advice submitted that it is essential that customers have confidence over what will be delivered for the funding provided through bills. It noted that adjusting PCDs can have unintended consequences which could impact public trust if companies are not seen to be delivering on expectations.³⁹

³⁰ For example: [Anglian SoC](#), paragraphs 596–605; [Northumbrian SoC](#), paragraph 407; [Southern SoC](#), p68, paragraphs 61–75; [Wessex SoC](#), paragraph 1.42.

³¹ KPMG (2025) PR24 Final Determinations – risk analysis for a notional company.

³² [Southern SoC](#), p349, paragraph 96.

³³ [Southern SoC](#), p350, paragraph 107; [Southern SoC](#), p332, paragraph 38.

³⁴ [Southern SoC](#), p360, paragraph 145; Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 73.

³⁵ [Southern SoC](#), p360, paragraph 146.

³⁶ [Southern SoC](#), p359, paragraph 144.

³⁷ South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 2.19.

³⁸ Blueprint for Water (2025) [Third party submission on the Water PR24 References](#), p2.

³⁹ Citizens Advice (2025) [Third party submission on the Water PR24 References](#), paragraphs 25–28.

- (c) CCW supported PCDs as a way of giving customers and stakeholders transparency in what investment companies will deliver, when and at what cost. It submitted that PCDs should allow bodies such as CCW to scrutinise and challenge delivery. CCW supported some flexibility to prioritise investments where they are most needed.⁴⁰
- (d) The Global Infrastructure Investor Association submitted that PCDs (and ODIs) were originally conceived as a means of aligning company incentives with customer outcomes. It said that they have now evolved into a rigid and punitive system that often undermines, rather than supports, long-term investment and operational improvement.⁴¹
- (e) The Thames Investor Group submitted that the PCDs in Ofwat's PR24 FD exacerbate downside risk.⁴²
- (f) Thames Water recognised the need for PCDs to protect customers where companies fail to deliver. However, it said that Ofwat's PR24 FD PCD regime resulted in excessive downside delivery and cost risk.⁴³ Thames Water referred to PCDs which introduce the risk that companies do not receive funding if delivery is incomplete or is not received on time. Thames Water submitted that the CMA should reconsider the design of such PCDs to strike a fair balance between (i) the legitimate need for customer protection; (ii) the requirements to provide appropriate incentives for innovative and efficient delivery outcomes by companies; and (iii) to mitigate their exposure to excessive downside risk.⁴⁴
- (g) Water UK submitted that PCDs exposed companies to additional risks, which had not been adequately considered by Ofwat. It noted that PCDs provide constraints on companies to deliver certain outputs (eg a particular scheme) rather than the outcomes that customers or the environment require (eg an improved environmental outcome).⁴⁵

Our approach to assessing Disputing Company requests related to PCDs

- 6.18 We note the broader comments on Ofwat's PR24 FD PCDs framework outlined above. However, we note for the purposes of these redeterminations that the Disputing Companies requested that we focus on resolving issues 'at source'.^{46 47}

⁴⁰ CCW (2025) [Third party submission on the Water PR24 References – Anglian](#), paragraphs 3.12–3.13.

⁴¹ Global Infrastructure Investor Association (2025) [Third party submission on the Water PR24 References](#), p3.

⁴² Thames Investor Group (2025) [Third party submission on the Water PR24 References](#), paragraph 18; and see Thames Investor Group (2025) [Third party submission on the Water PR24 References – Annex 5](#), paragraph 23.

⁴³ Thames Water (2025) [Third party submission on the Water PR24 References](#), paragraphs 16(iv) and 51.

⁴⁴ Thames Water (2025) [Third party submission on the Water PR24 References](#), paragraphs 44–45 and 51–53.

⁴⁵ Water UK (2025) [Third party submission on the Water PR24 References](#), p7 and pp48–50.

⁴⁶ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 19–22.

⁴⁷ Addressing issues 'at source' in this context means addressing specific features of the PCD arrangements (for example, the calibration of TI PCDs) if they are identified as giving rise to broader negative effects (eg having a negative

We note that Northumbrian recognised that a full reopening to completely reset the framework for cost assessment or the incentive framework could prove challenging in the limited time that the CMA has available, particularly in the absence of any company proposing a clear alternative framework.⁴⁸

- 6.19 We note that the Independent Water Commission identified a ‘need to ensure that allowances provided for capital maintenance are used by companies to maintain assets’. The Independent Water Commission set out a recommendation to clearly define and ring fence different categories of expenditure, noting that other elements of the assurance framework such as PCDs would support this⁴⁹ However, it also suggested that the current PCD framework should be reformed and recommended that a review to inform a more robust and flexible framework, broadly set at programme level spending, be conducted before PR29.⁵⁰
- 6.20 Against that backdrop, in this chapter we focus on considering the claims raised by Disputing Companies (along with CCW’s request in relation to C-MeX) and whether it is appropriate to make any amendments to Ofwat’s PR24 FD ‘at source’ in light of the objectives of the PCD framework.⁵¹ We do not consider Southern’s overall alternative framework further, but consider specific changes proposed within that framework as part of our assessment of whether to amend any PCD arrangements.
- 6.21 We have organised our consideration of submissions related to PCDs under the following headings:
- (a) requests for changes to specific PCDs applied to enhancement expenditure allowances;
 - (b) requests for changes to specific PCDs applied to base expenditure allowances;
 - (c) the scope for the non-delivery PCD arrangements to result in negative expected returns;
 - (d) requests for changes to TI PCDs;
 - (e) the scope for PCDs to be adjusted within the AMP;

impact on expected returns). An alternative approach would be to seek to offset identified negative effects in other ways, for example, when setting the allowed return on equity.

⁴⁸ Northumbrian (2025) [Response to other Disputing Companies’ SoCs](#), p3, paragraphs 11–12; and see Anglian (2025) [Reply to CMA PR24 Approach document](#), paragraph 39 in which it noted it generally agrees with the CMA’s proposed approach to PCDs.

⁴⁹ Independent Water Commission (2025) [Final Report](#), p205, Recommendation 19 and paragraph 455.

⁵⁰ Independent Water Commission (2025) [Final Report](#), paragraphs 965–966 and 972–976, and pp409–410, Recommendation 78.

⁵¹ [CMA PR24 Approach document](#), paragraph 74.

- (f) the risk of PCDs giving rise to overlapping penalties; and
- (g) the scope for the PCD arrangements to result in unnecessary administrative and regulatory burdens.

PCDs applied to enhancement expenditure allowances

- 6.22 Disputing Companies requested changes to PCDs in two enhancement areas.⁵²
- (a) Metering: Anglian requested a change to how its metering PCD is specified.⁵³
 - (b) Lead: Northumbrian requested a change to how its lead PCD is specified to allow substitution between different components, and requested scope to secure additional funding if its delivery of lead schemes exceeds the level defined in the PCD.⁵⁴
- 6.23 We have provisionally decided to retain the approach to metering and lead PCDs in Ofwat's PR24 FD, for the reasons set out below.

Metering

Ofwat's PR24 FD approach

- 6.24 Ofwat's PR24 FD provided allowances of over £1.7 billion for companies to deliver smart meters,⁵⁵ and in particular new installations of advanced monitoring infrastructure (**AMI**) meters and upgrades of existing meters (with basic or automated meter reading (**AMR**) technology) to convert them to AMI metering.⁵⁶ The metering PCDs specify the outputs to be delivered through this funding. In particular, the metering PCDs specify separate amounts for the number of new AMI meter installations, meter upgrades and meter replacements to be provided.⁵⁷ For meter upgrades, the numbers of upgrades to meters to be provided for household and non-household premises are specified separately.⁵⁸ Ofwat's PR24 FD applied both non-delivery and TI PCDs to metering.⁵⁹

⁵² Southern made comments in relation to PCDs in three further enhancement areas - Storm Overflows, Cyber, and Phosphorus removal ([Southern SoC](#), pp336–339, and pp357–358) - but did not make specific requests in relation to these PCDs.

⁵³ [Anglian SoC](#), p159, paragraph 594.

⁵⁴ [Northumbrian SoC](#), paragraph 522; [Anglian SoC](#), paragraph 595.

⁵⁵ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p152.

⁵⁶ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p157.

⁵⁷ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p158.

⁵⁸ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p158.

⁵⁹ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp157–161.

Parties' submissions

Anglian

- 6.25 Anglian submitted that the smart metering PCD specified the type of customer meter (household and non-household) despite there not having been a distinction made between these types of meters in the cost model used to determine cost allowances.⁶⁰ Anglian proposed that the PCD be simplified to count meters installed (ie without distinguishing between household and non-household premises).⁶¹

Ofwat

- 6.26 Ofwat submitted that, while its analysis had not identified a cost difference between household and non-household meters, in its PR24 FD it had recognised that non-household meters could deliver more benefits in terms of water demand reductions than household meters.⁶² Ofwat said that some stakeholders had expressed concerns that companies could prioritise the delivery of household meters over non-household meters.⁶³ It said that to address these concerns and to encourage companies to deliver the mix of meter upgrades presented in their WRMPs, and therefore the benefit (in terms of water demand reduction) that customers were paying for, it decided to split the number of meter upgrades in the PCD by meter type.⁶⁴
- 6.27 Ofwat said that – due to the potential for non-household meters to deliver greater reductions in water demand – the metering PCDs allowed companies to swap required numbers of household meters for non-household meters without a PCD clawback ‘kicking-in’.⁶⁵ However, it said that the PCDs only allowed companies to swap up to 25% of non-household meters for household meters to make sure that companies installed most of the non-household meters included in their business plans.⁶⁶

Our assessment and provisional decisions

- 6.28 We note that Ofwat's PR24 FD already provided for significant flexibility for companies to meet the metering PCD requirements. Fewer household meters could be upgraded than specified in the PCD without clawback arrangements applying provided there is an equivalent increase in the number of non-household

⁶⁰ [Anglian SoC](#), paragraph 594.

⁶¹ [Anglian SoC](#), paragraph 594; Southern noted that it agreed with Anglian's request, see Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 72.

⁶² Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117.

⁶³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117.

⁶⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117.

⁶⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.118.

⁶⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.118.

meter upgrades that are delivered over the originally specified level.⁶⁷ Some flexibility in the other direction is also permitted, although the PR24 FD put a limit on that flexibility of 25% of the number of non-household meter upgrades.⁶⁸ As Ofwat noted, the reason for this limit is because of the potential for non-household meters to deliver greater reductions in demand than household meters.⁶⁹

- 6.29 Anglian's statement of case did not refer to the significant flexibility already provided for under the PR24 FD and did not specify why that should be considered insufficient. Anglian's statement of case also did not refer to the reasoning presented in Ofwat's PR24 FD for the inclusion of a 25% limit on the flexibility to swap non-household for household meter upgrades and did not identify why that reasoning should be regarded as inappropriate. When we asked Anglian about this issue at its hearing, it said it thought this was an unnecessary prescription but also said that it was not a major issue.⁷⁰
- 6.30 Given the above considerations, our provisional decision is that we should not adjust the metering PCD in response to Anglian's request.

Lead

Ofwat's PR24 FD approach

- 6.31 The lead PCDs in Ofwat's PR24 FD specified the number of lead pipes to be replaced or relined for water quality purposes in the following categories.⁷¹
- (a) Lead communication pipes that are the responsibility of the company to maintain.
 - (b) Lead external supply pipes at premises other than schools.
 - (c) Lead external supply pipes at schools.
 - (d) Lead internal supply pipes at premises other than schools.
 - (e) Lead internal supply pipes at schools.
- 6.32 Ofwat's PR24 FD did not allow for substitution between delivery in the above categories and set out that companies were expected to deliver the full quantity

⁶⁷ Ofwat's PR24 FD describes this flexibility in Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p151.

⁶⁸ Ofwat (2024) [PR24 final determinations: Price control deliverables appendix](#), p151.

⁶⁹ Ofwat (2024) [PR24 final determinations: Price control deliverables appendix](#), p151.

⁷⁰ (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p45, lines 13–26 and p46, line 1.

⁷¹ Ofwat (2024) [PR24 final determinations: Price control deliverables appendix](#), p168.

that had been funded under each category.⁷² A timing incentive was not applied to this PCD.⁷³

Parties' submissions

Disputing Companies

Northumbrian

6.33 Northumbrian requested that two changes be made to its lead PCDs, to do the following.⁷⁴

- (a) Allow substitution between the different components of communication pipes, internal and external supply pipes. Northumbrian said it seemed likely that it would find a different distribution between these components in practice. Northumbrian submitted that it would be sensible to allow for the possibility that it would do more of one type of activity and less of another, rather than restricting its activity once it had met the individual quotas for different types of lead pipes.
- (b) Change the PCD to create a symmetric incentive that allows a higher level of delivery with additional funding (at the PCD unit rates) if more lead schemes are delivered in the 2025-30 period. Northumbrian submitted that this would reflect DWI concerns about increasing the level of ambition with respect to lead replacement. It also said that it did not see a downside for customers as replacements would need to happen in future periods anyway, there would be greater benefits from earlier replacement, and customers support an accelerated profile.

Anglian

6.34 Anglian did not request a change to its lead PCDs,⁷⁵ but presented this PCD as providing an example of the real-world impacts of overly prescriptive PCDs, as it focused on the number of pipes replaced annually rather than allowing for risk-based prioritisation.⁷⁶ Anglian submitted that this could lead to prioritisation of meeting the target rather than delivering the most optimal health outcomes.⁷⁷

⁷² Ofwat (2024) [PR24 final determinations: Price control deliverables appendix](#), p168.

⁷³ The lead PCD is set out in Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp168–169.

⁷⁴ [Northumbrian SoC](#), paragraph 522.

⁷⁵ We note that a change to this PCD is not included in the requests set out in [Anglian SoC](#), paragraphs 627 and 628.

⁷⁶ [Anglian SoC](#), paragraph 595.

⁷⁷ [Anglian SoC](#), paragraph 595.

Ofwat

- 6.35 Ofwat submitted that the main purpose of the PCD was to protect customers from non-delivery or under-delivery.⁷⁸ It said that customers were providing funding at different unit cost rates for companies to deliver different lead pipe replacement activities.⁷⁹ Ofwat said it was concerned that allowing flexibility would financially incentivise companies to deliver cheaper replacement types and not fully remove all segments of lead pipes from the addressed premises, and that as a result the PR24 FD did not allow for substitution between lead pipes based on their replacement types.⁸⁰
- 6.36 Ofwat said that PCDs are a protection mechanism rather than a tool to incentivise the delivery of more outputs than were funded.⁸¹ Ofwat said it had set allowances that provide sufficient funding for companies to trial approaches to reduce exposure of customers to lead from drinking water.⁸² Ofwat said that for these reasons it did not consider it appropriate to put in place an uncertainty mechanism that could provide further enhancement allowances where companies go beyond their business plan in relation to lead reduction activities.⁸³
- 6.37 With respect to Anglian's submissions, Ofwat considered that holding companies to the number of lead pipes replaced provides a transparent measure.⁸⁴ This directly links to the basis upon which funding levels are set and allows Ofwat and stakeholders to track what companies deliver with the enhancement allowance provided.⁸⁵ Ofwat said it did not consider that the PCD should track progress by looking at health outcomes, which could be improved in the short-term by increased orthophosphate dosing.⁸⁶ It said that customers have paid for lead pipe replacements, which provide a long-term solution.⁸⁷ Ofwat said that the non-delivery PCD would track delivery by the end of the control period rather than on an annual basis.⁸⁸

Our assessment and provisional decisions

- 6.38 At its hearing, Northumbrian stated that there is a lot of lead that will need to be removed from its network over time and that it would like the PCD to allow it to be funded to remove more than is currently specified in this AMP if it can.⁸⁹ While we

⁷⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

⁷⁹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

⁸⁰ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

⁸¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

⁸² Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

⁸³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

⁸⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.125.

⁸⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.125.

⁸⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.126.

⁸⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.126.

⁸⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.127.

⁸⁹ (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p 44, lines 12–14 and 26, and p45, lines 1–4.

recognise that the provision of PCD flexibility could provide some benefits to customers, we consider that it would also introduce material risks. In assessing the balance of evidence in relation to these factors, we have taken into account that:

- (a) while Northumbrian pointed to uncertainty over exactly what mix of lead pipe replacements it may be able to deliver, it also noted that it has done a lot more lead replacement than some other companies.⁹⁰ Ofwat submitted that this should leave Northumbrian able to make a reasonable judgement about how much it needs to do going forward;⁹¹
- (b) the levels of lead pipe replacement in Northumbrian's lead PCD were based on its own business plan forecasts;⁹²
- (c) Ofwat's PR24 FD specified the quantity of a number of different types of lead pipe to be replaced before the end of AMP8 and set a specific clawback rate for each type based on the allowance that was provided. We note that this allowed for a company's funding to be adjusted (through the PCD non-delivery clawback arrangements) if it delivered a mix of replacement types which did not precisely match that specified in the PCD, subject to the total levels of each type of pipe replacement specified in the PCD not being exceeded;
- (d) providing scope for companies to deliver higher levels of lead pipe replacement than specified in the PCDs would expose customers to potential bill increases; and
- (e) in line with Ofwat's comments about the purpose of the PCD,⁹³ we consider there to be a risk that providing greater flexibility may encourage companies to focus more on types of replacement that are most financially advantageous to them in ways that do not align with customer interests. We note that there may be scope for material differences to emerge during AMP8 between the unit cost assumptions used to set funding allowances in the PR24 FD for given replacement types, and actual costs companies face when delivering those types of replacement. Providing flexibility to increase the number of pipe replacements delivered at unit rates set in the PR24 FD risks customers receiving poor value for money in relation to the funding of levels of replacement over and above that specified in the lead PCD.

6.39 Given the above points, our provisional decision is that we should not adjust the lead PCD.

⁹⁰ (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p46, lines 2–6.

⁹¹ (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p48, lines 4–9.

⁹² Ofwat (2024) [PR24 final determinations: Lead enhancement expenditure model](#), Tab 'PCD calculations'.

⁹³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

- 6.40 We note that if a compelling case for higher levels of lead pipe replacement emerged before the end of AMP8 then there may be scope for this matter to be considered during the PR29 review process. Ofwat's 'Accelerated Infrastructure Delivery Project' – undertaken during the PR24 review process – provided examples of different ways in which this kind of additional delivery could be supported ahead of the next price control, if that provided benefits overall for customers.⁹⁴

PCDs applied to base expenditure allowances

- 6.41 Disputing Companies requested changes to PCDs applied to base expenditure allowances in the following ways:⁹⁵
- (a) Southern and Wessex requested that base PCDs (ie PCDs that applied to mains renewals and network reinforcement) be set only in relation to uplifts to base expenditure allowances; and
 - (b) Anglian and Northumbrian requested changes in how the mains renewal PCD was specified.
- 6.42 We have provisionally decided to retain the approach to mains renewal and network reinforcement PCDs in Ofwat's PR24 FD, for the reasons set out below.

Ofwat's PR24 FD approach

- 6.43 Ofwat's PR24 FD applied base PCDs to all companies in relation to mains renewals and network reinforcement.⁹⁶

Mains renewals PCD

- 6.44 The mains renewals PCD identified the required rate of mains renewals as per the following categories.⁹⁷
- (a) Base wholesale water model funded renewals: this is the length of mains renewals that the PR24 FD treats as funded through wholesale water modelled base allowances. This level of renewals requirement was included in the PCD for all companies in Ofwat's PR24 FD and set equal to Ofwat's

⁹⁴ Ofwat (2023) [Accelerated infrastructure delivery project: final decisions](#).

⁹⁵ Southern made comments in relation to PCDs in three further enhancement areas: storm overflows, cyber, and phosphorus removal ([Southern SoC](#), pp336–339, and pp357–358), but made no did not make specific requests in relation to these PCDs.

⁹⁶ Ofwat applied some other base PCDs to specific companies but none of these apply to the Disputing Companies. See Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), section 3.

⁹⁷ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp17–18.

assessment of the historical sector average of the mains renewals rate, 0.3% per year.⁹⁸

- (b) Asset health base adjustment renewals: these are mains renewals which some companies were required to deliver under the mains renewal sector wide base cost adjustment (our assessment of which is set out in chapter 4 (Base costs)). These renewals are in addition to the 0.3% per year described in (a) above. PCDs were applied on a company-specific basis to those companies that were funded to deliver this additional level of mains renewal. Under this adjustment, Anglian was subject to an additional mains renewal rate requirement of 0.24% per year, and the other Disputing Companies were subject to an additional mains renewal rate requirements of 0.13% per year.⁹⁹
- (c) Enhancement leakage and water quality renewals:¹⁰⁰ these are additional mains renewals requirements that Ofwat's PR24 FD treated as funded through enhancement leakage and water quality allowances. South East and Southern both faced an additional mains renewal rate requirement of 0.07% per year under this category.¹⁰¹ The other Disputing Companies did not receive enhancement allowances that resulted in this additional requirement.¹⁰²

6.45 Under the mains renewals PCD, companies were required to meet the additional renewals requirements in (b) above by renewing mains that are in condition grades 4 ('poor') and 5 ('very poor').¹⁰³ Ofwat's PR24 FD applied both non-delivery and TI PCDs to mains renewals.¹⁰⁴

Network reinforcement PCD

6.46 The network reinforcement PCD related to the sector wide network reinforcement cost adjustments that Ofwat made in its PR24 FD, which Ofwat identified as amounting to £733.5 million across water and wastewater.¹⁰⁵ This funding was intended to support economic growth and facilitate the UK government's target to build 1.5 million new homes over the next five years.¹⁰⁶ Under Ofwat's PR24 FD, companies are required to invest at least the amounts set out in the PCD over the

⁹⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

⁹⁹ Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

¹⁰⁰ Although this relates to enhancement expenditure, we consider it here as it results in a mains renewal requirement and the mains renewal PCDs largely relate to base expenditure allowances.

¹⁰¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

¹⁰² Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

¹⁰³ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p20.

¹⁰⁴ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp23–27.

¹⁰⁵ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p35.

¹⁰⁶ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p35.

2025/26 to 2029/30 period.¹⁰⁷ Ofwat's PR24 FD only applied non-delivery PCDs to network reinforcement (ie TI PCDs were not applied).¹⁰⁸

Parties' submissions

Disputing Companies

- 6.47 Southern and Wessex requested that base PCDs (ie PCDs that applied to mains renewals and to network reinforcement) be set only in relation to uplifts to base expenditure allowances, that is, allowances over and above modelled base costs.¹⁰⁹
- (a) Southern submitted that the application of PCDs to base expenditure was distortive, because by ring-fencing a significant proportion of base expenditure allowances for PCD deliverables, the remaining base expenditure allowance would not be sufficient to enable the company to maintain a base level of service to customers.¹¹⁰ Southern said that ring-fencing removed the flexibility companies needed to redirect expenditure most effectively to deliver outcomes and benefits.¹¹¹
 - (b) Wessex submitted that the base PCDs in Ofwat's PR24 FD ring-fenced 34% of its wholesale water capital maintenance allowances for the delivery of specific outputs, restricting the ability of companies to make investment decisions efficiently.¹¹² Wessex said that Ofwat's approach had overestimated the implicitly funded level for mains renewal and underestimated the AMP8 expenditure requirements for an efficient company.¹¹³
- 6.48 Anglian and Northumbrian requested that the mains renewal PCD be amended so that it does not refer to condition grades.¹¹⁴
- (a) Anglian said that its understanding of the restrictions in the PCD would force it to prioritise replacing mains that may be in robust asset health and that this would not represent value for money or improve customer outcomes.¹¹⁵ Anglian submitted that the PCD should not relate to conditions grade 4 and 5 but rather target those mains at a higher risk of failing or higher incidence of bursts.¹¹⁶ At the Outcomes hearing, Anglian said that the existing third-party

¹⁰⁷ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p36.

¹⁰⁸ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp36–39.

¹⁰⁹ [Southern SoC](#), pp361–362; [Wessex SoC](#), paragraph 8.57(d).

¹¹⁰ [Southern SoC](#), p39, section 5.1.

¹¹¹ [Southern SoC](#), p39, section 5.1.

¹¹² [Wessex SoC](#), paragraph 8.40(a).

¹¹³ [Wessex SoC](#), paragraph 8.40(b).

¹¹⁴ [Anglian SoC](#), paragraph 593; [Northumbrian SoC](#), paragraph 516.

¹¹⁵ [Anglian SoC](#), paragraph 592.

¹¹⁶ [Anglian SoC](#), paragraph 593.

assurance requirements under the PCD arrangements could provide confidence that companies were applying such criteria in an appropriate manner.¹¹⁷

- (b) Northumbrian submitted that focusing only on mains that are in the lowest condition as defined by Ofwat would be likely to be more expensive and less effective at reducing bursts and leakage than a less prescriptive approach which delivered the same replacement rate.¹¹⁸ Northumbrian said that the pipe condition grades as defined by Ofwat did not necessarily reflect the actual condition of the mains and failure risk.¹¹⁹ Northumbrian submitted that Ofwat's definition is not necessarily reflective of the long term performance of pipes as it only looks at the last five years, does not take account of differences in deterioration rates between pipe material types, and may be vulnerable to misleading results.¹²⁰ In its statement of case, Northumbrian stated that Ofwat's PR24 FD approach to focus on replacing pipes that were identified as conditions grade 4 and 5 at the time of Ofwat's PR24 DD did not appear to be a sensible restriction in the context of good asset management practice, or an outcomes-based approach to regulation.¹²¹ Northumbrian submitted that delivering an overall renewal rate of 0.43% a year targeted on the highest risk mains based on its own risk modelling could reduce bursts by 28% more than delivering Ofwat's PR24 FD PCD.¹²²

Ofwat

- 6.49 Ofwat submitted that it considered it appropriate to apply a PCD to protect customers from further under-delivery of mains renewal, and to incentivise companies to undertake the required renewals and move towards a more sustainable renewal rate.¹²³
- 6.50 Ofwat noted that the requirement to renew mains in condition 4 and 5 only applies to those parts of the renewal amounts which arise because of the uplift to expenditure allowances over and above the modelled base allowance.¹²⁴ Ofwat submitted that condition grade 4 and 5 mains are, by definition, those with the highest burst rates.¹²⁵ Ofwat said that: (i) the PCD does not hold companies to account for the mains cohorts identified in their PR24 business plan submissions as being in condition grades 4 and 5; (ii) it accepted these were based on the average burst rate over the last five years; and (iii) that specific lengths of pipe can

¹¹⁷ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p34, lines 17–24.

¹¹⁸ [Northumbrian SoC](#), paragraph 509.

¹¹⁹ [Northumbrian SoC](#), paragraph 510.

¹²⁰ [Northumbrian SoC](#), paragraph 510.

¹²¹ [Northumbrian SoC](#), paragraph 514.

¹²² [Northumbrian SoC](#), paragraph 512.

¹²³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.250.

¹²⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.252.

¹²⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.254.

be expected to move between condition grades.¹²⁶ Ofwat said that the PCD requires companies to provide assurance that the mains renewed through the adjustment to allowances were those with the highest burst rate.¹²⁷

- 6.51 Ofwat submitted that it was important that the PCDs are designed so that companies were not incentivised to deliver the cheapest mains renewals that delivered the least amount of benefit to customers and the environment. It pointed to lessons learnt from the iron mains replacement programme in Ofgem's RIIO-GD1 price control.¹²⁸

Our assessment and provisional decisions

- 6.52 We consider the following issues in turn below:

- (a) requests to change the scope of base PCDs; and
- (b) requests to remove requirements related to condition grade.

Requests to change the scope of base PCDs

- 6.53 Southern and Wessex requested that base PCDs be set only in relation to uplifts to base expenditure allowances (ie allowances over and above modelled base costs). Our provisional view is that this approach would not provide an appropriate basis for holding companies to account for delivering the levels of funded mains renewals. This is because it would not hold companies accountable for delivering the levels of mains renewals that have been funded through the modelled base allowance. This is particularly important given that renewal rates (a) fell significantly in PR19 to a rate that both Disputing Companies and Ofwat recognised was insufficient,¹²⁹ and (b) impact the levels of service provided to customers over time.
- 6.54 Our provisional decision on the level of mains renewals funded through base cost allowances in AMP8 is set out in chapter 4 (Base costs). Our provisional decision is that the mains renewals PCD should include that level of mains renewals in addition to the uplifts referred to in paragraph 6.44, in line with the Ofwat PR24 FD approach and shown in Table 6.2.

¹²⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

¹²⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

¹²⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.262.

¹²⁹ For example, Ofwat (2025) [Response to expenditure allowances - addressing asset health](#), paragraphs 3.26–3.29; and [Northumbrian SoC](#), paragraph 153.

Table 6.2: Mains renewals PCD requirements for the Disputing Companies funded from base cost allowances¹³⁰

	Funded by modelled base costs allowance	Funded by uplift to base costs allowance	Required renewal rate (per year, %) Total funded by base costs allowance
Anglian	0.30%	0.24%	0.54%
Northumbrian	0.30%	0.13%	0.43%
South East	0.30%	0.13%	0.43%
Southern	0.30%	0.13%	0.43%
Wessex	0.30%	0.13%	0.43%

Source: CMA.

Requests to remove requirements related to condition grade

- 6.55 Ofwat said that PCDs should be designed so that companies are not incentivised to deliver the cheapest mains that delivered the least amount of benefit to customers and the environment.¹³¹ Our provisional view is that it is important for the mains renewals PCD to include some protection against this risk.
- 6.56 Ofwat's inclusion of condition grade requirements in the PR24 FD PCD provides a means of doing this. We note Anglian's proposed approach would allow companies to meet the PCD requirements by renewing mains it identified as at a higher risk of failing (and which have not been identified as condition grades 4 or 5) and using the PCD third-party assurance arrangements to provide confidence that the renewals are done in an effective manner. While in principle such an approach might potentially provide a more flexible and more effective means of guarding against the risk of companies focusing on lower cost renewals, our provisional decision is that this would not be an appropriate approach to apply in the PR24 price control. The effectiveness of such an approach would depend heavily on the availability of well-established and reliable methods to determine and assess the effectiveness of companies' identification and management of relevant asset condition risks. While we note ongoing initiatives to improve the ways in which asset condition are assessed within the sector,¹³² our provisional decision is that it would not be appropriate to rely on a broad requirement of the kind proposed by Anglian in the context of these redeterminations.
- 6.57 We note the concerns raised by Anglian and Northumbrian about the potential for the condition grade requirements in the PCDs to constrain mains renewal activity in inefficient ways. However, our provisional view is that Ofwat's PR24 FD approach to specifying the mains renewals PCD took appropriate account of this risk, including by:

¹³⁰ This table shows mains renewals PCD requirements funded by base cost allowances. As set out in paragraph 6.44, under Ofwat's PR24 FD, South East and Southern were also subject to mains renewals requirements funded by enhancement allowances for leakage and water quality allowances.

¹³¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.262.

¹³² We consider submissions related to asset health in chapter 4 (Base costs).

- (a) allowing companies to update assessments of which mains fall into condition grades 4 and 5 (and not holding companies to account for the renewal of the particular cohorts of mains that were identified in company business plans as within these categories);¹³³ and
- (b) limiting the application of the condition grade requirements to the uplifts to mains renewals requirements which result from the sector-wide base cost adjustment claim adjustments. This has the effect of significantly limiting the constraints that the condition grade-based requirements impose. For example, for Anglian, it means that these requirements apply to around 44% of its mains renewals PCD rate; for the other Disputing Companies, the requirements apply to 30% of the mains renewals PCD rate related to base funding.¹³⁴

6.58 Given the above, our provisional decision is to include requirements based on condition grade in the mains renewals PCD in line with the approach taken in Ofwat's PR24 FD.

Non-delivery PCDs and negative expected returns

- 6.59 Southern requested changes to non-delivery PCDs, in particular to provide clarity to when clawbacks would apply.
- 6.60 Ofwat published a consultation on draft written guidance on its approach to applying non-delivery PCD clawbacks shortly before we published our provisional determinations.¹³⁵ Subject to Ofwat's final written guidance appropriately addressing the issues identified in paragraphs 6.68 to 6.73 below, our provisional decision is to retain the PR24 FD approach to non-delivery PCDs for the reasons set out below.

Ofwat's PR24 FD approach

- 6.61 Ofwat's PR24 FD provides for funding to be clawed back from companies where the outputs or outcomes specified in PCDs have not been delivered by the end of the PR24 period.¹³⁶ Non-delivery PCDs apply to material investments which are not protected by a gated process.¹³⁷

¹³³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

¹³⁴ CMA calculations based on Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

¹³⁵ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.1.

¹³⁶ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

¹³⁷ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p308.

Parties' submissions

Disputing Companies

- 6.62 Southern submitted that Ofwat's PR24 FD approach failed to recognise that companies may be well advanced in their delivery of a relevant output at the end of AMP8 and are likely to have incurred considerable expenditure on the output at that stage.¹³⁸ Southern said that, in those circumstances, requiring companies to repay the allowance for that undelivered output would be disproportionate and could leave the company with considerable unfunded expenditure.¹³⁹ Southern submitted that it was not clear how Ofwat would disapply clawbacks due to material regulatory discretion.¹⁴⁰
- 6.63 Southern said that the PR24 FD approach took no account of whether the company intended to deliver the remainder of the PCD outputs in AMP9.¹⁴¹ It submitted that companies would presumably be required to request required allowances again as part of the PR29 price control review, and that it was not clear whether the amount of the allowance spent in AMP8 would be allowed retrospectively at that stage.¹⁴² Southern submitted that a company would have no certainty that Ofwat would make any allowance at all.¹⁴³
- 6.64 Southern requested that the arrangements be amended such that clawback under a non-delivery PCD could only be triggered where a company had either failed to commence, or had cancelled, work on a specified output ahead of the relevant cut-off date.¹⁴⁴
- 6.65 The KPMG risk modelling report, which three of the Disputing Companies (Anglian, South East and Southern) submitted, identified the scope for the clawback of funding under non-delivery PCDs. In relation to projects that companies had commenced but not delivered by the end of the period, the report identified that this would give rise to an expected negative RoRE impact of 25 basis points for the notional WaSC.¹⁴⁵ The Disputing Companies requested an uplift to the allowed return on equity to offset expected negative RoRE impacts arising under the price control arrangements.¹⁴⁶

¹³⁸ [Southern SoC](#), p332, paragraph 41.

¹³⁹ [Southern SoC](#), p333, paragraph 45.

¹⁴⁰ [Southern SoC](#), p75, paragraph 102.

¹⁴¹ [Southern SoC](#), p333, paragraph 45.

¹⁴² [Southern SoC](#), p333, paragraph 45.

¹⁴³ [Southern SoC](#), p333, paragraph 45.

¹⁴⁴ [Southern SoC](#), p360, paragraph 147.

¹⁴⁵ For example, KPMG (2025) [PR24 Final Determinations – risk analysis for a notional company](#); and [Southern SoC](#), p341, Table 1.

¹⁴⁶ For example, [Anglian SoC](#), paragraph 628.

6.66 In its Response to the Disputing Companies' statements of case, Ofwat said:¹⁴⁷

'We disagree with Southern Water that our PCD regime would claw-back funding leaving companies with significant unfunded expenditure. We would expect companies to plan to deliver output well ahead of March 2030. However, where companies are slightly late in delivering the output by the end of the five-year period we will withhold claw-back. Instead, we will apply late delivery penalties so that companies are not better off from delivering outputs late. Where a company is significantly late in delivering an output by end of the control period, we reserve the right to apply claw-back for non-delivered outputs.'

6.67 Ofwat said that Southern's proposal to not apply clawback when a project had commenced, but the output had not yet been delivered, risked weakening the incentives for companies to deliver the funded output in a timely manner.¹⁴⁸ At its presentation following its Response, Ofwat noted concerns with respect to how the PCD arrangements will operate and urged companies to 'trust us'.¹⁴⁹ Ofwat told us that it would be consulting on its approach to applying non-delivery PCD clawbacks in Autumn 2025.¹⁵⁰ Ofwat published its draft guidance for consultation on 10 September 2025, seeking responses by 10 October 2025.¹⁵¹

Our assessment and provisional decisions

6.68 We consider that the non-delivery PCD arrangements – as described in Ofwat's PR24 FD¹⁵² and in Ofwat's Response¹⁵³ – leave open the possibility that Ofwat may clawback funding where a company had incurred a material level of expenditure associated with the delivery of PCD outputs, but those outputs had not been delivered by the end of the AMP8. Indeed, the comments in Ofwat's Response shown in paragraph 6.66 imply that Ofwat would have the discretion to wholly disallow the recovery of costs that had otherwise been efficiently incurred in the delivery of an output on the basis that the output had not been delivered before the end of AMP8. Our provisional view is that arrangements that leave regulatory discretion of this kind could have material adverse consequences for customers, including through potentially deterring companies from investing in projects where there is a material risk of not being able to deliver by the end of the period, and

¹⁴⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.20.

¹⁴⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.22.

¹⁴⁹ Ofwat (2025) Transcript of the Ofwat Initial Presentation on 8 May 2025, p47, lines 15–24.

¹⁵⁰ Ofwat response to Ofwat RF105, Q9(b); (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p47, lines 6–14.

¹⁵¹ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.1 (accessed 12 September 2025).

¹⁵² Ofwat (2025) [PR24 Final Determinations: Expenditure allowances](#), pp311–314.

¹⁵³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraphs 7.20–7.22.

generating undesirable incentives for delay. That is, uncertainty over how clawback arrangements will be applied has the potential to exacerbate, rather than ameliorate, risks of delay.

6.69 Our provisional decision is that it would not be appropriate to treat this kind of risk as something that should be offset by an adjustment to the allowed return, because it is not a necessary feature of the arrangements. Such an approach would not provide an effective way of addressing the potential harm to customers that could arise as a result of associated delays in delivery of investment programmes. Rather, our provisional decision is that the most appropriate way for this risk to be addressed would be for Ofwat to provide appropriate guidance on how it would expect to apply the clawback arrangements. That guidance should provide a basis for companies to have confidence that the non-delivery PCD arrangements would not be used to clawback allowances that had been used efficiently to fund the provision of required outputs.

6.70 At the Outcomes hearing Ofwat stated that:

‘We understand there will be instances where companies may not be able to deliver everything to schedule by the end of AMP8. Where companies are late to deliver by the end of the AMP but are still planning to deliver in the next AMP, we will not apply claw back. But we will apply time incentives to encourage companies to deliver as quickly as possible.’¹⁵⁴

6.71 However, in a subsequent RFI response, Ofwat described its approach differently. Ofwat submitted that it would not apply clawback where a company was late to deliver by the end of the AMP but was still planning to deliver in the next AMP, if it considered that ‘sufficient progress’ had been made. However it would apply clawback if it considered that sufficient progress had not been made.¹⁵⁵ In circumstances where the company had started work and was planning to deliver it in the next period, Ofwat said that it would re-provide funding as part of PR29.¹⁵⁶ When we asked Ofwat at its hearing about the reason for the difference between this written response and the position shown above that it had presented at the Outcomes hearing, the only rationale Ofwat articulated was a concern over the potential financing benefit companies could receive through having retained (but not used) its funding allowance.¹⁵⁷

6.72 We welcome Ofwat’s steps to provide greater clarity on the circumstances in which it considers it may be appropriate to clawback funding under the non-delivery PCD arrangements, and that Ofwat has published a consultation on draft

¹⁵⁴ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p42, lines 13–17.

¹⁵⁵ Ofwat response to Ofwat RFI13, Q1(a).

¹⁵⁶ Ofwat response to Ofwat RFI13, Q1(a).

¹⁵⁷ (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p58, lines 21–26, and p59, lines 1–6.

guidance.¹⁵⁸ It is important that Ofwat provides clear guidance as to how it would apply the material discretion it appears to have under the description of the clawback arrangements set out in its PR24 FD to mitigate the potential for adverse consequences for customers and companies described in paragraph 6.68 above.

- 6.73 We note Ofwat's comments on the scope for companies to secure financing benefits from retaining, but not using, an allowance for a significant period of time. However, it is important that Ofwat's guidance identifies proportionate ways in which any such issues might be addressed. This guidance should:
- (a) recognise the adverse impacts that can arise – including over time for customers – from regulatory discretion in relation to the clawback of funding that may have already been efficiently spent; and
 - (b) take account of the scope for using timing incentives, rather than clawback arrangements, as a means of addressing concerns over the risks of delayed delivery, including concerns over the potential financing benefit that companies could accrue when delivery is later than had been assumed in the setting of PR24 funding allowances.
- 6.74 Ofwat initiated a consultation on draft guidance on its approach to applying non-delivery PCD clawbacks shortly before we published our provisional determinations.¹⁵⁹ Subject to Ofwat's final guidance appropriately addressing the issues identified in our assessment above, our provisional decision is to retain the PR24 FD approach to non-delivery PCDs.

Time Incentive (TI) PCDs

- 6.75 As described above (in paragraph 6.10(b)), TI PCDs are two-way incentives that are applied in addition to non-delivery PCDs. They are intended to encourage timely delivery by rewarding on-time delivery and penalising late delivery by reference to annual delivery targets.¹⁶⁰
- 6.76 Anglian and Southern requested changes to the TI PCDs:
- (a) Anglian asked for annual time limits and time incentives to be removed from all PCDs; and
 - (b) Southern asked for restrictions in the application of time incentives and an adjustment to the outperformance rates.

¹⁵⁸ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.1.

¹⁵⁹ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.1.

¹⁶⁰ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

6.77 Our provisional decision is to retain Ofwat's PR24 FD approach to TI PCDs, for the reasons set out below.

Ofwat's PR24 FD approach

6.78 Ofwat's approach to setting TI PCDs in PR24 was as follows.¹⁶¹

- (a) A cumulative delivery target was set for 30 March of each year of the period (based on an assumed delivery profile).
- (b) Shortfalls in delivery against these annual targets will be subject to the Timing Incentive (TI) underperformance rate which was set equal to the PCD unit clawback rate x Wholesale WACC for each unit not yet delivered.¹⁶²
- (c) Every unit delivered on time or early against annual targets will be subject to the TI outperformance rate which was set equal to one third of the TI underperformance rate.¹⁶³
- (d) Ofwat said that PR19 evidence suggested that on-time delivery was three times more likely than late delivery.¹⁶⁴ Therefore, if a company delivered 75% of required outputs on time and 25% outputs one year late, the rewards it received for on-time delivery would equal the penalties it incurred for late delivery.
- (e) TI PCDs applied to c. £22 billion of expenditure within the whole PR24 FD (approximately 40% of enhancement and 6% of base expenditure),¹⁶⁵ and applied to selected expenditure areas: water supply, supply and resilience interconnectors, metering, mains renewals, storm overflows and phosphorus removal.¹⁶⁶

Parties' submissions

Disputing Companies

6.79 Anglian and Southern submitted the following issues with TI PCDs.

- (a) Largely arbitrary: TI PCDs have no direct link to WINEP obligations which drove the need for the funding in the first place.¹⁶⁷

¹⁶¹ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), pp306–311.

¹⁶² The PCD Clawback rate is the non-delivery PCD amount and is the portion of funding identified as associated with delivering the relevant outputs. Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

¹⁶³ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p310.

¹⁶⁴ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p310.

¹⁶⁵ Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

¹⁶⁶ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), p15.

¹⁶⁷ [Anglian SoC](#), paragraph 579.

- (b) Excessively punitive: reasons for delay may be beyond company control (eg planning permission, supply chain risks), and delay may not have a material impact on outcomes for customers.¹⁶⁸
- (c) Prevent flexibility and undermine efficient delivery: TI PCDs remove ability to take a holistic approach. The TI PCDs force focus on delivering individual components of investment programmes to a pre-specified timetable, and adoption of tried and tested solutions as much as possible. This approach ignores realities of mobilising a supply chain to deliver projects on the scale required.¹⁶⁹
- (d) Asymmetric: Ofwat used out-of-date data to assess the balance of risk. Many of the AMP7 WINEP schemes were low complexity and related to short duration projections, which is not representative of the significantly more complex AMP capital programme. KPMG analysis showed an expected loss on time incentive PCDs for the notional company of 8 basis points of RoRE.¹⁷⁰

6.80 Anglian requested the removal of annual time limits and time incentives across all PCDs.¹⁷¹

6.81 Southern requested that time incentives only apply to outputs for which a quality regulator (eg the EA or DWI) had set a relevant delivery date, and that the outperformance rate be set equal to two thirds of the underperformance rate (instead of one third as in the PR24 FD).¹⁷²

Ofwat

6.82 Ofwat submitted the following.

- (a) Flexibility was provided by applying timing incentives to outputs at programme level. Tracking aggregated outputs provides flexibility to offset delays with early delivery of other projects.¹⁷³
- (b) Companies will break even if they deliver 75% of outputs on time: this provides flexibility to manage delivery risks.¹⁷⁴
- (c) In areas where the pool of projects is smaller (such as water supply, supply interconnectors and resilience interconnectors), the PR24 FD allows a one-

¹⁶⁸ Anglian SoC, paragraph 580; Southern SoC, p326, paragraph 2.

¹⁶⁹ Anglian SoC, paragraph 580; South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 2.19(a).

¹⁷⁰ Southern SoC, paragraphs 73–75; and Anglian SoC, paragraph 581.

¹⁷¹ Anglian SoC, paragraph 584.

¹⁷² Southern SoC, p339, paragraphs 54–55 and 148.

¹⁷³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.56.

¹⁷⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.56.

year grace period before late delivery penalties start to apply, which provides additional headroom.¹⁷⁵

- (d) Companies have already had time to develop best value solutions through the WRMP, DWMP and WINEP processes, and delivery on most time incentive areas is not expected until Year 3 of AMP8. This should allow for companies to identify and deliver the improvements for which customers are paying.¹⁷⁶
- (e) Water related TI PCDs were set in line with company business plan delivery profiles.¹⁷⁷ Ofwat challenged companies to bring forward some Wastewater (WINEP) delivery where plans were significantly backloaded towards the end of the AMP (namely, storm overflows and phosphorous removal), but this should incentivise spreading delivery more evenly across the period and reduce supply chain risks.¹⁷⁸
- (f) Severn Trent presented a significantly backloaded profile which Ofwat challenged, but announced to investors in March 2025 that it is forecasting to outperform time incentive PCD targets and gain up to £50 million in on-time delivery rewards.¹⁷⁹

6.83 With respect to its use of PR19 evidence to calibrate time incentive PCDs, Ofwat submitted the following.

- (a) PR24 activities would be similar to those carried out in PR19: installing meters, mains renewals, interconnectors, storm tanks and wastewater treatment upgrades.¹⁸⁰
- (b) The scale of these activities would grow in PR24 but it expected companies to enhance their delivery capabilities over time, and PR19 was particularly challenging (given COVID-19 and supply chain disruptions caused by Brexit and the Russian invasion of Ukraine).¹⁸¹
- (c) Companies did not face TI incentives in PR19: companies with bespoke WINEP performance commitments in PR19 delivered on time c. 90% of the time compared to a sector WINEP average of 76% on time. This suggested that the PR24 FD estimate of on-time delivery may be conservative for PR24.¹⁸²

¹⁷⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.57.

¹⁷⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.58.

¹⁷⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.61.

¹⁷⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.61.

¹⁷⁹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.64.

¹⁸⁰ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.79.

¹⁸¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.80.

¹⁸² Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.81.

- 6.84 Ofwat said that it had significant concerns with the use of the KPMG infrastructure project database and pointed to it having included large and major projects with an average cost of: £36 million for 27 projects (Cluster 1); £433 million for 14 projects (Cluster 2); and £1,371 million for 15 projects (Cluster 3).¹⁸³ Ofwat contrasted this to the average PR24 (AMP8) cost of less than £10 million and indicated that PR19 (AMP7) delivery was more representative of PR24.¹⁸⁴

Our assessment and provisional decisions

- 6.85 We note that Ofwat pointed to evidence from previous price control periods as showing the sector overall had tended to adopt a relatively backloaded approach to delivering investment programmes, with activity levels tending to be relatively low in the early years of an AMP and ramping up significantly at the end of an AMP.¹⁸⁵
- 6.86 If projects are delivered late, the benefits of these projects also accrue to customers late, and it is right for the regulator to penalise companies accordingly. Companies are funded to deliver significant investment in AMP8 which we consider heightens the importance of incentives for companies to deliver in a timely manner. Without the TI PCD, companies may have an incentive to backload their expenditure profile and delay the completion of projects at the expense of customers.
- 6.87 Given this context, our provisional decision is that it is appropriate for TI PCDs to be introduced for AMP8 to encourage the timely delivery of the funded investment programmes. We discuss submissions – including KPMG’s analysis – on the calibration of TI PCDs in chapter 8 (Risk and Return), and provisionally find the evidence submitted to us suggests that companies would expect to face no penalty or a small net reward.
- 6.88 We consider that Ofwat’s PR24 FD approach on the application of TI PCDs provides companies with significant scope to manage penalty risks, while at the same time providing material opportunities for rewards. As Ofwat noted, this includes tracking outputs on an aggregated (rather than project) basis in a range of areas, and providing a one-year grace period before late delivery penalties start to apply in some areas where there is a smaller pool of projects (eg supply and resilience interconnectors).¹⁸⁶ TI PCDs will – by design – affect the financial implications of different delivery timelines that companies might choose to adopt,

¹⁸³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.85.

¹⁸⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.85–7.86.

¹⁸⁵ For example, Ofwat (2025) Transcript of the Ofwat Initial Presentation on 8 May 2025, p44, lines 15–26, and p45, line 1; and (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p51, lines 4–14.

¹⁸⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraphs 7.56 and 7.57.

but our provisional decision is that this is unlikely to undermine the scope for the efficient delivery of company investment programmes.

- 6.89 We note that even where penalties would apply under TI PCDs, these may be mitigated to some extent by the financing benefit that companies could secure. For example, a financing benefit may occur where the delay in delivery was accompanied by some delay in the expenditure profile for the project relative to that assumed when its funding allowances had been set. That is, under those circumstances, there would be a delay between when the company receive the expenditure allowance and when it begins to incur the relevant costs.¹⁸⁷ We note that this potential benefit suggests that the assessment of the financial impact of the TI PCDs referred to in paragraph 6.87 may be conservative.¹⁸⁸
- 6.90 Given the above, our provisional decision is to retain the TI PCDs in line with Ofwat's approach in its PR24 FD.

The scope for PCDs to be adjusted within the AMP

- 6.91 Once a PCD was set for the price control, Ofwat's PR24 FD did not include a mechanism to amend the defined outputs during the price control period.
- 6.92 Southern asked for an adjustment mechanism to allow for changes to PCDs within the AMP.
- 6.93 Our provisional decision is not to include a within-AMP adjustment mechanism in these redeterminations, for the reasons set out below.

Parties' submissions

Disputing Companies

- 6.94 Southern requested that a within-AMP adjustment mechanism be added such that:¹⁸⁹
- (a) Ofwat would be required to modify required outputs and delivery dates to align with modifications agreed with a relevant quality regulator (eg the EA or DWI); and
 - (b) companies would be permitted to make general requests for modifications to PCD delivery dates which are not set by a quality regulator, and Ofwat would assess whether (i) the changes would result in an equivalent or better consumer outcome; and (ii) any associated cost savings are attributable to

¹⁸⁷ See Ofwat response to Ofwat RFI03, Q5, and to Ofwat RFI07, Q1.

¹⁸⁸ See Ofwat response to Ofwat RFI07 Q1.

¹⁸⁹ [Southern SoC](#), p362, paragraph 151.

efficiency or innovation. Ofwat would be required to approve changes to the delivery date except where it could demonstrate that at least one of these two requirements is not met.

Ofwat

- 6.95 Ofwat said that the arrangements already provide significant flexibility, because:
- (a) some PCDs track generic outputs and delivery across a programme level rather than for specific schemes;¹⁹⁰ and
 - (b) where companies are held to the delivery of specific schemes, the PCD does not specify the scope of work but instead requires the company to secure confirmation from the relevant regulator (eg the EA) that the scheme has been completed.¹⁹¹
- 6.96 Ofwat said that it is for its fellow regulators (such as the EA and Natural Resources Wales) to determine the appropriateness of agreeing to delays to delivery of schemes to meet their own requirements. However, customers have paid for delivery of benefits and Ofwat would expect companies to deliver these benefits in line with the profile of funding. It submitted that its approach provides flexibility for delivery dates to change within the five-year period before any clawback and time penalties would apply.¹⁹²
- 6.97 At the Outcomes hearing, Ofwat said it was planning to introduce some scope for within-period adjustments to PCDs,¹⁹³ and it provided further details on this in response to a subsequent RFI.¹⁹⁴ Ofwat considered that the introduction of a change control process across the full suite of PCDs would be disproportionate, noting that there had been more than 10,000 WINEP (in England)/National Environment Programme (in Wales; **NEP**) actions and 12,000 changes to those actions in PR19, and there are around 28,000 WINEP/NEP actions in PR24.¹⁹⁵ However, for PCDs which apply to specific schemes and which are material and bespoke, companies have less ability to manage risks and Ofwat proposed to allow for a narrow change control process for these. This would allow for completion date changes outside a company's control (eg due to planning permission not being granted by a local authority), and scope of work or output changes where customers and the environment receive equivalent or larger benefits than originally planned.¹⁹⁶ Ofwat initiated a consultation on this proposed

¹⁹⁰ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.4.

¹⁹¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.14.

¹⁹² Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.24.

¹⁹³ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p53, lines 14–23; and p61, lines 13–19.

¹⁹⁴ Ofwat response to Ofwat RFI13, question 1(b).

¹⁹⁵ Ofwat response to Ofwat RFI13, question 1(b).

¹⁹⁶ Ofwat response to Ofwat RFI13, question 1(b).

change control process on 10 September 2025, seeking responses by 10 October 2025.¹⁹⁷

Our assessment and provisional decisions

- 6.98 Our provisional decision is that it would not be appropriate for us to introduce a within-AMP adjustment mechanism of the kind requested by Southern as part of these redeterminations. In forming this view, we have taken account of:
- (a) Ofwat's submissions on the volume of changes that could arise (given the experience in AMP7); and
 - (b) our provisional decision that for an adjustment mechanism to be effective it would need to provide for (i) proportionate ways to determine when changes could and/or should trigger an adjustment to PCDs, and (ii) how the substance of any adjustments should be identified.
- 6.99 On proportionality, we note that where within-AMP changes agreed with a quality regulator result in a reduction or delay in delivery requirements, the PCD arrangements in Ofwat's PR24 FD provided for some relevant adjustments. For example, if a company is required to deliver a lower number of a given output than defined by a company's PCDs (because of some other change in circumstances), the clawback arrangements provide an end-of-period means of taking that into account.¹⁹⁸ In addition, while companies may be exposed to TI PCD penalties (if the penalties apply to the relevant category of spend), as was noted in paragraph 6.89 above, there could be some degree of offsetting financing benefit during the period as a result of funding having been provided for a requirement that is not needed within the AMP.
- 6.100 We welcome Ofwat's consultation on the development of a narrowly defined PCD change control process. It could provide a means to take account of significant changes that may affect likely delivery requirements related to material, specific schemes. We note that broader issues about the alignment of requirements, and relevant changes to those requirements across regulators, will be considered as part of broader changes to the regulatory landscape announced by the government in its initial response to the Independent Water Commission's Report.¹⁹⁹

¹⁹⁷ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.2 (accessed 12 September 2025).

¹⁹⁸ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

¹⁹⁹ Defra (2025) [Ofwat to be abolished in biggest overhaul of water since privatisation](#) (accessed 15 September 2025).

PCDs and overlapping penalties

- 6.101 Ofwat's PR24 FD framework includes different incentive and penalty mechanisms, some of which may also overlap with other legal requirements on companies.
- 6.102 Southern asked the CMA to introduce an offset mechanism to address the risk of overlaps between PCDs and ODIs which they argued lead to companies being penalised multiple times for a failure to deliver the same output.
- 6.103 Our provisional decision is not to introduce such an offset mechanism, for the reasons set out below.

Parties' submissions

Southern

- 6.104 Southern submitted that the PCD framework creates a risk of overlapping penalties where failure to deliver a PCD output may lead to ODI penalties and/or financial penalties arising out of enforcement action for non-compliance with statutory or regulatory obligations.²⁰⁰ Southern expressed concern that a company may be penalised multiple times for a failure to deliver the same output and the PCD framework adds materially to the risk burden faced by companies.²⁰¹ Southern said that Ofwat's analysis (outlined at paragraph 6.106 below) only considered short term impacts and that the effects are larger if the impact was considered across the lifetime of the investment.²⁰²
- 6.105 Southern requested that an offset mechanism be introduced to address the financial double jeopardy it said arises from overlaps between PCDs and ODIs.²⁰³ Under Southern's proposed approach, an offset would be permitted where it could demonstrate that its failure to deliver outputs as required by a PCD materially contributed to an obligation on it to make an ODI payment.²⁰⁴ The extent of the offset would be limited to the amount of the ODI payment which Southern could demonstrate was associated with its failure to deliver.²⁰⁵ Southern submitted that Ofwat's assessment did not account for the impact that enhancement spend has on ODI penalties and rewards in future price control periods beyond AMP8.²⁰⁶

²⁰⁰ [Southern SoC](#), p326, paragraph 2 and paragraph 117.

²⁰¹ [Southern SoC](#), p352, paragraph 118.

²⁰² See [Southern SoC](#), p352, paragraphs 122–126 for Southern's view of the overlap between PCDs and ODIs.

²⁰³ [Southern SoC](#), p363, paragraph 152.

²⁰⁴ [Southern SoC](#), p363, paragraph 153.

²⁰⁵ [Southern SoC](#), p363, paragraph 153.

²⁰⁶ [Southern SoC](#), p353, paragraph 122.

- 6.106 Ofwat said that its analysis of business plans suggested that the overlap between PCDs and ODIs was zero or near zero for the majority of PCDs, and that it was not significant for those PCDs where there is some overlap.²⁰⁷ Ofwat said that it therefore did not allow ODI payments to be netted off from PCD payments, and that this was consistent with its policy that companies should not be better off from non- or partial delivery.²⁰⁸ Ofwat said calculating the impact of non-delivery on performance was not straightforward and that Southern's proposal for an offset mechanism could lead to perverse incentives (eg to not deliver outputs).²⁰⁹ It said it would reset PCLs at PR29 and would consider the extent to which non-delivery was reflected in PCLs then.²¹⁰
- 6.107 Ofwat submitted that the PCD framework is a tool to encourage timely delivery of output and return money to customers for non-delivery. It is not part of Ofwat's enforcement function and does not enable Ofwat to impose financial penalties.²¹¹ Ofwat said that the possibility of enforcement action, on its own, would not fully address its concerns on non- or partial delivery.²¹²

Our assessment and provisional decisions

- 6.108 Ofwat's assessment during the PR24 FD process identified limited scope for overlap between the operation of PCDs and ODIs.²¹³ Southern said that it disagreed with this conclusion because it only considered short-term effects.²¹⁴ We note that Ofwat considered the relationship between enhancement funding and PCLs as part of its PR24 FD²¹⁵ And we have considered that relationship in paragraphs 6.268 to 6.270 below in the context of water supply interruptions where we highlight some of the practical difficulties associated with identifying the precise quantum of improvement that should be associated with specific schemes.
- 6.109 While we recognise that enhancement spend (which may have PCDs linked to it) can impact the levels of performance that a company can achieve over time, our provisional decision is that it would not be appropriate to adjust the level of ODI penalties a company may face if delays in its delivery of a given enhancement project contribute to poor performance.

²⁰⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

²⁰⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

²⁰⁹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.44.

²¹⁰ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

²¹¹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.46.

²¹² Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.48.

²¹³ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

²¹⁴ [Southern SoC](#), p353, paragraph 122.

²¹⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.43 and Table 22.

- 6.110 In reaching our provisional decision, we have taken into account that the underlying rationales for the financial implications that can arise under the PCD and ODI arrangements can differ materially.
- (a) Non-delivery PCD clawback arrangements can be viewed as simply ensuring that companies are funded for what they deliver (with funding returned to customers in the event that specified outputs are not delivered). Under these arrangements, we do not consider that it is appropriate to treat the clawback of funding in relation to an output that has not been delivered as a 'penalty'.
 - (b) Time incentive PCDs can be viewed as having a penalty element, but can also be understood as part of a framework aimed at ensuring that companies are not better off as a result of delayed delivery. This is important in a context where, as noted in paragraph 6.89 above, companies may secure a financing benefit when they have been funded for projects that are undertaken later than had been assumed when funding was set.
 - (c) ODI penalties typically focus on outcomes that affect customers and/or the environment, with penalties related to the scope for harm to arise.
- 6.111 Our provisional decision is that it would not be appropriate to put in place a mechanism that takes account of failures or delays to deliver funded investments (ie adjustments under (a) and/or (b) above) when ODI penalties are being calculated within AMP8. The introduction of an offset mechanism of the kind proposed by Southern could give rise to material risks of perverse incentives arising with respect to both: (i) the delivery of funded outputs; and (ii) the provision of appropriate levels of ODI performance. For the same reason, we also provisionally decide that no adjustment should be made for any overlap with other statutory and regulatory obligations.

PCDs and administrative and regulatory burdens

- 6.112 This section concerns the administrative and regulatory burdens in Ofwat's PR24 FD.
- 6.113 Anglian and Southern submitted that the reporting requirements are burdensome. Anglian requested that the reporting requirements be reduced to be more proportionate (for example by requiring companies to submit one report annually and lighter-touch reporting requirements for simpler high-volume lower-value PCD outputs such as metering).²¹⁶
- 6.114 Our provisional decision is to maintain the PCD reporting and assurance arrangements in Ofwat's PR24 FD, for the reasons set out below.

²¹⁶ [Anglian SoC](#), paragraph 625.

Ofwat's PR24 FD approach

- 6.115 Ofwat's PR24 FD sets out a range of reporting and independent assurance requirements in relation to PCDs.²¹⁷

Parties' submissions

Disputing Companies

- 6.116 Anglian submitted that the reporting and assurance arrangements in Ofwat's PR24 FD created significant new administrative burdens and additional costs for companies (and for Ofwat) which were not reflected in Ofwat's PR24 FD.²¹⁸ Anglian recognised the importance of reporting and assurance but argued that the objective of providing transparency and protecting customer interests could still be fully achieved with less burdensome requirements and a more proportionate, lighter touch approach (for example, one annual report and lighter-touch reporting requirements for simpler high-volume lower-value PCD outputs).²¹⁹ Anglian submitted that the administrative burden in Ofwat's PR24 FD exerts unnecessary pressure on water companies and hinders their ability to operate effectively.²²⁰
- 6.117 Southern also submitted that Ofwat's PR24 FD failed to adequately consider the bureaucratic costs from reporting obligations.²²¹ Southern was concerned that Ofwat had not allowed any flexibility to the reporting framework and questioned the necessity for the burdensome level of reporting.²²²
- 6.118 Anglian requested that we introduce more proportionate reporting requirements and ex-post assessment for certain PCDs such as scheme specific ones, in line with Ofgem's approach to evaluative PCDs, to allow greater flexibility.²²³

Ofwat

- 6.119 Ofwat submitted that the scale of its PR24 FD enhancement funding (£44 billion) underpinned the proportionality of its reporting and assurance requirements.²²⁴ Ofwat said that the reporting and assurance requirements were needed to maximise the deliverability of its PR24 FD and provide assurance that companies are using the additional allowances to deliver the benefits for which customers are paying.²²⁵

²¹⁷ Ofwat (2025) [PR24 final determinations: Price control deliverables appendix](#), pp10–12.

²¹⁸ [Anglian SoC](#), paragraph 619.

²¹⁹ [Anglian SoC](#), paragraphs 624–625.

²²⁰ Anglian (2025) [Response to other Disputing Companies' SoCs](#), p3.

²²¹ [Southern SoC](#), p351, paragraphs 110–115.

²²² [Southern SoC](#), p351, paragraph 115.

²²³ [Anglian SoC](#), paragraph 627.

²²⁴ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.108.

²²⁵ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.108.

6.120 Ofwat acknowledged that evaluative PCDs (of the kind used by Ofgem which involve an in-depth ex-post assessment of the output delivered and whether an adjustment to allowances is necessary to protect customers)²²⁶ can be useful where the scope of work is highly uncertain in relation to significant investments, justifying the additional regulatory and administrative burden.²²⁷ Ofwat submitted it had dealt with this level of uncertainty through its use of a gated process such that PCDs for such projects would be applied at a later date when the scope of work had become clearer.²²⁸ It said that broader use of evaluative PCDs would give rise to significant administrative burden and would not bring significant value.²²⁹

Our assessment and provisional decisions

- 6.121 Our provisional view is that the evidence submitted by Anglian and Southern does not show that the PCD reporting and assurance requirements introduced by Ofwat's PR24 FD would result in a disproportionate incremental level of administrative and regulatory burdens. In forming this provisional view, we have taken into account the scale of the investment programmes the Disputing Companies have been funded to undertake in AMP8, and the internal management and governance processes that would, in any event, be likely to be required to deliver those programmes effectively.
- 6.122 Our provisional decision is that it would not be appropriate to introduce evaluative PCDs (similar to those which Ofgem uses) in AMP8. As set out in paragraph 6.100 above, we welcome Ofwat's consultation on the development of a narrowly defined PCD change control process.²³⁰ We note that this guidance may provide an alternative means (to the use of evaluative PCDs) of providing some flexibility in relation to the specification of some PCDs.
- 6.123 Our provisional decision is that the PCD reporting and assurance arrangements should apply in line with Ofwat's PR24 FD.

Outcome Delivery Incentives (ODIs)

- 6.124 ODIs provide financial payments to water companies from customers for performing beyond committed levels of service (outperformance payments) or from companies to customers for performing below their committed levels (underperformance payments).²³¹ Our provisional determinations below are

²²⁶ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.25.

²²⁷ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.30.

²²⁸ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.30.

²²⁹ Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.31.

²³⁰ Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), section 2.2.

²³¹ Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p1.

organised by reference to three core components of ODI arrangements applied in Ofwat's PR24 FD.

- (a) PCLs: performance commitments are metrics that Ofwat uses to measure the service that water companies deliver for their customers and the environment.²³² PCLs are the committed levels of performance set by Ofwat for each performance commitment.²³³
- (b) ODI rates: ODI rates are the incentive rates used to determine financial payments in relation to ODIs. Incentive payments are determined by multiplying a company's performance relative to its PCL by the applicable ODI rate.²³⁴
- (c) ODI risk protections: ODI risk protections limit the financial risk to customers and companies as a result of ODI payments.²³⁵ These include caps and collars which stop additional ODI rewards (caps) or penalties (collars) beyond set thresholds on particular ODIs, and deadbands under which no rewards or penalties are applied between the PCL and a defined threshold.²³⁶

Ofwat's PR24 FD approach

6.125 Ofwat's PR24 FD defined 24 common performance commitments, shown in Figure 6.3, and seven bespoke (or company-specific) performance commitments.²³⁷ Common performance commitments applied to all companies (to the extent relevant; see Figure 6.4 below),²³⁸ whereas bespoke performance commitments applied to specific companies.²³⁹ Ofwat's PR24 FD applied ODIs to 23 of the common performance commitments shown in Figure 6.3 (with a reputational incentive applied to the river water quality performance commitment).²⁴⁰ We provide an overview of Ofwat's PR24 FD approach to setting PCLs, ODI rates and risk protections in the sections below.

²³² Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p4.

²³³ Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p4.

²³⁴ Ofwat (2024) [PR24 Final Determinations Glossary](#), p10.

²³⁵ Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 38.

²³⁶ Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 38.

²³⁷ Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 6.

²³⁸ Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 6. For example, wastewater common performance commitments do not apply to WoCs and BR-MeX (England) does not apply to Welsh companies.

²³⁹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p16 and Table 4.

²⁴⁰ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p7, Table 1 and p155.

Figure 6.3: Ofwat's PR24 FD common performance commitments

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

Source: Ofwat (2025) *PR24 final determinations: Delivering outcomes for customers and the environment*, Table 2, p14.

Our approach to addressing submissions related to ODIs

- 6.126 The Disputing Companies considered that the outcomes package in Ofwat's PR24 FD contained asymmetric downside risk on a notional company basis, and it was excessively stretching and exposed companies to a high risk of penalties.²⁴¹ In the Outcomes hearing, Northumbrian stated on behalf of the Disputing Companies that '... all companies have concerns there is downside skew here for the notional company and Ofwat seems to agree with that as well'.²⁴² Northumbrian went on to say that all of the Disputing Companies agreed that issues should be dealt with at source if possible, while noting that there are some practical challenges in achieving that.²⁴³ CCW submitted that PCLs and associated ODIs should be challenging to achieve and incentivise companies to invest in both immediate service improvements and long-term infrastructure resilience.²⁴⁴
- 6.127 Below we examine the Disputing Companies' requests for changes to the ODI arrangements at source: that is, the specific requests for changes to PCLs, ODI rates and to the individual risk protections that are applied to ODIs. Broader questions concerning the overall balance of risk under the ODI framework,

²⁴¹ For example, see [Anglian SoC](#), paragraphs 596 and 653; Northumbrian (2025) [Response to other Disputing Companies' SoCs](#), pp16–17; South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 3.1; [South East SoC](#), paragraph 5.5; South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 3.2; Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 75; [Southern SoC](#), p340, paragraph 61; (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p11, lines 25–26.

²⁴² (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 19–22.

²⁴³ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 21–23.

²⁴⁴ CCW (2025) [Third party submission on the Water PR24 References – Anglian](#), paragraph 3.10.

including the role played by the OAM and the ASM, are covered in chapter 8 (Risk and Return).

Performance Commitment Levels (PCLs)

6.128 Ofwat described itself as aiming to set achievable but stretching PCLs in its PR24 FD based on the efficient expenditure it had allowed. Ofwat adopted the following general approach to setting PCLs:²⁴⁵

- (a) determining whether PCLs should be set on a common or company-specific basis (Figure 6.4 below shows which PCLs were set at a common and at a company-specific level);
- (b) setting a baseline level for 2024/25 performance;
- (c) determining what level of performance improvement should be delivered from base expenditure during AMP8; and
- (d) determining what level of performance improvement should result from enhancement funding.

Figure 6.4: Ofwat's PR24 FD PCLs set at a common and company-specific level

Common level	Company-specific level
• Compliance risk index; • Serious pollution incidents; • Discharge permit compliance; • Unplanned outage • Water supply interruptions; • Internal sewer flooding*; • Total pollution incidents*; • Biodiversity; • Business customer experience in Wales	• Storm overflows • Per capita consumption; • Repairs to burst mains; • Sewer collapses; • Leakage; • Business demand; • Bathing water quality; • River water quality; • External sewer flooding; • Customer contacts about water quality; • Operational greenhouse gases (water); and • Operational greenhouse gases (wastewater).

Source: Ofwat (2025) Teach-in slides: Overview and PR24 building blocks, slide 36.

Note: Customer experience performance commitments (C-Mex, D-Mex and BR-Mex) were set on a comparative basis.

6.129 Ofwat then reviewed the overall stretch across cost and service in the round, considering performance of efficient companies and the potential financial impact of ODI payments.²⁴⁶

6.130 We describe how Ofwat set PCLs in its PR24 FD below in relation to those PCLs to which Disputing Companies requested changes. We consider the following requests in turn below:

²⁴⁵ Ofwat (2025) Teach-in slides: Overview and PR24 building blocks, slide 35.

²⁴⁶ Ofwat (2025) Teach-in slides: Overview and PR24 building blocks, slide 35.

- (a) Southern's request to change its storm overflows PCL;
- (b) Anglian's request to change its external sewer flooding PCL;
- (c) Anglian and Southern's requests to make changes to the total pollution incidents PCL;
- (d) Anglian and Southern's requests to make changes to the common PCL for water supply interruptions;
- (e) South East's request for a company-specific water supply interruptions PCL and a change to its water supply interruptions penalty collar;
- (f) Anglian's request for a change to its leakage PCL;
- (g) Southern and South East's requests for changes to performance measurement under C-Mex; and
- (h) South East's request for a change related to its PR19 PCL concerning non-household void properties.²⁴⁷

Storm overflows

- 6.131 There has been significant public concern for several years about sewage discharge as a result of storm overflows and the UK government specified in the SPS (in 2022) that tackling this should be a high priority for the sector. The SPS states that the UK government expects water companies to significantly reduce the frequency and volume of sewage discharges from storm overflows,²⁴⁸ and the outcomes it expects water companies to meet are set out in Defra's Storm Overflows Discharge Reduction Plan.²⁴⁹
- 6.132 Reflecting the priority attached to tackling this issue, Ofwat's PR24 FD allowed for around £12 billion of enhancement funding for improvements to storm overflows.²⁵⁰ Southern – which was the only Disputing Company to request a change to the storm overflows PCL – was allowed £1.06 billion of enhancement funding in the PR24 FD to improve storm overflows.²⁵¹
- 6.133 Ofwat also introduced a new performance commitment for storm overflows at PR24.²⁵² Storm overflows are defined under Ofwat's performance commitment framework as any structure or apparatus in the company's sewerage system

²⁴⁷ Void properties are connected to a water service and/or wastewater service but do not receive a charge because there are no occupants. Ofwat (2023) [Consolidated PR19 final determinations: South East Water – Outcomes performance commitment appendix](#), p86.

²⁴⁸ Secretary of State (2022) [Government's strategic priorities for Ofwat](#).

²⁴⁹ Defra (2023) [Storm overflows discharge reduction plan](#).

²⁵⁰ Ofwat (2025) [PR24 final determinations: Sector Summary](#), p14.

²⁵¹ Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p 128, Table 18.

²⁵² Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p159.

which – when the capacity of other parts of the system is exceeded – relieves them by discharging excess contents into inland waters, underground strata or the sea.²⁵³ Performance is measured as the average number of spills per storm overflow in the relevant year.²⁵⁴ The performance commitment was designed to financially incentivise water companies to continuously monitor and limit the frequency and volume of their spills.²⁵⁵

6.134 Southern requested that its storm overflow PCLs be reset from the level in Ofwat's PR24 FD.

6.135 Our provisional decision is that Southern's storm overflow PCLs should remain at the levels specified in the PR24 FD, for the reasons set out below.

Ofwat's PR24 FD approach

6.136 In the PR24 FD, Ofwat set storm overflow PCLs on a company-specific basis, and described its approach as reflecting UK and Welsh government policy, company-specific factors and spill reductions aligned with the scope of the WINEP (England) or the NEP (Wales).²⁵⁶ Ofwat set PCLs for PR24 by starting with company forecasts (which took account of the spill reductions companies considered could be delivered from their enhancement programmes) and determining whether adjustments should be made to those forecasts.²⁵⁷ When setting Southern's PCLs, Ofwat made the following three types of adjustment.

- (a) An uptime adjustment: uptime is the overall percentage of time that event duration monitors (which monitor spills) were operational across all storm overflows in the relevant year.²⁵⁸ Ofwat requested that companies submit forecasts based on an assumption of 100% uptime (ie 100% monitoring of all flows),²⁵⁹ and set PCLs using this assumption.²⁶⁰ Ofwat adjusted the forecasts submitted by three companies, including Southern, to make them consistent with this assumption.²⁶¹ The adjustment Ofwat made to Southern's forecast is described in paragraph 6.143 below.
- (b) An adjustment to reflect additional reductions Ofwat considered could be delivered from base expenditure allowances: Ofwat applied a reduction of 1 spill per overflow to determine the PCL for the final year of PR24 other than where companies had already proposed an improvement from base that

²⁵³ Ofwat (2025) [Storm overflows performance commitment definition](#).

²⁵⁴ Ofwat (2025) [Storm overflows performance commitment definition](#).

²⁵⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p159.

²⁵⁶ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p165.

²⁵⁷ Ofwat's approach to setting storm overflows PCLs is set out in detail in Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

²⁵⁸ Ofwat (2025) [Storm overflows performance commitment definition](#), p4.

²⁵⁹ Ofwat (2024) [PR24 final determinations: Southern-Water - Outcomes-appendix](#), p5.

²⁶⁰ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

²⁶¹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

exceeded this level.²⁶² This reduction was applied to Southern's forecast number of average spills per storm overflows when setting its PCL for 2029/30.²⁶³

- (c) A reprofiling adjustment made only to Southern's forecast: Ofwat adjusted the profile of Southern's forecast reduction in the number of spills per storm overflows based on a comparison with the rate at which other companies were forecasting improvements during PR24.²⁶⁴ This resulted in a lower PCL being set for 2028/29 than would otherwise have been implied by Ofwat's approach.²⁶⁵

6.137 The impact of these adjustments on Southern's request PCL is shown in Table 6.3 below.

Table 6.3: Ofwat's adjustments to Southern's forecast of storm overflow performance

	2025/26	2026/27	2027/28	2028/29	2029/30
Southern's forecast and its Requested PCLs	20.45	20.41	19.61	19.61	17.27
Impact of Ofwat adjustments:					
- Uptime	-2.46	-2.46	-2.46	-2.46	-2.46
- Contribution from base					-1
- Reprofiling				-1.29	
PR24 FD PCLs	17.99	17.95	17.15	15.83	13.71

Source: 'Analysis_Additional (ADJUSTMT)' and 'Analysis_Additional (ENG)' tabs of Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

Parties' submissions

Southern

6.138 Southern requested that its storm overflows PCLs be reset to the levels shown in the first row of Table 6.3 above (ie before Ofwat applied its adjustments).²⁶⁶ It submitted that this would remedy an error Southern said Ofwat had made in its uptime adjustment and would align its 2029/30 PCL with the median for the rest of the sector.²⁶⁷ Southern said that Ofwat had set different PCLs for each company

²⁶² This adjustment is set out in rows 51–109 of the 'Analysis_Additional (ENG)' tab of Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

²⁶³ This adjustment is set out in row 66 of the 'Analysis_Additional (ENG)' tab of Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

²⁶⁴ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p170.

²⁶⁵ This adjustment is set out in rows 205–210 of the 'Analysis_Additional (ENG)' tab of Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

²⁶⁶ [Southern SoC](#), p397, paragraphs 149–150, and p401, Table 9.

²⁶⁷ [Southern SoC](#), p397, paragraph 149.

despite this being an industry-wide issue and that it was not justified that it should have a target that was 20% tougher than the rest of the industry.²⁶⁸

6.139 Southern submitted the following.²⁶⁹

- (a) Ofwat had asked companies to assume 100% uptime and that all companies except Southern, Thames Water and Yorkshire Water had reported this figure. Southern said that it had reported figures based on 97% uptime and that this corresponds to an adjustment of three unmonitored overflows to align with the rest of the sector. Southern said that adjusting for this error leads to the recalibrated PCL it requested in Table 6.3 above.
- (b) Ofwat had set a 20% stretch to the 2029/30 target because Southern's business plan did not propose any improvements from base expenditure. Southern noted that improvements to storm overflows were driven through enhancement expenditure per the allowance provided by Ofwat for storm overflows in AMP8.
- (c) Ofwat had applied additional stretch to Southern's 2028/29 target to deliver benefits earlier, but that improvements in storm overflows are linked to WINEP enhancement schemes with delivery dates agreed with the EA. Southern said that Ofwat had not appropriately factored in these agreed delivery dates.

6.140 The way in which Southern took account of uptime in its forecast of its number of spills per storm overflow for 2025/26 is shown in Table 6.4 below. Southern's approach included an adjustment to reflect a specific term from Ofwat's performance commitment definition document: the Unmonitored Storm Overflow Adjustment.²⁷⁰

Table 6.4: Southern's approach to taking uptime into account in its storm overflow forecasts (2025/26)

		<i>Southern's Approach</i>
Total number of monitored spills	A	17,027
Total number of storm overflows	B	976
Uptime %	C	97%
Average number of monitored spills per storm overflow (A/B)	D	17.45
Unmonitored storm overflow adjustment (based on C)	E	3
Average forecast spills per overflow (D + E)	F	20.45

Source: Southern response to Southern RFI02, Q1.

6.141 Southern also submitted that Ofwat's target setting did not consider the impact of recent outturn performance driven by exogenous factors, and said that, for

²⁶⁸ [Southern SoC](#), p396, paragraph 147.

²⁶⁹ [Southern SoC](#), p397, paragraph 149.

²⁷⁰ See Ofwat (2025) [Storm overflows performance commitment definition](#), pp3–4.

example, 2023/24 was one of the wettest on record which led to a deterioration in storm overflow performance across the sector.²⁷¹

Ofwat

- 6.142 Ofwat said its approach to the storm overflow PCL recognised the importance of this performance commitment to customers and the need to strengthen the accuracy and transparency of storm overflow data reporting.²⁷² Ofwat said that the storm overflow PCLs included the benefits from the enhancement programme that Southern had proposed, and for which it received an efficient cost allowance, and that the main driver of the level of stretch in Southern's PCLs was the company's own proposals.²⁷³
- 6.143 Ofwat said it had asked companies to forecast performance assuming 100% uptime across all overflows, and had adjusted Southern's forecast as it had assumed uptime of 97%.²⁷⁴ As shown in Table 6.5 below, in 2025/26, Ofwat's approach started with Southern's forecast of its number of monitored spills, but rather than applying the unmonitored storm overflow adjustment, assumed that monitored and unmonitored storm overflows spill at the same rate.

Table 6.5: Ofwat's approach to taking uptime into account in its storm overflow forecasts (2025/26)

		<i>Ofwat's approach</i>
Total number of monitored spills	A	17,027
Total number of storm overflows	B	976
Uptime %	C	97%
Effective number of storm overflows where spills are recorded (B*C)	G	946.72
Average forecast spills per overflow assuming unmonitored and monitored overflows spill at the same rate (A/G)	H	17.99

Source: Ofwat (2025) [Response to Southern SoC](#), Table 4.12.

- 6.144 With respect to the assumed scope for improvements from base, Ofwat said it considered that Southern had the opportunity to materially reduce spills through improved operations and maintenance, and pointed to the EA data shown in Figure 6.5 below on the percentage of high spilling overflows attributed to operational issues which showed Southern as having the highest percentage of all English companies.²⁷⁵

²⁷¹ [Southern SoC](#), p397, paragraph 148.

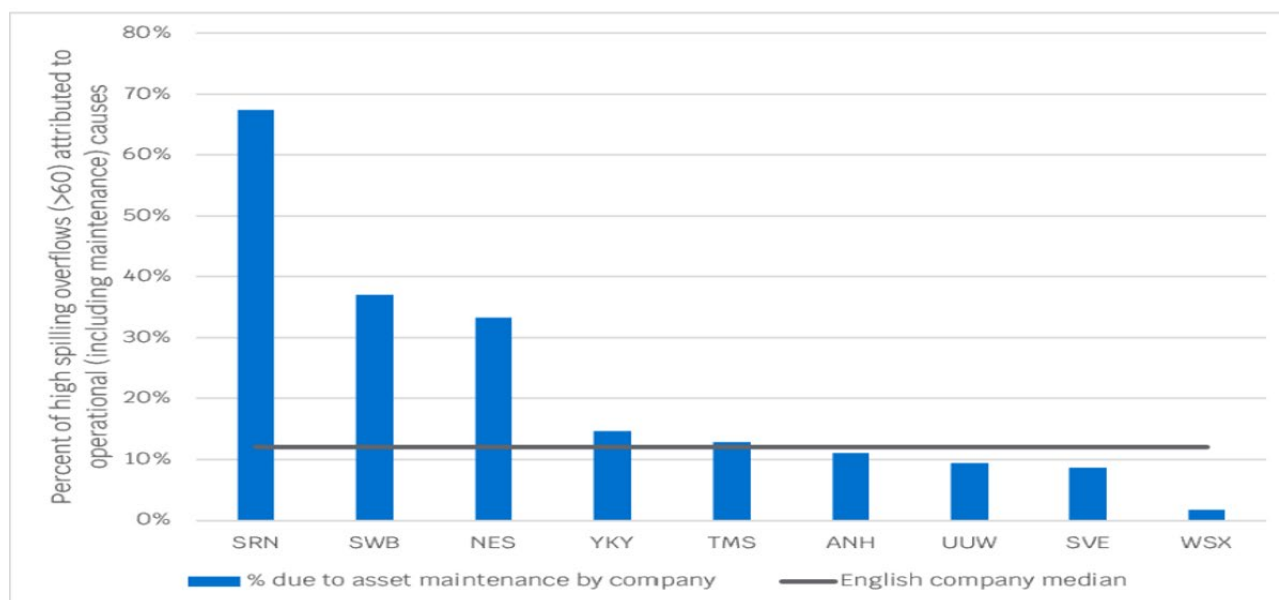
²⁷² Ofwat (2025) [Response to Southern SoC](#), paragraph 4.140.

²⁷³ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.160–4.161.

²⁷⁴ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.148 and 4.166.

²⁷⁵ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.165.

Figure 6.5: Percentage of high spilling storm overflows due to operational and maintenance issues based on EA event duration monitor returns 2024



Source: Ofwat (2025) [Response to Southern SoC](#), Figure 4.3.

- 6.145 Ofwat said that Southern had forecast to deliver only 27% of its PR24 improvements by 2028/29, compared to the median proposed by English companies of 63%.²⁷⁶ Ofwat said it did not consider Southern to have provided compelling evidence to justify a materially slower rate of delivery than the rest of the sector.²⁷⁷
- 6.146 Ofwat said that it expected companies to forecast performance for 2025 to 2030 based on a ‘typical weather’ year.²⁷⁸ It said that Southern provided insufficient evidence to support treating it differently from other companies.²⁷⁹ Ofwat expected companies to manage the impact of external factors and did not consider it appropriate to revise PCLs based on 2024/25 outturn data, or considering only recent years.²⁸⁰

Our assessment and provisional decisions

- 6.147 In our view, it is appropriate to apply company-specific PCLs for storm overflows to reflect the different levels of spill reductions included in the company WINEP enhancement programmes that have been funded. We note that while Southern referred to the industry median target,²⁸¹ its request was for its preferred company-specific forecast to be applied.²⁸² In line with this, we focus below on whether the

²⁷⁶ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.167.

²⁷⁷ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.167.

²⁷⁸ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163.

²⁷⁹ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163.

²⁸⁰ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163–4.164.

²⁸¹ [Southern SoC](#), p396, paragraph 147.

²⁸² [Southern SoC](#), p401, Table 9, which align with the forecast levels shown in row 55 of the ‘Analysis_Additional (ADJUSTMT)’ tab of Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

adjustments that Ofwat made to Southern's forecast levels of performance are appropriate. Table 6.5 above shows the impact of each of the three adjustments Ofwat made to Southern's forecast. We consider each adjustment in turn below.

The uptime adjustment

- 6.148 Ofwat asked companies to provide forecasts assuming 100% uptime, and Southern (as noted in its statement of case) did not do that.²⁸³ We consider it clear that the 100% uptime assumption was not intended to represent Ofwat's view of what companies were likely to achieve; indeed Ofwat set target levels for uptime performance separately, which increased from 97% to 98% over the PR24 period.²⁸⁴ Ofwat's PR24 FD also made it clear that the 100% uptime assumption would not be applied in the calculation of penalties under the storm overflows ODI, and that the role played by the Unmonitored Storm Overflow Adjustment would depend on the extent to which companies meet the uptime performance targets (with its level set at a level intended to encourage the meeting of those targets).²⁸⁵
- 6.149 In our view Ofwat's approach – including requesting forecasts assuming 100% uptime – provided a coherent means through which companies would be incentivised in relation to the monitoring of spills, and their frequency and length. As a result, our provisional decision is that it is appropriate to make the uptime adjustment.

The scope for improvements from base funding

- 6.150 At its hearing, Southern said:

'I think it is absolutely fair to say that some spills can be dealt with through operational and maintenance issues, but the fundamental issue is the overall capacity and configuration of the network to deal with those weather events.'²⁸⁶

- 6.151 We consider Ofwat's approach was consistent with this comment. That is, the primary driver of the forecast reductions in storm overflow spills during PR24 has been the substantial enhancement funding companies were allowed, but Ofwat also considered the scope for improvements from base funding. We consider that the evidence Ofwat provided (shown in Figure 6.5) on the extent to which operational and maintenance issues can give rise to storm overflows spills supports its inclusion of an additional challenge to the PCL. Our provisional

²⁸³ [Southern SoC](#), p363, paragraph 149; and in Southern's response to Southern RFI02, Q1, paragraph 1.6.

²⁸⁴ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p173.

²⁸⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p162.

²⁸⁶ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p78, lines 14–17.

decision is that it is appropriate to make the adjustment that Ofwat did to reflect the scope for performance improvements from base expenditure.

The profiling adjustment

- 6.152 The profiling adjustment Ofwat made only affected Southern's PCL in 2028/29. As set out in paragraph 6.145, Ofwat identified Southern as having forecast that it would deliver only 27% of its PR24 improvements by 2028/29, compared to the median proposed by English companies of 63%. Put differently, Southern's forecasts imply that 73% of its forecast improvement would only be delivered in the final year of the AMP (compared to the median for English companies of 37%).
- 6.153 Our provisional view is that it is appropriate to use evidence from other companies to incentivise Southern to adopt a less backloaded profile of improvement. We note that Ofwat assumed that, by 2028/29, Southern could deliver the same proportionate level of improvement as had been forecast by the company with the next lowest percentage of overall spill reduction achieved in that year (ie 40% rather than 27%). In our view, this is a balanced approach.
- 6.154 Southern pointed to its programme as being more focused on environmental benefits than spill reduction in this AMP.²⁸⁷ However, we note that the composition of Southern's programme would be expected to impact the overall level of spill reduction forecast for this AMP. Our provisional view is that we do not consider Southern has shown why the focus on environmental benefits explains the extent to which its forecast delivery profile was backloaded, or why the adjustment that Ofwat made was inappropriate. Our provisional decision is that the profiling adjustment made by Ofwat is appropriate and should be retained.

Our provisional decision on Southern's storm overflow PCLs

- 6.155 In line with the assessment above in paragraphs 6.147 to 6.154, our provisional decision is that Southern's storm overflow PCLs should remain at the levels specified in Ofwat's PR24 FD.

External sewer flooding

- 6.156 External sewer flooding in Ofwat's PR24 FD refers to flooding events from public sewers within the curtilage of buildings normally used for residential, public, community and/or business purposes.²⁸⁸ The PR24 FD performance commitment measures the number of external sewer flooding incidents in the relevant year per 10,000 sewer connections.²⁸⁹ An external sewer flooding incident is the flooding of

²⁸⁷ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p80, lines 10–19; and Southern (2025) [Reply to Ofwat Response](#), paragraph 7.

²⁸⁸ Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), p3.

²⁸⁹ Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), p2.

a property in an external sewer flooding event,²⁹⁰ other than where the inside of a property is affected (in which case the incident would be classified as internal sewer flooding, and would be covered by a separate performance commitment).²⁹¹

- 6.157 Anglian requested that an ‘industry-standard’ PCL be applied for external sewer flooding, such that a common 2024/25 baseline would be set based on median company performance over 2020/21 to 2023/24, and a common endpoint set for 2029/30 based on the median of companies’ proposed PCLs for that year.²⁹²
- 6.158 Our provisional decision is to apply a company-specific PCL for Anglian. The company-specific PCL we have provisionally adopted uses the midpoint between Anglian’s PR19 average performance and the sector median outturn performance as the baseline level of performance for 2024/25. It then converges to Ofwat’s forecast median level of performance for companies for 2032/33. The rationale for this provisional decision is set out below.

Ofwat’s PR24 FD approach

- 6.159 At PR24, Ofwat set external sewer flooding PCLs on a company-specific basis but with convergence on a common performance level of 13.49 incidents per 10,000 sewer connections assumed for 2032/33; Ofwat having identified that as the median level of performance forecast by companies for that year.²⁹³ PCLs were set for each company in each year of AMP8 by assuming a straight line between a company-specific baseline level that Ofwat determined for 2024/25 and the common target level for 2032/33.
- 6.160 Ofwat determined the baseline PCLs for 2024/25 (shown in Figure 6.6 below) in the following ways.²⁹⁴
- (a) The baseline was set equal to the PR19 PCL for 2024/25 for companies that, according to their business plan forecast, would outperform that level in that year. This approach was applied to Northumbrian, Southern, South West Water, United Utilities and Yorkshire Water.
 - (b) For companies that were not forecasting to outperform the PR19 PCL for 2024/25, Ofwat set the baseline PCL equal to the more stretching of:
 - (i) the company’s forecast for 2024/25 (this approach was applied to Wessex and Dŵr Cymru); or

²⁹⁰ For example, five properties which each suffered two external sewer flooding events in a year would count as 10 incidents. Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), p2.

²⁹¹ Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), pp2–3.

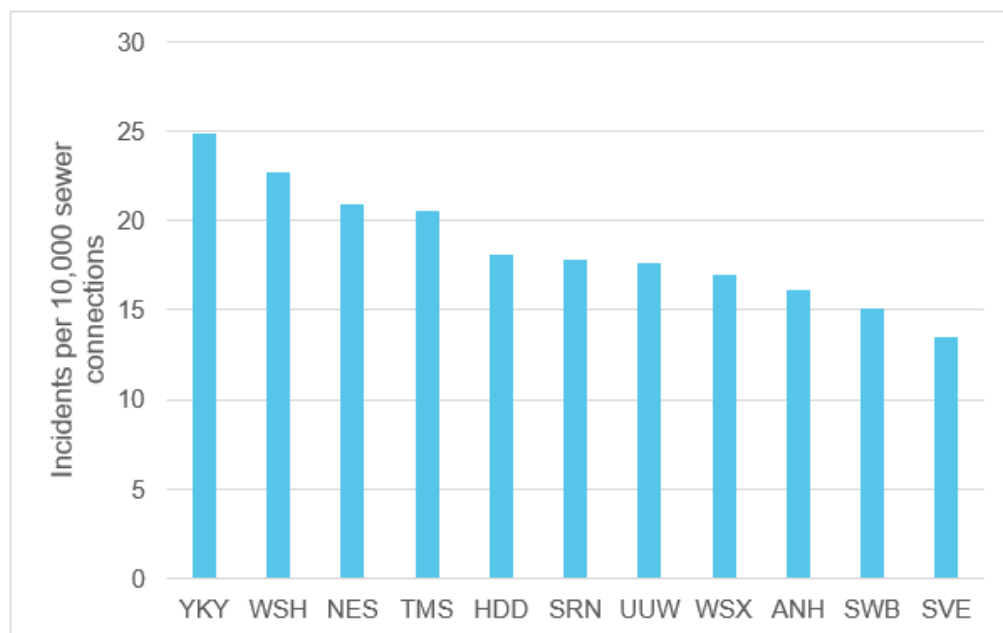
²⁹² [Anglian SoC](#), paragraphs 541–543.

²⁹³ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p73.

²⁹⁴ Ofwat’s PR24 FD approach is set out in Ofwat (2024) [PR24 final determinations: Performance Commitment Model – External sewer flooding](#), ‘Additional Analysis’ tab, rows 94–111.

- (ii) an Ofwat estimate that was set equal to that company's average outturn performance in the first four years of PR19 (ie 2020/21 to 2023/24) less the incremental improvement that would be applied by assuming a straight line between that average level and the common target Ofwat used for 2032/33 (this approach was applied to Anglian, Hafren Dyfrdwy, Severn Trent and Thames Water).

Figure 6.6: External sewer flooding – 2024/25 baseline performance levels used to set the Ofwat PR24 FD PCLs



Source: Ofwat (2024) *PR24 final determinations: Performance Commitment Model – External sewer flooding*, 'Additional Analysis' tab, rows 94–111.

Parties' submissions

Anglian

6.161 Anglian was the only Disputing Company to request a change to its external sewer flooding PCL. Anglian submitted that Ofwat's approach effectively penalised it for historically achieving strong performance in reducing external sewer flooding.²⁹⁵ Anglian said that although it had performed at or above the upper quartile level for the first three years of the AMP, it had underperformed against its PCL across AMP7 as a whole, resulting in forecast net penalties of £19.2 million.²⁹⁶ Anglian said that Ofwat's company-specific approach resulted in a PCL for Anglian that it was not meeting, and ran counter to the PR24 Final Methodology in which Ofwat proposed setting a common level of performance.²⁹⁷ Anglian submitted that Ofwat

²⁹⁵ Anglian SoC, paragraph 527.

²⁹⁶ Anglian SoC, paragraph 531.

²⁹⁷ Anglian SoC, paragraphs 533–534.

justified its company-specific approach on the basis that it avoided imposing too stretching PCLs on companies that are lagging, but that the approach created unintended consequences for companies that are not lagging, and fairness concerns could instead be managed through company-specific exceptions.²⁹⁸

- 6.162 Anglian submitted that Ofwat's approach disincentivises companies from reaching the frontier as doing so may simply result in even more stretching PCLs and higher penalties in the next AMP. Anglian said that this scenario encourages companies to aim for median performance to avoid future exposure.²⁹⁹ Anglian also submitted that Ofwat's approach failed to provide Anglian with a fair bet, as it meant that Anglian did not have a balanced package with opportunities to outperform as well as underperform, because in areas where Anglian has performed less well in the past Anglian faces a common industry-wide PCL (and not a less demanding company-specific PCL).³⁰⁰ Anglian said that it anticipated delivering a 24% reduction in external sewer flooding across AMP8 against a 2025 baseline, but that even with this improvement it would face net underperformance payments of around £7.4 million across the AMP.³⁰¹
- 6.163 Anglian requested that an 'industry-standard' PCL be applied for external sewer flooding, in line with Ofwat's approach for internal sewer flooding, such that a common 2024/25 baseline would be set based on median company performance over 2020/21 to 2023/24, and a common endpoint set for 2029/30 based on the median of companies' proposed PCLs for that year.³⁰² Anglian said that the key difference concerned the 2024/25 baseline which would be set at 18.29, as opposed to Anglian's company-specific baseline set by Ofwat of 16.13 incidents per 10,000 sewer connections.³⁰³

Ofwat

- 6.164 Ofwat said that the comparison Anglian made with internal sewer flooding was valid as it is moving towards setting both performance commitments on a common basis.³⁰⁴ However, Ofwat submitted that imposing a common PCL in this period for external sewer flooding would be unfair to companies like Hafren Dyfrdwy and Thames Water which had not had the same incentive to improve their performance in PR19.³⁰⁵ Ofwat contrasted this to internal sewer flooding where all companies had faced targets at PR19.³⁰⁶ Ofwat said it considered the use of

²⁹⁸ [Anglian SoC](#), paragraph 537; and Anglian (2025) [Reply to Ofwat Response](#), p10.

²⁹⁹ [Anglian SoC](#), paragraph 538.

³⁰⁰ [Anglian SoC](#), paragraph 539.

³⁰¹ [Anglian SoC](#), paragraph 540.

³⁰² [Anglian SoC](#), paragraphs 541–543.

³⁰³ [Anglian SoC](#), paragraphs 543 and Table 13.

³⁰⁴ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.37.

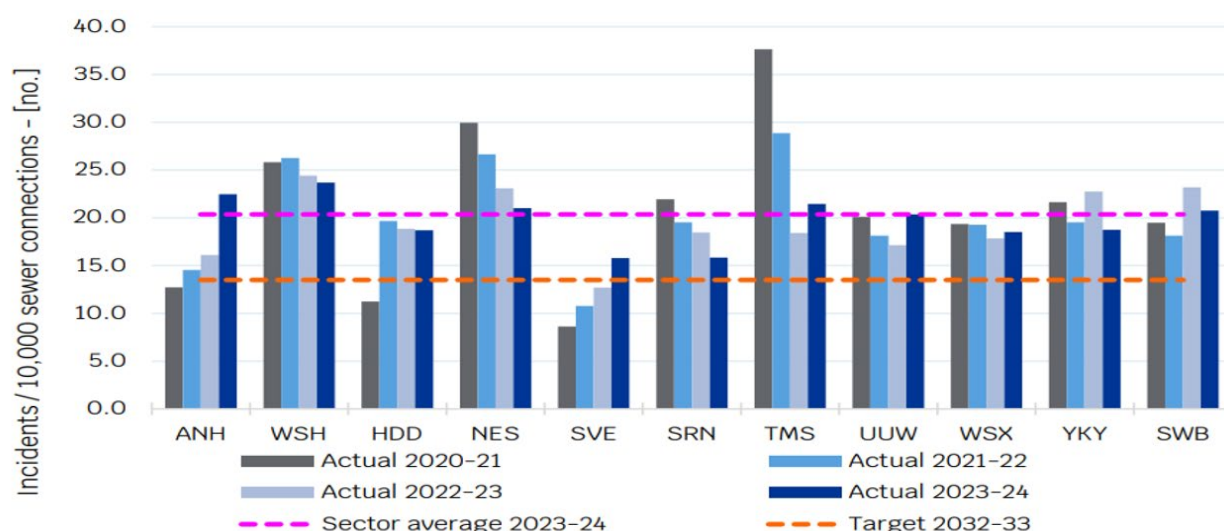
³⁰⁵ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.38.

³⁰⁶ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.38.

company-specific PCLs for external sewer flooding trending towards a common level in the 2030-35 period remained appropriate.³⁰⁷

- 6.165 Ofwat provided the graph shown in Figure 6.7 below and said that Anglian had historically performed well with respect to external sewer flooding, ranking third best (in normalised terms) out of eleven companies in 2020/21, but that its performance had deteriorated in 2023/24, placing it ninth out of eleven.³⁰⁸ Ofwat said that adopting Anglian’s proposed common baseline would not be in customers’ interest as the resulting target would represent a deterioration in performance from previously delivered levels of service.³⁰⁹ Ofwat said that the baseline it set for Anglian (16.13 incidents per 10,000 sewer connections) is 11% less stretching than Anglian’s PR19 2024/25 PCL (14.48), and noted that in Anglian’s initial PR24 business plan submission Anglian forecast to deliver a performance level of 16.09 by 2024/25.³¹⁰

Figure 6.7: External sewer flooding performance over the 2020-24 period



Source: Ofwat (2025) [Response to Anglian SoC](#), p34 (Figure 4.1).

Our assessment and provisional decisions

- 6.166 Anglian’s request concerns the implications of setting PCLs by reference to past individual company performance (as Ofwat did when determining the baseline value for 2024/25 it used for Anglian), as opposed to by reference to a measure of sector-wide performance (in line with Anglian’s requested use of a median value). Ofwat has articulated clearly why it did not consider it appropriate to apply a PCL at a common level across all companies in PR24. In particular, we note Ofwat’s observations on the extent of the differences in performance levels across

³⁰⁷ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.37.

³⁰⁸ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.39 and p34, figure 4.1.

³⁰⁹ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.39.

³¹⁰ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.40.

companies in PR19, and that the financial incentives provided for by ODIs in PR19 were bespoke and did not apply to all companies. These circumstances imply that the use of a common PCL that applied across all companies (eg based on median outturn performance) would risk imposing PCLs that were unduly stretching for companies that are lagging (a point referred to by Anglian).³¹¹ However, the circumstances would also imply a risk of imposing PCLs that are unduly lenient for companies that are not lagging.

- 6.167 Our provisional assessment is that, given these circumstances, it would not be appropriate to simply apply a common PCL based on an assessment of median sector performance, as requested by Anglian. Rather, our provisional view is that it is appropriate to take account of the risk that such an approach could result in external sewer flooding PCLs being set at an unduly stretching, or an unduly lenient, level, and to do so by having regard to company-specific information.
- 6.168 We focus our attention on the approach used by Ofwat to set the company-specific PCL for Anglian (as set out in paragraph 6.160(b)(ii) above), namely to set Anglian's assumed baseline performance level for 2024/25 in line with its average PR19 performance.
- 6.169 We consider that setting PCLs based on past individual company performance levels can create two risks. First, if companies expect that this approach will be used in future price reviews, it might weaken their incentives to improve performance. This is because any improvement during an AMP results in a tightening of the target in the following AMP (which is not the case if the regulator sets PCLs by reference to the industry median). Second, this approach may suggest that higher levels of performance are effectively not appropriately funded. The regime for base costs effectively sets allowances reflecting the average level of performance in the sector. If a company seeks to exceed that level of performance, and if this generates additional costs, then these additional costs are not directly funded through base allowances.
- 6.170 Our provisional view is that Ofwat's approach to setting Anglian's PCL took insufficient account of these risks, in a context where companies that seek to deliver improvements may struggle to maintain the improved levels they are able to achieve in some years. We consider the evolution of Anglian's performance over time to suggest that, under Ofwat's PR24 FD approach, it would indeed be facing a materially more challenging PCL in PR24 than it would have had Anglian been less ambitious in the past.

³¹¹ [Anglian SoC](#), paragraph 537.

- 6.171 Our provisional decision is that when assessing the level at which Anglian’s external sewer flooding PCL should be set, it is appropriate to take account of the risks that using:
- (a) the sector median would result in unduly lenient PCLs (in a context where PCLs had been set on a bespoke basis and not applied to all companies in PR19); and
 - (b) Anglian’s outturn performance data could weaken incentives for performance improvements over time (through poor incentive design).
- 6.172 Our provisional view is that neither Ofwat’s approach in the PR24 FD (which is based on Anglian performance) nor Anglian’s proposed approach (which is based on an assessment of the sector median level) would provide an effective way of addressing these risks. Instead, setting the baseline for 2024/25 equal to the average of the levels implied by these two approaches would provide a more balanced approach.
- 6.173 Table 6.6 below shows the assumed 2024/25 baseline value for Anglian that results from adopting our provisional approach. Our provisional decision is that we should continue to:
- (a) apply a sector-wide convergence point for external sewer flooding PCLs of 13.49 incidents per 10,000 sewer connections assumed for 2032/33 (with Ofwat having identified that as the median level of performance forecast by companies for that year); and
 - (b) assume linear improvement from the 2024/25 baseline level to the assumed 2032/33 convergence point.
- 6.174 Table 6.6 below shows the external sewer flooding PCLs that Anglian would face in our provisional approach.

Table 6.6: Provisional Decision on PCLs to be applied to Anglian for external sewer flooding (incidents per 10,000 sewer connections)

	2025/26	2026/27	2027/28	2028/29	2029/30
Anglian PCL	16.75	16.28	15.82	15.35	14.89

Source: CMA.

- 6.175 Our provisional decision is that no changes should be made to the PCLs for external sewer flooding for other Disputing Companies. This reflects the following circumstances.
- (a) None of the Disputing Companies other than Anglian requested a change to this PCL.

- (b) The specific approach Ofwat used in the PR24 FD to determine the level at which Anglian's PCL should be set (ie based on its PR19 performance data) was not applied to the other Disputing Companies.
- (c) The evolution profile of Anglian's performance over time (which had implications for the relationship between its PCLs in the PR24 FD and its most recent performance level) differed materially from that of the other Disputing Companies.

Total pollution incidents

- 6.176 Under Ofwat's PR24 FD, total pollution incidents is defined by reference to a metric set out in the reporting guidance from the EA's and Natural Resources Wales' water and sewerage company Environmental Performance Assessment methodology.³¹² Under this methodology, total pollution incidents are reported as the total number of pollution incidents (categories 1 to 3) in a calendar year emanating from a discharge or escape of a contaminant from a water company sewerage asset affecting the water environment, per 10,000km of sewer length from wastewater assets for which the company is responsible.³¹³
- 6.177 Anglian and Southern requested that the PCL be increased.
- (a) Anglian requested that (i) its total pollution incidents PCL be increased by 24% in each year of AMP8; (ii) the PCL reflect changes to the EA's categorisation of pollution incidents; and (iii) that exposure to extreme weather events be reflected when setting or measuring performance against the PCL.
 - (b) Southern submitted that the baseline level should use the median of 2023/24 outturn data (or 2024/25 if available) and then apply a 30% stretch across PR24.
- 6.178 Our provisional decision is to retain Ofwat's PR24 FD approach to determining the total pollution incidents PCL for the reasons set out below.

Ofwat's PR24 FD approach

- 6.179 Ofwat's PR24 FD set the total pollution incidents PCLs at a common level for all companies except for Hafren Dyfrdwy (given the scale of the company and its number of incidents).³¹⁴ Ofwat set a common 2024/25 baseline level of performance equal to the median of the average performance of each company (excluding Hafren Dyfrdwy) in the 2020-24 period, ie 26.61 incidents per 10,000km

³¹² Ofwat (2025) [PR24 Common Performance Commitments: Total pollution incidents – PC definition](#), p2.

³¹³ Ofwat (2025) [PR24 Common Performance Commitments: Total pollution incidents – PC definition](#), p2.

³¹⁴ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p184.

of sewer length.³¹⁵ Ofwat applied a 30% improvement to the 2024/25 baseline level to derive the 2029/30 PCL of 18.63 incidents.³¹⁶ Ofwat identified this 30% improvement level as aligning with the ambition set out in the EA's Water Industry Strategic Environmental Requirements (**WISER**).³¹⁷

Parties' submissions

Disputing Companies

Anglian

- 6.180 Anglian said that it fully accepted that its performance in relation to total pollution incidents requires an improvement in AMP8, and that it is committed to reducing pollutions at the highest rate it considers feasible,³¹⁸ but submitted that Ofwat had set an unachievable PCL.³¹⁹ Anglian submitted that the PR24 FD applied a flawed normalisation metric which unfairly impacted Anglian.³²⁰ In particular, Anglian said that Ofwat's approach normalises performance solely by length of sewer and ignores pollution risk from other assets.³²¹ Anglian said that category 1 to 3 pollution incidents do not just happen at sewers, and that Anglian has more non-sewer assets relative to sewer length than other companies.³²² Anglian submitted that its performance is therefore measured as though it had fewer potentially polluting assets than it actually has, and that as a result the approach gives a misleading picture of its environmental performance.³²³
- 6.181 Anglian noted that, in October 2024, the EA and Natural Resources Wales had consulted on aspects of the Environmental Performance Assessment (**EPA**) process for 2026-2030, including the normalisation of the performance metric on total pollution incidents.³²⁴ Anglian said that in its response to that consultation it stressed the shortcomings of the current performance metrics and put forward two alternative proposals (normalising by an adjusted measure of sewer length, and normalising using a weighted average across different asset categories).³²⁵

³¹⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p185; and the 'Additional_Analysis' tab of Ofwat (2025) [PR24 Performance Commitment Model – Total pollution incidents](#).

³¹⁶ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p186, and the 'Additional_Analysis' tab of Ofwat (2025) [PR24 Performance Commitment Model – Total pollution incidents](#).

³¹⁷ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p186.

³¹⁸ [Anglian SoC](#), paragraph 467.

³¹⁹ [Anglian SoC](#), paragraph 451. Wessex also submitted that the targets for total pollution incidents over AMP8 were set at a level which makes underperformance more likely than overperformance for an efficient company ([Wessex SoC](#), paragraphs 1.28–1.29).

³²⁰ [Anglian SoC](#), section 5.3.2, paragraphs 472–477.

³²¹ [Anglian SoC](#), paragraph 473.

³²² [Anglian SoC](#), paragraphs 472 and 475.

³²³ [Anglian SoC](#), paragraph 473.

³²⁴ [Anglian SoC](#), paragraph 478.

³²⁵ [Anglian SoC](#), paragraph 478.

Anglian said that its performance since 2018/19 has been close to or better than the industry median under these normalisation approaches.³²⁶

- 6.182 Anglian said that either of these alternative metrics would be an improvement on the current approach, and either metric has a stronger operational and engineering rational than the PR24 FD metric.³²⁷ However, Anglian submitted that a more proportionate and targeted approach would be to retain the current definition, but to revise the PCL for Anglian in a way that would mimic, as far as practical, the effect of the EA/Natural Resources Wales and Ofwat moving to one of the more appropriate performance metrics.³²⁸ Based on its proposed adjusted sewer length approach, Anglian requested that its total pollution incident PCLs be increased by 24% in each year of AMP8.³²⁹
- 6.183 Anglian also said that the EA was considering re-classifying category 4 pollution incidents to category 3, and that this would increase the total number of measured pollution incidents for the industry by at least 30%.³³⁰ Anglian did not consider the EA suggestions to be suitable ways to normalise performance.³³¹ Anglian submitted that there was significant and unacceptable regulatory uncertainty related to this issue, with Ofwat having noted that it ‘might’ adjust its approach to reflect the change.³³² Anglian submitted that deferring the process of revising performance commitments to the external EA consultation would fail to engage with Anglian’s principal concern with the calibration of Ofwat’s PR24 FD.³³³ Anglian requested that we either ensure that its PCL reflects changes to the EA’s categorisation of pollution incidents (if it is finalised within the period for our redeterminations) or ensure that Ofwat will do so in a predictable manner.³³⁴
- 6.184 Anglian submitted that extreme weather conditions have increased, and that KPMG had found a clear link between weather patterns and performance in relation to pollution.³³⁵ Anglian said that it is important that the volatility companies are exposed to with extreme weather events is appropriately reflected when setting or measuring performance against the total pollution incidents PCL, as well as when calibrating the underperformance payment and necessary collar.³³⁶

³²⁶ [Anglian SoC](#), paragraphs 488 and 493.

³²⁷ [Anglian SoC](#), paragraph 494.

³²⁸ [Anglian SoC](#), paragraphs 496 and 497.

³²⁹ [Anglian SoC](#), paragraphs 498 and 503.

³³⁰ [Anglian SoC](#), paragraph 516.

³³¹ (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p53, lines 13–19.

³³² [Anglian SoC](#), paragraph 517; (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p55 lines 24–26 and p56, lines 1–8.

³³³ Anglian (2025) [Reply to Ofwat Response](#), p9.

³³⁴ [Anglian SoC](#), paragraph 518.

³³⁵ [Anglian SoC](#), paragraph 519.

³³⁶ [Anglian SoC](#), paragraph 520.

Southern

- 6.185 Southern submitted that the total pollution incidents PCL had not been correctly calibrated, noting that in 2023/24 sector median performance (excluding Hafren Dyfrdwy) was 32.54 incidents per 10,000km of sewers, and that the upper quartile performance level was 28.33.³³⁷ Southern contrasted this with the PCL for 2025/26 in the PR24 FD (25.02), and said that based on 2023/24 performance all WaSCs would face an ODI penalty.³³⁸
- 6.186 Southern submitted that the baseline level used when setting the PR24 PCLs should reflect the most up to date performance data available, and that a reasonable and balanced approach would be to set the common 2024/25 baseline using the median of 2023/24 outturn data, or the median of 2024/25 data if available (and then applying a 30% stretch across PR24 in line with Ofwat's approach).³³⁹ Southern submitted that resetting the baseline level in this way was justified as changes to the reporting methodology and technology used to capture data (ie event duration monitoring) had led to an increase in recorded pollution incidents.³⁴⁰ Southern submitted that its proposed approach would provide a more accurate reflection of actual industry performance, while still representing a significant stretch.³⁴¹
- 6.187 Southern supported Anglian's submissions regarding this PCL,³⁴² and submitted that Ofwat's change control process does not guarantee that Ofwat will consult on modifications to reflect EPA changes.³⁴³

Ofwat

- 6.188 Ofwat recognised that poorer performing companies would have to deliver very significant improvements to meet the median sector performance for total pollution incidents.³⁴⁴ Ofwat submitted that Anglian and Southern are companies that need to address their performance issues and deliver improvements.³⁴⁵ Ofwat said it considered there to be no compelling evidence to set less stretching PCLs for poorer performing companies' regions, and submitted that to do so would result in companies being incentivised to deliver lower levels of performance for customers and the environment in terms of greater numbers of total pollution incidents.³⁴⁶

³³⁷ [Southern SoC](#), p391, paragraph 123.

³³⁸ [Southern SoC](#), p391, paragraph 123.

³³⁹ [Southern SoC](#), p391, paragraphs 124–126 and p394, Table 7.

³⁴⁰ [Southern SoC](#), p391, paragraph 125.

³⁴¹ [Southern SoC](#), p391, paragraph 127.

³⁴² Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 85.

³⁴³ Southern (2025) [Reply to Ofwat Response](#), p9.

³⁴⁴ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.6.

³⁴⁵ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.13.

³⁴⁶ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.12.

- 6.189 With respect to Southern's submission that the impact of event duration monitoring on measured performance meant that the PCL should be set based only on 2023/24 data, Ofwat said that nine of eleven companies showed a deterioration in their total pollution incidents performance between 2022/23 and 2023/24, with the majority attributing that to the impact of weather, specifically rainfall.³⁴⁷ At its hearing, Ofwat stated that it had taken into account recent performance by companies and this approach takes account of changes in reporting.³⁴⁸ Ofwat said it considered the use of 2020-24 data provides a more representative baseline of what the sector can be expected to achieve rather than focusing exclusively on 2023/24.³⁴⁹
- 6.190 Ofwat said that the target level Anglian proposed in its October 2023 business plan submission (16.38 incidents per 10,000km of sewer length) demonstrated that the company had previously considered that it would achieve the PR24 FD PCL.³⁵⁰ Ofwat said that Anglian's independent challenge group had noted that the company's performance over the past couple of years on pollution incidents had been disappointing and that the company had been relatively slow in coming forward with more details about its pollution incident reduction plan.³⁵¹
- 6.191 Ofwat said that its total pollution incidents performance commitment is defined in line with the reporting guidance from the EA's and Natural Resources Wales' water and sewage company EPA methodology version 11, February 2024, with total pollution incidents reported as the total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length.³⁵² Ofwat said that a consultation with all companies on changes to the EPA closed in January 2025, and that a further consultation by the EA on reporting, recording and managing pollution incidents closed in March 2025.³⁵³ Ofwat noted that normalisation was being considered as part of the consultation on EPA changes.³⁵⁴
- 6.192 Ofwat noted that its PR24 FD said it would consider the impacts of any change in the EPA and manage the change according to its change control process.³⁵⁵ Ofwat said that it expects to consult in line with its change control process to determine if and how best to reset relevant aspects of the performance commitment for year 2 to year 5 of the PR24 period.³⁵⁶ Once the EA releases its consultation paper, Ofwat said it would release a consultation paper in short

³⁴⁷ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

³⁴⁸ (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p67, lines 21–23.

³⁴⁹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

³⁵⁰ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.67. At its hearing, Anglian said that it knew at the time of its business plan that it would be a challenge to hit the PCL it had proposed and that it expected to incur penalties ((Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p51, lines 21-26, p52, line 1).

³⁵¹ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.72.

³⁵² Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.1.

³⁵³ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.2.

³⁵⁴ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.64.

³⁵⁵ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.2.

³⁵⁶ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.9.

order.³⁵⁷ Ofwat said that proposed changes would maintain the level of stretch and performance payments in line with its intention at the PR24 FD as the overall aim.³⁵⁸ Ofwat said that while the CMA could redetermine any aspect of Ofwat's PR24 FD, Ofwat considered that it would be challenging for the CMA to deal with these issues within the timescales of our redeterminations, given the amount of uncertainty involved, and submitted that the changes would need to be made for all companies, not just those seeking our redeterminations.³⁵⁹

Our assessment and provisional decisions

6.193 The PCLs requested by Anglian and Southern are shown in Table 6.7 below together with the levels Ofwat set in its PR24 FD. Below we provide our assessment and provisional decisions on these requests under the following headings.

- (a) The normalisation approach.
- (b) Changes to the categorisation of pollution incidents.
- (c) Southern's proposal to use the most recent available performance data.
- (d) Exogenous factors.

Table 6.7: Anglian and Southern requested PCLs for total pollution incidents compared to Ofwat's PR24 FD (incidents per 10,000km of sewers)

	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat's PR24 FD	25.02	23.42	21.82	20.23	18.63
Anglian's request	31.06	29.08	27.10	25.11	23.13
Southern's request	30.59	28.64	26.69	24.73	22.78

Source: [Anglian SoC](#), Table 11; and [Southern SoC](#), p394, Table 7.

The normalisation approach

6.194 Anglian's submissions on normalisation concern the most appropriate way to measure company environmental performance with respect to the number of pollution incidents. We note that in applying a performance commitment in relation to the number of pollution incidents Ofwat has defined performance by reference to the definition included in the EA and Natural Resources Wales EPA methodology. This approach maintained simplicity and consistency between regulators.

6.195 Our provisional decision is that it would not be appropriate (as Anglian requested)³⁶⁰ to seek to mimic the effect of the EA/Natural Resources Wales

³⁵⁷ (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p56, lines 13–18.

³⁵⁸ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.11.

³⁵⁹ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.12.

³⁶⁰ [Anglian SoC](#), paragraph 497.

deciding that one of Anglian's proposed approaches to normalisation should be applied. Anglian's submissions on normalisation highlighted what it considered to be the shortcomings of the EA's current approach. However, Anglian also noted that it had submitted its views, assessment and proposed alternative approaches to normalisation of the total pollution incidents metric, to the EA and Natural Resources Wales in response to their October 2024 consultation on aspects of the EPA process for 2026-30.

- 6.196 Our provisional view is that the EA and Natural Resources Wales are better placed to assess how performance with respect to pollution incidents should be measured, and that the October 2024 consultation provided an appropriate process for determining whether the normalisation changes proposed by Anglian should be made. In line with our comments in paragraph 6.197 below, our provisional view is that where the EA and Natural Resources Wales make changes that could have a material bearing on ODI performance, then Ofwat's change control process provides an appropriate process for establishing what consequential changes should be made within the ODI framework. Our provisional decision is to avoid the risk of introducing inconsistency between regulators and not change the approach to normalisation.

Changes to the categorisation of pollution incidents

- 6.197 We welcome Ofwat's comments that it plans to consult on how best to reset relevant aspects of the performance commitment framework for year 2 to year 5 of the PR24 period. Its stated overall aim when proposing changes to address the introduction of a different categorisation approach would be to maintain the level of stretch and performance payments in line with its PR24 FD.³⁶¹
- 6.198 Our provisional view is that this is an appropriate overall aim in this context, though where the ODI arrangements that apply to a Disputing Company are adjusted as a result of our redeterminations, then that adjusted position should be the reference point when the level of stretch and performance payments are being assessed for those companies.
- 6.199 Our provisional decision is that Ofwat's change control process provides an appropriate process for assessing and determining what implications relevant EA/Natural Resources Wales decisions should have on the total pollution incidents PCL in a context where those changes will affect all companies in the sector (not simply the Disputing Companies).

³⁶¹ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.11.

Southern's proposal to use the most recently available performance data

- 6.200 Southern's submissions raised the question of whether 2023/24 outturn values would provide a better reference point to use when setting PR24 PCLs than the measure of average sector performance across 2020-24 that Ofwat used in its PR24 FD. Our provisional view is that they would not.
- 6.201 We do not consider the submissions we received on changes to the reporting methodology and technology used to capture data support it being more appropriate to focus only on 2023/24 data.³⁶² We note that, in its submissions related to storm overflows, Southern referred to 2023/24 as having been one of the wettest on record with this having led to a deterioration in storm overflow performance across the sector.³⁶³ We consider this evidence on the extent of rainfall in 2023/24 to be consistent with Ofwat's evidence that the majority of the nine of 11 companies that showed a deterioration in their total pollution incidents performance between 2022/23 and 2023/24 attributed that to the impact of weather, specifically rainfall.³⁶⁴
- 6.202 Given this context, our provisional decision is that it is appropriate when setting a baseline value for the total pollution incidents PCL to use evidence from the 2020-24 period, which takes account of 2023/24 data, but does not wholly rely on performance in that year.

Our provisional decision on the total pollution incidents PCL

- 6.203 We provisionally decide to retain the PR24 FD approach to determining the total pollution incidents PCL.³⁶⁵

Water Supply Interruptions

- 6.204 Under the Ofwat PR24 FD performance commitments, a water supply interruption is defined as an interruption to the supply of a household or non-household property that lasts for three hours or more.³⁶⁶ Performance is measured as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.³⁶⁷

³⁶² [Southern SoC](#), p391, paragraph 125; [Anglian SoC](#), paragraphs 459–460.

³⁶³ [Southern SoC](#), p396, paragraph 148.

³⁶⁴ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

³⁶⁵ We note that, in the event of an unchanged PCL, Anglian submitted that it would be open to engaging with the CMA on additional funding allowances ([Anglian SoC](#), paragraph 525). Specific base cost allowances requests are considered in chapter 4 (Base costs) above.

³⁶⁶ Ofwat (2025) [Water supply interruptions PC definition](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p88.

³⁶⁷ Ofwat (2025) [Water supply interruptions PC definition](#), p2.

- 6.205 Anglian, Southern and South East requested changes to the water supply interruptions PCL.³⁶⁸
- (a) Anglian proposed that the 2024/25 baseline performance level should be based on the median of companies' performance over the past four years, with the PCLs for each year of PR24 set on the basis of a glidepath from the 2024/25 baseline to 5 minutes in 2029/30.
 - (b) Southern submitted that the 2025/26 PCL should represent median outturn performance with the 2030 target set at the industry actual upper quartile and a straight line trend between the two points.
 - (c) South East's submissions focused on company-specific factors and are considered separately from paragraphs 6.232 to 6.297 below.
- 6.206 Our provisional decision is to set the common PCL for water supply interruptions in line with Anglian's request, such that a 2024/25 baseline is set equal to the median of companies' average performance in 2022-24 and the PCLs are set assuming a linear improvement from this baseline position to 5 minutes in 2029/30 for the reasons set out below.

Ofwat's PR24 FD approach

- 6.207 Ofwat set the PCLs for water supply interruptions in its PR24 FD at a common level of 5 minutes across all years of PR24 for all companies.³⁶⁹ This was in line with the level of the final PR19 target that applied to all companies in 2024/05.³⁷⁰

Parties' submissions

Disputing Companies

Anglian

- 6.208 Anglian said that Ofwat's approach to setting the baseline performance for 2024/25 water supply interruptions contrasted with the approach it followed for other performance commitments. In other cases, Ofwat adjusted the baseline position for common PCLs to take account of latest reported performance.³⁷¹
- 6.209 Anglian submitted that a 5 minute PCL could not reasonably be supported from a fair assessment of recent sector performance, with this being more demanding

³⁶⁸ We note that Thames Water supported the position of these Disputing Companies in relation to water supply interruptions; see Thames Water (2025) [Third party submission on the Water PR24 References](#), paragraph 50(iv).

³⁶⁹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp89–91.

³⁷⁰ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p91.

³⁷¹ [Anglian SoC](#), paragraphs 549–550.

than the upper quartile of 6.18 minutes (and the median of 9.38 minutes) based of Ofwat's reports of average company performance.³⁷²

- 6.210 Anglian proposed that the 2024/25 baseline performance level should be based on the median of companies' performance over the past four years, with the PCLs for each year of PR24 set on the basis of a glidepath from the 2024/25 baseline to 5 minutes in 2029/30.³⁷³ Anglian submitted that this would be a pragmatic alternative, reflecting industry data and consistent with Ofwat's approach to internal sewer flooding, while achieving a 43% improvement by the end of AMP8.³⁷⁴

Southern

- 6.211 Southern submitted that the PCLs in the PR24 FD did not reflect what was achievable in the sector, and in particular the following.³⁷⁵
- (a) In 2023/24, only four out of 17 companies managed to achieve the PCL of 05:23 minutes per property: that is, 76% of the sector (including all WaSCs) did not meet the target.
 - (b) The PCLs in the PR24 FD did not take account of the effects of severe weather events which are outside of management control. Southern said that an exclusion for this was removed in the PR19 definition and corresponded with a deterioration in sector performance.
 - (c) The PCLs in the PR24 FD did not take account of underlying differences between companies, such as the design of the water network and historical funding, which Southern said have a material effect on current supply interruptions performance.
- 6.212 Southern said that customer minutes lost due to interruptions in the gas and electricity sectors were much higher than the PCL for the water sector, that the PCL was not based on outturn performance given current cost allowances, and submitted that it did not give a fair balance of risk and reward.³⁷⁶ Southern considered that Ofwat provided limited rationale for why the methodology underpinning this PCL diverges from the approaches to other performance commitments.³⁷⁷

³⁷² Anglian SoC, paragraph 552.

³⁷³ Anglian SoC, paragraph 553.

³⁷⁴ Anglian (2025) [Reply to Ofwat Response](#), p10.

³⁷⁵ Southern SoC, p386, paragraph 101.

³⁷⁶ Southern SoC, p387, paragraph 102.

³⁷⁷ Southern (2025) [Reply to Ofwat Response](#), paragraph 7.

6.213 Southern said that the 2025/26 PCL should represent median outturn performance (09:18 minutes for 2023/24) with the 2030 target set at the industry actual upper quartile (05:32 minutes) with a straight line trend between the two points.³⁷⁸

Ofwat

6.214 Ofwat submitted that the CMA should not adjust the PCL on the basis of either Anglian or Southern's requests.³⁷⁹ Ofwat said that the water supply interruptions PCL was designed to incentivise companies to deliver good performance in an area that is of high priority to customers, and that it had provided adequate funding to do that.³⁸⁰

6.215 Ofwat submitted that there was no compelling evidence to set less stretching PCLs for poorer performing companies' regions. This is because it 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.³⁸¹

6.216 Ofwat said it recognised that only four companies met the supply interruption PCL in 2023/24 and that sector median outturn is closer to 9 minutes, but that it considered historical performance and company forecasts supported the view that delivery of a 5 minute performance level is achievable by efficient and effective companies.³⁸²

6.217 In relation to Anglian's statement that the 5 minute PCL in the PR24 FD could not reasonably be supported from a fair assessment of recent sector performance, Ofwat submitted that this view implied that recent sector performance provides an acceptable measure of what is achievable.³⁸³ Ofwat submitted that its position is that water supply interruptions is an area in which performance is currently worse than expected for a number of companies across the sector and that they need to take action to improve the service delivered for customers.³⁸⁴ Ofwat said it considered this especially important given that customers had told it that water supply interruptions have a high impact on them.³⁸⁵

6.218 Ofwat noted that Anglian had delivered performance of 5 minutes and 2 seconds in 2020/21, a significant improvement from its performance of 18 minutes and 39 seconds in 2019/20.³⁸⁶ Ofwat said this indicated that Anglian could deliver the

³⁷⁸ [Southern SoC](#), p387, paragraph 103.

³⁷⁹ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92; Ofwat (2025) [Response to Southern SoC](#), paragraph 4.197.

³⁸⁰ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.189; Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.17.

³⁸¹ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.12.

³⁸² Ofwat (2025) [Response to Southern SoC](#), paragraph 4.194.

³⁸³ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

³⁸⁴ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

³⁸⁵ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

³⁸⁶ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.90.

required PCL of 5 minutes from the first year of the 2025 to 2030 period and throughout the period.³⁸⁷ Ofwat said that a target of 8 minutes 43 seconds – as proposed by Anglian for 2025/26 – would represent a significant deterioration relative to the PR19 2020/21 PCL of 6 minutes 30 seconds, effectively moving performance back by almost 5 years.³⁸⁸

6.219 Ofwat said that it did not consider it acceptable to make exclusions relating to extreme weather, as risks should lie with those that can best mitigate or bear them, and companies can mitigate the impact of weather events through how they prepare for and respond to such events.³⁸⁹ Ofwat submitted that companies should be customer-centric, and that it is their duty to improve and review how quickly they respond to incidents to limit impact to customers.³⁹⁰ Ofwat said that this can be achieved through both short-term and long-term resilience planning, addressing single points of failure and improving communication with third party stakeholders.³⁹¹

6.220 With respect to funding, Ofwat submitted the following.

- (a) Anglian received cost allowances of £461 million following the CMA's PR19 Final Report for investment to increase interconnectivity across its network in the 2020-25 period, and that for PR24 Ofwat has made an efficient cost allowance of £623.72 million for interconnections and resilience.³⁹²
- (b) Southern was provided cost efficient allowances of £173.6 million at PR19 for supply and demand enhancements to tackle the root causes of service failures and to improve resilience across its network, and that for PR24 Ofwat has allowed a further £181.74 million for supply connectors enhancement.³⁹³ Ofwat noted that Southern's statement of case recognised that it has an ageing asset base, and has historically not focused its spending on improving the resilience of its assets, with this having been partly down to management decisions.³⁹⁴

Our assessment and provisional decisions

6.221 The PCLs requested by Anglian and Southern are shown in Table 6.8 below together with the levels Ofwat set in its PR24 FD. We note that Anglian's proposed PCLs were derived by following the approach Ofwat had used when setting other common PCLs (including the total pollution incidents PCLs that were considered in

³⁸⁷ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.90.

³⁸⁸ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92.

³⁸⁹ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.190–4.191; Ofwat (2025) [Response to common issues on outcomes](#), Table 1.

³⁹⁰ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.195.

³⁹¹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.195.

³⁹² Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.91.

³⁹³ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.196.

³⁹⁴ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.196.

paragraphs 6.176 to 6.203 above). This approach involved setting a baseline level of performance for 2024/25 equal to the median of company average performance over the first four years of PR19, and setting PCLs for PR24 based on a linear glidepath from that baseline to a level of 5 minutes in 2029/30 (which Ofwat had identified as the industry median forecast position for 2029/30).³⁹⁵

Table 6.8: Anglian and Southern requested PCLs for water supply interruptions compared to Ofwat's PR24 FD (minutes lost per customer – mm:ss)

	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat's PR24 FD	05:00	05:00	05:00	05:00	05:00
Anglian's request	08:43	07:47	06:51	05:56	05:00
Southern's request	09:18	08:21	07:25	06:28	05:32

Source: Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p91; [Anglian SoC](#), Table 14, p150; and [Southern SoC](#), p388, Table 5.

- 6.222 Ofwat's PR24 FD approach set the PCLs equal to 5 minutes for all companies in all years of PR24 (ie from 2025/26 onwards), in line with the PCL that applied in the final year of PR19. Our provisional view is that this approach does not take sufficient account of available evidence on the levels of performance that companies have shown themselves able to achieve in recent years while subject to the financial reward and penalty arrangements that applied under the PR19 ODI framework.
- 6.223 As Anglian noted in its submissions, the median level of companies' average performance across 2020/21 to 2023/24 was 9 minutes 38 seconds and the upper quartile performance over that period was 6 minutes and 18 seconds.³⁹⁶ We consider this evidence on the level of performance companies overall were able to achieve in the PR19 period to be relevant to assessing what it is reasonable to expect companies to be able to achieve during the PR24 period, especially at the beginning of the period. Our provisional decision is that – given this evidence – a baseline level of 5 minutes for 2024/25 is not appropriate.
- 6.224 We note that Ofwat said it considered historical performance and company forecasts to support delivery of a 5 minute performance level by efficient and effective companies.³⁹⁷ With respect to historical performance, our provisional view is that the selected references Ofwat made to companies having achieved levels of interruptions below 5 minutes³⁹⁸ do not provide a reliable basis for assuming that this level of performance could be expected from an efficient and effective company from the beginning of the PR24 period. Rather, we consider the median of the average levels of performance individual companies have actually achieved in recent years to provide a more appropriate reference point,³⁹⁹ in line

³⁹⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p89.

³⁹⁶ [Anglian SoC](#), paragraph 552.

³⁹⁷ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.194.

³⁹⁸ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.10.

³⁹⁹ Ofwat calculated the average performance for each company over the four years from 2020/21–2023/24. It then calculated the median of those average performance figures.

with the approach Ofwat itself took when identifying an appropriate baseline level against which to set other common PCLs.⁴⁰⁰

- 6.225 With respect to company forecasts, as was noted above, Ofwat identified a performance level of 5 minutes as in line with the industry median forecast position for 2029/30, and Anglian proposed this PCL for 2029/30 in its statement of case. Our provisional decision is that this is an appropriate basis upon which to set the 2029/30 PCL. We note that the higher figure of 5 minutes and 32 seconds that Southern proposed for 2029/30 was based on the upper quartile of observed performance in 2023/24. We do not accept that outturn data from a single year (2023/24) would be likely to provide a more appropriate basis upon which to set the PCL for 2029/30.
- 6.226 At the Outcomes hearing, Ofwat pointed to company forecasts as showing that 10 companies expected to meet the PR24 FD PCL of 5 minutes in the first year of PR24.⁴⁰¹ This suggests that setting PCLs in line with Anglian's request may provide opportunities for material outperformance by a number of companies in the early part of the PR24 period. We considered whether this might justify applying a PCL of 5 minutes from the beginning of PR24 (as in Ofwat's PR24 FD), notwithstanding the evidence on median performance in PR19, or applying PCLs that took some account of the median performance in PR19 but were more stringent than those proposed by Anglian.
- 6.227 In our provisional view, the fact that 10 companies (out of 16) forecast that they would achieve the 5 minute standard in the first year of the PR24 period does not mean that the PCL should be set at that value. We interpret the rationale of ODI rewards (and penalties) not just as incentivising improvements in performance over time to benefit customers and the environment (as appropriate), but also as adjusting companies' funding levels to match the cost of providing different levels of performance. Allowances for base costs essentially fund companies for providing a level of performance reflective of the industry average in previous years. If a company provides a level of performance above the industry average, it is likely to incur higher costs that are not directly covered by its base allowances, all else equal. If the PCLs are set to remove any scope for ODI rewards for companies that perform better than the industry average, then by design these companies may not recover their costs, and we do not consider that such an approach is likely to be in the long-term interests of customers.
- 6.228 Given this context, our provisional decision is that it is appropriate to set common PCLs for water supply interruptions in line with Anglian's request, such that a 2024/25 baseline level is set equal to the median of companies' average performance in 2020-24, and PCLs are set assuming a linear improvement from

⁴⁰⁰ See, for example, Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.6.

⁴⁰¹ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p110, lines 3–4.

this baseline position to 5 minutes in 2029/30. In forming this provisional decision, we have taken account of the points highlighted above and the following considerations.

- (a) Setting a 2024/25 baseline level equal to the median of companies' average performance in 2020-24 anchors the setting of water supply interruption PCLs in levels of performance that have been achievable over a number of recent years, and applies an approach that is consistent with that used by Ofwat for other common PCLs.
- (b) The approach Ofwat took to setting PCLs in its PR24 FD (ie 5 minutes from the beginning of 2025/26) was a material contributor to the expected negative RoRE impact Ofwat identified as arising under the ODI framework.⁴⁰² In particular, Ofwat's approach intentionally exposed companies to significant downside risks (including through the absence of exclusions to reflect severe weather events), but at the same time significantly limited the likely scope for rewards.
- (c) While Ofwat's evidence on company performance forecasts suggested that applying the PCLs proposed by Anglian may provide some scope for outperformance for a significant number of companies, that would require companies to perform materially better than the industry median level in recent years.

6.229 We note that the possibility of Disputing Companies outperforming the PCL if improvements to water supply interruptions are delivered could help provide for a better overall balance of risk and reward, and help offset the negative skew that would otherwise be expected to arise in relation to this ODI (including under Ofwat's analysis).

6.230 Ofwat said that a target of 8 minutes 43 seconds – which in our provisional decision should be applied as a common PCL for 2025/26 – would represent a significant deterioration as it would effectively move performance back by almost 5 years.⁴⁰³ We consider this view conflates company performance with the setting of targets aimed at encouraging improvements in performance which would benefit customers. Outturn evidence has highlighted the extent to which companies have been able or not to achieve the PR19 PCLs. Our provisional decision is that it is appropriate to anchor the PR24 PCLs by reference to what has been achievable, while at the same time setting targets that encourage material improvement in this area.

⁴⁰² We consider the implications of this for the overall balance of risk under the ODI package in chapter 8 (Risk and Return).

⁴⁰³ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92.

6.231 In line with the above, our provisional decision is that the common PCLs for water supply interruptions should be set at the levels shown in Table 6.9 for all Disputing Companies excluding South East (whose submissions we assess below).

Table 6.9: Provisional decision on common PCLs for water supply interruptions (minutes lost per customer – mm:ss)

PCL	2025/26 08:43	2026/27 07:47	2027/28 06:51	2028/29 05:56	2029/30 05:00
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Source: CMA.

Water Supply Interruptions – South East

- 6.232 South East requested that a company-specific PCL be set at the levels set out in Table 6.10 below, which would be based on its estimates of its P50 level of interruptions in AMP8 (taking into account its full enhancement programme and the impact of extreme weather). South East submitted that its collar should be set at 0.5% RoRE.
- 6.233 Our provisional decision, for the reasons set out below, is to:
- (a) make a company-specific adjustment to the water supply interruptions PCL to take account of where the enhancement schemes for which South East has been funded can be regarded as necessary for addressing region-specific risks or issues to enable delivery of the common PCL;
 - (b) set a company-specific water supply interruptions PCL for South East based on its proposal submitted in response to Ofwat’s PR24 DD with an opening PCL of 12:22 minutes, an uplift of 3:39 minutes for the first four years of AMP8 versus our proposed common PCL, and to apply the common target of 5 minutes for year 5;
 - (c) apply a deadband between the company-specific and common PCL; and
 - (d) apply a collar of 1% RoRE.

Parties’ submissions

South East

- 6.234 South East said that the PCL Ofwat set at its PR24 FD for water supply interruptions was unreasonable, unrealistic, overly stretching and did not take into account crucial company-specific factors which impact its performance.⁴⁰⁴ South East said it was acutely conscious that its performance on water supply interruptions has been poor compared to the industry as a whole, and of the

⁴⁰⁴ [South East SoC](#), paragraph 5.11.

impact of this on its customers.⁴⁰⁵ South East submitted that its recent performance had been significantly adversely affected by a real increase in demand due to external factors outside of its control, in particular a permanent shift in working patterns following COVID-19 and an unprecedented frequency of extreme weather events, which could not reasonably have been anticipated.⁴⁰⁶ South East submitted that this significantly adverse impact, combined with the failure of regulatory frameworks to reflect network capacity issues and adequately fund resilience costs in previous years, had led to a situation where its water supply interruptions performance needs to improve significantly.⁴⁰⁷

- 6.235 South East said that none of its material water supply interruption events occurred in its western region, and that this was because, for legacy reasons, its network configuration in its western region is more resilient.⁴⁰⁸ South East submitted that the difference in water supply interruptions performance in its western and non-western region showed that it is not its management approach, but a combination of factors that required enhancement investment that are the root cause of its issues with respect to water supply interruptions.⁴⁰⁹
- 6.236 South East submitted that the underlying reason for its performance in its non-western region is the lack of operational headroom caused by changes in customer behaviour and increased frequency of extreme weather leading to elevated demand.⁴¹⁰ South East said that operational headroom in its western region has been consistently higher than in Kent and Sussex and submitted that a permanent change in customer behaviour as a result of COVID-19 had eroded operational headroom.⁴¹¹
- 6.237 South East said it had reviewed any lessons learned from each water supply interruptions incident and had developed a detailed action plan with a number of short-term responses to improve its supply resilience.⁴¹² South East said it had implemented improvements to the information and support it provides to customers, and improved its readiness and the mobilisation of its incident response in advance of potential high-demand events linked to severe weather.⁴¹³
- 6.238 South East said it had developed a multi-AMP enhancement investment programme that addresses root causes and delivers a resilient network for its customers.⁴¹⁴ South East submitted that this will improve its performance significantly over AMP8, including by ensuring that its network is more resilient to

⁴⁰⁵ [South East SoC](#), paragraph 5.12.

⁴⁰⁶ [South East SoC](#), paragraph 5.12; South East (2025) [Reply to Ofwat Response](#), paragraph 1.9(b)

⁴⁰⁷ [South East SoC](#), paragraph 5.13.

⁴⁰⁸ [South East SoC](#), paragraph 5.15.

⁴⁰⁹ [South East SoC](#), paragraph 5.15.

⁴¹⁰ [South East SoC](#), paragraph 5.16.

⁴¹¹ [South East SoC](#), paragraph 5.16.

⁴¹² [South East SoC](#), paragraph 5.17(a).

⁴¹³ [South East SoC](#), paragraphs 5.17(b) and 5.17(c).

⁴¹⁴ [South East SoC](#), paragraph 5.17(d).

extreme weather and the impact of climate change.⁴¹⁵ South East said that the enhancement investment necessary to improve its water supply interruptions performance would take a number of years to complete and therefore that it was not possible to deliver an immediate step-change in performance to the level in Ofwat's PR24 FD.⁴¹⁶

PCL

- 6.239 South East submitted that Ofwat's approach to the water supply interruptions PCL was at odds with its approach to other PCLs which it explicitly adjusted to reflect outturn AMP7 performance.⁴¹⁷
- 6.240 South East said that Ofwat had applied a company-specific PCL for United Utilities as it was of the view that United Utilities had submitted compelling evidence for regional specific factors affecting its internal sewer flooding performance and substantial past efforts to improve performance.⁴¹⁸ South East submitted that it had provided evidence on equivalent points to United Utilities.⁴¹⁹
- 6.241 South East submitted that, when setting water supply interruption PCLs, it appeared that Ofwat had either not followed many of its own principles or had applied them in a way that was not transparent and not consistent: it had not taken account of current performance, the impact of South East's enhancement schemes, or company-specific circumstances.⁴²⁰ South East submitted that Ofwat's approach to the water supply interruptions PCL is disconnected from other parts of the price control.⁴²¹
- 6.242 South East said it had undertaken extensive analysis to determine the water supply interruptions performance it can deliver, taking account of its company-specific circumstances, using the following steps.⁴²²
- (a) It estimated the level of performance that reflected its lack of operational headroom, without extreme weather and AMP8 enhancement schemes: South East identified this as 24:45 minutes per year during AMP8.
 - (b) It added the additional impact of extreme weather at the P50 level: South East identified this increasing water supply interruptions by 09:47 minutes per year per year during AMP8.

⁴¹⁵ [South East SoC](#), paragraph 5.17(d).

⁴¹⁶ [South East SoC](#), paragraph 5.18.

⁴¹⁷ [South East SoC](#), paragraph 5.21.

⁴¹⁸ [South East SoC](#), paragraph 5.23 and Annex F, paragraph 38(a).

⁴¹⁹ [South East SoC](#), paragraph 5.23 and Annex F, paragraph 38(a) and Table ANF4.

⁴²⁰ [South East SoC](#), paragraph 5.24 and Annex F, Table ANF6.

⁴²¹ South East (2025) [Reply to Ofwat Response](#), paragraph 1.8.

⁴²² [South East SoC](#), paragraph 5.25 and Table 5.3.

- (c) It took account of the reduction in interruption minutes as a result of enhancement schemes: South East identified this as improving its performance by 28:81 minutes per year by the final year of AMP8.
- (d) It combined the above to give its estimate of interruptions minutes at the P50 level, as shown in Figure 6.8 below.

Figure 6.8: South East estimates of its P50 level of water supply interruptions in AMP8

	25/26	26/27	27/28	28/29	29/30
A - Interruption minutes reflecting lack of operational headroom (not including extreme weather)	24.45	24.45	24.45	24.45	24.45
B - Additional impact of extreme weather	+9.47	+9.47	+9.47	+9.47	+9.47
Total interruption minutes	33.92	33.92	33.92	33.92	33.92
C- Reduction as a result of delivering our full AMP8 enhancement programme	-0.50	-3.50	-4.41	-9.77	-25.81
D - Total with extreme weather and full AMP8 enhancement programme	33.42	30.42	29.51	24.15	8.11

Source: [South East SoC](#), Table 5.3.

- 6.243 South East submitted that under Ofwat's PR24 FD PCL and penalty collar it faced it would incur penalties of £31 million based on its P50 assessment (as set out in the final row D in Figure 6.8 above), which it said was clearly unacceptable.⁴²³
- 6.244 South East said that one remedy it considered requesting was the removal of the impact of extreme weather from the PCL.⁴²⁴ South East submitted that Ofwat's funding had not been consistent with the risks it expected South East to bear on the water supply interruptions PCL, and that indeed there are no standards for water infrastructure design to allow funding to be calibrated against that risk.⁴²⁵ South East also submitted that this remedy would align with regulatory precedent in other sectors and referred to the Interruptions Incentive Scheme that Ofgem applied to electricity distribution network operators.⁴²⁶
- 6.245 Instead, South East requested that a company-specific PCL be set at a stretching but achievable level as set out in Table 6.10 below.⁴²⁷ South East said that these PCLs were based on the figures shown in row D of Figure 6.8 above, and included

⁴²³ [South East SoC](#), paragraph 5.26.

⁴²⁴ [South East SoC](#), paragraph 5.27.

⁴²⁵ [South East SoC](#), paragraph 5.27 (a).

⁴²⁶ [South East SoC](#), paragraph 5.27.

⁴²⁷ [South East SoC](#), paragraph 5.28; South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 3.8.

an efficiency and ambition stretch.⁴²⁸ South East said that one part of this stretch was that it had accounted for the full benefits of enhancement schemes from the year of delivery (even though they are due to be delivered at the end of year), and another was to reflect operational improvements and lessons learned from its previous interruptions.⁴²⁹

Table 6.10: South East’s proposed PCLs for water supply interruptions (minutes lost per customer – mm:ss)

	2025/26	2026/27	2027/28	2028/29	2029/30
Proposed PCL	33:00	33:00	29:00	24:00	08:00

Source: [South East SoC](#), Table 5.4.

ODI rate and penalty collar

- 6.246 South East submitted that if there were concerns about the potential for outperformance if there was less extreme weather than assumed in its forecast, then the appropriateness of applying a penalty-only ODI could be explored.⁴³⁰
- 6.247 South East submitted that there is no reasonable basis for the penalty collar of 2% RoRE that Ofwat applied to it in its PR24 FD in relation to water supply interruptions, the result of which is that it would be penalised twice as much as other companies in respect of water supply interruptions, and four times as much as most companies for most PCLs.⁴³¹ South East submitted that Ofwat’s approach to setting its penalty is contradictory as Ofwat had explicitly stated that South East’s performance issues were due to external factors, but the magnitude of its resilience issues cannot be resolved via operational changes.⁴³² South East submitted that Ofwat’s reasoning that stronger incentives lead to better performance is flawed in areas where enhancement investment is needed to improve performance, and in this case only lead to automatic penalties.⁴³³ South East proposed that a collar be set at 0.5% RoRE in line with Ofwat’s approach to most PCLs.⁴³⁴

Ofwat

PCL

- 6.248 Ofwat said that the CMA should not adopt the changes South East proposes to the water supply interruptions PCL.⁴³⁵ It submitted that South East’s proposed PCLs

⁴²⁸ [South East SoC](#), paragraph 5.29.

⁴²⁹ [South East SoC](#), paragraph 5.29.

⁴³⁰ [South East SoC](#), paragraph 5.32.

⁴³¹ [South East SoC](#), paragraph 5.35.

⁴³² [South East SoC](#), paragraph 5.34(c).

⁴³³ [South East SoC](#), paragraph 5.37.

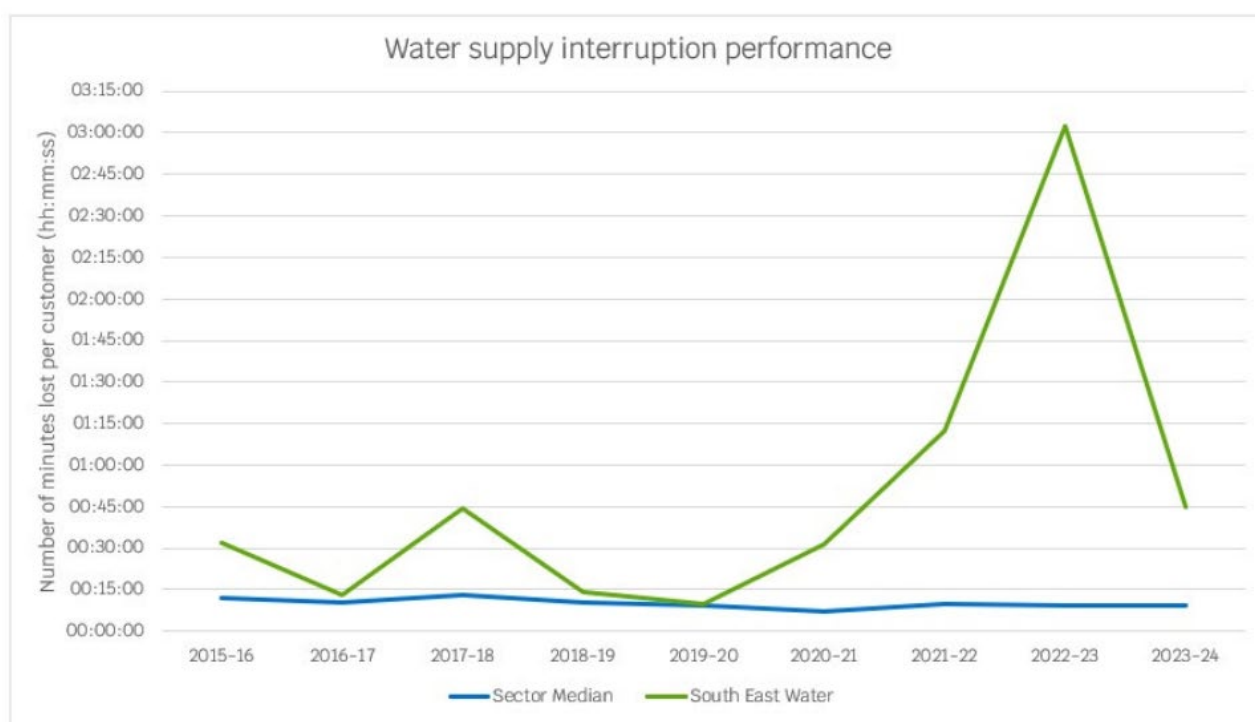
⁴³⁴ [South East SoC](#), paragraph 5.38.

⁴³⁵ Ofwat (2025) [Response to South East SoC](#), paragraph 4.222.

would mean that for the first four years of AMP8 its customers would receive a level of service that was on average 509% worse than the 2023/24 sector median.⁴³⁶ Ofwat said that it is currently investigating South East in connection with its duty to develop and maintain an efficient water supply system, including for its consistently poor performance in this area.⁴³⁷

- 6.249 Ofwat provided the graph shown in Figure 6.9, and said that South East's performance has been worse than the median performer in each of the last nine years, and generally by a large amount.⁴³⁸ Ofwat submitted that South East's performance has been particularly poor during the past three years despite having stated in its PR19 business plan that it would aim to reach 5 minutes 30 seconds in 2020/21, and 4 minutes by 2024/25.⁴³⁹

Figure 6.9: South East water supply interruption performance since 2015/16 compared to sector median



Source: Ofwat (2025) [Response to South East SoC](#), Figure 4.4.

- 6.250 Ofwat said that making exclusions relating to extreme weather for water supply interruptions is not acceptable as companies can mitigate the impact on customers of weather events through how they prepare for and respond to such events.⁴⁴⁰ Ofwat said that its reviews of previous severe weather incidents had found that South East Water had failed to adequately prepare, for instance:

⁴³⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.223.

⁴³⁷ Ofwat (2025) [Response to South East SoC](#), paragraph 4.223.

⁴³⁸ Ofwat (2025) [Response to South East SoC](#), paragraph 4.224.

⁴³⁹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.225.

⁴⁴⁰ Ofwat (2025) [Response to South East SoC](#), paragraph 4.226.

- (a) Ofwat's review of water companies' response to the 'Beast from the East' in June 2018 found that South East Water's plans were not sufficiently robust to enable it to deal with the situation that the company was actually confronted with;⁴⁴¹
- (b) the freeze thaw event in December 2022 was exacerbated by South East Water's lack of preparedness - for example, South East had neither optimised its available storage, nor was it optimising the output from its available treatment works;⁴⁴² and
- (c) Ofwat's 2023 report 'Prepare Better, Perform Better – Cold Weather Events', highlighted that South East required improvements in its planning and preparedness including improvement in its provision of bottled water in response to loss of supply.⁴⁴³

6.251 Ofwat said that a neighbouring company subject to the same climatic conditions, Affinity, was able to deliver upper quartile performance in water supply interruption times.⁴⁴⁴ Ofwat said it did not consider South East Water to be significantly impacted from the impacts of COVID-19 above and beyond other water companies.⁴⁴⁵ Ofwat submitted that, reviewing the evidence South East had provided on peak demand and water supply interruptions suggested that a lack of headroom is not a major driver of serious supply incidents especially given headroom rarely falls below 0%.⁴⁴⁶ Ofwat submitted that South East's mapping of water supply interruption incidents and sub-zonal interconnectivity showed that 40% of serious incidents still occur in regions with high sub-zonal interconnectivity.⁴⁴⁷ Ofwat said that this indicated that there are other strategies the company could undertake outside of interconnectivity to reduce water supply interruptions that are within management control.⁴⁴⁸ Ofwat submitted that despite the allowances provided at PR19 for interzonal investment and to improve resilience, South East's water supply interruptions performance deteriorated over the 2020-24 period.⁴⁴⁹

⁴⁴¹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.226, referring to [OF-OU-047] Ofwat (2018) [Letter to South East Water about the review of the freeze/thaw incident](#).

⁴⁴² Ofwat (2025) [Response to South East SoC](#), paragraph 4.226, referring to [OF-OU-048] DWI (2023) [Consolidated review of the widespread loss of supplies arising from the freeze/thaw event affecting England in December 2022](#).

⁴⁴³ Ofwat (2025) [Response to South East SoC](#), paragraph 4.229, referring to [OF-OU-051] Ofwat (2023) [Prepare Better, Perform Better – Cold Weather Events](#).

⁴⁴⁴ Ofwat (2025) [Response to South East SoC](#), paragraph 4.227.

⁴⁴⁵ Ofwat (2025) [Response to South East SoC](#), paragraph 4.231.

⁴⁴⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.233.

⁴⁴⁷ Ofwat (2025) [Response to South East SoC](#), paragraph 4.235.

⁴⁴⁸ Ofwat (2025) [Response to South East SoC](#), paragraph 4.235.

⁴⁴⁹ Ofwat (2025) [Response to South East SoC](#), paragraphs 4.236–4.237.

- 6.252 Ofwat said that it disagreed that South East could not take operational changes to improve performance in the short term and could only improve through enhancement expenditure, pointing to:⁴⁵⁰
- (a) South East's service commitment plan as having already identified several actions (including increasing its number of tankers and increasing treatment capacity) it would undertake to improve performance in the short term, with many of these projects due to be complete before the end of 2025/26;⁴⁵¹ and
 - (b) Severn Trent improving its performance over time, with its latest annual performance report citing the growth of the network response team and trunk main repair team as having been a key driver of its positive performance.⁴⁵²
- 6.253 Ofwat submitted that South East had failed to demonstrate it had implemented activities to improve performance including investment planning, operational resilience and how it can act in the short term to improve for its customers.⁴⁵³ Ofwat said that, in addition to this, South East had not demonstrated it has undertaken adequate root cause analysis to account for its poor performance.⁴⁵⁴

ODI penalty collar

- 6.254 Ofwat submitted that it did not consider that South East had provided compelling evidence to support its proposal to tighten the collar for water supply interruptions.⁴⁵⁵ Ofwat said it considered that once a collar is hit, the financial incentive to minimise the number and duration of supply interruptions is diminished, as a company cannot receive any additional ODI penalties for further deterioration in performance.⁴⁵⁶
- 6.255 Ofwat said that a collar of -0.5% RoRE and -1% RoRE corresponds to underperformance of around 10 and 20 minutes respectively, and that South East's average actual performance over 2020-2024 was 76 minutes compared to the common PCL target of 5 minutes for 2025-2030 at PR24.⁴⁵⁷ Ofwat submitted that setting a collar at -1% RoRE for South East in line with other companies would significantly reduce its incentive to improve its performance regarding water supply interruptions.⁴⁵⁸ Ofwat submitted that the -2% RoRE collar further

⁴⁵⁰ Ofwat (2025) [Response to South East SoC](#), paragraph 4.238.

⁴⁵¹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.238.

⁴⁵² Ofwat (2025) [Response to South East SoC](#), paragraph 4.239.

⁴⁵³ Ofwat (2025) [Response to South East SoC](#), paragraph 4.243.

⁴⁵⁴ Ofwat (2025) [Response to South East SoC](#), paragraph 4.243.

⁴⁵⁵ Ofwat (2025) [Response to South East SoC](#), paragraph 4.249.

⁴⁵⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.253.

⁴⁵⁷ Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

⁴⁵⁸ Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

incentivises the step-change in performance that is needed to provide resilience against this measure into future price control periods.⁴⁵⁹

Third parties

CCW

- 6.256 CCW submitted that South East had been a consistently poor performer on water supply interruptions and reliable water supply is a top priority for its customers.⁴⁶⁰ Customers would expect an ambitious target to drive tangible improvement in return for any bill increase.⁴⁶¹

Our assessment and provisional decisions

- 6.257 South East requested a company-specific PCL for the first year of AMP8 (33 minutes) that is almost four times the level at which we have provisionally decided that the common PCL should be set (as set out in Table 6.9 above). Applying South East's request would involve making a substantial company-specific adjustment to the water supply interruptions PCL.
- 6.258 Our provisional assessment outlined below addresses the following questions.
- (a) Should a company-specific PCL be applied to South East for water supply interruptions?
 - (b) What factors should inform the level at which a company-specific PCL is set?
 - (c) At what level should a company-specific PCL be set?

Should a company-specific PCL be applied to South East for water supply interruptions?

- 6.259 When assessing the case for this company-specific adjustment, we consider it is important to take account of:
- (a) the potential impact that such adjustments can have on the incentives companies face when making decisions that can impact the reliability of supplies to their customers; and
 - (b) the risk that customers end up receiving a poorer level of service than companies have been funded to deliver.

⁴⁵⁹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.256.

⁴⁶⁰ CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraphs 3.4 and 3.10.

⁴⁶¹ CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.10.

- 6.260 We consider the evidence presented to us to show that water supply interruptions performance can be materially affected by activities associated with base funding allowances. We comment on this evidence further in paragraphs 6.271 to 6.275 below, but note that Ofwat emphasised the scope for operational changes to improve water supply interruptions performance (including by improvements made by Severn Trent),⁴⁶² and that South East's own evidence highlighted ways in which it has sought to improve its water supply interruptions performance through a range of operational measures.⁴⁶³
- 6.261 Given this, we consider there to be a risk that company-specific adjustments (and the expectation that such adjustments may be made) could weaken incentives for companies to deliver an efficient level of performance (and, more generally, for companies to strive for the efficient operation and maintenance of the network). In particular, such adjustments could reduce the overall financial consequences for a company of spending less and/or focusing less effectively on 'base' activity that could materially impact water supply interruptions performance. For example, when considering the potential benefits and costs of undertaking or deferring related base investment (such as the maintenance of relevant assets), an expectation that poor water supply interruptions performance could support a more lenient company-specific PCL being applied in the future could make deferral look more attractive to a company than would otherwise have been the case (as expected ODI penalties would be lower). As noted above, as well as potentially dampening performance improvement incentives, this increases the risk that customers end up receiving a poorer level of service than companies have been funded to deliver.
- 6.262 Given these risks, our provisional decision is that it is appropriate, in line with the approach Ofwat identified as appropriate in its PR24 FD,⁴⁶⁴ to only move away from a PCL that has been set at a common level, and set a company-specific PCL, where there is compelling evidence that a company-specific approach would be justified.
- 6.263 Ofwat submitted that South East had failed to provide evidence that justified applying a company-specific approach to water supply interruptions, and presented its assessment as based on the following questions.⁴⁶⁵
- (a) Does the company provide compelling evidence that performance is impacted by region-specific factors that are not covered in the base models used to set allowances and are outside of management control?

⁴⁶² See paragraph 6.272 below.

⁴⁶³ [South East SoC](#), paragraph 5.17.

⁴⁶⁴ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p25.

⁴⁶⁵ Ofwat (2025) [Response to South East SoC](#), paragraph 4.240.

- (b) Does the company provide compelling evidence to demonstrate it is taking reasonable and appropriate action to improve performance in this area?

6.264 We note that when commenting on funding in relation to the water supply interruptions PCL in its PR24 FD, Ofwat explicitly referred to the around £90 million of enhancement funding it had allowed for South East relating to interconnectors to improve its performance.⁴⁶⁶ When we asked for clarification on how this was taken into account when setting the water supply interruptions PCL, Ofwat said that it distinguished between enhancement expenditure that was intended to: (i) deliver performance beyond the common PCL; and (ii) address region-specific risks or issues to enable delivery of the common performance level.⁴⁶⁷ Ofwat said that scenario (ii) was applicable to South East and that:⁴⁶⁸

‘The enhancement allowance of c.£90m was funded to improve network resilience through interconnector schemes. We consider that this is provided to address regional specific risks and issues and would support the delivery of the common performance level (5 minutes).’

6.265 Ofwat said that it considered whether it was appropriate to adjust South East's PCL to introduce a glidepath towards the (common) target by 2029/30, but concluded that would not be in the interests of South East's customers and that the company should continue to be incentivised to deliver performance as close to the 5 minute target as possible from the outset of AMP8.⁴⁶⁹ Ofwat said that while the investment addresses risks associated with resilience issues, the company had attributed all potential performance improvements to this capital solution, and that this risked overlooking improvements that could reasonably be delivered through operational interventions and improved network management.⁴⁷⁰ Ofwat said that consistently good performance on supply interruptions requires more than capital schemes.⁴⁷¹

6.266 Our provisional decision is that it is appropriate to make a company-specific adjustment to the water supply interruptions PCL to take account of where the enhancement schemes for which South East has been funded can be regarded as necessary for addressing region-specific risks or issues to enable delivery of the common PCL. We note Ofwat's comments on the role of operational interventions in delivering good water supply interruptions performance, and – as set out below – we consider this to be relevant when assessing the level of company-specific adjustment that should be made. However, our provisional view is that the fact that water supply interruptions performance will also be affected by operational

⁴⁶⁶ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p92.

⁴⁶⁷ Ofwat response to Ofwat RFI17, Q1 (part A).

⁴⁶⁸ Ofwat response to Ofwat RFI17, Q1 (part B).

⁴⁶⁹ Ofwat response to Ofwat RFI17, Q1 (part B).

⁴⁷⁰ Ofwat response to Ofwat RFI17, Q1 (part B).

⁴⁷¹ Ofwat response to Ofwat RFI17, Q1 (part B).

interventions does not negate the appropriateness of taking account of the impact of South East's relevant enhancement schemes on its ability to meet the PCL.

What factors should inform the level at which a company-specific PCL should be set for South East?

- 6.267 Given our provisional decision that a company-specific water supply interruptions PCL should be set for South East, we considered how the following factors might be relevant to the level at which those PCLs should be set:
- (a) South East's PR24 enhancement schemes;
 - (b) the scope for operational improvements;
 - (c) South East's submissions on challenges it faces in relation to water supply interruptions, including in relation to the potential impacts of extreme weather events; and
 - (d) South East's proposed PCLs in response to Ofwat's PR24 DD.

South East's PR24 enhancement schemes

- 6.268 Our provisional decision set out in paragraph 6.266 above that a company-specific water supply interruptions PCL should be set for South East raises the following questions.
- (a) Which enhancement schemes should be regarded as addressing region-specific risks or issues to enable delivery of the common PCL?
 - (b) What contribution should those schemes be treated as having contributed to enabling the delivery of the common PCL?
 - (c) When should that contribution be treated as having been delivered?
- 6.269 As part of its response to an RFI concerning the relationship between South East's PR24 enhancement schemes and its water supply interruptions performance, Ofwat asked all companies to provide information on how they identified the benefits of some relevant types of enhancement schemes to water supply interruptions.⁴⁷² Ofwat provided us with the nine responses it received,⁴⁷³ and noted that companies had generally struggled to quantify the benefits of schemes

⁴⁷² Ofwat response to Ofwat RFI17, Q2 (query clarification), p1.

⁴⁷³ Ofwat response to Ofwat RFI17, Q2 (query clarification).

in this area.⁴⁷⁴ Ofwat said that, in addition to citing operational improvements as a driver of water supply interruptions performance, companies stated that:⁴⁷⁵

- (a) there is no established industry methodology for quantifying the benefits of improvements to supply interruptions;
- (b) it can be difficult to attribute benefits to individual schemes, as outcomes often depend on how assets are operated;
- (c) many investments are designed to reduce or prevent future risks. If these risks do not materialise, the benefit can be difficult to demonstrate; and
- (d) there is often a time lag between making an investment and realising measurable benefits to supply interruptions.

6.270 As discussed further in paragraphs 6.283 to 6.292, we took these points into account when reviewing South East's estimates of the impact of its enhancement schemes on its water supply interruptions performance.

The scope for operational improvements

6.271 As set out in paragraph 6.266 above, the fact that water supply interruptions performance will be affected by operational interventions does not, in our provisional view, negate the appropriateness of taking account the impact of South East's relevant enhancement schemes. At the same time, we consider it critical to take account of the scope for operational improvements, as a failure to do so could result in an overstatement of the impact on water supply interruptions that it is reasonable to attribute to enhancement schemes.

6.272 At the Outcomes hearing, Ofwat noted the variability of interruptions data and said that companies often cite single large events as having led to significantly longer interruption times than the PCL.⁴⁷⁶ Ofwat said that it considered that companies can do a lot operationally to get a grip on these kind of events,⁴⁷⁷ and emphasised how companies react and respond.⁴⁷⁸ Ofwat pointed to Severn Trent as an example of a company that had historically had water supply interruptions performance of around 30 minutes but had delivered massive improvements,⁴⁷⁹ and referred to operational changes which had resulted in improvements to Severn Trent's performance.⁴⁸⁰

⁴⁷⁴ Ofwat response to Ofwat RF117, Q2 (query clarification).

⁴⁷⁵ Ofwat response to Ofwat RF117, Q2 (query clarification).

⁴⁷⁶ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p110, lines 8–15.

⁴⁷⁷ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p111, lines 14–15.

⁴⁷⁸ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p120, lines 16–18.

⁴⁷⁹ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p109, lines 23–25 and p110, lines 1–2.

⁴⁸⁰ Ofwat (2025) [Response to South East SoC](#), paragraph 4.239.

6.273 As per paragraph 6.251 above, Ofwat also submitted that Affinity, a neighbouring company to South East, was subject to the same climatic conditions but had been able to deliver upper quartile performance on water supply interruptions.⁴⁸¹ In its response to Ofwat's RFI regarding the benefits of enhancement schemes to water supply interruptions performance (described in paragraph 6.269), Affinity said:⁴⁸²

'We have delivered significant performance improvements in water supply interruptions since 2017. This performance improvement has been achieved through base expenditure primarily through changes to our people, processes and systems, rather than through significant capital asset investment.'

6.274 Affinity presented these comments in relation to changes in its water supply interruptions performance since 2017/18, which included an improvement from more than 30 minutes in 2017/18 to around 5 minutes in 2021/22.⁴⁸³

6.275 As discussed further in paragraph 6.292 below, we considered the implications of the potential scope for operational improvements when reviewing South East's estimates of the impact of its enhancement schemes on its water supply interruptions performance.

South East's submissions on the challenges it faces in relation to water supply interruptions

6.276 Our provisional assessment of the case for setting company-specific PCLs for South East in paragraphs 6.259 to 6.266 focused on enhancement schemes that it has been funded to deliver in AMP8 that could impact its ability to meet the common PCL for water supply interruptions. As set out in paragraphs 6.234 to 6.245, South East made a range of submissions that related to the broader conditions in which it has been operating, including in relation to the evolution of demand (in particular since COVID-19), and factors that have underpinned its water supply interruptions performance.⁴⁸⁴

6.277 Our provisional view is that South East's submissions related to the demand and headroom conditions it has faced, and expects to face in AMP8, do not mean that it would be appropriate to make company-specific adjustments to its PCL in addition to those which may be justified in relation to its enhancement programme. South East's submissions on its demand and headroom conditions could potentially contribute to the case for the enhancement schemes it proposed for PR24 to improve its resilience (including to extreme weather events). And these schemes may support its ability to meet the common PCL for water supply

⁴⁸¹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.227.

⁴⁸² Affinity submission provided in Ofwat response to Ofwat RFI7, Q2 (query clarification).

⁴⁸³ Affinity submission provided in Ofwat response to Ofwat RFI7, question 2 (query clarification).

⁴⁸⁴ [South East SoC](#), paragraphs 5.11–5.16.

interruptions. However, our provisional view is that these submissions do not introduce additional factors that would be appropriate to take into account when determining company-specific PCLs for South East with respect to water supply interruptions.

- 6.278 We note that South East's requested PCL included an adjustment to the common PCL that goes beyond its view of the impact of enhancement schemes. As can be seen in Figure 6.8 above, even after taking account of its view of the impact of the delivery of all relevant AMP8 enhancement schemes by 2029/30 (25:81), South East requested a PCL of 8:11 minutes, ie 3:11 minutes higher than the common PCL for that year in Ofwat's PR24 FD. We note that this remaining difference arises from South East's approach of taking its assessment of its expected water supply interruptions performance in AMP8 as the starting point in Figure 6.8.
- 6.279 Our provisional view is that the appropriate starting point when assessing the case for a company-specific PCL in this context is the common PCL, not a company-specific forecast. In forming this provisional view, we have taken account of the risk highlighted in paragraph 6.261 that company-specific adjustments to the water supply interruptions PCL could weaken incentives on companies to provide for the efficient level and usage of base expenditure over time, and result in customers receiving a poorer level of service than companies have been funded to deliver. Our provisional decision is that South East has not demonstrated that it would be appropriate to make a company-specific adjustment to the common PCL that goes beyond that which may be justified given its relevant AMP8 enhancement schemes.

South East's proposed PCLs in response to Ofwat's PR24 DD

- 6.280 In its response to Ofwat's PR24 DD, South East proposed a PCL for the first year of AMP8 of 12:22 minutes (with the PCL converging to 5 minutes in 2029/30).⁴⁸⁵ This opening level of 12:22 minutes was set equal to the average of South East's three best years of recent performance: 2016/17, 2018/19 and 2019/20.⁴⁸⁶ South East said that this did not represent an 'expected' level of performance, but was a proposed PCL developed within the context of Ofwat's PR24 DD, and considered only years with no or minimal severe weather impact.⁴⁸⁷ South East said that its response to Ofwat's PR24 DD had included a request to remove severe weather from performance measurement for water supply interruptions.⁴⁸⁸ It submitted that – as the latest year of historical data included in its calculation of the figure for its PR24 DD response was 2019/20 – its proposed PCL of 12.22 minutes could not account for the lasting impact of COVID-19 on peak demand in its region and its

⁴⁸⁵ South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p18.

⁴⁸⁶ South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p18; South East response to South East RFI06, Q1, paragraph 13.

⁴⁸⁷ South East response to South East RFI06, Q1, paragraphs 4(b) and 8.

⁴⁸⁸ South East response to South East RFI06, Q1, paragraph 9.

operational headroom.⁴⁸⁹ South East also said that its proposal did not explicitly take into account the specific timing of its enhancement schemes.⁴⁹⁰

6.281 We note that when presenting this proposal in its response to Ofwat's PR24 DD, South East commented that:⁴⁹¹

'Our analysis suggests that under this proposal, we will remain exposed to downside risks from severe weather events, but the total amount of risk exposure is limited. While we have concerns about Ofwat's approach to severe exogenous events in general, this is a pragmatic proposal that seeks to remain within the spirit of what Ofwat has set out to achieve at PR24 while calibrating our risk exposure in a proportionate way.'

6.282 South East's PR24 DD proposal for a PCL of 12:22 minutes in 2025/26 does not inform the appropriateness of a company-specific adjustment to reflect South East's relevant enhancement schemes in AMP8. However, our provisional view is that it nevertheless provides a relevant reference point when considering what level of company-specific PCL may be appropriate.

What level should a company-specific PCL be set at for South East?

6.283 In line with the above section, the following section considers two questions.

- (a) Which enhancement schemes should be regarded as addressing region-specific risks or issues to enable delivery of the common PCL?
- (b) What contribution should those schemes be treated as having to enable the delivery of the common PCL, taking account of the scope for operational factors to affect performance?

6.284 We then consider what account should be taken of South East's proposed PCLs in response to Ofwat's PR24 DD, and set out our provisional decision on a company-specific PCL for South East.

Identifying relevant enhancement schemes

6.285 Figure 6.10 below shows South East's view of the improvement in its water supply interruptions performance that would be expected to result from resilience schemes in AMP8. In total, South East identified an improvement of 25:81 minutes over AMP8 related to twelve schemes.

⁴⁸⁹ South East response to South East RFI06, Q1, paragraph 9.

⁴⁹⁰ South East response to South East RFI06, Q1, paragraph 9(c).

⁴⁹¹ South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p19.

Figure 6.10: South East expected improvement from proposed resilience schemes over AMP8

Name of the scheme	Region	AMP8	Expected improvement on WSI performance (min lost reduction per properties)
Additional tankers	Kent and Sussex	Y1	0.50
Year 1 total expected performance improvement			0.50
Smart water networks	All	Y2	3.00
Year 2 total expected performance improvement			3.50
Tonbridge WTW	Kent	Y3	0.91
Year3 total expected performance improvement			4.41
Bowl Upgrade[3<]	Kent	Y4	4.31
Interconnectivity [3<]	Kent	Y4	1.05
Year 4 total expected performance improvement			9.77
[3<]	Kent	Y5	1.39
Groombridge reinforcement	Sussex	Y5	5.20
Pembury WTW	Kent	Y5	2.92
Hourne Farm Service Reservoir Resilience	Sussex	Y5	2.54
Interconnectivity - Kilnwood supply[3<]	Kent	Y5	1.25
Windover SR resilience / reinforcement	Sussex	Y5	0.69
Reservoir Storage - Halling	Kent	Y5	2.06
Year 5 total expected performance improvement			25.81

Source: South East SoC, Annex F, Table ANF11.

6.286 Our starting point, when considering the extent to which these schemes should be treated as relevant for setting a company-specific PCL, was the set of resilience interconnector schemes that were included in the around £90 million of enhancement funding that Ofwat identified as relevant to meeting the water supply interruptions common PCL in its PR24 FD. Five rows shown in Figure 6.10 above relate to resilience interconnectors that fall within this category, with South East submitting that those five schemes account for 9:58 minutes of the overall improvement of 25:81 minutes it identified.

6.287 However, in line with the evidence discussed in paragraph 6.269, enhancement investments can be designed to reduce or prevent future risks. Our provisional assessment is that schemes should not be included when quantifying the appropriate level of company-specific PCLs where, or to the extent that, they are concerned with addressing future risks. Rather, our provisional decision is that enhancement schemes should only be taken into account:

- (a) to quantify the appropriate level of company-specific PCLs; and
- (b) to the extent that they can be viewed as necessary to address existing resilience issues South East would likely face when seeking to meet the common PCL at the beginning of PR24.

6.288 We note that Ofwat identified one of the resilience interconnector schemes included in Figure 6.10 (Kilnwood supply [3<]) as an example of an investment to address future risks (ie preventing deterioration).⁴⁹² This would suggest that it should be excluded from an assessment of the appropriate company-specific PCL. At the same time, there may be a case for considering the contribution from some of the other schemes shown in Figure 6.10 above which relate to water treatment works and service reservoir upgrades given the identified sources of South East's water supply interruptions performance. However, it may be that some of those schemes (including notably Bewl for which funding has not yet been provided) should be regarded as related to future risks.

6.289 Our provisional view is that it would not be appropriate to take account of the additional tankers (which South East shows as providing benefit in year 1 of AMP8) or of smart water network schemes which we have treated as base expenditure and not something for which the PCL should be adjusted (for the reasons set out in paragraph 6.261).

6.290 We do not consider the submissions we have received provide a reliable basis for drawing conclusions on the set of South East enhancement schemes that it would be appropriate to take into account when seeking to determine a company-specific water supply interruptions PCL.

Identifying the level of contribution that enhancement schemes should be treated as having to enable South East to meet the common PCL

6.291 As with the identification of relevant enhancement schemes, we do not consider the submissions we have received provide a reliable basis for drawing conclusions on the contribution that it would be appropriate to treat relevant enhancement schemes as having when seeking to determine company-specific PCLs for South East. However, our provisional view is that the contributions to water supply

⁴⁹² Ofwat response to Ofwat RFI17, Q2, cover email.

interruptions performance that South East identified as related to each scheme (shown in Figure 6.10 above) likely significantly overstates the level that it would be appropriate to taken into account when setting a company-specific PCL.

- 6.292 South East said that its assessment was based on the assumption that the impact of historical events (measured in minutes lost per property) provides a credible estimate of the likely impact of similar events during AMP8.⁴⁹³ However, as was noted in paragraph 6.250, Ofwat pointed to a number of previous reviews (from 2018 to 2023) in which it had found that South East had failed to adequately prepare for severe weather incidents. At the Outcomes hearing, South East said in relation to the ‘Beast from the East’ in 2018, that it had not been set up to deal with it and had failed customers in that period.⁴⁹⁴ As was noted in paragraphs 6.271 to 6.274 above, evidence from other companies has shown the extent to which operational improvements can help deliver improvements in water supply interruptions performance. We consider that a reliable assessment of the impact of enhancement schemes would need to reflect the extent to which impacts on customers could have been lessened through other means.

Our provisional decisions

PCL

- 6.293 Our provisional decision is that South East’s estimates of the contribution from enhancement schemes are likely to significantly overstate both the set of schemes that it is appropriate to take into account, and the contribution of each of those schemes when determining a company-specific PCL. However, in our view, the submissions we have received do not provide a reliable basis for drawing conclusions on the contribution that it would be appropriate to treat as being delivered by relevant enhancement schemes when determining company-specific PCLs for South East.
- 6.294 Given this, we have considered what weight we should put on the PCLs that South East proposed in response to Ofwat’s PR24 DD. Our provisional decision is that the opening PCL of 12:22 minutes that South East proposed in its response to Ofwat’s DD provides a reasonable level at which to set a company-specific PCL for 2025/26. In forming this provisional decision, we have taken into account the following.
- (a) South East’s PR24 DD proposal would imply a company-specific uplift over the common PCL for 2025/26 that we have provisionally determined (8:43 minutes) of 3:39 minutes, and can therefore be viewed as consistent with taking account of South East’s estimates in Figure 6.10 above, while

⁴⁹³ South East response to South East RFI07, Q1, paragraph 51.

⁴⁹⁴ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p125, lines 22–24, and p126, lines 1–2.

reflecting our provisional assessment that both the set of schemes that South East included, and the contribution included from each of those schemes, are likely to significantly overstate the levels that it is appropriate to take into account when setting a company-specific PCL.

- (b) The figures are based on past performance that South East has achieved: as set out in paragraph 6.280, it is the average of South East's three best years of recent performance (2016/17, 2018/19 and 2019/20).
- (c) In August 2024, in its response to Ofwat's PR24 DD, South East said that its analysis suggested that – under the PCLs that it proposed at that time (starting at 12:22 in 2025/26) – it would remain exposed to downside risks from severe weather events but the total amount of risk exposure is limited and calibrated in a proportionate way.⁴⁹⁵

6.295 Given the delivery profile South East identified, our provisional decision is that this level of company-specific uplift (3:39 minutes) should be applied to the common PCL for water supply interruptions in the first four years of AMP8, with South East then subject to the common PCL in year 5. Our provisional view, based on the submissions we have received, is that this would provide a balanced way of reflecting the relevant enhancement schemes South East has been funded to deliver during the AMP, while providing stretching targets that reflect the importance of this issue to customers. In line with that, our provisional decision is that the company-specific PCLs shown in Table 6.11 should apply to South East.

Table 6.11: Provisional decision on South East PCLs for water supply interruptions compared to common PCL (minutes lost per customer – mm:ss)

	2025/26	2026/27	2027/28	2028/29	2029/30
Common PCL	08:43	07:47	06:51	05:56	05:00
South East PCL	12:22	11:26	10:30	9:35	05:00

Source: CMA analysis.

ODI rate and penalty collar

6.296 Our provisional decision is that the penalty collar for South East should be set at 1% RoRE, in line with that was applied to all other companies in relation to water supply interruptions in Ofwat's PR24 FD. As was noted in paragraph 6.255, Ofwat said that 1% RoRE was equivalent to around 20 minutes of underperformance in relation to water supply interruptions. Given our provisional decision that a company-specific PCL of 12:22 minutes should be set for 2025/26, that implies that the ODI rate would apply at the margin until underperformance of 32:22 minutes. Our provisional view is that the potential benefits of applying a larger company-specific penalty collar (ie extending the range of underperformance over which the ODI rate would continue to apply financial incentives at the margin) are

⁴⁹⁵ South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p19.

outweighed by the impact that could have on the overall balance of risk that South East could face.⁴⁹⁶ Our provisional decision is that setting the company-specific PCLs in Table 6.11 above and the common penalty collar of 1% RoRE provides a balanced approach.

- 6.297 Our provisional view is that South East should not be able to earn rewards where its performance is worse than that specified under the common PCL for water supply interruptions in the relevant year. Such an approach could involve South East's customers' having to pay to reward South East through their water bills for performance levels that for all other companies would result in a penalty. Our provisional decision is that a deadband should apply where South East's performance falls between the level of its company-specific PCL but above the common PCL. While the inclusion of this deadband has the undesirable feature of 'switching off' the financial impact of ODI rates over a defined performance range, our provisional assessment is that it is appropriate, given its time limited nature with the convergence of the company-specific and common PCLs in the final year of the AMP.

Leakage

- 6.298 Ofwat's PR24 FD defined the leakage performance commitment as the percentage reduction of three-year average leakage from service reservoirs, trunk mains and customer supply pipes in megalitres per day (Ml/d) from the 2019/20 baseline.⁴⁹⁷
- 6.299 Anglian and Ofwat agreed that we should adjust Anglian's baseline leakage PCL to reflect its 2024/25 outturn performance (once available). Ofwat and South East agreed that this change would also apply to South East. Anglian further requested that we provide the associated enhancement allowances based on Ofwat's models.
- 6.300 For the reasons set out below, our provisional decision is to use the 2024/25 outturn data to set the baseline PCL for Anglian and South East, maintain the 2029/30 PCL set by Ofwat, and set the PR24 PCLs on a glide path from the new baseline to the 2029/30 PCL. We discuss our assessment and provisional decision on related enhancement allowances separately in chapter 5 (Enhancement costs).

⁴⁹⁶ Our overall assessment of submissions related to the balance of risk is included in Chapter 8.

⁴⁹⁷ Ofwat (2025) [Performance commitment definition - Leakage](#); Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp120–121.

Ofwat's PR24 FD approach

- 6.301 In its PR24 FD Ofwat set the leakage PCL on a company-specific basis. It mostly set companies' PCLs in line with their company forecasts, which were in line with their WRMPs.⁴⁹⁸
- 6.302 Ofwat set the baseline for most companies at their forecast level for 2024/25. Where it considered a company's forecast to be overly or insufficiently stretching, Ofwat intervened to set a less or more stretching baseline.⁴⁹⁹ For most companies,⁵⁰⁰ Ofwat set the 2029/30 PCL according to the company's final WRMP, or its view at the time of company's proposals in their WRMP. It also set the profile of the PCL for most companies in line with their WRMPs. However, for seven companies, including Anglian, it intervened to set an achievable profile where it had adjusted the baseline, or to reflect company-specific circumstances.⁵⁰¹
- 6.303 Ofwat considered Anglian's forecast leakage for 2024/25 to be insufficiently stretching. It set Anglian a more stretching baseline, by applying a leakage reduction equal to Anglian historical median annual improvement to its 2023/24 outturn.⁵⁰²
- 6.304 For South East, Ofwat considered its forecast leakage level for 2024/25 to be too stretching and it intervened to set a less stretching baseline. Ofwat set the baseline and PCL based on a linear glidepath from South East's 2023/24 outturn to its forecast 2029/30 position, which aligned with its revised draft WRMP.⁵⁰³

Table 6.12: Ofwat PR24 FD Leakage PCL for Anglian and South East (percentage reduction of three-year average leakage from the 2019/20 baseline)

<i>Company</i>	<i>2024/25</i>	<i>2025/26</i>	<i>2026/27</i>	<i>2027/28</i>	<i>2028/29</i>	<i>2029/30</i>
Anglian	6.2%	9.2%	10.7%	10.7%	11.0%	11.8%
South East	-5.0%	-1.3%	4.2%	9.7%	15.1%	20.5%

Source: Ofwat (2025), [PR24 final determination: Performance Commitment Model – Leakage](#), Sheet: 'Output_Final PCLs, Cells: S7:X7 and S19:X19.

Parties' submissions

Anglian

- 6.305 In its statement of case, Anglian requested that we adjust its baseline to reflect its 2024/25 outturn performance and provide the associated enhancement

⁴⁹⁸ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p122.

⁴⁹⁹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp119–120.

⁵⁰⁰ All companies except SES and Southern.

⁵⁰¹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p121.

⁵⁰² Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.48.

⁵⁰³ [PR24 final determinations: South East Water - Outcomes appendix](#), p3.

allowances based on Ofwat's models.⁵⁰⁴ It submitted that at PR19 its leakage enhancement allowance included a clawback mechanism, which would return funding for leakage performance not delivered in AMP7 to customers, if it did not meet its PR19 PCL.⁵⁰⁵

- 6.306 Anglian told us it was forecasting to miss its PR19 2024/25 PCL. It submitted that due to the clawback, its PR19 enhancement allowance will have funded it to deliver its 2024/25 outturn leakage level and not the PR19 2024/25 PCL, as the difference would be returned to customers. It submitted that this resulted in there being no funding allowed, through either PR19 or PR24, for it to reduce leakage from its 2024/25 outturn level to Ofwat's baseline level.⁵⁰⁶

Ofwat

- 6.307 In its response to Anglian's statement of case, Ofwat recommended that we consider the PR19 clawback in our redeterminations and use the actual 2024/25 outturn to update the baseline and the profile for the leakage PCL.⁵⁰⁷
- 6.308 Ofwat said that in February 2025, after its PR24 FD, it amended Anglian's PCLs to align with its revised WRMP; however, it did not amend the 2024/25 baseline to reflect the figures proposed by Anglian. Ofwat submitted that this was because, at the time, these figures were a forecast and not an assured outturn, and it considered them to be 'insufficiently ambitious'.⁵⁰⁸
- 6.309 Ofwat submitted that we would have the opportunity to use actual outturn data for 2024/25 in our redeterminations, which became available in July 2025 and was not previously available.⁵⁰⁹ Ofwat submitted that the impact of the clawback could be considered to align the PR19 cost allowances with the leakage reduction delivered in AMP7.⁵¹⁰
- 6.310 Ofwat submitted that at PR19, the ODI underperformance rates for Anglian and South East were set to return enhancement allowances to customers if the companies failed to deliver their leakage PCLs. Ofwat said that through its PR19 blind year reconciliation process,⁵¹¹ it will adjust Anglian's and South East's allowances to reflect the 2024/25 outturn position and return allowances to customers if they do not achieve their PR19 leakage PCLs.

⁵⁰⁴ [Anglian SoC](#), paragraph 570.

⁵⁰⁵ [Anglian SoC](#), paragraph 435.

⁵⁰⁶ [Anglian SoC](#), paragraphs 435–437.

⁵⁰⁷ Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.57–4.58.

⁵⁰⁸ Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.51–5.55.

⁵⁰⁹ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.58.

⁵¹⁰ Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.57.

⁵¹¹ See Appendix B, footnote 13, for an explanation of this process.

6.311 Ofwat also submitted that we should consider whether any amendments to South East's PCL were necessary, as it also had the clawback mechanism in PR19.⁵¹²

Our assessment and provisional decisions

6.312 As set out above, Anglian and Ofwat agreed on adjusting the baseline for Anglian's PCL to take into account the PR19 clawback and its 2024/25 outturn. South East also agreed with Ofwat's submission that we should consider making a similar adjustment for South East to take into account its 2024/25 outturn.⁵¹³ Of the Disputing Companies, only South East and Anglian had enhancement allowances with a clawback mechanism at PR19, which would return the PR19 enhancement allowances for leakage not delivered in AMP7 to customers.⁵¹⁴

6.313 Anglian and South East published their 2024/25 outturn data alongside their Annual Performance Reports in July 2025, which showed that they had not delivered their PR19 PCL in 2024/25.⁵¹⁵ As a result, the PR19 clawback will return their PR19 enhancement allowances for the leakage not delivered to customers. Given this, we consider that it is appropriate to adjust the baseline of Anglian and South East's PCLs to take into account their 2024/25 leakage outturn.

6.314 Our provisional decision is that the PCLs for leakage for Anglian and South East should be set at the levels shown in Table 6.13 below. Our provisional decision on the PCLs for Anglian and South East is that we should:

- (a) set the 2024/25 baseline based on the companies' 2024/25 leakage outturn;
- (b) maintain the 2029/30 PCL set by Ofwat in its PR24 FD; and
- (c) set the PR24 PCLs on a glide path from the new baseline to the company's 2029/30 PCL.

6.315 The leakage outturn reported in Anglian and South East's Annual Performance Report shows:

- (a) Anglian's 2024/25 annual average leakage was 187.0 MI/d. This results in a three-year average figure of 186.5 MI/d, corresponding to a 3.9% reduction from Anglian's 2019/20 baseline;⁵¹⁶ and

⁵¹² Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.59.

⁵¹³ South East (2025) [Reply to Ofwat Response](#), p9.

⁵¹⁴ Ofwat (2019) [PR19 final determinations: Delivering outcomes for customers policy appendix](#), pp115–116.

⁵¹⁵ Anglian (2025) [APR2025 - Data tables section 3](#), sheet: '3A', cells B10:G10, and South East (2025) [ODI performance model for 2024-25](#), sheet: '3A', cells B10:G10.

⁵¹⁶ Anglian (2025) [APR2025 - Data tables section 3](#), sheet: '3A', cells B10:G10 and sheet '3F', cells L18:N18

- (b) South East's 2024/25 annual average leakage was 104.8MI/d. This results in a three-year average figure of 102.7 MI/d, corresponding to an 8.0% increase from South East's 2019/20 baseline.⁵¹⁷

6.316 Updating the 2024/25 baseline to align with the outturn reported above results in the PCLs set out in Table 6.13 below. These align with the adjustments proposed by Ofwat, Anglian and South East.⁵¹⁸

Table 6.13: Provisional decision on Anglian and South East's PCLs for leakage (percentage reduction in 3-year average from 2019/20 baseline)

Company	2025/26	2026/27	2027/28	2028/29	2029/30
Anglian	5.2	5.6	7.5	9.5	11.4
South East	-6.6	-2.9	4.2	11.5	18.6

Source: CMA analysis.

6.317 We discuss our assessment and provisional decisions on related enhancement allowances separately in chapter 5 (Enhancement costs).

C-MeX

6.318 C-MeX is a measure of residential water customers' experiences of service quality. A company's performance on C-MeX is a score out of 100 calculated from the average scores of two satisfaction surveys:⁵¹⁹

- (a) the customer service survey (**CSS**) which is a survey of customers who have contacted the company; and
- (b) the customer experience survey (**CES**) which is a survey of the company's household customers.

6.319 South East requested that we replace the UK Customer Satisfaction Index (**UKCSI**) all-sector average used in Ofwat's PR24 FD formula with a UKCSI all-sector regional average. Southern requested an adjustment to the PCL based on a logarithmic forecast of the UKCSI water scores and all sector average.

6.320 Conversely, CCW requested that we add a separate performance commitment and ODI based on the volume of customer complaints.

6.321 Our provisional decision is to retain Ofwat's PR24 FD approach to C-MeX for the reasons set out below.

⁵¹⁷ South East (2025) [ODI performance model for 2024-25](#), sheet: '3A', cells B10:G10 and sheet '3F', cells L18:N18. The PCLs for South East are negative for the first two years of AMP8 as this is consistent with an assumed linear improvement from the position in 2024/25 (when its performance was 8% worse than its 2019/20 baseline level) to the 2029/30 PCL set by Ofwat in its PR24 FD.

⁵¹⁸ Ofwat response to Ofwat RFI12, Q3-4; [Anglian SoC](#), paragraph 571; South East response to South East RFI04, Q1.

⁵¹⁹ Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p3.

Ofwat's PR24 FD approach

6.322 For the PR24 FD, Ofwat calculated the C-MeX score as a weighted average of the scores on the two surveys: 66.7% of the CSS score and 33.3% of the CES score.

6.323 For each reporting year the PCL is defined using the C-MeX surveys and information from a third-party survey (the UKCSI).⁵²⁰ The definition uses the mean and standard deviation of C-MeX scores, the mean and standard deviation of water companies' scores in the UKCSI, and the mean of all companies' scores in the UKCSI.⁵²¹ The formal definition for the first three years of AMP8 is:⁵²²

$$PCL (FD) = CMEX_{mean} + \frac{UKCSI(All)_{Mean} - UKCSI(Water)_{Mean} - 5}{UKCSI(Water)_{SD}} \times CMEX_{SD}$$

6.324 The formula above has a 'downward adjustment' of five. This downward adjustment reflects Ofwat's assessment that the long-term difference between water sector scores in the UKCSI and the all-sector average is about five points.⁵²³ For the final two years of AMP8, the formula is the same but with the downward adjustment reduced to four.⁵²⁴

6.325 The PCL aims to link payments to performance. During PR19, the PCL was the median C-MeX score so half the companies were guaranteed to receive rewards and half were guaranteed to receive penalties. Under Ofwat's PR24 formula, if the water sector is performing more than five points worse than other sectors (as measured by scores on the UKCSI) in the first three years of AMP8, or more than four points in the last two, the PCL will be higher than the mean C-MeX score.⁵²⁵ This would likely result in fewer companies receiving rewards. If the water sector is performing better (ie less than five points worse than other sectors (or four points in the final two years of AMP8)) the PCL will be less than the mean, and more companies would likely receive rewards.

6.326 It would still be possible for C-MeX scores to decline but for outperformance payments to increase, or for C-MeX scores to increase but for outperformance payments to decrease. Ofwat's use of the UKCSI to set the PCL is designed to make this less likely to happen but does not guarantee it will not.

⁵²⁰ The UKCSI is a measure of customer satisfaction published twice a year by the Institute of Customer Service. It measures performance in 13 different sectors and is used to measure the improvement or decline of performance in different sectors. See The Institute of Customer Service (2025) [UK Customer Satisfaction Index](#) (accessed 15 August 2025).

⁵²¹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p238.

⁵²² Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p6.

⁵²³ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p240.

⁵²⁴ Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p6.

⁵²⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p240.

Parties' submissions

Disputing Companies

6.327 South East and Southern both asked for changes to the C-MeX PCL in their statements of case.⁵²⁶

South East

6.328 South East submitted that using the UKCSI all-sector average is biased against water companies that work in certain regions (such as south east England).⁵²⁷ South East provided evidence⁵²⁸ to demonstrate that the UKCSI south east score has been below the national score for all 11 UKCSI reports since January 2020, and the average difference is 0.4.⁵²⁹ South East submitted that the lower scores mean that in London and south east England customers will on average report lower customer satisfaction for the same level of service.⁵³⁰

Table 6.14: South East analysis – UKCSI data for the south east vs nationally

	Jan-20	Jul-20	Jan-21	Jul-21	Jan-22	Jul-22	Jan-23	Jul-23	Jan-24	Jul-25	Jan-25	Average
UKCSI overall	76.9	77.0	76.8	77.4	78.4	78.4	77.7	76.6	76.0	75.8	76.1	77.0
South-east England	76.2	76.2	76.5	77.2	78.0	78.0	77.4	76.4	75.9	75.5	75.8	76.6

Source: South East SoC, Annex F, Table ANF8.

6.329 South East suggested that Ofwat's formula should be adapted by replacing the UKCSI all-sector average it used in Ofwat's PR24 FD formula, with a UKCSI all-sector regional average.⁵³¹

Southern

6.330 Southern submitted that historical evidence showed that the median score for water companies has been below the UKCSI all-sector average, even after the four to five point downwards adjustment made by Ofwat in the PR24 FD.⁵³² Southern applied the proposed new methodology to the last five years and showed that only three companies would have received rewards in 2024/25, and only five in 2023/24 (though more would have received rewards in the three previous years).⁵³³ The number of companies receiving rewards based on Ofwat's

⁵²⁶ Wessex noted that it has concerns about the use of UKCSI for C-Mex but supported the overarching framework for incentivising companies to deliver an excellent customer experience ([Wessex SoC](#), p10, Table 2).

⁵²⁷ South East SoC, Annex F, paragraph 77 onwards.

⁵²⁸ South East response to South East RFI001, Q1 and Q2.

⁵²⁹ South East SoC, Annex F, paragraph 85 and Table ANF8.

⁵³⁰ South East SoC, Annex F, paragraph 65 and 79.

⁵³¹ South East SoC, Annex F, paragraph 89.

⁵³² [Southern SoC](#), p402, paragraph 169.

⁵³³ [Southern SoC](#), p402, Table 10.

PR24 FD approach would have decreased year on year in AMP7. Southern stated that this methodology does not generate a balanced incentive.⁵³⁴

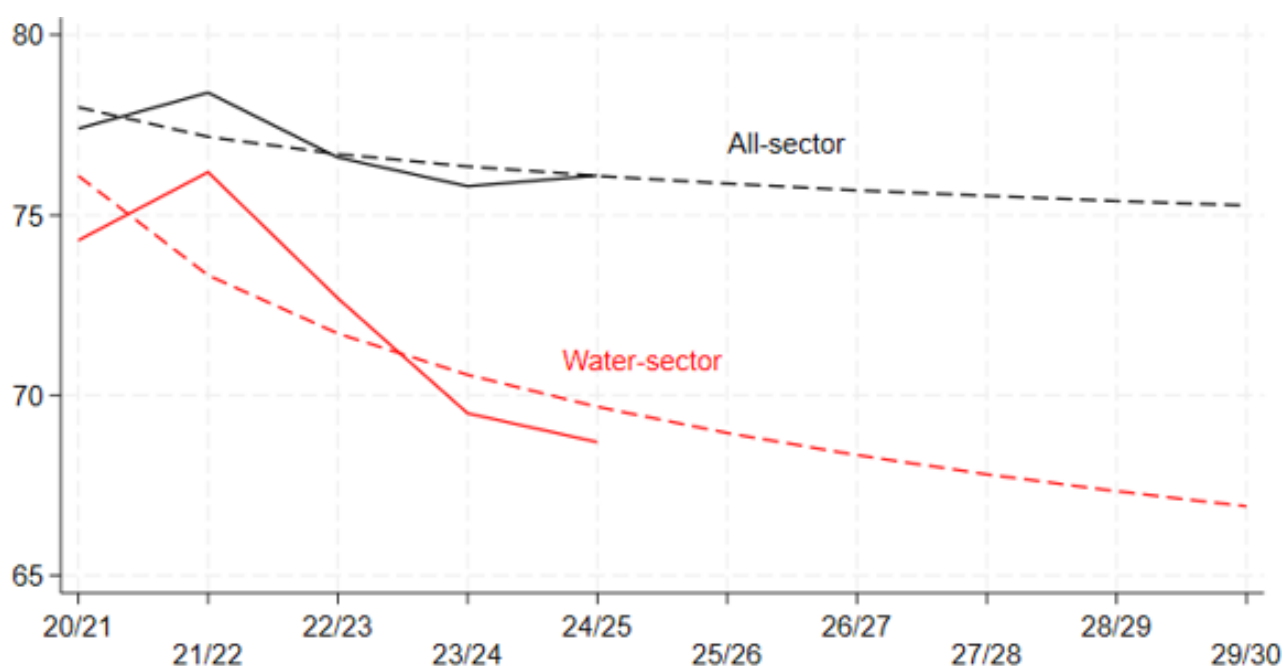
Table 6.15: Application of Southern’s proposed new methodology to years 2020/21 to 2024/25

Year	2020/21	2021/22	2022/23	2023/24	2024/25
Companies in reward	13	14	12	5	3

Source: *Southern SoC*, p402, Table 10.

6.331 Southern created a logarithmic forecast of the UKCSI water scores and all sector average.⁵³⁵ This would take into account the negative public sentiment in recent years which Southern regarded as uncontrollable factors of customer experience in the water industry.⁵³⁶ The forecast model of UKCSI scores as set out in Figure 6.11 below shows that the gap between the UKCSI all-sector average and water sector average is increasing.

Figure 6.11: UKCSI scores and Southern’s forecast



Source: CMA presentation of Southern’s forecast.

6.332 To account for the forecast increase in the gap between the two averages, Southern suggested using a downward adjustment of six for the first three years and seven for the next two years (rather than five and four as adopted by Ofwat in the PR24 FD).⁵³⁷ Southern’s larger downward adjustment would result in more companies exceeding the PCL.⁵³⁸

⁵³⁴ *Southern SoC*, p402, paragraph 171.

⁵³⁵ *Southern SoC*, p402, paragraph 172 and Table 11.

⁵³⁶ *Southern SoC*, p402, paragraph 172.

⁵³⁷ *Southern SoC*, p402, paragraph 170, and p406, paragraph 185 and Table 15.

⁵³⁸ *Southern SoC*, pp403–404, paragraph 173, Table 12 and Figure 14.

Third parties

CCW

- 6.333 CCW submitted that measures of customer satisfaction alone may not adequately incentivise companies to resolve customer issues first time to prevent complaints and address the causes of complaints.⁵³⁹ In the hearing we held with CCW, it noted that performance is ‘dropping’ in C-MeX scores.⁵⁴⁰ It submitted that our redeterminations are an opportunity to add a separate performance commitment and ODI based on the volume of complaints.⁵⁴¹ CCW stated that it had engaged with Ofwat extensively on creating an additional metric to measure customer complaint volumes either as part of C-MeX or as a standalone metric.⁵⁴²

Water UK

- 6.334 Water UK submitted that there are questions as to whether the use of the UKCSI all-sector average for benchmarking customer satisfaction in the water sector is appropriate. In addition to the historical evidence of water company performance, Water UK noted that the UKCSI all sector average includes customer service performance of organisations in highly competitive sectors, such as leisure, banking and retail and submitted that customer engagement in these sectors is fundamentally different to the context in which water companies operate.⁵⁴³ Water UK recommended that the CMA change the calibration of MeX incentives, such that C-MeX performance is calculated with reference to the UKCSI Utilities index, which is more representative of the context in which water companies operate.⁵⁴⁴

Ofwat

- 6.335 Ofwat did not support South East’s proposal; Ofwat stated that it is not clear that there is a significant difference between the south east average and the national average.⁵⁴⁵ Ofwat stated that the average difference is 0.4% across the five years and as low as 0.2% in one year.⁵⁴⁶ Ofwat also stated that using regional UKCSI scores to set the PCL would have the effect of having different customer service PCLs for different companies.⁵⁴⁷ Ofwat considered that customers in different regions of the England and Wales should not experience different standards of customer service.⁵⁴⁸

⁵³⁹ For example, CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.41.

⁵⁴⁰ (Non-confidential) transcript of the Third Party Hearing for CCW on 23 June 2025, p70, line 11.

⁵⁴¹ CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.42.

⁵⁴² CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.39.

⁵⁴³ Water UK (2025) [Third party submission on the Water PR24 References](#), p46.

⁵⁴⁴ Water UK (2025) [Third party submission on the Water PR24 References](#), p48.

⁵⁴⁵ Ofwat (2025) [Response to South East SoC](#), paragraphs 4.212 and 4.214.

⁵⁴⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.212.

⁵⁴⁷ Ofwat (2025) [Response to South East SoC](#), paragraph 4.214.

⁵⁴⁸ Ofwat (2025) [Response to South East SoC](#), paragraph 4.214.

- 6.336 Ofwat considered that its downward adjustment of five in its PR24 FD addressed Southern's concern that water companies were likely to receive negatively biased scores.⁵⁴⁹ Ofwat considered it unjustified to assume that the PR19 performance trend will persist.⁵⁵⁰ Ofwat expected that changes to the C-MeX ODI rates and to the performance commitment definition would have a positive impact on companies' performance.⁵⁵¹
- 6.337 Ofwat has been engaging with CCW on whether it should use the volume of customer complaints as part of a performance commitment, but does not have enough confidence in the complaints data.⁵⁵² It stated that there has been mis-recording in the data following a change in definition in 2019.⁵⁵³ It further stated that CCW had conducted audits on the recording of the complaints data and issues had been found affecting multiple companies – with significant under-recording and over-recording.⁵⁵⁴ Ofwat regarded complaints data as being different from other performance data due to the subjective nature of what defines a complaint. This can result in wide discrepancies, which it has observed in reported numbers.⁵⁵⁵
- 6.338 Nevertheless, Ofwat did not rule out the possibility of using complaints data as part of a future performance commitment. It is exploring options for the design of C-MeX and other performance commitments for PR29 and is in active discussion with CCW on this point.⁵⁵⁶ Ofwat has not yet come to a view on whether complaints data should be used either in addition to C-MeX, or as a replacement for it, or as replacement for one of the surveys that make up C-MeX. It is considering the potential impact of the Independent Water Commission Final Report on the future design of C-MeX.⁵⁵⁷

Our assessment and provisional decisions

- 6.339 We assessed the following requests for amendments to C-MeX:
- (a) use the UKCSI all-sector regional average (requested by South East);
 - (b) increase the downward adjustment (requested by Southern); and
 - (c) create an additional metric to measure customer complaint volumes (requested by CCW).

⁵⁴⁹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.280.

⁵⁵⁰ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.281.

⁵⁵¹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.281.

⁵⁵² Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp237–238; and (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p90, lines 13–19.

⁵⁵³ Ofwat response to Ofwat RFI19, Q1.

⁵⁵⁴ Ofwat response to Ofwat RFI19, Q1.

⁵⁵⁵ Ofwat response to Ofwat RFI19, Q1.

⁵⁵⁶ Ofwat response to Ofwat RFI19, Q3.

⁵⁵⁷ Ofwat response to Ofwat RFI19, Q3.

Use the UKCSI all-sector regional average

- 6.340 We examined South East's evidence that UKCSI scores are lower in south east England compared to other regions. South East's score was generally slightly lower than the all-sector score, and some statistical tests would find a statistically significant difference between the south east and the rest of England. So, based on this survey, we do not agree that there is no statistically significant difference. However, 'statistically significant' means there is strong evidence of a difference, rather than evidence of a large difference. And we agree with Ofwat that any difference is small.⁵⁵⁸ Furthermore, we do not agree that any regional difference can necessarily be attributed to customers in certain regions reporting lower customer satisfaction for the same level of service.
- 6.341 Our provisional decision is therefore not to amend the PR24 FD C-MeX PCL to use the UKCSI all-sector regional average.

Increase the downward adjustment

- 6.342 We provisionally consider that Southern's forecasting method is not robust. Southern's argument was based on a forecast of future UKCSI scores. Southern's forecast simply extrapolates the score for the water industry based on its recent decline. This does not take account of any other factor such as the substantial increase in investment allowed in PR24 and the corresponding improvement in outcomes for customers that is expected over the period.
- 6.343 Southern has not provided any compelling evidence to support its forecast. Our provisional decision is that we will not consider it further.
- 6.344 We have examined Southern's contention that there is a negative balance of risk on C-MeX. The difference between the UKCSI all-sector average and the UKCSI water-sector average scores was 7.4 points in 2024/25 and 6.3 points in 2023/24. Southern submitted that this would have resulted in only 3 out of 17 companies in reward in 2024/25 and only 5 in 2023/24. This is considerably fewer than in previous years, so the number of water companies receiving rewards is reducing.⁵⁵⁹

Table 6.16: Comparison of the all-sector and water-sector averages 2020/21 to 2024/25

Year	2020/21	2021/22	2022/23	2023/24	2024/25
Difference between the all-sector and water averages	3.1	2.2	3.9	6.3	7.4

⁵⁵⁸ We reviewed data covering 13 sectors and 11 time periods (ie 143 data points altogether). The South East score was lower than the overall score in the UK in 110 of the 143 data points; it was higher in 33. According to some formal statistical tests, the South East scores are statistically significantly lower than those in the UK as a whole. As the differences in actual scores were generally very small, this can be regarded as statistical evidence of a small difference. The method of sampling (a panel survey) leaves open the possibility that the difference could be down to the sampling method rather than indicating genuine differences between the South East and the rest of the UK.

⁵⁵⁹ [Southern SoC](#), p402, Table 10.

Year	2020/21	2021/22	2022/23	2023/24	2024/25
Number of water companies in reward	13	14	12	5	3

Source: CMA presentation of Southern's analysis.⁵⁶⁰

- 6.345 We have analysed the data and agree with Southern's analysis that if the formula was applied to the last two years, more companies would have received penalties than rewards. But the picture was different in previous years: in 2020/21 to 2022/23 differences between the UKCSI all-sector and water-sector averages were much smaller (between 2 and 4 points). This would have resulted in more companies receiving rewards than penalties. There is no reason to set the PCL for AMP8 based on the UKCSI performance of the water industry over the past two years only. Generally, when setting PCLs, the starting assumption is that historical performance averaged over a number of years is more likely to reflect the level of performance achievable by an efficient company at the beginning of AMP8, and we see no reason to depart from this approach for C-MeX.
- 6.346 Southern has not made a convincing case that the decline cannot be reversed so our provisional decision is that we do not support Southern's requested amendment to the C-MeX PCL.

Create an additional metric to measure customer complaint volumes

- 6.347 We note CCW's submissions that the complaints data process is well-established, audited and subject to guidance, and that in any event, Ofwat can take enforcement action if it is found to be 'wrong'.⁵⁶¹ Nevertheless, for PR24, we are provisionally persuaded by Ofwat's evidence that the quality of the current complaints data prohibits its inclusion in C-MeX. For example, Ofwat referred to Atkin's assurance of Yorkshire's Annual Performance Report which noted potential under-recording on customer contacts which were complaints.^{562 563} Atkins said Yorkshire had stated a confidence grade between 10% to 25% but it considered the evidence suggests it is more likely to be at the upper end of that range.⁵⁶⁴ Ofwat also noted that Southern had previously been found to be significantly mis-recording its data.⁵⁶⁵ These issues mean our provisional view is that we would not support using complaints data in C-MeX until the quality and reliability of the data has improved.
- 6.348 We note that other sector regulators have been publishing complaints data at a firm level for many years.⁵⁶⁶ It is not clear to us if other regulators' data suffer from

⁵⁶⁰ Southern SoC, p402, Table 10.

⁵⁶¹ (Non-confidential) transcript of the Third Party Hearing for CCW on 23 June 2025, p71, lines 3–6.

⁵⁶² AtkinsRéalis provides audit and assurance to non-financial aspects of Yorkshire Water's annual reporting.

⁵⁶³ Ofwat response to Ofwat RFI19, Q1.

⁵⁶⁴ Ofwat response to Ofwat RFI19, Q1.

⁵⁶⁵ Ofwat response to Ofwat RFI19, Q1.

⁵⁶⁶ For example, Ofgem [Customer service data](#) (accessed 10 September 2025) and Ofcom (2024) [Report: Complaints about broadband, landline, mobile and pay-TV services](#) (accessed 10 September 2025) both publish complaints data.

the same quality issues as identified in the water sector, so we do not regard this as strong evidence that robust company-level data can be recorded. But, as we have not seen arguments stating that robust company-level data cannot be obtained, we would support Ofwat and CCW continuing to work together to strengthen the data for PR29,⁵⁶⁷ with the aim of including a complaint-related measure into a future performance commitment or some other form of performance incentive.

Non-household voids (Ofwat's PR19 Final Determinations)

- 6.349 Non-household voids are premises in the non-household water retail market that are classified as unoccupied and therefore non-chargeable.⁵⁶⁸ Some premises that water companies classify as voids are actually occupied, and these premises will be erroneously billed either too little or nothing at all.⁵⁶⁹ In Ofwat's PR19 Final Determinations, a bespoke ODI was applied to South East that measured the number of non-household voids as a percentage of the total number of non-household properties, which included no caps on financial rewards or penalties for over or underperformance.⁵⁷⁰ South East's performance in AMP7 resulted in a £3.9 million underperformance penalty under its PR19 non-household voids ODI.⁵⁷¹
- 6.350 South East has requested that this penalty be removed as a PR19 adjustment applied in PR24.
- 6.351 Our provisional decision is that South East's underperformance penalty for PR19 non-household voids should remain, for the reasons set out below.

Ofwat's approach in the PR24 FD

- 6.352 Ofwat's PR24 FD did not include an ODI on non-household voids for AMP8, However, South East's PR19 penalty of 3.9 million was to be implemented as part of the PR24 reconciliation process. In its PR24 FD, Ofwat did not remove the underperformance penalty that arose under South East's PR19 non-household voids ODI.⁵⁷²

⁵⁶⁷ (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p90, lines 23–24 and p91, lines 10–13.

⁵⁶⁸ [South East SoC, Annex I](#), paragraph 1; and Ofwat (2019) [PR19 final determinations: Business Retail Market Representations](#), p6.

⁵⁶⁹ [South East SoC, Annex I](#), paragraph 1; and Ofwat (2019) [PR19 final determinations: Business Retail Market Representations](#), p6.

⁵⁷⁰ Ofwat (2019) [PR19 Final Determinations: South East Water— Outcomes performance commitment appendix](#), p78-80.

⁵⁷¹ [South East SoC, Annex I](#), paragraph 4.

⁵⁷² Ofwat (2025) [Response to South East SoC](#), paragraph 4.259.

South East

- 6.353 South East submitted that the £3.9 million penalty did not reflect harm suffered by customers as a result of its performance, but instead stemmed from inconsistent and untransparent regulatory decisions in the design, setting and application of the incentive, and a poorly targeted regulatory approach.⁵⁷³ South East submitted that it was a relatively good performer in relation to non-household voids, and that the penalty was a reflection of the following.⁵⁷⁴
- (a) Ofwat's inconsistent approach to setting PCLs and ODIs at PR19: the large majority of companies were not subject to a financial ODI in relation to non-household voids, and there was no sound justification for this inconsistent approach.
 - (b) Ofwat's flawed market design, which meant that retailers were not incentivised to reduce voids, which meant that performance was determined by factors beyond management control.
 - (c) Ofwat's inconsistent and unjustified refusal to implement a reconciliation for the impact of COVID-19 on non-household voids performance. Ofwat recognised that COVID-19 had a significant impact on the ability of companies to meet other PCLs, in particular, the per capita consumption performance commitment, and it was inappropriate and inconsistent for Ofwat to not also recognise these impacts for non-household voids.⁵⁷⁵
- 6.354 South East said that it did not challenge its non-household voids ODI at PR19 because it weighted the regulatory settlement in the round.⁵⁷⁶ South East submitted that the issues which had subsequently arisen could not have been anticipated,⁵⁷⁷ and that it had carried out extensive work to reduce non-household voids where it had been possible to do so within the constraints of Ofwat's regulatory design.⁵⁷⁸ South East requested that a PR19 adjustment be implemented as part of our redeterminations to remove its £3.9 million penalty.⁵⁷⁹

Ofwat

- 6.355 Ofwat submitted that its decision not to intervene to remove South East's penalty as part of the PR24 FD remains appropriate. Ofwat submitted that South East had

⁵⁷³ [South East SoC](#), paragraph 5.10.

⁵⁷⁴ [South East SoC, Annex I](#), paragraph 3.

⁵⁷⁵ [South East SoC, Annex I](#), paragraph 24.

⁵⁷⁶ [South East SoC, Annex I](#), paragraph 8.

⁵⁷⁷ [South East SoC, Annex I](#), paragraph 8.

⁵⁷⁸ [South East SoC, Annex I](#), paragraph 9.

⁵⁷⁹ [South East SoC](#), paragraph 5.10.

accepted the PR19 final determination and the overall package and relative risks and opportunities it contained, including the ODI incentive payments related to non-household voids.⁵⁸⁰ Ofwat submitted that in accepting the PR19 determination, South East was accepting that it was being asked to deliver its performance commitment within the framework and design of the business retail market, and that its performance commitment was bespoke and different to voids-related commitments that other companies had accepted.⁵⁸¹ Ofwat submitted that our redeterminations should only relate to Ofwat's PR24 FD, and should not provide an opportunity for South East to unpick a single element of the PR19 determination with which it disagreed five years after it was accepted as part of that overall determination.⁵⁸²

- 6.356 Ofwat said it had been clear that for its non-household voids performance commitment, South East was expected to improve performance and that Ofwat would require sufficient and convincing evidence to consider a case to intervene.⁵⁸³ This was important because removing the underperformance payment would place all the risk on customers. Customers would pay more than they otherwise would have despite not receiving the expected benefits of improved performance.⁵⁸⁴
- 6.357 Ofwat said that there was a clear difference between the per capita consumption performance commitment and South East's voids performance commitment which justified the different recognition of the impact of COVID-19.⁵⁸⁵ For per capita consumption, companies (including work South East jointly commissioned) and Ofwat produced a range of evidence that considered the impact of COVID-19 on consumption, and that overall this allowed a reasonable quantifiable estimate of the impact of COVID-19 over time to be produced.⁵⁸⁶
- 6.358 Ofwat submitted that, in contrast, South East (as part of its PR24 process or in its statement of case) had not provided empirical evidence to quantify the impact of COVID-19 on the non-household voids performance commitment.⁵⁸⁷ Ofwat submitted that South East had not provided evidence as to how any impact might have changed over time, or to show that the payments it wanted removed related only to the impact of COVID-19, and not to other factors (which would not form part of the case to be considered).⁵⁸⁸ Ofwat provided the table at Figure 6.12

⁵⁸⁰ Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

⁵⁸¹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

⁵⁸² Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

⁵⁸³ Ofwat (2025) [Response to South East SoC](#), paragraphs 4.266–4.267.

⁵⁸⁴ Ofwat (2025) [Response to South East SoC](#), paragraph 4.267.

⁵⁸⁵ Ofwat (2025) [Response to South East SoC](#), paragraphs 4.268–4.269.

⁵⁸⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.268.

⁵⁸⁷ Ofwat (2025) [Response to South East SoC](#), paragraph 4.269.

⁵⁸⁸ Ofwat (2025) [Response to South East SoC](#), paragraph 4.269.

below, and submitted that South East’s customers had not seen any of the stated additional benefits that this performance commitment intended to provide.⁵⁸⁹

Figure 6.12: South East’s performance against its PCL: PR19 ODI on non-household voids

Year	Performance against PCL of 8.1%
2020-21	10.6%
2021-22	10.24%
2022-23	10.29%
2023-24	10.54%
2024-25	10.50% (forecast)

Source: Ofwat (2025) [Response to South East SoC](#), Table 4.13.

Our assessment and provisional decisions

6.359 As noted in paragraph 6.354, South East explicitly recognised that it could have challenged this issue at PR19 but chose not to because it weighed the regulatory settlement in the round.

6.360 We consider that in accepting the PR19 determination, South East accepted its bespoke ODI arrangements for non-household voids within the framework and design of the business retail market, and, in effect, it now seeks to make a retrospective adjustment to that. Our provisional view is that the submissions we received from South East concerning features of those arrangements,⁵⁹⁰ which South East viewed as contributing to the performance challenges it faced, do not justify an adjustment to the penalties South East faced under its PR19 non-household voids ODI.

6.361 We note that while (in line with Figure 6.12), South East’s performance in 2020/21 was around 31% higher than the PCL, that is only slightly higher than the difference between its performance and the PCL in 2023/24 (around 30%), and South East’s best performance against its PCL in AMP7 (in 2021/22) was also similar to this level (26% above the PCL).⁵⁹¹

6.362 Our provisional decision is that no adjustment should be made to the ODI penalties that South East faced under its PR19 non-household voids ODI.

⁵⁸⁹ Ofwat (2025) [Response to South East SoC](#), paragraph 4.272 and Table 4.13.

⁵⁹⁰ [South East SoC, Annex I](#), paragraphs 13–25.

⁵⁹¹ CMA calculations based on Figure 6.12.

ODI rates

6.363 Having set the PCLs, Ofwat then determined for each performance commitment the rate at which performance above or below those targets would incur outperformance payments or underperformance penalty payments. These rates are known as ODI rates. For a given level of out- or underperformance, the stronger a performance commitment's ODI rate, the larger the resulting out- or underperformance payments are.

Ofwat's PR24 FD approach

6.364 Ofwat's PR24 FD used a five-step 'top-down' methodology to determine the ODI rates for all performance commitments except the four experience measures where Ofwat used a simplified version of this top-down approach.⁵⁹² The five steps are as follows.⁵⁹³

- (a) First, Ofwat allocated an initial, default amount of regulated equity (measured as a percentage of RoRE) of 0.5% RoRE to be at risk for each performance commitment.⁵⁹⁴
- (b) Second, Ofwat adjusted the initial RoRE allocation down to 0.4% for some performance commitments it identified as lower priority and up to 0.6% for others it identified as higher priority. It did this based on its regulatory judgement informed by three separate pieces of customer research.⁵⁹⁵
- (c) Third, Ofwat translated each performance commitment's total risk allocation to an amount of risk by unit of out- or underperformance. It did this by dividing the allocated RoRE determined in step one and two above by its assessment of the likely future range of performance relative to the relevant performance target. To identify the likely future range of performance deviations Ofwat used the historic distribution of performance deviations from their relevant performance targets across all companies and for all years of available data. Specifically, Ofwat used the larger of the absolute values of the 10th or 90th percentiles of this distribution. Where this historic distribution was unavailable because the performance commitment was new at PR24, Ofwat calculated a proxy historic PCL. Ofwat used an ex-post method,

⁵⁹² Additionally, the river water quality performance commitment, as a non-financial, reputational-only performance commitment, does not have an associated ODI rate.

⁵⁹³ Ofwat described its initial methodology in Ofwat (2023) PR24 Final Determinations: [Using collaborative customer research to set outcome delivery incentive rates](#). It made further changes to this methodology in its PR24 DD, including adding groupings to calculate the relevant PR19 median floor (Ofwat (2024) [PR24 draft determinations: Delivering outcomes for customers and the environment](#), pp18–26) and its PR24 FD, including capping RoRE at risk to 1.5 times the initial RoRE allocation (Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp4–5, paragraphs 28–37).

⁵⁹⁴ Ofwat (2023) PR24 Final Determinations: [Using collaborative customer research to set outcome delivery incentive rates](#), p40 and p41. Ofwat chose 0.5% RoRE from analysing the distribution of all companies' hypothetical ODI payments in 2020-21 and 2021-22, excluding the effect of any risk protections.

⁵⁹⁵ Ofwat (2024) [PR24 draft determinations: Delivering outcomes for customers and the environment](#), pp42–44.

calculating the midpoint of the 10th and 90th percentiles of the historic performance distribution.

- (d) Fourth, Ofwat partially standardised the company-specific ODI rates produced by the third step across companies. Ofwat calculated 'unit rates' comparable across companies and then selected the median of these unit rates within the groupings of the WaSCs, the large WoCs, the small WoCs and Hafren Dyfrdwy. To ensure PR24 ODI rates were at least as strong as PR19 ODI rates, if a group's median unit rate was lower than the equivalent PR19 median unit rate, the PR19 median was used instead.⁵⁹⁶ Once the standardisation exercise was complete, Ofwat reconverted each company's unit rate back into an ODI rate.⁵⁹⁷
- (e) Fifth, Ofwat applied a cap of 1.5 times the performance commitment's initial RoRE risk allocation to the calculated ODI rate for a company. Specifically, the cap applied where the multiple of a company's ODI rate and the performance range used in the third step was greater than 1.5 times the initial 0.4%, 0.5% or 0.6% RoRE risk allocation. If the cap applied, that company's ODI rate was instead calculated as the total capped RoRE at risk divided by the performance range used in the third step.

6.365 For the experience measure performance commitments Ofwat used a simplified, two-step version of this methodology.⁵⁹⁸

- (a) First, Ofwat allocated a bespoke amount of regulated equity, also measured as a percentage of RoRE, to be at risk.
- (b) Second, and as in the third step of the full methodology above, Ofwat divided this regulated equity at risk by the likely future range of performance relative to the relevant performance target. Specifically, Ofwat used the larger of the absolute values of the 10th or 90th percentiles of the historic distribution of performance deviations from target.

Changes requested by the Disputing Companies

6.366 Southern and Anglian requested changes to elements of Ofwat's approach to setting ODI rates for certain performance commitments.

⁵⁹⁶ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p31.

⁵⁹⁷ Ofwat calculated the unit rates by dividing the interim ODI rates from its third step by a statistic capturing each company's size from the perspective of that performance commitment. For example, for water supply interruptions Ofwat used the number of total water properties connected for each company in 2022-23. To reconvert unit rates back into ODI rates Ofwat multiplied the unit rates by the same statistic.

⁵⁹⁸ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp239–242 for C-Mex; pp248–251 for D-Mex; pp257–259 for BR-Mex; and pp265–267 for BCEW. Additionally, for C-MeX, see Ofwat (2025) [PR24 ODI Rates C-MeX model](#); for D-MeX, see Ofwat (2025) [PR24 ODI Rates D-MeX model](#); for BCEW, see Ofwat (2025) [PR24 ODI Rates BCEW model](#).

6.367 Southern requested:⁵⁹⁹

- (a) for storm overflows, a different proxy historic PCL to be used to calculate the likely future range of performance deviations in the third step described above, with the effect of reducing Southern's ODI rate from £0.54 million to £0.39 million;⁶⁰⁰
- (b) for total pollution incidents, PR14 data to be excluded in calculating the likely future range of performance deviations in the third step described above, with the effect of reducing Southern's ODI rate from £0.98 million to £0.38 million;⁶⁰¹
- (c) for water supply interruptions, PR14 data to be excluded in calculating the likely future range of performance deviations in the third step described above, with the effect of reducing Southern's ODI rate from £0.47 million to £0.33 million;⁶⁰² and
- (d) for the experience measures relevant to Southern (C-MeX, D-MeX and BR-MeX), the amount of risk allocated to be allocated on a different basis and reduced, with the effect of reducing Southern's ODI rates for C-MeX from £1.89 million to £0.43 million, for D-MeX from £0.89 million to £0.13 million and for BR-MeX from 0.2% RoRE to 0.1% RoRE in payment calculation.⁶⁰³

6.368 Anglian requested that its ODI rate for total pollution incidents be based on its own customer research, instead of the ODI rate calculated by Ofwat's top-down methodology, with the effect of reducing its ODI rate from £1.89 million to £0.91 million.⁶⁰⁴

Storm overflows

6.369 As was set out in paragraph 6.133, there has been significant public concern for several years about sewage discharge as a result of storm overflows. The UK government has made clear it expects water companies to significantly reduce the frequency and volume of such discharges.⁶⁰⁵ The storm overflows performance commitment measures the average number of spills from a company's sewerage system per storm overflow.⁶⁰⁶

⁵⁹⁹ See Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

⁶⁰⁰ [Southern SoC](#), p398, paragraphs 154–155 and p401, Table 9.

⁶⁰¹ [Southern SoC](#), p392, paragraphs 129–130 and p394, Table 7.

⁶⁰² [Southern SoC](#), p388, paragraph 108 and Table 5.

⁶⁰³ [Southern SoC](#), p406, paragraph 185 and Table 14.

⁶⁰⁴ [Anglian SoC](#), paragraph 512.

⁶⁰⁵ Secretary of State (2022) [Government's strategic priorities for Ofwat](#); and see Defra (2023) [Storm overflows discharge reduction plan](#).

⁶⁰⁶ See paragraphs 6.133 and 6.136.

- 6.370 Southern requested that we change the proxy PCL for PR19 with the effect of reducing the ODI rates for PR24.
- 6.371 Our provisional decision is to retain the proxy PCL target for PR19 that Ofwat used in its PR24 FD for the reasons set out below.

Ofwat's PR24 FD approach

- 6.372 As storm overflows was a new performance commitment for the PR24 FD, Ofwat did not have a historic PCL to calculate the distribution of performance deviations. Therefore, to implement the third step in its top-down methodology described above in paragraph 6.364(c), Ofwat calculated a proxy historic PCL. As for other new performance commitments, Ofwat used an ex-post methodology, calculating the proxy for each year in 2020-23 as the midpoint of the 10th or 90th percentiles of historic performance across all WaSCs in that year.⁶⁰⁷ Using this proxy, the 10th or 90th percentiles of the distribution of performance deviations were -37% and 40% respectively.⁶⁰⁸ Therefore, Ofwat used a performance range of 40%.⁶⁰⁹
- 6.373 Table 6.17 sets out the ODI rates calculated for the WaSCs in Ofwat's PR24 FD.

Table 6.17: Storm overflows FD ODI rates

<i>Company</i>	<i>ODI Rate (£m)</i>
Anglian	1.33
Dŵr Cymru	1.07
Hafren Dyfrdwy	0.01
Northumbrian	1.33
Severn Trent	2.08
South West Water	1.14
Southern	0.83
Thames Water	0.52
United Utilities	1.92
Wessex	1.10
Yorkshire Water	1.66

Source: Ofwat (2025) [PR24 final determinations: PR24 ODI rates](#), Tab 'Top Down Models', Cells AO224:AO234.

Parties' submissions

Southern

- 6.374 In its statement of case Southern submitted that:⁶¹⁰
- (a) the performance range used by Ofwat was too low and unreflective of current sector performance, in particular that weather effects had made storm overflows performance more volatile; and

⁶⁰⁷ Ofwat (2023) [PR24: Using collaborative customer research to set outcome delivery incentive rates](#), p70–71.

⁶⁰⁸ Ofwat (2024) [PR24 final determination: ODI Rates Performance Range Model 3](#), tab 'P10P90'.

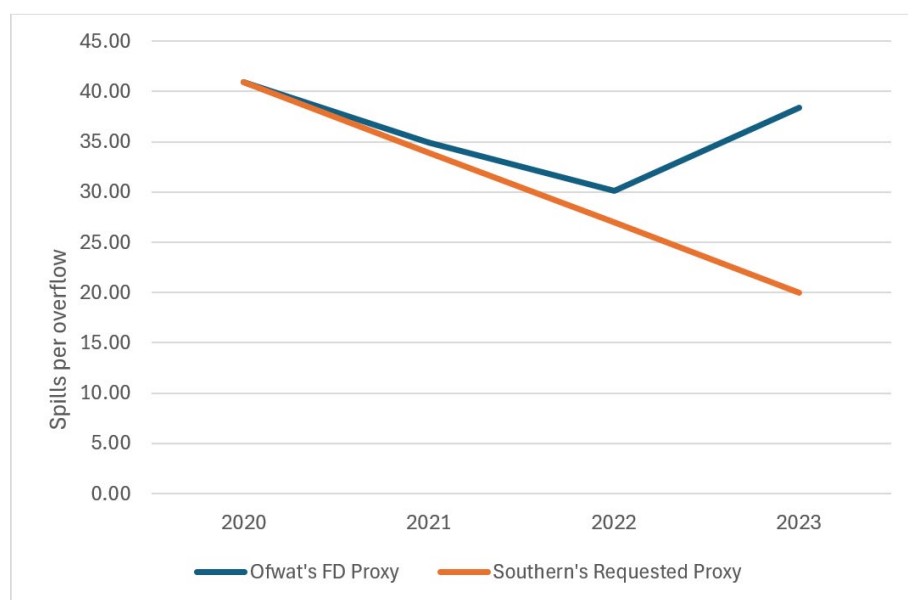
⁶⁰⁹ Ofwat (2024) [PR24 final determination: ODI Rates Performance Range Model 3](#), tab 'P10P90'.

⁶¹⁰ [Southern SoC](#), p398, paragraphs 151–155.

- (b) Ofwat's proxy was different to the ex-ante PCL it would have set at PR19 if storm overflows had been a performance commitment then.

6.375 Southern's requested proxy had the same startpoint in 2020 as Ofwat's, ie the midpoint of the 10th or 90th percentiles, but for a target of 20 spills per overflow in 2023, with a linear glidepath between them over 2021 and 2022.⁶¹¹ Using this proxy, the 10th and 90th percentiles of the distribution of performance deviations would be -85% and 30% respectively.⁶¹² Therefore, a performance range of 85% would be used, with the effect of reducing the ODI rates calculated.⁶¹³

Figure 6.13: Ofwat's PR24 FD proxy historic PCL compared to Southern's requested proxy



Source: Ofwat (2024) [PR24 final determination: ODI Rates Performance Range Model 3](#), Tab Storm overflows; Southern SoC, SOC-6-0026, storm overflows.

6.376 In the Outcomes hearing, Southern stated that:

- (a) the 20 spills per overflow target used was an industry target stated in Defra's storm overflow discharge reduction plan, which was consulted on;⁶¹⁴ and
- (b) a 20 spills per overflow target mirrored the 50% reduction in incidents Ofwat sought for pollution incidents performance over PR19.⁶¹⁵

Ofwat

6.377 In response to Southern's statement of case, Ofwat stated the following.⁶¹⁶

⁶¹¹ [Southern SoC](#), p398, paragraph 154.

⁶¹² Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

⁶¹³ [Southern SoC](#), p398, paragraphs 154–155.

⁶¹⁴ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p140, lines 22–24.

⁶¹⁵ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p142, lines 1–6.

⁶¹⁶ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.172–4.173.

- (a) Southern's requested proxy PCL target was neither realistic nor representative of Ofwat's storm overflows policy. In particular, Ofwat submitted that Southern's suggested 2023/24 target of 20 spills per overflow did not reflect any proposals Ofwat consulted on during the PR24 process. Ofwat noted that in its PR24 final methodology it had challenged companies to reduce their use of storm overflows and, where appropriate, go beyond an annual average of 20 spills per overflow from 2025 onwards. This challenge was informed by 2025 commitments made in the Storm Overflow Discharge Reduction plan published by Defra, and Ofwat therefore considered that it was not a realistic proxy for a PR19 storm overflows PCL.⁶¹⁷
- (b) Ofwat's PR24 FD proxy PCL for storm overflows was representative of historic industry performance.⁶¹⁸

6.378 In the Outcomes hearing, Ofwat stated that, were the 20 spills per overflow target to be used to set the historic proxy PCL, it should be used as if it were a 2025/2026 value because the only time Ofwat referenced that level of performance was in relation to a commitment to reach it by 2025/2026.⁶¹⁹ If Southern's proposed proxy was used but with the 20 spills per overflow target set for 2025, the resulting performance range was closely aligned with the range used at Ofwat's PR24 FD.⁶²⁰ Specifically, it would result in a 10th percentile of -44% compared to -37% under Ofwat's PR24 FD approach and a 90th percentile of 40%, the same as under Ofwat's PR24 FD approach.⁶²¹ Therefore, the performance range used would increase from 40% to 44%.⁶²²

Our assessment and provisional conclusions

- 6.379 Southern's request was to use an alternative proxy historic target to identify the likely future performance range distribution. We have assessed whether Southern's request would result in a more likely range of performance than Ofwat's PR24 FD approach.
- 6.380 The purpose of the 'performance range' parameter in Ofwat's methodology described at paragraph 6.364(c) is to capture the likely variance of outturn performance around PCLs in PR24. In practice, this parameter is estimated using historical deviations from historical PCLs (or proxy PCLs) in previous periods, but in essence it is a forward-looking concept. As such, when assessing the suitability of performance range assumptions for PR24, it is more important to have regard to

⁶¹⁷ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.172.

⁶¹⁸ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.173.

⁶¹⁹ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p143, lines 5–13.

⁶²⁰ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p143, lines 5–13; and Ofwat opening statement slides for the hearing for Outcomes on 30 June 2025, p11.

⁶²¹ Ofwat opening statement slides for the hearing for Outcomes on 30 June 2025, p11.

⁶²² Ofwat response to Ofwat RF113, Q2(b), Supporting Documentation; and Ofwat opening statement slides for the hearing for Outcomes on 30 June 2025, p11.

the methodology used to set the PCL for PR24 than any historical debates around hypothetical targets in previous periods.

- 6.381 In this respect, we note that the PCL for storm overflows in PR24 was set on a company-specific basis, using company forecasts.⁶²³ Against this background, it is possible that Ofwat's methodology of finding the centre of the distribution of historic performance might have overestimated, rather than underestimated, the likely variance of outturn performance relative to the storm overflow PCLs in PR24. This is because deviations from company-specific PCLs (which will take into account company-specific factors) are likely to be smaller than deviations from the midpoint between the 10th and 90th percentile (which is the approach adopted by Ofwat to set the proxy PCL). We note that this is the same logic that Southern raised with respect to its request on total pollution incidents (see paragraphs 6.389 to 6.390 below).
- 6.382 In any case, we do not currently consider there is a strong rationale for adjusting the storm overflows proxy PCL to produce an even larger performance range for PR24. As a result, we provisionally decide to adopt the proxy PCL target for PR19 that Ofwat used in the PR24 FD.

Total pollution incidents

- 6.383 As described in paragraph 6.176, the total pollution incidents performance commitment measures the number of categories 1-3 pollution incidents from a company's sewerage system.
- 6.384 Southern requested that only PR19 data should be used to determine the ODI rate.
- 6.385 Anglian requested that we derive its ODI rate from its own company-specific customer research, which is how ODI rates were set at PR19.
- 6.386 Our provisional decision is to use both PR14 and PR19 performance data when setting the ODI rate, but to determine the performance range values for PR14 by reference to a proxy PCL (given the different company-specific PCLs that applied in that period). This approach results in a lower ODI rate than in Ofwat's PR24 FD being applied to all Disputing Companies (ie including Anglian and Southern) for the reasons set out below. We have provisionally decided not to make any further changes in light of Anglian's further request.

⁶²³ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

Ofwat's PR24 FD approach

- 6.387 Ofwat calculated the range of performance deviations from target for the third step of its methodology using all the historic performance data available to it, from 2014/15 to 2023/24. This included data from PR14 when all WaSCs had company-specific total pollution incidents PCLs, except Hafren Dyfrdwy and Wessex which did not have a target, and from PR19 when all WaSCs had a common PCL.⁶²⁴ Using this data, the 10th and 90th percentiles of the distribution of performance deviations were -66% and 41% respectively. Therefore, Ofwat used a performance range of 66%.⁶²⁵
- 6.388 Table 6.18 below sets out the ODI rates calculated for the WaSCs at the PR24 FD.

Table 6.18: Total pollution incidents PR24 FD ODI rates, £m per the total number of pollution incidents per 10,000km of sewer length

<i>Company</i>	<i>ODI Rate (£m)</i>
Anglian	1.89
Dŵr Cymru	0.90
Hafren Dyfrdwy	0.00
Northumbrian	0.74
Severn Trent Water	2.32
South West Water	0.43
Southern	0.98
Thames Water	2.70
United Utilities	1.92
Wessex	0.87
Yorkshire Water	1.29

Source: Ofwat (2025) [PR24 final determination: PR24 ODI rates](#), tab 'Top Down Models', cells AO157:AO170.

Parties' submissions

Disputing Companies

Southern

- 6.389 Southern requested that only PR19 data should be used with PR14 data excluded. In its statement of case Southern submitted that:⁶²⁶
- (a) the harmonisation of companies' previously bespoke performance targets for PR19 resulted in the deviations of company performance from target being considerably higher in PR19 than in PR14;

⁶²⁴ Ofwat (2024) [PR24 final determinations: ODI rates Performance Range Model 1](#), tab 'b.PCL values'.

⁶²⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p185; Ofwat (2024) [PR24 final determinations: ODI rates Performance Range Model 1](#), tab 'P10P90'.

⁶²⁶ [Southern SoC](#), pp392–393, paragraphs 128–132.

- (b) as PR19 had a common PCL as in PR24, using only PR19 data is more representative of the likely range of performance over PR24; and
- (c) climate change will significantly increase the volatility in performance, and therefore the range of performance deviations from target, in PR24.

6.390 Excluding PR14 data would result in the 10th and 90th percentiles of the distribution of performance deviations being -284% and 29% respectively. Therefore, a performance range of 284% would be used with the effect of reducing the ODI rates calculated.⁶²⁷

Anglian

6.391 Anglian requested that, rather than an ODI rate calculated by Ofwat's top-down methodology, its ODI rate for total pollution incidents be replaced with a lower ODI rate derived from its own company-specific customer research of £0.605 million, which was how ODI rates were set at PR19.⁶²⁸

6.392 In its statement of case, Anglian submitted that:⁶²⁹

- (a) Ofwat's methodology significantly increased Anglian's ODI rate compared to its PR19 rate;
- (b) Anglian's total pollution incidents ODI rate was higher than its internal sewer flooding ODI rate, which was contrary to the relative importance customers placed on them as identified by Ofwat's customer research and was perverse considering that 96% of Anglian's total pollution incidents in PR19 only had a minor or minimal environmental impact (category 3); and
- (c) Anglian's customer research was high-quality and using an ODI rate derived from it would be a targeted and proportionate change which would achieve consistency across performance commitments.

6.393 In the Outcomes hearing, Anglian further submitted the following.

- (a) Its total pollution incidents ODI rate being considerably higher than its internal sewer flooding rate would result in perverse incentives for the allocation of resources. For example, Anglian would be incentivised, during severe rainfall, to combat total pollution incidents which nearly all have a minor environmental impact, rather than internal sewer flooding events which have a large impact on affected customers.⁶³⁰

⁶²⁷ Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

⁶²⁸ [Anglian SoC](#), paragraphs 509–515.

⁶²⁹ [Anglian SoC](#), paragraphs 509–515.

⁶³⁰ (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p58, lines 7–25.

- (b) Its comparison between the ODI rates for total pollution incidents and internal sewer flooding was valid because Anglian will likely have had similar numbers of both types of incident in 2024/25.⁶³¹
- (c) The PR24 FD ODI rate created significant risk exposure to Anglian on the total pollution incidents performance commitment.⁶³²

6.394 Additionally, Anglian submitted the following.

- (a) The customer research from which it derived its requested ODI rate followed best practice for stated preference valuation consumer research and it used a body of evidence to select its requested rate.⁶³³
- (b) The increase in Anglian's ODI rate on total pollution incidents was driven by:
 - (i) Ofwat's initial risk allocation of 0.6% RoRE;
 - (ii) the performance range and historic performance target used;
 - (iii) setting the rate with reference to the PR19 2024/25 PCL, rather than the PR24 2024/25 baseline which Anglian noted had changed at Ofwat's PR24 FD; and
 - (iv) Anglian having a higher proportion of total sector sewer length than RCV. This resulted in an overallocation of RoRE to Anglian under Ofwat's methodology compared to Ofwat's initial 0.6% RoRE allocation, which Anglian submitted was Ofwat's intended RoRE allocation.⁶³⁴
- (c) The performance range calculated was highly sensitive to which data was included, with the addition of 2024/25 data – which was unavailable to Ofwat at its PR24 FD – significantly reducing the ODI rate calculated.⁶³⁵

Ofwat

6.395 In response to Southern, Ofwat submitted that:⁶³⁶

- (a) at PR24 it allocated risk of 0.6% RoRE to align with the SPS for Ofwat and it would be against the interests of customers and the environment to reduce

⁶³¹ (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p59, lines 8–21.

⁶³² (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p60, lines 15–26 and p61, lines 1–18.

⁶³³ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p136, lines 20–24 and p137, lines 1–2.

⁶³⁴ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p137, line 17–25, p138, lines 1–23 and p139, lines 1–5; and Anglian (2025) Response to Hearings (non-confidential), p5.

⁶³⁵ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p138, lines 21–23; and Anglian (2025) Response to Hearings (non-confidential), p5.

⁶³⁶ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.128–4.133.

the ODI rate for total pollution incidents, particularly for Southern which significantly underperformed its performance targets in PR19; and

- (b) its general position when calculating ranges of performance deviations for existing performance commitments was to use all available historic performance data because performance across multiple periods provided more robust estimates of future performance.

6.396 In response to Anglian, Ofwat submitted that:⁶³⁷

- (a) setting one company's ODI rate on a performance commitment based on its customer research would deviate from its top-down methodology, contrary to Ofwat's objective at PR24 to set consistent ODI rates across companies;
- (b) at PR24 DD Ofwat found that its national customer research aligned with Anglian's regional customer research in relation to pollution incidents;
- (c) comparing per incident unit rates across performance commitments, like Anglian did between total pollution incidents and internal sewer flooding, was inappropriate because those rates included the impact of differences in the frequency of incidents and in historical ranges in performance across the performance commitments;
- (d) while category 3 incidents were classified as 'low or no environmental harm', effective network management was essential to prevent category 1 and 2 incidents, of which Anglian had 11 in 2023/24; and
- (e) it would be against the interests of customers and the environment to reduce the ODI rate for total pollution incidents.

Our assessment and provisional conclusions

6.397 Southern submitted that the performance range was inappropriately narrow because it was calculated using PR14's company-specific performance targets. We have assessed whether it was appropriate to include PR14 performance data relative to company-specific performance targets in calculating the likely range of PR24 performance relative to a common PCL.

6.398 Conceptually, our provisional view is that it is correct that using data from PR14, when PCLs were company-specific, may understate the degree of risk faced by companies in PR24, when the PCL is common. This is because deviations from company-specific PCLs are likely to be smaller than deviations from common PCLs. However, it does not follow that the correct approach is to exclude all data from PR14 and solely rely on PR19 data. This approach would place undue weight

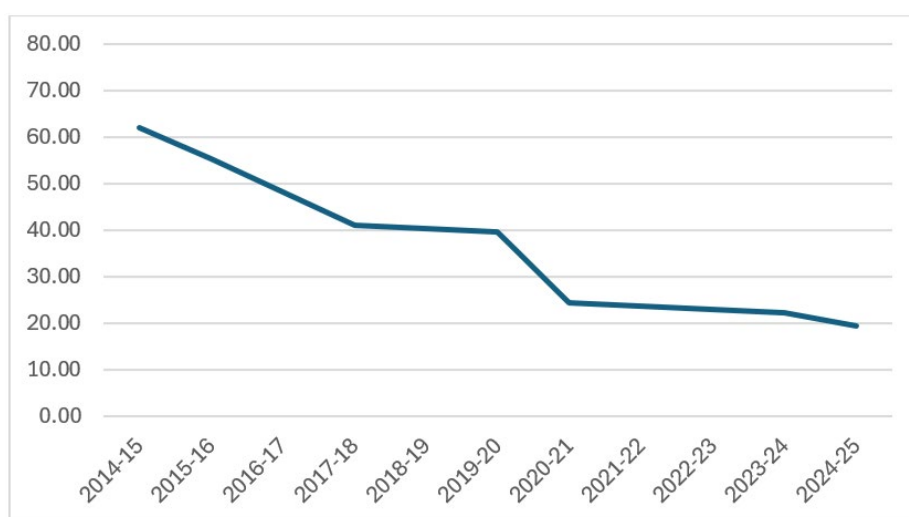
⁶³⁷ Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.76–4.84.

on data from one single period and is likely to result in less robust estimates of variance in performance levels.

6.399 Our provisional decision is that a better approach would be to include data from the PR14 period but consider deviations from a proxy common PCL (which mirrors the approach used in PR24), rather than from the historical company-specific PCLs. Specifically, we have estimated a proxy PCL for each year of the PR14 period as the mid-point between the P10 and P90 performance levels in that year, to be consistent with the methodology used in the PR24 period.⁶³⁸

6.400 Figure 6.14 below displays the resulting remedy proxy ‘common’ performance target.

Figure 6.14: CMA provisional performance target, 2014/15 to 2024/25



Source: CMA analysis of Ofwat (2024) [PR24 ODI Rates - Performance Range Model 1](#), Tab ‘b.PCL values’, rows 67–79.

6.401 Using our proxy, the 10th and 90th percentiles of the distribution of performance deviations were -145% and 54% respectively, compared to -66% and 41% in Ofwat’s PR24 FD. Therefore, our provisional approach results in a range of 145% being used, compared to the range of 66% used in Ofwat’s PR24 FD. This increase is evidence that the use of PR14 company-specific performance targets materially affected the performance range calculated at Ofwat’s PR24 FD, and further evidence that Ofwat’s approach at its PR24 FD identified an inappropriately narrow performance range. We note that this range is smaller than the range of 284% calculated under Southern’s request.

6.402 Using this performance range at the third step of Ofwat’s methodology results in a unit rate of around £114,000 per pollution incident for use when setting ODI rates (which – as was shown in Table 6.18 – apply to a measure of the number of incidents per 10,000 km of sewer length). Table 6.19 below shows how this

⁶³⁸ P10 is the level at which there is only an estimated 10% chance that the outcome performance level would be worse. P90 is the level at which there is only an estimated 10% chance that the outcome performance level would be higher.

compares to Ofwat's PR24 FD, the unit rates the Disputing Companies faced in AMP7 and the median unit rate across all companies (excluding Hafren Dyfrdwy) in AMP7.

Table 6.19: CMA proposed total pollution incidents unit rate compared to PR24 FD and PR19 unit rates

	<i>Unit rate: £ per pollution incident</i>
CMA proposed proxy approach	113,765
Ofwat's PR24 FD	247,781
Disputing Companies at PR19	
Anglian	69,968
Northumbrian	146,386
Southern	95,426
Wessex	95,425
PR19 sector median (excluding Hafren Dyfrdwy)	95,426

Source: CMA analysis of Ofwat (2025) [PR24 final determination: PR24 ODI rates](#), tab 'Top Down Models', rows 157–170.

- 6.403 Under our provisional approach, unit rates for PR24 would be significantly lower than the levels in Ofwat's PR24 FD, but would be around 19 per cent higher than the sector median level (excluding Hafren Dyfrdwy) that applied in AMP7. The unit rate for Northumbrian would be lower than its AMP7 level – when company rates differed reflecting their own company-specific research – but would be significantly higher for Anglian, Southern and Wessex.
- 6.404 Our provisional view is that our proposed change remedies the issue with using PR14 data raised by Southern, and provides an appropriate way to determine the relevant performance range when setting ODI rates.
- 6.405 Our provisional view is that the above approach to determine a proxy PCL for historic performance in PR14 is appropriate given the circumstances that arise in relation to total pollution incidents. These circumstances include that company-specific targets had been used in the PR14 period, but also that Ofwat's PR24 FD approach – in our provisional view – resulted in a significant underestimate of the relevant performance range. Given that context, we consider the use of a proxy PCL to determine the PR14 performance range to be a reasonable approach. Our provisional view is that these circumstances do not necessarily imply that the approach should be applied to all performance commitments with common PR24 PCLs where there were company-specific PR14 and/or PR19 performance targets (namely water supply interruptions, internal sewer flooding and serious pollution incidents). In any event, we note Ofwat's methodology to establish a proxy PCL for historic performance to determine the ODI rates for these other performance commitments has not been raised by the Disputing Companies.
- 6.406 We have assessed whether any further changes to the total pollutions ODI rate are required in light of Anglian's submissions and have provisionally decided not to make any further changes. Our considerations are as follows.

- (a) A common methodology for setting ODI rates is appropriate. Under Anglian's request it would uniquely have a company-specific ODI rate set by a different methodology to other companies' total pollution incidents ODI rates and other performance commitments' ODI rates.
- (b) Anglian submitted that its PR24 FD unit rate, the rate per pollution incident (as opposed to the ODI rate which takes into account companies' different sizes), was considerably higher than at PR19. However, we note that Anglian's PR19 unit rate was the second lowest unit rate in AMP7.
- (c) Anglian submitted that Ofwat's PR24 FD performance range was inappropriately narrow, evidenced by how adding 2024/25 performance data increased the range from 66% to 170%.⁶³⁹ Our proposed change significantly widens the performance range to 145%.
- (d) Anglian submitted that it faced perversely strong incentives on total pollution incidents compared to internal sewer flooding. We consider there is limited evidence to support this submission, and that in any event our provisional approach would be expected to adequately mitigate the risk of such an effect having a material impact.

6.407 In summary, we have provisionally recalculated Disputing Companies' ODI rates with our proposed methodology to identify the likely range of PR24 performance – see Table 6.20 below which sets out our provisional ODI rates for total pollution incidents. This approach follows Ofwat's overall approach to setting ODI rates, retains Ofwat's assessment of the appropriate percentage of RoRE that should be put at risk for this ODI, and results in unit rates that are 19 per cent higher than the sector median in AMP7 (excluding Hafren Dyfrdwy). Our provisional decision is that these rates balance the concerns about the level of risk companies face and the need to ensure that the rates are sufficiently strong to incentivise the Disputing Companies to perform well on the total pollution incidents performance commitment.

Table 6.20: Disputing Companies' total pollution incidents ODI rates under the provisional CMA approach, £ million per the total number of pollution incidents per 10,000km of sewer length

<i>Company</i>	<i>Total pollution incidents ODI rate, £m</i>
Anglian	£0.87
Northumbrian	£0.34
Southern	£0.45
Wessex	£0.40

Source: CMA analysis of Ofwat (2025) [PR24 final determination: PR24 ODI rates](#), Tab 'Top Down Models', 157:170.

⁶³⁹ Anglian (2025) Response to Hearings (non-confidential), p5.

Water supply interruptions

- 6.408 As set out in paragraph 6.204, Ofwat's PR24 FD defined the water supply interruptions performance commitment as the average number of minutes of supply lost per customer for the whole customer base (for interruptions that lasted three hours or more).
- 6.409 Southern requested that we use PR19 data to calculate the performance range with the overall effect of reducing the ODI rates.
- 6.410 Our provisional decision is to retain Ofwat's PR24 FD approach to include PR14 data for the reasons set out below.

Ofwat's PR24 FD approach

- 6.411 Applying the third step of its top-down methodology as described in paragraph 6.364(c), Ofwat used all the historic performance data available from 2016/17 to 2023/24. Using this data, the 10th and 90th percentiles of the distribution of performance deviations were -342% and 49% respectively. Therefore, Ofwat used a performance range of 342%.⁶⁴⁰
- 6.412 The median PR24 unit rates calculated using this performance range were lower than the equivalent PR19 unit rates. Therefore, at the fourth step of Ofwat's methodology, the median PR19 unit rates were used.⁶⁴¹
- 6.413 Table 6.21 below sets out the ODI rates used in Ofwat's PR24 FD.

Table 6.21: Water supply interruptions PR24 FD ODI rates

<i>Company</i>	<i>ODI Rate (£m)</i>
Anglian	1.07
Dŵr Cymru	0.67
Hafren Dyfrdwy	0.03
Northumbrian	0.74
Severn Trent	1.63
South West Water	0.51
Southern	0.54
Thames Water	1.88
United Utilities	1.17
Wessex	0.30
Yorkshire Water	0.88
Affinity	0.48
Bristol Water	0.16
Portsmouth Water	0.07
South East	0.31
South Staffordshire Water	0.15
Sutton and East Surrey	0.08

Source: Ofwat (2025) [PR24 final determination: PR24 ODI rates](#), tab 'Top Down Models', cells AO103:AO119.

⁶⁴⁰ Ofwat (2024) [ODI Rates – Performance Range Model 1](#), tabs 'P10P90' row 10; 'a.Performance' rows 45–64; 'b.PCL values' rows 44–63; and 'c.Dif to PCL' rows 43–62, 'd.% Dif to PCL' rows 44–62.

⁶⁴¹ Ofwat (2025) [ODI rates](#), tab 'Top Down Models', rows 99–121.

Parties' submissions

Southern

6.414 Southern requested that we use only PR19 data to calculate the performance range used in the third step of Ofwat's top-down methodology.⁶⁴² Southern submitted the following.⁶⁴³

- (a) The data Ofwat used from PR14 includes a critical change in the performance commitment definition from PR19. In PR14, Ofwat's definition noted that the impact of severe weather conditions would be taken into account.⁶⁴⁴ In PR19, these exclusions were removed and corresponded with an apparent deterioration in performance from the sector. Performance at PR14 was less volatile due to these exclusions.
- (b) Using only PR19 data would ensure the variations in performance are consistent with the current definition of water supply interruptions.

6.415 Using this proxy, the 10th and 90th percentiles of the distribution of performance deviations would be -599% and 48% respectively.⁶⁴⁵ Therefore, a performance range of 599% would be used, with the effect of reducing the ODI rates calculated.⁶⁴⁶

6.416 In the Outcomes hearing, Southern stated that in PR14 there had not been many exclusions for severe weather events, and that its measured performance would not necessarily have been fundamentally different.⁶⁴⁷

Ofwat

6.417 Ofwat submitted that its general position when calculating performance ranges for existing performance commitments was to use all available historic performance

⁶⁴² [Southern SoC](#), p388, paragraph 108 and Table 5.

⁶⁴³ [Southern SoC](#), pp387–388, paragraphs 105–108.

⁶⁴⁴ We note that Southern's SoC framing of the exclusion as automatic and universal differed from our understanding of how the exclusion operated, as set out in our provisional assessment and at paragraph 6.419.

⁶⁴⁵ [Southern SoC](#), p389, Table 5; and Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis, tab 'WSI'.

⁶⁴⁶ [Southern SoC](#), p389, Table 5. We note that the increased performance range proposed by Southern would have two effects. First, relating to Ofwat's fourth step (as described above at paragraph 6.364(d)), it would further reduce the PR24 unit rates calculated but as the PR19 median unit rates were already used, this effect would not ultimately affect the ODI rate calculated. Second, relating to Ofwat's fifth step, it would increase the RoRE at risk for companies, resulting in more companies reaching the RoRE at risk cap and reducing the ODI rate calculated by dividing the cap amount by the performance range for those companies and the companies already at the cap (Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis, tab 'Top Down Models', rows 99–121). Ofwat confirmed that this was also its understanding of the request's effect (Ofwat response to Ofwat RFI13, Q1(d), pp8–9).

⁶⁴⁷ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p130, lines 5–16.

data because performance across multiple periods provided more robust estimates of future performance.⁶⁴⁸

6.418 Additionally, Ofwat noted that:

- (a) at PR14 the impact of severe weather was included in measured performance for all companies except for Southern;⁶⁴⁹
- (b) from PR19 companies were expected to manage the risk of water supply interruptions with no exclusions, although there was a PR19-specific exception (removed for PR24) relating to civil emergencies under the Civil Contingencies Act 2004;⁶⁵⁰
- (c) at PR14 Southern did not remove or exclude any severe weather incidents from its measured performance;⁶⁵¹ and
- (d) this measure has a direct impact on customers and is of high priority to them – it is essential that there remains a strong incentive for companies to improve performance.⁶⁵²

Our assessment and provisional decision

6.419 Southern requested that we exclude data before the impact of severe weather on water supply interruptions was included in measured performance when calculating the performance range in the third step of the methodology to determine ODI rates. We have assessed whether excluding PR14 data would result in a more likely performance range than Ofwat's PR24 approach by considering the significance of the definition change on measured performance.

6.420 We note that only Southern had a possible exclusion for the impact of severe weather effects at PR14, but Southern made no exclusions in practice. There would have been no difference in PR14 performance had it been measured under the PR19 definition.

6.421 Therefore, we do not accept that excluding PR14 data would result in a more robust estimate of the performance range. As such, we provisionally decide to retain Ofwat's PR24 FD approach to include PR14 data.

⁶⁴⁸ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.113. Ofwat directed us to look at its response on Southern's total pollution incidents request in relation to its response on Southern's water supply interruptions request (Ofwat response to Ofwat RFI13, Q1(d), pp8–9).

⁶⁴⁹ Ofwat response to Ofwat RFI12, Q1(a); and (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p132, lines 7–9.

⁶⁵⁰ Ofwat response to Ofwat RFI12, Q1(a).

⁶⁵¹ Ofwat response to Ofwat RFI12, Q1(a).

⁶⁵² Ofwat (2025) [Response to Southern SoC](#), paragraph 4.203.

Customer experience measures

- 6.422 Ofwat's PR24 FD set three performance commitments relating to customers' satisfaction with the services provided by companies:
- (a) C-MeX, for residential customers, as described in paragraphs 6.322 to 6.326;
 - (b) D-MeX, for developer services customers, with performance measured as a combination of developer services customers' surveyed satisfaction scores and a measure of companies' performance against a set of service metrics;⁶⁵³ and
 - (c) BR-MeX, for business (ie non-household) and retailer customers, with performance measured as a combination of business customers' and retailer customers' separately surveyed satisfaction scores and a measure of companies' performance against a set of industry measures of wholesale performance.⁶⁵⁴
- 6.423 Southern requested that the risk allocations used to determine the ODI rates for the customer experience measures are reduced.
- 6.424 Our provisional decision is to retain the PR24 approach to ODI rates for each measure of experience (MeX) for the reasons set out below.

Ofwat's PR24 FD approach

- 6.425 Ofwat's methodology for the customer experience measures is described above from paragraph 6.322. Ofwat's PR24 FD allocated the following risk to these experience measures:
- (a) for C-MeX, +/- 0.4% of both water and wastewater RoRE;⁶⁵⁵
 - (b) for D-MeX, +/-0.2% of both water and wastewater RoRE;⁶⁵⁶ and
 - (c) for BR-MeX, +/-0.2% of both water and wastewater RoRE.⁶⁵⁷
- 6.426 These RoRE allocations were then divided by Ofwat's estimated performance range. For a given performance range, the greater the RoRE allocations, the stronger the ODI rates.

⁶⁵³ Ofwat (2025) [Developer services measure of experience \(D-MeX\) – PC definition](#), p3.

⁶⁵⁴ Ofwat (2025) [Business customer and Retailer measure of experience \(BR-MeX\)](#), p2. For the Welsh water companies, an alternative business customer experience in Wales performance commitment (**BCEW**) was used.

⁶⁵⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p243.

⁶⁵⁶ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p252.

⁶⁵⁷ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p260.

Parties' submissions

Southern

- 6.427 Southern requested that the risk allocations used to determine the ODI rates for customer experience measures be reduced by:⁶⁵⁸
- (a) allocating the lower of 0.4% RoRE or 5% of retail price control revenue to C-MeX;
 - (b) allocating the lower of 0.2% RoRE or 5% of developer services revenue to D-MeX; and
 - (c) allocating 0.1% RoRE to BR-MeX.
- 6.428 In its statement of case Southern submitted that:⁶⁵⁹
- (a) Ofwat did not consider the size of the retail revenue, developer services and non-household revenue relative to companies' wholesale business;⁶⁶⁰
 - (b) the risk allocations in Ofwat's PR24 FD put a sizeable proportion of the relevant price control revenues at risk, specifically 22% of Southern's retail revenue for C-MeX, 33% of its developer services revenue for D-MeX and 3% of its non-household wholesale revenue;⁶⁶¹
 - (c) the revenue at risk for C-MeX at PR24 is double that of the equivalent customer service measures at PR14 and PR19, specifically 22% compared to 12%.⁶⁶²
 - (d) this risk exposure was substantially higher than that for wholesale performance commitments, where the largest proportion of its total wastewater revenue which would have been put at risk by a 0.4% RoRE allocation to a wastewater performance commitment was 2%;⁶⁶³
 - (e) the ODI rates' strength could cause perverse incentives, stating that if its retail business was a standalone business the risk associated with C-MeX would bankrupt the business in a very short period of time;⁶⁶⁴ and

⁶⁵⁸ Southern SoC, p406, Table 14.

⁶⁵⁹ Southern SoC, pp404–406, paragraphs 176–184.

⁶⁶⁰ Southern SoC, p405, paragraph 180.

⁶⁶¹ Southern SoC, p405, paragraph 181.

⁶⁶² Southern SoC, p406, Table 13.

⁶⁶³ Southern SoC, p405, paragraph 182.

⁶⁶⁴ Southern SoC, p405, paragraph 180.

- (f) the ODI rates did not mimic the economic incentives that would be present in a competitive market, given the reduced levers to modify its water retail business, given its implicit universal service obligation.⁶⁶⁵

6.429 In the Outcomes hearing, Southern further submitted that:

- (a) C-MeX was the measure of retail performance, for example customers' experience of using Southern's customer support services, in contrast to other performance commitments which measure wholesale performance;⁶⁶⁶ and
- (b) its requested remedy for BR-MeX was to allocate risk on a RoRE basis, not as a proportion of relevant revenue as in its remedies for C-MeX and D-MeX, because Southern did not have a business retail arm to which it could directly attribute the revenue.⁶⁶⁷

Ofwat

6.430 In response to Southern's statement of case, Ofwat submitted the following.

- (a) The PR24 FD ODI rates for the experience measures did not represent an excessive level of risk exposure.⁶⁶⁸
- (b) For C-MeX:
 - (i) it calibrated the C-MeX ODI rate against retail revenue, specifically choosing to increase the size of the amount of retail revenue at risk for C-MeX from 12% to 18%, which corresponded to 0.4% RoRE;⁶⁶⁹
 - (ii) C-MeX was a high importance performance commitment where a step change in performance is required, and its risk allocation was broadly comparable to other high importance performance commitments as 0.4% of both water and wastewater RoRE was broadly equivalent in scale to 0.6% of wastewater-only RoRE;⁶⁷⁰
 - (iii) Southern's request would result in significantly lower financial incentives for customer service at PR24 than at PR19. For C-MeX, its request was equivalent to 0.09% both water and wastewater RoRE (or 0.13% of wastewater-only RoRE).⁶⁷¹

⁶⁶⁵ Southern SoC, p405, paragraph 180.

⁶⁶⁶ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p145, lines 21–24; p146, lines 1–10; and p146, lines 1–7.

⁶⁶⁷ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 21–24 and p150, lines 1–5.

⁶⁶⁸ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.260.

⁶⁶⁹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.248.

⁶⁷⁰ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.262–4.266.

⁶⁷¹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.266.

(c) For D-MeX:

- (i) Ofwat considered it proportionate for the strength of its incentive to be half that of C-MeX reflecting the relative differences in the amount of revenue companies are likely to receive from residential retail customers compared to developer services customers;⁶⁷²
- (ii) the PR24 risk allocation of 0.2% RoRE was slightly higher than the approximately 0.17% risk allocation at PR19 which was calibrated to represent 12% of developer services revenue. This increase was justified to ensure companies maintain focus on D-MeX, particularly in light of the higher incentives applied to C-MeX in the PR24 FD. Ofwat submitted it is not appropriate to reduce the D-MeX incentives to 5% developer services revenue, as proposed by Southern;⁶⁷³ and
- (iii) the average correlation across companies between developer services revenue and regulated equity for 2020-23 was 0.84.⁶⁷⁴

(d) For BR-MeX:

- (i) Ofwat considered it appropriate to use both water and wastewater RoRE because BR-MeX applied to both water and wastewater activities;⁶⁷⁵ and
- (ii) the risk allocation for BR-MeX was aligned to the size of D-MeX and the equivalent business customer experience measure in Wales in order to encourage sufficient focus on this performance commitment, supporting the functioning of the business retail market. Ofwat had reviewed incumbent support for effective markets, along with previous market monitoring, and found the companies needed to do more to support the business retail market.⁶⁷⁶

6.431 In the Outcomes hearing Ofwat further submitted that:

- (a) there is some overlap between C-MeX and wholesale performance commitments, but C-MeX is not sufficient on its own to measure performance on an issue like internal sewer flooding;⁶⁷⁷ and

⁶⁷² Ofwat (2025) [Response to Southern SoC](#), paragraph 4.270.

⁶⁷³ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.268–4.269.

⁶⁷⁴ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.253.

⁶⁷⁵ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.254.

⁶⁷⁶ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.271.

⁶⁷⁷ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 6–11.

- (b) where there is overlap between C-MeX and other performance commitments, as well as the potential for overlapping penalties, companies have the potential for overlapping outperformance bonuses too.⁶⁷⁸

Third parties

- 6.432 Thames submitted, in relation to Southern's request, that the MeXes are 'over-powered', in the sense that they result in disproportionate penalties, which undermines the ability of companies receiving them to invest to the benefit of customers and the environment.⁶⁷⁹

Our assessment and provisional conclusions

- 6.433 Southern's submissions focused on how Ofwat allocated inappropriately high amounts of risk, assessed as proportions of the relevant price control revenues at risk, to the experience measures.
- 6.434 Our provisional view is that it is not clear that the share of the relevant price control revenue at risk is a relevant consideration for the purpose of calibrating ODI rates. The objective of the calibration exercise is to incentivise companies' management to allocate scarce attention and resources across areas of performance in a way that aligns with customers' priorities (subject to financeability constraints). Management, to promote the interest of shareholders, is likely to allocate attention and resources to different issues in accordance with their impact on RoRE, not revenue. In doing this, management would consider the company's business as a whole across all revenue streams and customers. The proportion of an individual revenue stream at risk would not be a key consideration. Therefore, conceptually, we consider that allocating a proportion of RoRE is the correct approach to calibrating the experience measures' ODI rates, and limited weight should be placed on the proportion of relevant revenue at risk. We further note that the variability of individual revenue streams was not clearly directly relevant for financeability, insofar as supplying an individual type of customer is financed jointly with the other regulated businesses.
- 6.435 To the limited extent weight should be placed on the proportion of relevant revenue at risk, we note that the share of relevant revenue at risk for Southern was not significantly higher than the average proportion Ofwat targeted, or the proportion at risk at PR19, or was not a significant proportion.
- (a) For C-MeX, a 0.4% total (ie water and wastewater) RoRE risk allocation translated into 22% of Southern's relevant price control revenue being put at

⁶⁷⁸ (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 1–5.

⁶⁷⁹ Thames (2025) [Third Party Submission on the Water PR24 References](#), paragraph 47.

risk. This was only 4 percentage points higher than the average of 18% Ofwat targeted.

- (b) For D-MeX, a 0.20% total RoRE risk allocation translated into 33% of Southern's relevant price control revenue put at risk. This 0.20% RoRE allocation was closely comparable to PR19's approximate 0.17% RoRE risk allocation.
- (c) For BR-MeX, a 0.2% total RoRE risk allocation translated into a small proportion (3%) of Southern's relevant revenue being put at risk.

6.436 We do not accept that Ofwat's PR24 FD allocated an inappropriately high degree of risk to the experience measures when risk is assessed as a proportion of RoRE. Therefore, we provisionally decide to retain the PR24 FD approach to ODI rates for each experience measure.

Individual risk protections

- 6.437 Only South East and Southern made specific requests to change risk protections on individual performance commitments (caps, collars and deadbands).⁶⁸⁰ In this section we assess Southern's requests. South East's request to change its company-specific collar on water supply interruptions is assessed alongside its PCL request above (see from paragraph 6.232).
- 6.438 Our provisional decision is to not make the changes requested by Southern to individual risk protections for the reasons set out below.

Ofwat's PR24 FD approach

- 6.439 For caps and collars, with a few exceptions, Ofwat applied caps from 0.5% RoRE of outperformance payments and collars from 0.5% RoRE of underperformance penalties. For new performance commitments, Ofwat's default approach was to set caps and collars at +/-0.5% RoRE.⁶⁸¹
- 6.440 Ofwat's PR24 FD applied collars to 18 of 24 performance commitments, caps to 16 and deadbands to 3. Table 6.22 shows which ODIs had a penalty collar and/or a deadband applied in Ofwat's PR24 FD.

Table 6.22: Summary of Ofwat's PR24 collars and deadbands on individual risk protections

<i>Performance commitment</i>	<i>Collar</i>	<i>Deadband</i>
Water supply interruptions	Y	N
External sewer flooding	Y	N
Internal sewer flooding	Y	N
Bathing water quality	Y	N

⁶⁸⁰ Wessex accepted in the round the use of deadbands, caps and collars in limiting the extent of financial rewards or penalties for underperformance or outperformance ([Wessex SoC](#), Table 2 and paragraphs 1.10–1.12).

⁶⁸¹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p39–41.

<i>Performance commitment</i>	<i>Collar</i>	<i>Deadband</i>
Biodiversity	Y	N
Storm overflows	Y	N
Total pollution incidents	Y	N
Operational greenhouse gases (water)	Y	N
Operational greenhouse gases (wastewater)	Y	N
Business demand	Y	N
Per capita consumption	Y	N
Repairs to burst mains	Y	Y
Sewer collapses	Y	N
Unplanned outage	Y	N
Customer measure of experience	Y	N
Developer measure of experience	Y	N
Business and retailer measure of experience	Y	N
Serious pollution incidents	N	Y
Discharge permit compliance	N	Y
Compliance risk index	N	Y
Leakage	N	N
Customer contacts about water quality	N	N

Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p42 and pp71–263.

Note: the compliance risk index performance commitment measures the sum of the individual compliance risk index scores for every treated water compliance failure reported by a company in a year. See: Ofwat (2025) [Compliance Risk Index \(CRI\) – PC Definition](#) and DWI (2018) [DWI Compliance Risk Index \(CRI\) definition](#).

Changes requested by the Disputing Companies

6.441 Southern's specific requests were to:

- (a) add a -0.5% RoRE collar to:
 - (i) water quality contacts;
 - (ii) serious pollution incidents;
 - (iii) leakage; and
 - (iv) discharge permit compliance;
- (b) tighten the -1% RoRE collar common for all companies except South East to -0.5% RoRE for water supply interruptions;
- (c) tighten the +/-0.5% RoRE cap and collar to +/-0.25% RoRE for:
 - (i) bathing water quality; and
 - (ii) storm overflows; and
- (d) widen the deadband on compliance risk index and add a -0.5% RoRE collar.

6.442 Southern submitted that Ofwat's PR24 Outcomes framework is heavily skewed towards penalties,⁶⁸² and while the addition of collars reduced skew on the overall package, it did not eliminate the skew entirely.⁶⁸³ Southern submitted that the ODIs contribute to a negative expected penalty for a notional company like

⁶⁸² [Southern SoC](#), p376, paragraph 47.

⁶⁸³ [Southern SoC](#), p377, paragraph 50.

Southern, and will lead to excessive downside risk.⁶⁸⁴ In its hearing Southern told us that:

- (a) its concern was that it could not achieve a rate of performance improvement to avoid potentially significant penalties;⁶⁸⁵ and
- (b) it requests changes to individual risk protections to limit downside risk exposure⁶⁸⁶ and these changes would fix issues at source while still maintaining its incentives to meet its performance targets, including because Southern faces external pressure to improve beyond Ofwat's ODIs framework.⁶⁸⁷

Ofwat's submissions on its approach to applying individual risk protections

6.443 On its use of individual risk protections, Ofwat submitted the following.

- (a) It used individual risk protections in a targeted way because they can weaken and distort incentives at the margin.⁶⁸⁸ Ofwat noted that in its PR24 FD it applied collars to almost 80% of all performance commitments and caps to almost 70%, as it targeted performance commitments with historically higher performance volatility.⁶⁸⁹
- (b) It used individual risk protections to address the impact of external factors, particularly where downside risks from external factors are larger than upside risks or Ofwat wanted to mitigate the risk that customers or companies might unduly benefit from external factors affecting performance.⁶⁹⁰
- (c) It used collars and deadbands on individual performance commitments only where the risk of weakening incentives was low, where metrics were negatively skewed relative to operational realities and/or there was limited scope to adjust the PCL.⁶⁹¹
- (d) It used deadbands on a limited number of performance commitments where
 - (i) companies may fall short of performance targets due to operational challenges;
 - (ii) the performance commitment contributed to negative skew;
 - and (iii) Ofwat was confident that companies would still be incentivised to perform close to the PCL.⁶⁹²

⁶⁸⁴ [Southern SoC](#), p378, paragraph 56.

⁶⁸⁵ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p83, lines 2–7.

⁶⁸⁶ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p85, lines 22–26 and p86, lines 1–10.

⁶⁸⁷ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p87, lines 8–23; p88, lines 2–23; p89, lines 2–26; and p90, lines 1–15.

⁶⁸⁸ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 1.30.

⁶⁸⁹ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 3.23.

⁶⁹⁰ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 4.7.

⁶⁹¹ Ofwat (2025) Response to Hearings (non-confidential), p2.

⁶⁹² Ofwat (2025) [Response to common issues on outcomes](#), p32, paragraph 3.24.

- (e) Ofwat told us that its criteria for considering changes to deadbands at its PR24 FD were: (i) whether the change to a deadband would reduce net negative ODI payments based on operational reality; and (ii) whether there was a low risk of materially weakening incentives.⁶⁹³

6.444 It calibrated the +/- 0.5% RoRE threshold for caps and collars to balance maintaining incentives with limiting excessive risk on a particular performance commitment for customers and companies, and such that companies would only exceed the cap and collar thresholds infrequently.⁶⁹⁴

6.445 Ofwat submitted that, overall, the adjustments it made to risk protections from its PR24 DD to PR24 FD sufficiently addressed concerns about risk such that, according to Ofwat's risk assessment, its PR24 FD achieved a balanced package overall with stretching yet achievable PCLs set alongside strong financial incentives.⁶⁹⁵ Ofwat said that it had introduced the aggregate sharing mechanism (**ASM**) and outturn adjustment mechanism (**OAM**)⁶⁹⁶ as further risk protections for the overall Outcomes package.⁶⁹⁷

Our approach

6.446 We have assessed Southern's requests in light of the following considerations.

- (a) Adding individual risk protections reduces companies' exposure to outcomes payments (for over and underperformance) and therefore materially weakens the strength of their financial incentives to deliver the outcomes customers expect. This can happen in two ways: (i) directly, because caps, collars and deadbands narrow the performance range over which financial incentives apply; and (ii) indirectly (as highlighted in paragraph 6.530 below in relation to the compliance risk index ODI) where risk protections are introduced to take account of past performance problems.
- (b) Ofwat's PR24 FD applied a large number of individual risk protections, particularly collars.
- (c) Ofwat's PR24 FD also applied the ASM and OAM which provide further overall risk protection to companies. We discuss the ASM and OAM in chapter 8 (Risk and Return).

⁶⁹³ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.221.

⁶⁹⁴ Ofwat (2025) [Response to common issues on outcomes](#), paragraph 3.23 and paragraph 3.28.

⁶⁹⁵ Ofwat (2025) [Response to common issues on outcomes](#), paragraphs 3.13–3.14.

⁶⁹⁶ A new mechanism introduced in Ofwat's PR24 FD that adjusts the impact of outturn reconciliations for all companies equally in terms of the proportion of regulated equity to keep the reconciliation of the median average of companies within a range of -50bps to +50bps RoRE. The mechanism applies to common performance commitments.

⁶⁹⁷ Ofwat (2025) [Response to common issues on outcomes](#), paragraphs 3.6 and 3.27.

- (d) We have assessed companies' risk exposure from the Outcomes framework as part of our assessment of the overall balance of risk and return in chapter 8 (Risk and Return).

6.447 In this context, our provisional decision is that additional individual risk protections should only be applied where there is compelling evidence that, without that addition, companies would face an inappropriately high degree of risk on that performance commitment and additional risk protection(s) would be appropriate. We have assessed Southern's requests on this basis.

Requests to add a collar

6.448 In this sub-section we assess Southern's four requests to add a -0.5% RoRE collar.

Water quality contacts

6.449 Ofwat's PR24 FD defined the water quality contacts performance commitment as the number of times a company was contacted by consumers due to the taste and odour or appearance of drinking water per 1,000 population.⁶⁹⁸

Ofwat's approach in the PR24 FD

6.450 Ofwat set no cap or collar for water quality contacts.⁶⁹⁹

Parties' submissions

Southern

6.451 Southern submitted the following.

- (a) The absence of a collar created an imbalance in the ODIs framework.⁷⁰⁰
- (b) Unlike other 'service-related measures', such as water supply interruptions, water quality contacts did not have a collar at PR24 FD.⁷⁰¹
- (c) For example, under the Ofwat PR24 FD the underperformance penalties resulting from a large-scale water incident would be capped for water supply

⁶⁹⁸ Ofwat (2025) [Customer contacts about water quality](#), p2; Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp97–99.

⁶⁹⁹ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p106. It set a company-specific outperformance deadband (ie applying to performance above the PCL) for five companies identified as high-achieving (Thames Water, Affinity, Portsmouth Water, South Staffordshire Water and SES Water). This was to prevent high performing companies from being penalised as heavily as other companies if they underperformed their company-specific PCLs but were still delivering a sector upper quartile performance. Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp103–104, 106.

⁷⁰⁰ [Southern SoC](#), p407, paragraph 189.

⁷⁰¹ [Southern SoC](#), p407, paragraph 192.

interruptions but not for water quality contacts. Southern submitted that this inconsistency was illogical and did not align with the principles Ofwat applied to other performance metrics.⁷⁰²

6.452 In its hearing, Southern stated the following.

- (a) It faced the potential for large-scale water incidents because over PR24 it planned to implement improvement plans at multiple sites while maintaining water supply to customers. Any incidents during these works could result in an interruption to supply. There may also be other performance issues unrelated to improvement works to which Southern would need to respond.⁷⁰³
- (b) Having set collars for the large number of performance commitments Ofwat did at PR24 FD, there was no specific reason why the remaining performance commitments without a collar should not have a collar added to cover unforeseen circumstances.⁷⁰⁴

Ofwat

6.453 Ofwat submitted that:⁷⁰⁵

- (a) Ofwat did not set caps and collars for water quality contacts at PR24 FD because it was a well-established performance metric with only a small amount of performance variation across years; and
- (b) based on the companies' performance forecasts, there was little evidence to suggest Southern may reach a performance level equivalent to -0.5% RoRE.

Our assessment and provisional decisions

6.454 Our provisional view is that a targeted approach to applying collars is appropriate given their effect on companies' incentives to deliver the outcomes for which customers pay. Therefore, symmetry or a related performance commitment having a collar is not a sufficient reason in itself to add a collar to other performance commitments.

6.455 We note that water quality contacts relates to core features of water supply that customers experience (taste, odour and appearance) and is well-established with limited historic variation in performance. Adding a collar would weaken companies' financial incentives to maintain this performance record.

⁷⁰² [Southern SoC](#), p407, paragraphs 192–194.

⁷⁰³ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p91, lines 7–25, and p92, lines 1–10.

⁷⁰⁴ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p93, lines 23–26 and p94, lines 1–3.

⁷⁰⁵ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.213–4.216.

6.456 Therefore, our provisional decision is not to add a collar to water quality contacts.

Serious pollution incidents

6.457 For each company, Ofwat's PR24 FD defined the serious pollution incidents performance commitment as the total number of categories 1 and 2 pollution incidents. This approach matched the EA and Natural Resources Wales EPA methodology.⁷⁰⁶

Ofwat's PR24 FD approach

6.458 Ofwat set a deadband for all companies of one serious pollution incident per year for all companies.⁷⁰⁷

Parties' submissions

Southern

6.459 Southern submitted that:⁷⁰⁸

- (a) Southern's risk analysis identified serious pollution risk as a key area of regulatory risk for AMP8 due to: (i) the correlation between temperature and number of incidents; (ii) the level of stretch in the targets; and (iii) the high incentive rate;⁷⁰⁹ and
- (b) serious pollution incidents was the only new performance commitment without a collar.⁷¹⁰

6.460 At its hearing, Southern further stated that:⁷¹¹

- (a) its evidence on the correlation between temperature and the number of incidents was evidence of the heightened risks on this performance commitment and the impact of exogenous factors on serious pollutions performance;⁷¹²
- (b) due to the nature of its region, specifically its high proportion of designated accepted water courses, pollution incidents were more likely to be categorised as serious than elsewhere across the country;⁷¹³

⁷⁰⁶ Ofwat (2025) [Serious pollution incidents](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp176–177.

⁷⁰⁷ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p180.

⁷⁰⁸ [Southern SoC](#), pp394–396, paragraphs 135–143.

⁷⁰⁹ [Southern SoC](#), p395, paragraph 137.

⁷¹⁰ [Southern SoC](#), p395, paragraph 140, and p396, paragraph 141.

⁷¹¹ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p9, line 14 to p95, line 16.

⁷¹² (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 11–13.

⁷¹³ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 13–16.

- (c) serious pollution incidents are under significant scrutiny from beyond Ofwat's ODIs framework, such as from the EA;⁷¹⁴ and
- (d) adding a collar would be consistent with other performance commitments' risk protections.⁷¹⁵

Ofwat

6.461 Ofwat submitted the following.⁷¹⁶

- (a) The exogenous factors raised by Southern could and should be mitigated by effective maintenance and screening, for example preparing for both dry summer conditions and prolonged wet conditions, and appropriate maintenance or operational interventions, such as responding to blockages caused by drier conditions and having sufficient storm tank capacity to handle the first rain after a prolonged dry spell. Companies should be proactive in responding to the impact of drier conditions. A collar may disincentivise such proactive actions.
- (b) Ofwat took a proportionate approach and chose to set a deadband instead of a collar.
- (c) Given the significant impact serious pollution incidents have on consumers and the environment, it would not be appropriate to introduce further risk protections that would weaken the incentive for companies to improve their performance in this area.

6.462 In Southern's hearing, Ofwat further stated that while the performance commitment was new, unlike the other new performance commitments, the relevant performance data had been collected by the EA for a long time.⁷¹⁷

Our assessment and provisional decisions

6.463 Serious pollution incidents have a significant impact on customers and the environment, and this is an area where recent sector performance has been poor. Our provisional decision is that a collar would weaken companies' financial incentives to perform, including to mitigate the impact of exogenous factors, like temperature, on performance.

6.464 Additionally, we note that:

⁷¹⁴ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p94, lines 14–22.

⁷¹⁵ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p94, lines 23–25.

⁷¹⁶ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.136–4.139.

⁷¹⁷ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 24–26 and p96, lines 1–11.

- (a) while applying financial incentives to serious pollution incidents performance was new at Ofwat's PR24 FD, the publication of serious pollution incidents performance data was not; and
- (b) the deadband of one incident provides risk protection to companies performing close to the PCL.

6.465 Therefore, our provisional decision is not to add a collar to serious pollution incidents.

Leakage

6.466 As set out in paragraph 6.298, Ofwat's PR24 FD defined the leakage performance commitment as the percentage reduction of three-year average system leakage in million litres per day (Ml/d) from the 2019/20 baseline.

Ofwat's approach in the PR24 FD

6.467 Ofwat's PR24 FD applied an enhanced ODI rate to leakage. Therefore, as per its general approach to enhanced ODI rates, it set a cap. It adopted a cap of 1% RoRE. Ofwat did not apply a collar or deadband because it said that leakage is a well-established performance commitment where there is more certainty in setting the PCL.⁷¹⁸

Parties' submissions

Southern

6.468 Southern submitted that:

- (a) leakage was the only performance commitment with a cap but not a collar, creating an asymmetrical incentive and risk exposure;⁷¹⁹
- (b) external factors influenced leakage performance, such as ageing infrastructure, ground movements and weather;⁷²⁰ and
- (c) there was no apparent rationale from Ofwat for the lack of a collar and it appeared arbitrary.⁷²¹

6.469 In its hearing Southern stated that:

⁷¹⁸ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p128.

⁷¹⁹ [Southern SoC](#), p382, paragraph 80; (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 4–17.

⁷²⁰ [Southern SoC](#), p407, paragraphs 190–191.

⁷²¹ [Southern SoC](#), p407, paragraph 191.

- (a) the ODI incentive rate for leakage increased significantly in PR24;⁷²²
- (b) ageing infrastructure was effectively an external factor in the context of the base and enhancement allowance Southern had been granted;⁷²³ and
- (c) a 0.5% RoRE collar would be consistent with collars on other performance commitments and reduce overall downward risk exposure.⁷²⁴

Ofwat

6.470 Ofwat submitted that:⁷²⁵

- (a) it did not set a collar for leakage, as it is a well-established performance commitment and performance is averaged over three years;
- (b) it set a cap to reflect the extra outperformance payment opportunities created by the enhanced ODI rate, in particular to protect customers from significant bill increases; and
- (c) based on company performance forecasts, Southern was expected to earn outperformance payments on leakage over 2025-30.

Our assessment and provisional decisions

- 6.471 Enhanced ODI rates are designed to incentivise further performance improvements from well-performing companies already achieving at least the PCL. The cap on reward payments protects customers from higher bills after a certain threshold of outperformance. Collars are designed to mitigate the downside risk from companies performing materially below the PCL. Enhanced ODI rates do not apply to underperformance and so they do not increase companies' risk exposure. Therefore, our provisional view is that it is not necessary for performance commitments with enhanced ODI rates to have a collar because enhanced ODI rates have no effect on companies' downside risk exposure.
- 6.472 We note that Southern identified certain exogenous factors as affecting performance. We consider that adding a collar would weaken companies' financial incentives to mitigate the impact of these factors on performance.
- 6.473 Southern identified ageing infrastructure as an exogenous factor. However, our provisional view is that ageing infrastructure is not an exogenous factor because the condition of companies' infrastructure is within their control to a significant extent. The objectives of the ODIs framework would be undermined if companies'

⁷²² (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 5–7.

⁷²³ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p98, lines 25–26 and p99, lines 1–24.

⁷²⁴ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 4–26 and p98, lines 1–5.

⁷²⁵ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.208–4.212.

past failures to maintain their assets were reflected in reductions in their incentives to perform in the future.

6.474 Therefore, our provisional decision is not to add a collar to leakage.

Discharge permit compliance

6.475 Ofwat's PR24 FD defined the discharge permit compliance performance commitment as the performance of wastewater treatment works and of water treatment works in line with their numeric discharge permit conditions (as defined by the EA), measured as the number of failing sites.⁷²⁶

Ofwat's PR24 FD approach

6.476 Ofwat set a deadband at 99% (ie no penalty would apply for up to 1% failure) for all WaSCs except for Hafren Dyfrdwy, albeit it nevertheless expected companies to achieve 100% compliance. It set a deadband at the equivalent of one treatment works failing against a compliance permit for WoCs and Hafren Dyfrdwy.⁷²⁷

Parties' submissions

Southern

6.477 Southern submitted that:

- (a) discharge permit compliance performance was affected by external factors beyond the company's control, such as 'Dry Weather Flow' limits and potential future EA changes in the definition of compliance, and which are not factored into the performance range used to calculate the ODI rate;⁷²⁸ and
- (b) relative to other companies, Southern was significantly and disproportionately exposed because of: (i) stricter permits; (ii) unique ecological factors; (iii) its individually more stringent phosphorous removal targets; (iv) sector-wide nitrogen removal targets; and (v) stricter nutrient neutrality requirements in protected environments.⁷²⁹

6.478 In its hearing Southern stated the following.

- (a) In AMP8, over 150 of its sites would receive new and stricter phosphorous and nitrogen permits creating risk for Southern's performance while it implemented schemes to achieve those new permitted levels. Southern had

⁷²⁶ Ofwat (2025) [Discharge permit compliance – PC definition](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p231.

⁷²⁷ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p235.

⁷²⁸ [Southern SoC](#), p382, paragraph 80, and pp407–408, paragraphs 196–198.

⁷²⁹ [Southern SoC](#), p408, paragraph 199.

the largest number of stricter permits across companies. Adding a collar would mitigate that elevated risk.⁷³⁰

- (b) The potential EA change to the definition of compliance, including dry weather flow limits, would substantially increase the risk on performance.⁷³¹

Ofwat

6.479 Ofwat submitted that:

- (a) the impact of the EA's potential future definition changes would be dealt with by Ofwat's change control process with the potential for relevant aspects of the performance commitment to be reset.⁷³²
- (b) while Southern had a large number of sites with new nitrogen and phosphorous removal requirements, it had been appropriately funded to meet these requirements, receiving 90% of the nitrogen funding and 106% of the phosphorous funding proposed in its business plan;⁷³³ and
- (c) the 1% deadband in the PR24 FD helped to limit the risk faced by companies.⁷³⁴

6.480 In Southern's hearing, Ofwat further stated that it aligned the discharge permit compliance PCL with companies' performance forecasts, including Southern's, and Southern was not predicted to incur penalty payments in Ofwat's net payments calculator.⁷³⁵

Our assessment and provisional decisions

6.481 While Southern will operate under additional requirements at PR24, it has been provided with funding for it to meet these. Adding a collar would weaken companies' financial incentives to use the funding related to permit requirements effectively to improve performance.

6.482 Additionally, we note that:

- (a) Ofwat's change control process provides a mechanism through which future relevant changes by the EA could be taken into account in the performance commitment's calibration; and

⁷³⁰ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p100, lines 12–26, p101, lines 1–26 and p102, lines 1–14.

⁷³¹ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p102, lines 7–10.

⁷³² Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.244–4.245.

⁷³³ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.246.

⁷³⁴ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.247.

⁷³⁵ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p103, lines 3–13.

- (b) Southern identified exogenous factors as affecting performance ('Dry Weather Flow' limits and potential future EA changes in the definition of compliance (see paragraph 6.477(a) above)). Adding a collar would weaken companies' financial incentives to mitigate the impact of these factors on performance.

6.483 Therefore, we provisionally decide not to add a collar to discharge permit compliance.

Requests to tighten an existing collar on water supply interruptions

6.484 In this sub-section we assess Southern's request to tighten the -1% RoRE common collar on water supply interruptions to -0.5% RoRE.⁷³⁶ As set out in paragraph 6.204, Ofwat's PR24 FD defined the water supply interruptions performance commitment as the average number of minutes of supply lost per customer for the whole customer base (for interruptions that lasted three hours or more).

6.485 South East's request to tighten its company-specific -2% RoRE collar is considered in our assessment of South East's request to change its water supply interruptions PCL above from paragraph 6.232.

Ofwat's PR24 FD approach

6.486 Ofwat set a -1% RoRE collar, equivalent to underperformance of approximately 20 minutes above the PCL at the PR24 FD ODI rate, for all companies except for South East. Its stated rationale was to maintain financial incentives on a sufficiently wide range of performance such that companies are incentivised to avoid incidents where customers are off supply for an extended period of time.⁷³⁷

6.487 Ofwat set an enhanced ODI rate for outperformance on water supply interruptions beyond a certain level above the PCL and therefore also a cap.⁷³⁸

Parties' submissions

Southern

6.488 Southern submitted that:⁷³⁹

- (a) the wider collar creates a more unbalanced risk and reward package; and

⁷³⁶ Southern SoC, p388, paragraph 109 and Table 5.

⁷³⁷ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p95.

⁷³⁸ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp93–94.

⁷³⁹ Southern SoC, p388, paragraph 109.

- (b) Ofwat's decision to use a wider collar than standard in response to the performance commitment's volatility does not consider the Guaranteed Standards Scheme (**GSS**).

6.489 At its hearing, Southern further submitted that:⁷⁴⁰

- (a) it faced multiple incentives to avoid water supply interruptions, including the costs of the operational response to interruptions; and
- (b) a -1% RoRE collar was punitive and should be brought into line with the collars on other performance commitments.

Ofwat

6.490 Ofwat submitted the following.⁷⁴¹

- (a) The GSS guaranteed minimum of standards of service, with companies required to pay affected customers when key standards are not met.
- (b) The GSS operated separately to Ofwat's PR24 FD ODI framework. It was not a mechanism for compensating customers because, in most cases, GSS payments did not reflect the full level of damage or harm experienced by the customers. In contrast, Ofwat's PR24 FD ODI framework aimed to incentivise companies to improve performance for all customers.

6.491 Ofwat further submitted the following.⁷⁴²

- (a) GSS and ODI payments had different bases of measurement: GSS payments applied to individuals directly affected by interruptions beyond certain thresholds, whereas the water supply interruptions performance commitment measured the average impact across both affected and unaffected customers.
- (b) GSS and the performance commitment sought to achieve different objectives. GSS payments intended to provide some direct relief to individual customers in the event of service failure; ODI payments sought to incentivise improved performance for all customers and the environment, including through outperformance payments.
- (c) The trigger point and amount of GSS payments for water supply interruptions differed depending on the specific circumstances of each interruption. As such, there may be circumstances when companies incurred ODI payments

⁷⁴⁰ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p108, lines 19–26 and p110, lines 1–18.

⁷⁴¹ Ofwat (2025) [Response to common issues on outcomes](#), pp16–17, paragraph 1.34.

⁷⁴² Ofwat response to Ofwat RFI12, Q2.

from a water supply interruption but not GSS payments (and vice versa), including the following.

- (i) A company was outperforming their performance commitment level but did not meet the GSS statutory minimum standards for individual customers. For example, four companies received ODI outperformance payments in 2023/24 with two making GSS payments and two not.
 - (ii) A company was underperforming their PCL but still met the GSS minimum standards for individual customers, for example for interruptions lasting between 185 minutes and 240 minutes.
- (d) In 2023/24 all companies which incurred ODI underperformance payments made GSS payments. The circumstances where both ODI and GSS payments may be incurred included where a company underperformed its PCL and, as part of that underperformance:
- (i) a customer was given less than 48 hours' notice of a planned supply interruption of over four hours;
 - (ii) a customer's supply was not restored by the time and date specified in a notice under section 60(3) of the Act following a planned interruption;
 - (iii) a customer's supply was not restored within 48 hours of the company first becoming aware of the supply being interrupted or cut off following an emergency from a leak or burst in a strategic main; and
 - (iv) a customer's supply was not restored within 12 hours of the company first becoming aware of the supply being interrupted or cut off following an emergency not from a leak or burst in a strategic main.
- (e) In 2023/24, before the GSS payment rates were increased, total underperformance payments across companies were over £50 million whereas GSS payments totalled £7.5 million.
- (f) Ofwat had requested data on companies' GSS payments for Ofwat's annual performance reporting since 2023/24.

Third parties

6.492 CCW, in its submission on South East's statement of case, submitted that GSS payments would further incentivise improvements in water supply interruptions performance.⁷⁴³

⁷⁴³ CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.15.

Our assessment and provisional conclusions

- 6.493 Ofwat's decision to apply a 1% RoRE collar at its PR24 FD was based both on:⁷⁴⁴
- (a) its view of the importance of providing effective financial incentives in relation to water supply interruptions; and
 - (b) the extent to which a lower penalty cap would narrow the performance range over which financial incentives would apply.
- 6.494 Ofwat noted that a 1% RoRE collar would be equivalent to around 20 minutes of underperformance.⁷⁴⁵ The 0.5% RoRE collar proposed by Southern would imply that figure was halved.⁷⁴⁶
- 6.495 Our provisional decision is that, given variations in companies' historic water supply interruptions performance, it is appropriate to apply a collar of 1% RoRE. Southern's requested 0.5% RoRE collar could significantly weaken incentives to avoid poor performance. We assessed the balance of risk and reward related to the water supply interruptions performance commitment at paragraphs 6.227 to 6.229 above and provisionally set an amended common PCL. Our provisional decision is that no further adjustments are required.
- 6.496 We also assessed whether Southern's submissions on the overlap of water supply interruptions with GSS payments made a 0.5% RoRE collar appropriate. We note that GSS payments do not overlap in all circumstances involving a water supply interruption and, even taking into account the recent increase in the size of GSS payments, quantitatively GSS payments are likely to be notably smaller than water supply interruptions ODI payments. Therefore, our provisional view is that the overlap with GSS payments does not make a 0.5% RoRE collar appropriate.
- 6.497 As such, our provisional decision is to apply a -1% RoRE collar for water supply interruptions.

Requests to tighten existing caps and collars for bathing water quality and storm overflows

- 6.498 In this sub-section we assess Southern's two requests to tighten an existing +/- 0.5% RoRE cap and collar to +/- 0.25% RoRE for bathing water quality and storm overflows.⁷⁴⁷

⁷⁴⁴ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.205.

⁷⁴⁵ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.205.

⁷⁴⁶ Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

⁷⁴⁷ [Southern SoC](#), p409, paragraph 205, and p400, paragraph 160.

Bathing water quality

6.499 Ofwat's PR24 FD introduced a common performance commitment for bathing water quality to recognise that the quality of bathing waters is important to customers and to hold companies accountable for past investment (and any further investment) in bathing water quality.⁷⁴⁸ It defined the bathing water quality performance commitment as a company's average score across its eligible bathing water sites, with 100% awarded for an excellent site classification, 66% for good, 33% for sufficient and 0% for poor.⁷⁴⁹

Ofwat's PR24 FD approach

6.500 Ofwat set a +/-0.5% RoRE cap and collar with no deadband for all companies, including Southern. It set a company-specific outperformance deadband for two companies identified as high-achieving, South West Water and Dŵr Cymru.⁷⁵⁰

Parties' submissions

Southern

6.501 Southern submitted that tightening the cap and collar for bathing water quality would remedy flaws in Ofwat's calibration of the performance commitment, specifically:⁷⁵¹

- (a) an inequality in RoRE risk allocation across WaSCs;
- (b) 74% of bathing water sites are located in four companies' areas (including Southern), yet these only represent 28% of wastewater customers, so it should not have been thought of as a common performance commitment;
- (c) misconnections, which are an exogenous factor beyond management's control;⁷⁵² and
- (d) the lack of a base allowance adjustment for coastal effects.

6.502 Southern further submitted that:⁷⁵³

⁷⁴⁸ Ofwat (2022) [PR24 Draft Methodology: Appendix 6 – Performance commitments](#), p51.

⁷⁴⁹ Ofwat (2025) [Performance commitment definition - Bathing water quality](#); Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp140–141.

⁷⁵⁰ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp143–145.

⁷⁵¹ [Southern SoC](#), pp408–409, paragraph 202.

⁷⁵² (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p110, lines 24–26 and p111, line 1. Misconnections are where a property is improperly connected to sewerage services (see, for example, Water UK [Plumbing and drainage misconnections](#) (accessed 18 September 2025)).

⁷⁵³ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p110, lines 17–26 and p111, lines 1–4.

- (a) it did not consider Ofwat's adjustments to companies' individual PCLs to account sufficiently for companies' differing numbers of bathing water sites;
- (b) a number of exogenous factors, including the weather, affected its performance; and
- (c) as it was a new performance commitment which only impacted a limited number of companies, a smaller collar was more justifiable than for other performance commitments.

Ofwat

6.503 Ofwat submitted that it did not consider there to be compelling evidence to justify tightening the cap and collar. In particular, Ofwat submitted the following.⁷⁵⁴

- (a) It set a +/-0.5% RoRE cap and collar because bathing water quality was a new performance commitment at PR24.
- (b) It set company-specific performance commitment levels based on bottom-up, site-by-site assessments of historical performance and allowed enhancement expenditure. Companies were expected to maintain historical performance and achieve improvements from funded improvement schemes. Ofwat's PR24 FD adjusted Southern's PCL to reflect site-specific forecasts, including for site deterioration.
- (c) Southern had previously received significant funding to improve its coastal bathing waters, in particular £31.5 million at PR14 and £20.6 million at PR19 for improving bathing water quality.
- (d) Ofwat rejected Southern's coastal population CAC because Southern had failed to evidence it sufficiently.
- (e) Ofwat's PR24 methodology was clear that the outcomes it specified related to companies' functions and so they have significant control over these.
- (f) Companies can mitigate the effects of external factors, including through working with developers. Ofwat did not consider it appropriate to make exemptions for one-off, short-term events such as developer misconnections.
- (g) Tightening the cap and collar would significantly weaken companies' incentives, which would not be in the interests of customers or the environment.

⁷⁵⁴ Ofwat (2025) [Response to Southern SoC](#), pp86–88, paragraphs 4.227–4.237.

Our assessment and provisional decisions

- 6.504 We have assessed whether Southern provided sufficient evidence to justify tightening the +/- 0.5% RoRE cap and collar. In our provisional view a +/- 0.25% cap and collar would represent a significant weakening of companies' absolute incentives because ODI payments would only be incurred over a narrow band of performance and would reduce companies' relative incentives on that performance commitment. Companies' relative incentives would reduce as their maximum loss and reward would be smaller than for other performance commitments.
- 6.505 Southern's principal submission is that Ofwat failed to sufficiently take into account its number of bathing water sites relative to other companies when calibrating the performance commitment. However, Ofwat told us that it had factored this into its setting of the PCL, as well as relevant funding and its impact on improved performance.
- 6.506 We note that Ofwat recognised some of Southern's other submissions, such as the impact of the exogenous factor of misconnections and the performance commitment being new, in its rationale for setting a +/- 0.5% RoRE cap and collar. Our provisional view is that Southern did not provide sufficient evidence as to why the +/-0.5% RoRE cap and collar did not sufficiently reflect these concerns and why reducing companies' financial incentives related to bathing water quality would be in the interests of customers and the environment.
- 6.507 Therefore, in our provisional view, the +/- 0.5% RoRE cap and collar provides sufficient risk protection to companies.
- 6.508 As such, our provisional decision is to apply a +/-0.5% RoRE cap and collar to bathing water quality.

Storm overflows

- 6.509 As described above at paragraphs 6.133 and 6.136, the storm overflows performance commitment measured the average number of spills from a company's sewerage system per storm overflow.

Ofwat's approach in the PR24 FD

- 6.510 Ofwat set a +/- 0.5% RoRE cap and collar to the storm overflows performance commitment.⁷⁵⁵

⁷⁵⁵ Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p175.

Parties' submissions

Southern

6.511 Southern submitted the following.⁷⁵⁶

- (a) Its performance was affected by factors outside of its control, as it is highly dependent on the weather. Its correlation analysis shows a strong positive relationship between rainfall and storm overflows.
- (b) Given the PCL set at Ofwat's PR24 FD, under the PR24 FD cap it would be unable to achieve the maximum reward payments later in PR24. Tightening the cap and collar would balance the performance commitment's risk profile.

6.512 At its hearing, Southern stated that caps and collars were more about the volatility of a metric and that, because it was a new performance commitment, storm overflows had very limited data. While Southern had received enhancement funding to improve its average performance, the cap and collar needed to reflect the potential volatility of performance, including the uncertainty of how much weather would impact its performance.⁷⁵⁷

Ofwat

6.513 Ofwat submitted the following.⁷⁵⁸

- (a) It set a +/-0.5% RoRE cap and collar because storm overflows was a new performance commitment and to reflect the uncertainty around the range of possible future performance outcomes.⁷⁵⁹
- (b) On the risk from exogenous factors like rainfall, it set the PCL based on an average rainfall year. Its risk modelling indicated a 10th percentile of -0.31% RoRE from storm overflows, which Ofwat considered to be aligned with Southern's risk assessment, and therefore Ofwat did not consider that Southern had not provided compelling evidence to tighten the collar.
- (c) Storm overflows was a performance commitment of significant importance to customers and the environment and tightening the cap and collar would weaken companies' incentives to improve performance.

⁷⁵⁶ [Southern SoC](#), pp399–400, paragraphs 156–160.

⁷⁵⁷ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p111, lines 10–17.

⁷⁵⁸ Ofwat (2025) [Response to Southern SoC](#), pp73–75, paragraphs 4.174–4.185.

⁷⁵⁹ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.174.

Our assessment and provisional decisions

- 6.514 We have taken the same approach to assessing Southern's request on storm overflows as for bathing water quality, outlined above from paragraph 6.504.
- 6.515 As set out in paragraph 6.131, there has been significant public concern for several years about sewage discharge as a result of storm overflows and the UK government has made clear it expects water companies to significantly reduce the frequency and volume of such discharges.⁷⁶⁰ Reflecting the priority attached to tackling this issue, Ofwat's PR24 FD allowed for around £12 billion of enhancement funding for improvements to storm overflows,⁷⁶¹ with Southern allowed £1.06 billion.⁷⁶²
- 6.516 Southern's principal submission was that, despite this funding, storm overflows performance over PR24 could be very volatile due to the impact of exogenous factors like rainfall. We note that in its PR24 FD Ofwat's rationale for setting a +/- 0.5% RoRE cap and collar recognised some of Southern's submissions, including the impact of weather, and the uncertainty over companies' performance.
- 6.517 Our provisional view is that Southern did not provide sufficient evidence as to why Ofwat's PR24 FD cap and collar did not sufficiently reflect these concerns. Nor why reducing companies' incentives, particularly on a critically important performance commitment, would be justified.
- 6.518 Our provisional view is that a +/- 0.5% RoRE cap and collar provides sufficient risk protection to companies. Our provisional decision is to apply a +/-0.5% RoRE cap and collar to storm overflows.

Request to widen an existing deadband cap and add a collar to the compliance risk index performance commitment

- 6.519 In this sub-section we assess Southern's request to widen the deadband on compliance risk index and add a -0.5% RoRE collar.
- 6.520 Ofwat's PR24 FD definition for the compliance risk index performance commitment matched the DWI's Compliance Risk Index score, which measures the sum of the individual compliance risk index scores for every treated water compliance failure reported by a company in a year.⁷⁶³

⁷⁶⁰ Secretary of State (2022) [Government's strategic priorities for Ofwat](#); and see Defra (2023) [Storm overflows discharge reduction plan](#).

⁷⁶¹ Ofwat (2025) [PR24 final determinations: Sector Summary](#), p14.

⁷⁶² Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p 128, Table 18.

⁷⁶³ Ofwat (2025) [Compliance risk index](#); Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p226.

Ofwat's PR24 FD approach

6.521 Ofwat's PR24 FD set a deadband which started at each company's PR19 deadband (either -1.50 or -1.83) and then tightened over PR24 to a common deadband of 1.0 in 2029/30.⁷⁶⁴ Southern's deadband started at -1.83.⁷⁶⁵ This is illustrated by Table 6.23 below.

Table 6.23: Compliance risk index deadband thresholds at Ofwat's PR24 FD and under Southern's request (CRI performance scores)

	2025/26	2026/27	2027/28	2028/29	2029/30
Ofwat's PR24 FD (Southern)	-1.83	-1.67	-1.50	--1.25	--1.00
Southern's request	-3.33	-3.23	-3.02	--2.62	--2.00

Source: Ofwat (2025) [PR24 final determination: PR24 ODI Rates – Payments calculator](#), tab: PostDeadband_Performance, cells C9:Q25; [Southern SoC](#), p390, Table 6.

6.522 Ofwat's PR24 FD did not set a collar for compliance risk index.⁷⁶⁶

Parties' submissions

Southern

6.523 Southern requested that the deadband be widened to -3.33 and then tighten over PR24 to end at -2.00, as set out in Table 6.23 above.⁷⁶⁷ Southern submitted that:⁷⁶⁸

- (a) widening the deadband was essential to allow it to invest in improving its performance over PR24 in the context of it having a significantly larger number of its assets under DWI investigation notices than all other companies;
- (b) these notices meant its compliance risk index score was inflated through the assessment score multiplier; and
- (c) the notices were expected to last for the full duration of PR24 and have agreed completion dates with the DWI in 2030.

6.524 In its hearing, Southern stated that:⁷⁶⁹

⁷⁶⁴ Under Ofwat's PR24 FD deadband, companies with a 2025-26 deadband of -1.83 had a 2026-27 deadband of -1.67, while those companies with a 2025-26 deadband of -1.50 had a 2026-27 deadband of -1.50. Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp229–230.

⁷⁶⁵ [Southern SoC](#), p390, Table 6.

⁷⁶⁶ Ofwat (2025) [Response to Southern SoC](#), paragraph 4.224.

⁷⁶⁷ [Southern SoC](#), p389, paragraph 115 and p390, Table 6.

⁷⁶⁸ [Southern SoC](#), p389, paragraphs 112–115.

⁷⁶⁹ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p106, lines 22–26 and p108, lines 1–20.

- (a) it forecast its compliance risk index performance to improve over PR24 due to the effect of the improvement works Southern was implementing in response to the DWI notices and which Ofwat had funded;
- (b) the work required in relation to these notices was extensive and not due to be finished before 2030. Therefore, Southern did not expect the most significant notices on its large sites to be remedied until 2030.

6.525 Regarding adding a collar, Southern submitted that:⁷⁷⁰

- (a) as compliance risk index was a compliance-related performance commitment, there was no possibility for outperformance with only penalty payments possible; and
- (b) the lack of a collar may have exposed Southern to additional downside risk outside of management control.

6.526 In its hearing Southern further submitted regarding its request for a collar that its concerns about the downside risk created by large scale water incidents, as described above regarding water quality contacts at paragraphs 6.501–6.502, were also relevant here.⁷⁷¹

Ofwat

6.527 Regarding the deadband, Ofwat submitted the following.⁷⁷²

- (a) It set a deadband at its PR24 FD because compliance risk index was a risk-based compliance measure which could be impacted by the internal pipework and fittings at customer properties, for which companies were not legally responsible. It worked with the DWI to set the deadband to represent a realistic level of performance that could be impacted by this exogenous factor.
- (b) A single additional failure beyond the deadband's level could have resulted in a material risk to water quality.
- (c) Southern's request did not meet its PR24 FD criteria for assessing changes to deadbands of (a) whether the change would reduce net negative ODI payments based on operational reality and (b) whether there was a low risk of materially weakening the incentives.

⁷⁷⁰ Southern SoC, p390, paragraph 117.

⁷⁷¹ (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p106, lines 5–16.

⁷⁷² Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.217–4.218 and paragraphs 4.220–4.223.

- (d) It expected companies to be responsible for mitigating and managing the effects of factors outside their control.
- (e) The number of assets under DWI investigation was a factor Southern should have taken reasonable steps to mitigate and Southern should not be provided relief from underperformance payments from its failure to do so.

6.528 Regarding Southern's request to add a collar, Ofwat submitted that:⁷⁷³

- (a) it did not set a collar at its PR24 FD because this was a well-established performance commitment and it related to companies meeting their statutory compliance obligations;
- (b) a collar would lower companies' incentives to meet their statutory compliance obligations;
- (c) it was important companies were sufficiently incentivised to perform well on this performance commitment as it was the only one directly related to the quality of drinking water; and
- (d) the existing deadband provided sufficient risk protection.

Third parties

6.529 In response to a CMA RFI, the DWI told us the following.⁷⁷⁴

- (a) Ofwat consulted the DWI over the PR24 process about the compliance risk index performance commitment. The DWI proposed, and Ofwat accepted, any deadband being common for all companies and a deadband of one, to reflect that zero risk was unrealistic and unachievable.⁷⁷⁵
- (b) As the DWI's legal instruments (ie notices, undertakings and enforcement orders) were used to reflect previous failings, it would be inappropriate to not apply the same deadband to a company with legal instruments in place, as to a company with no or few legal instruments.
- (c) All its legal instruments were written with measurable steps and a required completion date fully defined. Instruments ended by companies submitting a completion report which the DWI reviewed to check all requirements were met and the required benefits realised. If this was not the case, the DWI may have served a new legal instrument on the company.

⁷⁷³ Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.224 and 4.226.

⁷⁷⁴ DWI response to DWI RFI02.

⁷⁷⁵ In addition, see DWI (2025) [Third party submission on the Water PR24 References](#), p9.

- (d) A company could deliver its obligations and submit a completion report earlier than a legal instrument's required completion date. The DWI told us this was unusual but occurred from time to time.
- (e) The DWI had served numerous instruments to Southern and a lot of them were long term.

Our assessment and provisional decisions

- 6.530 Our provisional assessment is that Southern's requests to introduce a collar and deadband to the compliance risk index performance commitment would have undesirable incentive effects in the following two ways.
- (a) It would reduce Southern's incentives to improve its performance with respect to compliance with standards on the quality of drinking water it provides to its customers.
 - (b) Applying more lenient ODI arrangements to reflect DWI legal instruments risks weakening incentives for companies to maintain appropriate levels of water quality compliance over time. That is, there is a risk that an expectation that being served DWI legal instruments could result in a company facing less stringent ODI provisions in the next price control period may weaken companies' incentives in relation to this area of performance.
- 6.531 Therefore, our provisional decision is that it is not appropriate to introduce the additional risk protections Southern requested. As such, our provisional decision is to apply a deadband of 1 and not to add a collar.