

# WATER PR24 REFERENCES

## Final Determinations Volume 3: Outcomes – Chapter 6

10 March 2026

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The Competition and Markets Authority has excluded from this published version of the final determinations 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.

## Contents

6. Outcomes .....	7
Introduction.....	7
Price Control Deliverables (PCDs) .....	12
Ofwat’s PR24 FD approach.....	13
Our approach to assessing Disputing Company requests related to PCDs .....	14
PCDs applied to enhancement expenditure allowances .....	19
PCDs applied to base expenditure allowances .....	26
Non-delivery PCDs and negative expected returns.....	34
Time Incentive (TI) PCDs .....	40
The scope for PCDs to be adjusted within the AMP.....	45
PCDs and overlapping penalties .....	51
PCDs and administrative and regulatory burdens .....	54
Consequential updates to PCDs .....	56
Outcome Delivery Incentives (ODIs) .....	58
Ofwat’s PR24 FD approach.....	59
Our approach to addressing submissions related to ODIs .....	60
Performance Commitment Levels (PCLs).....	61
ODI rates.....	153
Individual risk protections.....	183

## Tables

Table 6.1 : CMA final determinations on requested revisions to PCDs and ODIs compared to Ofwat PR24 FD.....	11
Table 6.2 : Base and enhancement expenditure areas subject to PCDs in Ofwat’s PR24 FD .....	13
Table 6.3 : Mains renewals PCD requirements for the Disputing Companies funded from base cost allowances .....	31
Table 6.4 : Southern’s requested storm overflow PCLs in its statement of case and the impact of Ofwat’s adjustments .....	65
Table 6.5 : Southern’s approach to taking uptime into account in its storm overflow forecasts (2025/26).....	66
Table 6.6 : Southern’s requested PCLs for storm overflows.....	67
Table 6.7 : Ofwat’s approach to taking uptime into account in its storm overflow forecasts (2025/26) .....	68
Table 6.8 : Decision on PCLs to be applied to Anglian for external sewer flooding (incidents per 10,000 sewer connections).....	82
Table 6.9 : Anglian and Southern requested PCLs for total pollution incidents compared to Ofwat’s PR24 FD (incidents per 10,000km of sewers) .....	91
Table 6.10 : Decision on common PCLs for total pollution incidents (number of incidents per 10,000km of sewers) .....	94

Table 6.11 : Anglian and Southern requested PCLs for water supply interruptions compared to Ofwat’s PR24 FD (minutes lost per customer – mm:ss) .....	100
Table 6.12 : Decision on common PCLs for water supply interruptions (minutes lost per customer – mm:ss) .....	103
Table 6.13 : South East’s proposed PCLs for water supply interruptions (minutes lost per customer – mm:ss) .....	114
Table 6.14 : Decision on South East PCLs for water supply interruptions compared to common PCL (minutes lost per customer – mm:ss) .....	128
Table 6.15 : Ofwat PR24 FD Leakage PCL for Anglian and South East (percentage reduction of three-year average leakage from the 2019/20 baseline).....	132
Table 6.16 : Decision on Anglian and South East’s PCLs for leakage (percentage reduction in 3-year average from 2019/20 baseline).....	135
Table 6.17 : Decision on Anglian and South East’s enhanced ODI thresholds for leakage (percentage reduction in 3-year average from 2019/20 baseline).....	136
Table 6.18 : South East analysis – UKSCI data for the south east vs nationally .....	138
Table 6.19 : Application of Ofwat’s PR24 FD methodology to years 2020/21 to 2024/25	139
Table 6.20 : Comparison of the all-sector and water-sector averages 2020/21 to 2024/25 .....	146
Table 6.21 : Storm overflows FD ODI rates .....	157
Table 6.22 : CMA decision on Storm overflows ODI rates .....	161
Table 6.23 : Total pollution incidents PR24 FD ODI rates, £m per the total number of pollution incidents per 10,000km of sewer length .....	162
Table 6.24 : Total pollution incidents unit rate compared to PR24 FD and PR19 unit rates .....	169
Table 6.25 : Disputing Companies’ total pollution incidents ODI rates under the CMA approach, £ million per the total number of pollution incidents per 10,000km of sewer length .....	171
Table 6.26 : Water supply interruptions PR24 FD ODI rates .....	172
Table 6.27 : Comparison of implied ODI unit rates .....	175
Table 6.28 : CMA redetermined water supply interruptions ODI rates.....	176
Table 6.29 : CMA decision on C-Mex and D-Mex ODI rates.....	183
Table 6.30 : Summary of Ofwat’s PR24 collars and deadbands on individual risk protections .....	184
Table 6.31 : Compliance risk index deadband thresholds at Ofwat’s PR24 FD and under Southern’s request (CRI performance scores).....	206

## Figures

Figure 6.1 : Ofwat’s PR24 FD PCDs.....	8
Figure 6.2 : Ofwat’s PR24 FD financial performance commitments.....	9
Figure 6.3 : Ofwat’s PR24 FD common performance commitments .....	60
Figure 6.4 : Ofwat’s PR24 FD PCLs set at a common and company-specific level .....	62
Figure 6.5 : Percentage of high spilling storm overflows due to operational and maintenance issues based on EA EDM returns 2024.....	69

Figure 6.6 : External sewer flooding – 2024/25 baseline performance levels used to set the Ofwat PR24 FD PCLs .....	75
Figure 6.7 : External sewer flooding performance over the 2020-24 period.....	78
Figure 6.8 : Number of pumping stations per 10,000 km of sewer by company (black line represents median).....	85
Figure 6.9 : Number of sewage treatment works per 10,000 km of sewer by company (black line represents median).....	86
Figure 6.10 : South East water supply interruption performance since 2015/16 compared to sector median .....	108
Figure 6.11 : South East estimates of its P50 level of water supply interruptions in AMP8 .....	112
Figure 6.12 : South East expected improvement from proposed resilience schemes over AMP8 .....	113
Figure 6.13 : South East alternative PCL proposals in its response to CMA PR24 PD ...	115
Figure 6.14 : UKCSI scores and Southern’s forecast .....	140
Figure 6.15 Net rewards/penalties (%RoRE) based on 2025/26 first quarter data .....	141
Figure 6.16 : South East’s performance against its PCL: PR19 ODI on non-household voids .....	152
Figure 6.17 : Ofwat’s PR24 FD proxy historic PCL compared to Southern’s requested proxy .....	158
Figure 6.18 : CMA performance target, 2014/15 to 2024/25.....	168

## 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.<sup>1</sup> 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).<sup>2</sup> 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.<sup>3</sup> Ofwat's PR24 FD applied non-delivery PCDs to 80% of enhancement expenditure allowances and to 8% of base expenditure allowances,<sup>4</sup> and applied TI PCDs to 40% of enhancement expenditure and 6% of base expenditure.<sup>5</sup> Ofwat's PR24 FD PCD arrangements are summarised in Figure 6.1 and described further in paragraphs 6.11 to 6.136.13 below.

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

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

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

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

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

**Figure 6.1: Ofwat’s PR24 FD PCDs**

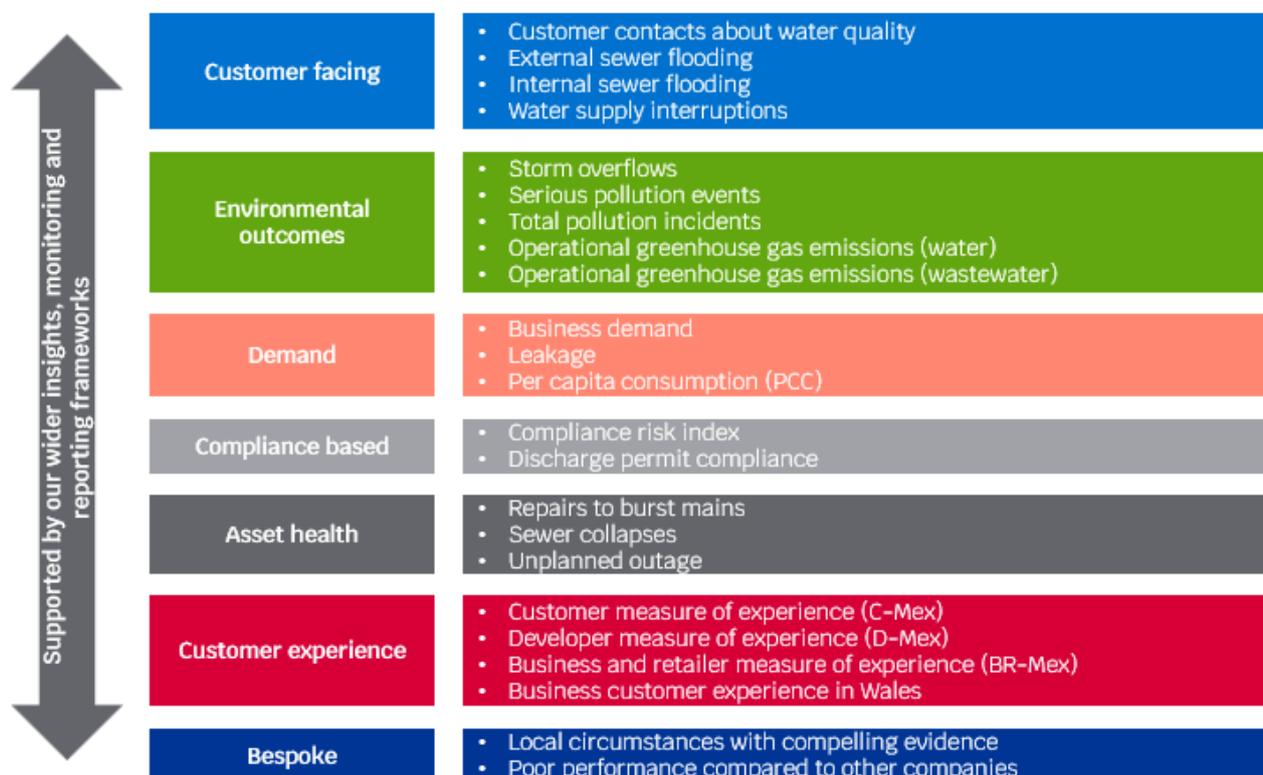
Two incentive types:	Non-delivery PCDs	Time incentives PCDs
Incentive structure	One-way incentive	Two-way incentive
Financial consequence	Claw-back	Late delivery penalty / On-time delivery reward
Timing of delivery	Target set by 31 March 2030	Target set by 31 March of each year of AMP
Coverage	80% of 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).** In its PR24 FD, 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).<sup>6</sup> 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).

<sup>6</sup> 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.<sup>7</sup> 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).<sup>8</sup>
- (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.<sup>9</sup> At PR24, Ofwat sought to

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

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

<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup>

- (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.<sup>12</sup>

- 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 decisions. Similarly, we have also considered CCW's request in relation to Customer measure of experience (**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.
- 6.7 We note that the Defra White Paper finds that water companies are currently subject to an incentive framework which has become increasingly complex. While this framework has led to improved outcomes in some cases, it has also contributed to additional regulatory complexity and increased the volatility of investor returns. The Defra White Paper outlines a plan to instruct the new regulator for the water sector to rationalise the incentive framework so that it is simpler, more predictable, and is not duplicative. The Defra White Paper anticipates that the new approach will provide better clarity for companies and investors, reduce complexity and volatility in returns, and encourage steady, long-term investment.<sup>13</sup>
- 6.8 We have focused our assessment on the Disputing Companies' specific requests with regards to PCDs and performance commitments and CCW's request in relation to C-MeX – ie we have considered individual requests and elements of the

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<sup>10</sup> Ofwat (2022) [PR24 Final Methodology](#), p58.

<sup>11</sup> Ofwat (2022) [PR24 Final Methodology](#), p58.

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

<sup>13</sup> Defra (2026) [A New Vision for Water \(Defra White Paper\)](#), p26.

Outcomes framework ‘at source’ – in this chapter. Each component of the Outcomes framework then feeds into the overall balance of risk, which we cover in chapter 8 (Risk and Return).

6.9 In total, the Disputing Companies submitted 41 requests in their statements of case 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 partially accepted six, and fully accepted two of the requests we received. That is, we have largely upheld Ofwat’s PR24 FD Outcomes framework, and the protections for customers and the environment that it entails. Our decisions are summarised in Table 6.1 below. As set out in chapter 8 (Risk and return) paragraph 8.140(b), we conclude that the ODI regime gives rise to a RoRE downside of less than -0.2%.

**Table 6.1: CMA final determinations on requested revisions to PCDs and ODIs compared to Ofwat PR24 FD**

<b>Category</b>	<b>Performance commitment</b>	<b>CMA decision compared to Ofwat PR24 FD</b>
PCDs applied to enhancement costs	Metering	No change
	Lead	No change
PCDs applied to base costs	Mains renewal	No change
	Network reinforcement	No change
Non-delivery PCD clawback arrangements		No change, with the benefit of Ofwat’s Updated November 2025 PCDs Guidance
Time incentive PCDs		No change
Adjustments to PCDs during AMP		No change, with the benefit of Ofwat’s Updated November 2025 PCDs Guidance
PCDs and overlapping penalties		No change
PCDs and administrative and regulatory burdens		No change
ODI PCLs	Storm overflow PCL	No change
	External sewer flooding	Anglian company-specific PCL baseline set closer to the industry median and using the latest outturn data, converging to Ofwat’s forecast median level of performance for companies for 2032/33
	Total pollution incidents	No change except to apply the latest outturn data for all Disputing Companies
	Water supply interruptions	Baseline level for common PCL set according to industry median (ie higher) and using latest outturn

<b>Category</b>	<b>Performance commitment</b>	<b>CMA decision compared to Ofwat PR24 FD</b>
ODI rates	C-MeX Leakage	data, with glidepath to 5 minutes in year 5; apply the enhanced ODI rate thresholds as per Ofwat's PR24 FD For South East: higher company-specific PCL based on South East's Ofwat PR24 DD response, with a glidepath to the common PCL in year 5; a common penalty collar of 1% RoRE; and a deadband for performance between the company-specific and common PCL No change
	Non-household voids (PR19 penalty)	No change
	Storm overflows	For Anglian and South East: 2024/25 baseline reset to align with closing position at the end of AMP7 (ie apply the latest outturn data); glidepath to the 2029/30 PCL as per Ofwat's PR24 FD; apply enhanced ODI rate thresholds as per Table 6.17
	Total pollution incidents	No change except to apply the latest outturn data
	Water supply interruptions	Calculation of performance range changed and apply latest outturn data, resulting in lower ODI rates for all Disputing Companies than in Ofwat's PR24 FD
Individual risk protections	Experience measures (C-MeX, D-MeX and BR-MeX)	No change except to apply the latest outturn data
	Caps, collars and deadbands	No change

Source: CMA analysis

- 6.10 We have 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)

- 6.11 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 6.4(a)).<sup>14</sup> 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.

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

## Ofwat's PR24 FD approach

6.12 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).<sup>15</sup> Ofwat's PR24 FD applied non-delivery PCDs to 80% of enhancement expenditure allowances and to 8% of base expenditure allowances.<sup>16</sup> 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.<sup>17</sup>
- (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.<sup>18</sup> Ofwat's PR24 FD applied TI PCDs to 40% of enhancement expenditure and 6% of base expenditure.<sup>19</sup> 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.<sup>20</sup>

6.13 Ofwat's PR24 FD included PCD reporting and assurance requirements through which progress against deliverables would be monitored.<sup>21</sup>

6.14 Table 6.2 shows the PCDs that were included in Ofwat's PR24 FD.<sup>22</sup>

**Table 6.2: 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

<sup>15</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

<sup>16</sup> Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

<sup>17</sup> Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 28.

<sup>18</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306 and p314.

<sup>19</sup> Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

<sup>20</sup> Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 28.

<sup>21</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp10–13.

<sup>22</sup> 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.

	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 IED
Wastewater enhancement – Other PCDs	Climate change resilience uplift (water and wastewater) Northumbrian Water – Climate Change Resilience Southern Water – Infiltration First time sewerage

Source: Ofwat PR24 FD 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.

## Our approach to assessing Disputing Company requests related to PCDs

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

6.15 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.<sup>23</sup> In the Outcomes hearing, Northumbrian stated on behalf of the Disputing Companies that:<sup>24</sup>

‘... 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.’

- 6.16 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;<sup>25</sup>
  - (b) Northumbrian considered that the introduction of PCDs and the inflexibility in the regime exacerbated existing asset risk management challenges;<sup>26</sup>
  - (c) South East stated that Ofwat’s approach was overly prescriptive, reduced flexibility and undermined companies’ ability to make efficient decisions;<sup>27</sup>
  - (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,<sup>28</sup> which created significant delivery risk for companies;<sup>29</sup> and
  - (e) Wessex said that the design of the PCD framework materially restricted companies’ flexibility to deliver customer outcomes in the most efficient way.<sup>30</sup>
- 6.17 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

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<sup>23</sup> (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.

<sup>24</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p6, lines 2–6.

<sup>25</sup> [Anglian SoC](#), paragraph 626.

<sup>26</sup> [Northumbrian SoC](#), paragraph 26; Northumbrian (2025) [Response to other Disputing Companies’ SoCs](#), pp16–17.

<sup>27</sup> South East (2025) [Response to other Disputing Companies’ SoCs](#), paragraph 2.17.

<sup>28</sup> [Southern SoC](#), p332, paragraph 39.

<sup>29</sup> [Southern SoC](#), p333, paragraph 47.

<sup>30</sup> [Wessex SoC](#), p8, Table 1.

Ofwat's PR24 FD,<sup>31</sup> and the KPMG report quantified estimates of this risk.<sup>32</sup> We consider these quantified estimates in chapter 8 (Risk and Return).

- 6.18 Southern was concerned that Ofwat's PR24 FD moved away from an 'outcome-based approach' to 'output-based deliverables'<sup>33</sup> and prevented companies from embracing innovative solutions.<sup>34</sup> 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 framework.<sup>35</sup> 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.<sup>36</sup> Southern proposed amendments to the framework it considered would be workable in operation and proportionate to the objective it sought to deliver.<sup>37</sup> 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.<sup>38</sup>

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

- 6.19 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.<sup>39</sup>
  - (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.<sup>40</sup>
  - (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

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<sup>31</sup> For example: , paragraphs 596–605; [Northumbrian SoC](#), paragraph 407; [Southern SoC](#), p68, paragraphs 61–75; [Wessex SoC](#), paragraph 1.42.

<sup>32</sup> KPMG (2025) PR24 Final Determinations – risk analysis for a notional company.

<sup>33</sup> [Southern SoC](#), p349, paragraph 96.

<sup>34</sup> [Southern SoC](#), p350, paragraph 107; [Southern SoC](#), p332, paragraph 38.

<sup>35</sup> [Southern SoC](#), p360, paragraph 145; Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 73.

<sup>36</sup> [Southern SoC](#), p360, paragraph 146.

<sup>37</sup> [Southern SoC](#), p359, paragraph 144.

<sup>38</sup> South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 2.19.

<sup>39</sup> Blueprint for Water (2025) [Third party submission on the Water PR24 References](#), p2.

<sup>40</sup> Citizens Advice (2025) [Third party submission on the Water PR24 References](#), paragraphs 25–28.

and challenge delivery. CCW supported some flexibility to prioritise investments where they are most needed.<sup>41</sup> CCW submitted that any adjustments to PCDs must be subject to robust demonstration that they will benefit customers.<sup>42</sup>

- (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.<sup>43</sup>
- (e) The Thames Investor Group submitted that the PCDs in Ofwat's PR24 FD exacerbate downside risk.<sup>44</sup> Thames Investor Group's advisers, Compass Lexecon, submitted the PCD framework removes capacity for flexibility and innovation in delivering good outcomes for customers, due to its highly prescriptive nature (compared with the ODI framework). Further, that it adds another layer of regulation to an already complex system.<sup>45</sup> Compass Lexecon submitted that the CMA should strongly consider removing major elements of the framework or at the very least consider how it should be modified given the nature of the investment challenge awaiting.<sup>46</sup>
- (f) Thames Water supported the principles of PCDs<sup>47</sup> and 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.<sup>48</sup> 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.<sup>49</sup>
- (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)

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<sup>41</sup> CCW (2025) [Third party submission on the Water PR24 References – Anglian](#), paragraphs 3.12–3.13.

<sup>42</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.12.

<sup>43</sup> Global Infrastructure Investor Association (2025) [Third party submission on the Water PR24 References](#), p3.

<sup>44</sup> 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](#), p8, paragraph 23.

<sup>45</sup> Thames Investor Group (2025) [Third party submission on the Water PR24 References](#), Annex 4: Compass Lexecon (2025) [Third-party submission on behalf of Investor Group](#), p90, paragraph 5.153.

<sup>46</sup> Thames Investor Group (2025) [Third party submission on the Water PR24 References](#), Annex 4: Compass Lexecon (2025) [Third-party submission on behalf of Investor Group](#), p92, paragraph 5.165.

<sup>47</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 177.

<sup>48</sup> Thames Water (2025) [Third party submission on the Water PR24 References](#), paragraphs 16(iv) and 51.

<sup>49</sup> Thames Water (2025) [Third party submission on the Water PR24 References](#), paragraphs 44–45 and 51–53.

rather than the outcomes that customers or the environment require (eg an improved environmental outcome).<sup>50</sup>

### **Our approach to assessing Disputing Company requests related to PCDs**

- 6.20 We note the broader comments on Ofwat's PR24 FD PCDs framework outlined above. However, for the purposes of these redeterminations the Disputing Companies requested that we focus on resolving issues 'at source'.<sup>51</sup> <sup>52</sup> 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.<sup>53</sup>
- 6.21 We note that the IWC identified a 'need to ensure that allowances provided for capital maintenance are used by companies to maintain assets'.<sup>54</sup> The IWC 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 this need.<sup>55</sup> 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.<sup>56</sup>
- 6.22 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' per the Disputing Companies' request and in light of the objectives of the PCD framework.<sup>57</sup> We have considered specific changes Southern proposed within its alternative framework as part of our assessment of whether to amend any PCD arrangements.
- 6.23 We have organised our consideration of submissions related to PCDs under the following headings:

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

<sup>51</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 19–22.

<sup>52</sup> 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 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.

<sup>53</sup> 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.

<sup>54</sup> The Defra White Paper stated that the new regulator will implement a series of changes to the price control process to ensure sufficient funding is allocated to maintaining and improving asset resilience. This includes funding being directed appropriately to maintain assets by clearly defining and ringfencing capital maintenance expenditure so it can only be spent on maintaining assets. [Defra White Paper](#), p38.

<sup>55</sup> [IWC Final Report](#), p205, Recommendation 19 and paragraph 455.

<sup>56</sup> [IWC Final Report](#), paragraphs 965–966 and 972–976, and pp409–410, Recommendation 78.

<sup>57</sup> [CMA PR24 Approach document](#), paragraph 74.

- (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;
- (f) the risk of PCDs giving rise to overlapping penalties;
- (g) the scope for the PCD arrangements to result in unnecessary administrative and regulatory burdens; and
- (h) consequential updates to PCDs following our decisions in chapters 4 (base costs) and 5 (enhancement costs).

### **PCDs applied to enhancement expenditure allowances**

6.24 Disputing Companies requested changes to PCDs in two enhancement areas.<sup>58</sup>

- (a) Metering: Anglian requested a change to how its metering PCD is specified.<sup>59</sup>
- (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.<sup>60</sup>

6.25 We have decided to retain the approach to metering and lead PCDs in Ofwat's PR24 FD, for the reasons set out below.

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<sup>58</sup> 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.

<sup>59</sup> [Anglian SoC](#), p159, paragraph 594.

<sup>60</sup> [Northumbrian SoC](#), paragraph 522; [Anglian SoC](#), paragraph 595.

## Metering

### *Ofwat's PR24 FD approach*

- 6.26 Ofwat's PR24 FD provided allowances of over £1.7 billion for companies to deliver smart meters,<sup>61</sup> 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.<sup>62</sup> 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.<sup>63</sup> For meter upgrades, the numbers of upgrades to meters to be provided for household and non-household premises are specified separately.<sup>64</sup> Ofwat's PR24 FD applied both non-delivery and TI PCDs to metering.<sup>65</sup>

### *Parties' submissions*

#### **Anglian**

- 6.27 In its statement of case, 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.<sup>66</sup> Anglian proposed that the PCD be simplified to count meters installed (ie without distinguishing between household and non-household premises).<sup>67</sup>

#### **Ofwat**

- 6.28 In response to Anglian's statement of case, 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.<sup>68</sup> Ofwat said that some stakeholders had expressed concerns that companies could prioritise the delivery of household meters over non-household meters.<sup>69</sup> 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

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<sup>61</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p152.

<sup>62</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p157.

<sup>63</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p158.

<sup>64</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p158.

<sup>65</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp157–161.

<sup>66</sup> [Anglian SoC](#), paragraph 594.

<sup>67</sup> [Anglian SoC](#), paragraph 594; Southern noted that it agreed with Anglian's request, see Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 72.

<sup>68</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117; and Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p4.

<sup>69</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117.

water demand reduction) that customers were paying for, it decided to split the number of meter upgrades in the PCD by meter type.<sup>70</sup>

- 6.29 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’.<sup>71</sup> 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.<sup>72</sup>

### **Third parties**

#### *CCW*

- 6.30 In its response to the CMA PR24 PD, CCW supported rejecting Anglian’s request to simplifying the smart metering PCD to a single count. It said that keeping the household vs non-household split would preserve transparency. CCW noted that it wants to ensure that smart metering is rolled out to business customers at the same rate as household customers. Merging the measure would make it easier for companies to install smart meters at households only as they tend to be easier to meter.<sup>73</sup>

#### *Our assessment and decisions*

- 6.31 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 meter upgrades that are delivered over the originally specified level.<sup>74</sup> Some flexibility in the other direction is also permitted, although Ofwat’s PR24 FD put a limit on that flexibility of 25% of the number of non-household meter upgrades.<sup>75</sup> 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.<sup>76</sup>
- 6.32 Anglian’s statement of case did not refer to the significant flexibility already provided for under Ofwat’s PR24 FD and did not specify why that should be considered insufficient. Anglian’s statement of case also did not refer to the

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<sup>70</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.117.

<sup>71</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.118.

<sup>72</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.118.

<sup>73</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 4.4.

<sup>74</sup> Ofwat’s PR24 FD describes this flexibility in [Ofwat PR24 FD Price Control Deliverables Appendix](#), p151.

<sup>75</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p151.

<sup>76</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p151.

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.<sup>77</sup>

- 6.33 Given the above considerations, our decision is that we should not adjust the metering PCD in response to Anglian's request.

## **Lead**

### *Ofwat's PR24 FD approach*

- 6.34 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.<sup>78</sup>
- (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.
- 6.35 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 that had been funded under each category.<sup>79</sup> A timing incentive was not applied to this PCD.<sup>80</sup>

### *Parties' submissions*

## **Disputing Companies**

### *Northumbrian*

- 6.36 In its statement of case, Northumbrian requested that two changes be made to its lead PCDs, to do the following.<sup>81</sup>

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<sup>77</sup> (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p45, lines 13–26 and p46, line 1.

<sup>78</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p168.

<sup>79</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p168.

<sup>80</sup> The lead PCD is set out in [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp168–169.

<sup>81</sup> [Northumbrian SoC](#), paragraph 522.

- (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*

6.37 In its statement of case, Anglian did not request a change to its lead PCDs,<sup>82</sup> 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.<sup>83</sup> Anglian submitted that this could lead to prioritisation of meeting the target rather than delivering the most optimal health outcomes.<sup>84</sup>

### **Ofwat**

6.38 In response to the statements of case, Ofwat submitted that the main purpose of the PCD was to protect customers from non-delivery or under-delivery.<sup>85</sup> It said that customers were providing funding at different unit cost rates for companies to deliver different lead pipe replacement activities.<sup>86</sup> 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. As a result, Ofwat's PR24 FD did not allow for substitution between lead pipes based on their replacement types.<sup>87</sup>

6.39 Ofwat said that PCDs are a protection mechanism rather than a tool to incentivise the delivery of more outputs than were funded.<sup>88</sup> Ofwat said it had set allowances

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<sup>82</sup> We note that a change to this PCD is not included in the requests set out in [Anglian SoC](#), paragraphs 627 and 628.

<sup>83</sup> [Anglian SoC](#), paragraph 595.

<sup>84</sup> [Anglian SoC](#), paragraph 595.

<sup>85</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

<sup>86</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

<sup>87</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

<sup>88</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

that provide sufficient funding for companies to trial approaches to reduce exposure of customers to lead from drinking water.<sup>89</sup> 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.<sup>90</sup>

- 6.40 With respect to Anglian’s submissions, Ofwat considered that holding companies to the number of lead pipes replaced provides a transparent measure.<sup>91</sup> 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.<sup>92</sup> 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.<sup>93</sup> It said that customers have paid for lead pipe replacements, which provide a long-term solution.<sup>94</sup> Ofwat said that the non-delivery PCD would track delivery by the end of the control period rather than on an annual basis.<sup>95</sup>

### **Third parties**

#### *CCW*

- 6.41 In its response to the CMA PR24 PD, CCW supported rejecting broader substitution on the lead replacement PCD to avoid ‘cherry-picking’ financially favourable categories of lead pipe in the delivery of this programme.<sup>96</sup>

#### *Our assessment and decisions*

- 6.42 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.<sup>97</sup> While we 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 the following points.

- (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

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<sup>89</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

<sup>90</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.124.

<sup>91</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.125.

<sup>92</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.125.

<sup>93</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.126.

<sup>94</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.126.

<sup>95</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.127.

<sup>96</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 4.8.

<sup>97</sup> (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p 44, lines 12–14 and 26, and p45, lines 1–4.

more lead replacement than some other companies.<sup>98</sup> Ofwat submitted that this should leave Northumbrian able to make a reasonable judgement about how much it needs to do going forward.<sup>99</sup>

- (b) The levels of lead pipe replacement in Northumbrian's lead PCD were based on its own business plan forecasts.<sup>100</sup>
- (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.
- (e) In line with Ofwat's comments about the purpose of the PCD,<sup>101</sup> 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.

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

6.44 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.<sup>102</sup> 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

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<sup>98</sup> (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p46, lines 2–6.

<sup>99</sup> (Non-confidential) transcript of the hearing for Northumbrian on 4 July 2025, p48, lines 4–9.

<sup>100</sup> Ofwat (2024) [PR24 final determinations: Lead enhancement expenditure model](#), Tab 'PCD calculations'.

<sup>101</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.123.

<sup>102</sup> Ofwat agreed that if a compelling case for higher levels of lead pipe replacement emerged before the end of AMP8, it could be considered as part of PR29. Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p4.

supported ahead of the next price control, if that provided benefits overall for customers.<sup>103</sup>

### **PCDs applied to base expenditure allowances**

6.45 Disputing Companies requested the following changes to PCDs applied to base expenditure allowances:<sup>104</sup>

- (a) Southern and Wessex requested that base PCDs 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.

6.46 We have decided to retain the approach to mains renewals and network reinforcement PCDs in Ofwat's PR24 FD, for the reasons set out below.

### **Ofwat's PR24 FD approach**

6.47 Ofwat's PR24 FD applied base PCDs to all companies in relation to mains renewals and network reinforcement.<sup>105</sup>

#### *Mains renewals PCD*

6.48 The mains renewals PCD identified the required rate of mains renewals as per the following categories.<sup>106</sup>

- (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 assessment of the historical sector average of the mains renewals rate, 0.3% per year.<sup>107</sup>
- (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

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<sup>103</sup> Ofwat (2023) [Accelerated infrastructure delivery project: final decisions](#).

<sup>104</sup> South East's statement of case made comments in relation to base expenditure PCDs ([South East SoC](#), p36, paragraph 4.14(c) and p40, paragraph 4.30), but made no specific requests in relation to these PCDs. South East's submissions in response to the CMA PR24 PD are summarised in paragraph 6.53 below.

<sup>105</sup> Ofwat applied some other base PCDs to specific companies but none of these apply to the Disputing Companies. See [Ofwat PR24 FD Price Control Deliverables Appendix](#), section 3.

<sup>106</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp17–18.

<sup>107</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

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 requirement of 0.13% per year.<sup>108</sup>

- (c) Enhancement leakage and water quality renewals:<sup>109</sup> 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.<sup>110</sup> The other Disputing Companies did not receive enhancement allowances that resulted in this additional requirement.<sup>111</sup>

- 6.49 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').<sup>112</sup> Ofwat's PR24 FD applied both non-delivery and TI PCDs to mains renewals.<sup>113</sup>

#### *Network reinforcement PCD*

- 6.50 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.<sup>114</sup> 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.<sup>115</sup> Under Ofwat's PR24 FD, companies are required to invest at least the amounts set out in the PCD over the 2025/26 to 2029/30 period.<sup>116</sup> Ofwat's PR24 FD only applied non-delivery PCDs to network reinforcement (ie TI PCDs were not applied).<sup>117</sup>

### **Parties' submissions**

#### *Disputing Companies*

- 6.51 In their statements of case, Southern and Wessex requested that base PCDs applied to mains renewals and to network reinforcement be set only in relation to

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<sup>108</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

<sup>109</sup> 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.

<sup>110</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

<sup>111</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

<sup>112</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p20.

<sup>113</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp23–27.

<sup>114</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p35.

<sup>115</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p35.

<sup>116</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p36.

<sup>117</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp36–39.

uplifts to base expenditure allowances, that is, allowances over and above modelled base costs.<sup>118</sup>

- (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.<sup>119</sup> Southern said that ring-fencing removed the flexibility companies needed to redirect expenditure most effectively to deliver outcomes and benefits.<sup>120</sup>
- (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.<sup>121</sup> 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.<sup>122</sup>

6.52 In their statements of case, Anglian and Northumbrian requested that the mains renewal PCD be amended so that it does not refer to condition grades.<sup>123</sup>

- (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.<sup>124</sup> 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.<sup>125</sup> At the Outcomes hearing, Anglian said that the existing third-party assurance requirements under the PCD arrangements could provide confidence that companies were applying such criteria in an appropriate manner.<sup>126</sup>
- (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.<sup>127</sup> Northumbrian said that the pipe condition grades as defined by Ofwat did not necessarily reflect the

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<sup>118</sup> [Southern SoC](#), pp361–362; [Wessex SoC](#), paragraph 8.57(d).

<sup>119</sup> [Southern SoC](#), p39, section 5.1.

<sup>120</sup> [Southern SoC](#), p39, section 5.1.

<sup>121</sup> [Wessex SoC](#), paragraph 8.40(a).

<sup>122</sup> [Wessex SoC](#), paragraph 8.40(b).

<sup>123</sup> [Anglian SoC](#), paragraph 593; [Northumbrian SoC](#), paragraph 516.

<sup>124</sup> [Anglian SoC](#), paragraph 592; and see [Anglian \(2025\) Response to CMA PR24 PD](#), paragraph 281.

<sup>125</sup> [Anglian SoC](#), paragraph 593.

<sup>126</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p34, lines 17–24.

<sup>127</sup> [Northumbrian SoC](#), paragraph 509.

actual condition of the mains and failure risk.<sup>128</sup> 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.<sup>129</sup> 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.<sup>130</sup> 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.<sup>131</sup>

- 6.53 In its response to the CMA PR24 PD, South East requested that we make two 'straightforward' changes to:
- (a) remove annual targets for mains renewals and instead set a total PCD for the end of the AMP for mains renewal; and
  - (b) allow a reasonable degree of movement (which it suggested could be 25%) between mains renewal categories.<sup>132</sup>
- 6.54 South East submitted that these changes would allow it to optimise its programme over time while ensuring that the full programme would be delivered. It said that this approach would be in the best interests of customers.<sup>133</sup>

#### *Ofwat*

- 6.55 In its response to the statements of case, 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.<sup>134</sup>
- 6.56 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.<sup>135</sup> Ofwat submitted that condition grade 4 and 5 mains are, by definition, those with the

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<sup>128</sup> [Northumbrian SoC](#), paragraph 510.

<sup>129</sup> [Northumbrian SoC](#), paragraph 510.

<sup>130</sup> [Northumbrian SoC](#), paragraph 514.

<sup>131</sup> [Northumbrian SoC](#), paragraph 512.

<sup>132</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 3.200.

<sup>133</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 3.201.

<sup>134</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.250; and Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p5.

<sup>135</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.252.

highest burst rates.<sup>136</sup> 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 be expected to move between condition grades.<sup>137</sup> 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.<sup>138</sup>

- 6.57 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.<sup>139</sup>

### *Third parties*

#### **CCW**

- 6.58 In its response to the CMA PR24 PD, CCW supported keeping the grade 4/5 requirement for the uplifted part of mains renewal. This would help ensure companies need to prioritise the highest-risk mains, not the cheapest to renew.<sup>140</sup>

#### **Thames Water**

- 6.59 In its response to the CMA PR24 PD, Thames Water submitted that PCDs should not be applied to base expenditure because this removes the flexibility, granted in previous price controls, for companies to deliver outcomes in the most efficient way.<sup>141</sup>

### **Our assessment and decisions**

- 6.60 We consider the following issues in turn below:
- (a) requests to change the scope of base PCDs;
  - (b) requests to remove requirements related to condition grade and
  - (c) South East's requests in its response to the CMA PR24 PD.

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<sup>136</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.254.

<sup>137</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

<sup>138</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

<sup>139</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.262; and Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p6.

<sup>140</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.13.

<sup>141</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 186.

6.61 With respect to Thames Water’s submission, we note that constraining the flexibility that companies had been granted in previous price controls to defer some base activities (including, in particular, mains renewals) is a key intended impact of the introduction of base PCDs. We do not consider this to provide a rationale for not applying such PCDs, but rather to reflect the way in which they allow companies to be held to account.

*Requests to change the scope of base PCDs*

6.62 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 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,<sup>142</sup> and (b) impact the levels of service provided to customers over time.

6.63 Our decision on the level of mains renewals funded through base cost allowances in AMP8 is set out in chapter 4 (Base costs). Our decision is to retain Ofwat’s PR24 FD approach, ie the mains renewals PCD should include the level of mains renewals funded through base cost allowances in addition to the uplifts referred to in paragraph 6.48 and shown in Table 6.3.

**Table 6.3: Mains renewals PCD requirements for the Disputing Companies funded from base cost allowances<sup>143</sup>**

	<i>Required renewal rate (per year, %)</i>		
	Funded by modelled base costs allowance	Funded by uplift to base costs allowance	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*

6.64 Ofwat said that PCDs should be designed so that companies are not incentivised to deliver the cheapest mains renewals that delivered the least amount of benefit

<sup>142</sup> For example, Ofwat (2025) [Response to expenditure allowances - addressing asset health](#), paragraphs 3.26–3.29; and [Northumbrian SoC](#), paragraph 153.

<sup>143</sup> This table shows mains renewals PCD requirements funded by base cost allowances. As set out in paragraph 6.48, 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.

to customers and the environment.<sup>144</sup> Our view is that it is important for the mains renewals PCD to include some protection against this risk.

- 6.65 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 they identify as having 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 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 is assessed within the sector,<sup>145</sup> our 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.
- 6.66 We note the concerns raised by Anglian and Northumbrian in their statements of case about the potential for the condition grade requirements in the PCDs to constrain mains renewal activity in inefficient ways. However, our view is that Ofwat’s PR24 FD approach to specifying the mains renewals PCD took appropriate account of this risk, including by:
- (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);<sup>146</sup> 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.<sup>147</sup>

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<sup>144</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.262.

<sup>145</sup> We consider submissions related to asset health in chapter 4 (Base costs).

<sup>146</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

<sup>147</sup> CMA calculations based on Ofwat (2025) [Response to common issues on expenditure allowances](#), p67, Table 7.

6.67 Anglian said in its response to the CMA PR24 PD that the scope for updating referred to in (a) above had not been apparent from Ofwat's PR24 FD. Anglian requested that Ofwat communicate this clarification to the sector.<sup>148</sup> Ofwat confirmed that the PCD does not hold companies to account for the mains cohorts identified in PR24 business plan submissions and that specific lengths of pipes can be expected to move in between condition grades. Ofwat also said that if the scope for this updating flexibility was unclear then it would provide a revision to the wording in its PR24 FD Price Control Deliverables Appendix.<sup>149</sup> In our view, it would be helpful for Ofwat to make this update given the potential significance of this flexibility to the effective operation of the mains renewals PCD.

6.68 Given the above, our decision is to retain Ofwat's PR24 FD approach, ie to include requirements based on condition grade in the mains renewals PCD.

*South East's requests in its response to the CMA PR24 PD*

6.69 We note that South East's request for the removal of annual targets for mains renewals concerns the use of TI PCDs (as non-delivery PCDs are applied on the basis of overall delivery levels in AMP8). Our assessment of TI PCDs is set out in paragraphs 6.98 to 6.115 below and considers the potential implications of annual targets for the efficient delivery of required outputs. As set out in paragraph 6.115, our decision is to retain the TI PCDs that were specified in Ofwat's PR24 FD.

6.70 With respect to South East's request for flexibility in terms of the different mains renewals PCD categories that were specified in Ofwat's PR24 FD:

- (a) Our assessment of the constraints related to condition grades and the uplift to mains renewals rate requirements was set out in paragraphs 6.64 to 6.68 above, where we found that these requirements are appropriate and that Ofwat's PR24 FD approach appropriately addressed the risks Disputing Companies identified.
- (b) As was noted in paragraph 6.48(c), a portion of South East's mains renewals rate PCD requirement relates to enhancement funding. Our view is that it would be undesirable to provide flexibility of the kind requested by South East, as that would raise the risk that customers may not receive the enhancement benefits which underpinned the additional mains replacement funding allowed in Ofwat's PR24 FD.

6.71 Our decision is to retain the mains renewals PCD categories and delivery requirements that were specified in Ofwat's PR24 FD.

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<sup>148</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 506.

<sup>149</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 2.261.

## Non-delivery PCDs and negative expected returns

- 6.72 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.<sup>150</sup> Non-delivery PCDs apply to material investments which are not protected by a gated process.<sup>151</sup>
- 6.73 In its statement of case, Southern requested changes to non-delivery PCDs, in particular to provide clarity to when clawbacks would apply.
- 6.74 In the CMA PD, we expressed concerns that the non-delivery PCD arrangements in Ofwat's PR24 FD could leave regulatory discretion that could have material adverse consequences for customers.<sup>152</sup> Our provisional decision was 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.<sup>153</sup>
- 6.75 Ofwat published written guidance on its approach to applying non-delivery PCD clawbacks in November 2025 and re-published it in February 2026 (**Updated November 2025 PCD Guidance**).<sup>154</sup> Our view is that this guidance appropriately addresses the issues identified in the CMA PR24 PD (see paragraphs 6.92 to 6.96 below). Our decision is to adopt Ofwat's PR24 FD approach to non-delivery PCDs, with the benefit of the Updated November 2025 PCD Guidance, for the reasons set out below.

### Ofwat's PR24 FD approach

- 6.76 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.<sup>155</sup> Ofwat's PR24 FD said that companies would be allowed to request a waiver on the application of PCD clawback where the company was on track to deliver the benefit within a few months from the start of PR29.<sup>156</sup>

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<sup>150</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

<sup>151</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p308.

<sup>152</sup> CMA (2025) [Water PR24 References Provisional Determinations Volume 3: Outcomes – Chapter 6 \(CMA PR24 PD Volume 3\)](#), p31, paragraph 6.68.

<sup>153</sup> [CMA PR24 PD Volume 3](#), p31, paragraph 6.69.

<sup>154</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\) \(Updated November 2025 PCDs Guidance\)](#), section 2.1.

<sup>155</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

<sup>156</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p313.

## Parties' submissions

### *Disputing Companies*

- 6.77 In its statement of case, 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.<sup>157</sup> 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.<sup>158</sup> Southern submitted that it was not clear how Ofwat would disapply clawbacks due to material regulatory discretion.<sup>159</sup>
- 6.78 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.<sup>160</sup> 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.<sup>161</sup> Southern submitted that a company would have no certainty that Ofwat would make any allowance at all.<sup>162</sup>
- 6.79 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.<sup>163</sup>
- 6.80 Southern also requested that where a company has incurred costs in respect of an output subject to a non-delivery PCD which is subsequently cancelled, any non-delivery payment due would be reduced to the amount of the unspent allowance where costs can be demonstrated to have been efficiently incurred.<sup>164</sup>
- 6.81 The KPMG risk modelling report, which three of the Disputing Companies (Anglian, South East and Southern) submitted with their statements of case, 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.<sup>165</sup> The Disputing

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<sup>157</sup> [Southern SoC](#), p332, paragraph 41.

<sup>158</sup> [Southern SoC](#), p333, paragraph 45.

<sup>159</sup> [Southern SoC](#), p75, paragraph 102.

<sup>160</sup> [Southern SoC](#), p333, paragraph 45.

<sup>161</sup> [Southern SoC](#), p333, paragraph 45.

<sup>162</sup> [Southern SoC](#), p333, paragraph 45.

<sup>163</sup> [Southern SoC](#), p360, paragraph 147.

<sup>164</sup> [Southern SoC](#), p361, paragraph 147; and Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.27.

<sup>165</sup> For example, KPMG (2025) PR24 Final Determinations – risk analysis for a notional company; and [Southern SoC](#), p341, Table 1.

Companies requested an uplift to the allowed return on equity to offset expected negative RoRE impacts arising under the price control arrangements.<sup>166</sup>

- 6.82 In its response to the CMA PR24 PD, Southern said that it was supportive of the need for clear guidance from Ofwat with respect to the application of the non-delivery PCD mechanism.<sup>167</sup>

### *Ofwat*

- 6.83 In response to the statements of case, Ofwat said:<sup>168</sup>

‘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.’

- 6.84 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.<sup>169</sup>

- 6.85 Ofwat said that in order to not discourage companies from stopping investments where they are not in the customers’ interest, the PCD framework allows companies to retain 6% of their expenditure allowance, to cover development costs, where it demonstrates that under-delivery was due to an investment no longer being required (in the short term and long-term) and where there were material benefits to customers from stopping the investment.<sup>170</sup> Ofwat said that the 6% allowance should cover for development costs, including feasibility studies and detail design work. Further, Ofwat said that it would expect an efficient company to make the ‘go’ or ‘no go’ investment decision no later than at the ‘detail design work’ stage of the project and before starting any construction work.<sup>171</sup>

- 6.86 At its presentation to the CMA following its response to the statements of case, Ofwat noted concerns with respect to how the PCD arrangements will operate.<sup>172</sup>

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<sup>166</sup> For example, [Anglian SoC](#), paragraph 628.

<sup>167</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.24.

<sup>168</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.20.

<sup>169</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.22.

<sup>170</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.15.

<sup>171</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.15.

<sup>172</sup> Ofwat (2025) Transcript of the Ofwat Initial Presentation on 8 May 2025, p47, lines 15–24.

Ofwat consulted on its approach to applying non-delivery PCD clawbacks in September 2025,<sup>173</sup> and – as set out in paragraphs 6.90 to 6.91 below – published guidance on its approach in November 2025 (and re-published this in February 2026).

### *Third parties*

#### **CCW**

- 6.87 In its response to the CMA PR24 PD, CCW submitted that where external or uncontrollable events cause delay, there should be allowance mechanisms or appeals for PCDs. However, it said this should be based on a high evidence bar and subject to transparency and consultation before changes are applied.<sup>174</sup>

#### **Thames Investor Group**

- 6.88 In its response to the CMA PR24 PD, Thames Investor Group’s advisers, Compass Lexecon, submitted that the CMA should remove non-delivery PCDs completely, predominantly because they may actually defer investment but also because they are unnecessary.<sup>175</sup>

#### **Thames Water**

- 6.89 In its response to the CMA PR24 PD, Thames Water said that it was in broad agreement with the CMA’s concerns regarding PCDs, and with the provisional decision to await the outcome of Ofwat’s consultation on PCD guidance.<sup>176</sup> Thames Water said that it broadly supported the changes proposed by Ofwat in its consultation, but recommended that, if costs are clawed back and re-awarded at the next price review, there should be an option for cost allowances to be reassessed as part of that, as market conditions may have changed since the PR24 review.<sup>177</sup>

#### **Ofwat’s Updated November 2025 PCD Guidance**

- 6.90 Ofwat’s Updated November 2025 PCD Guidance states that:<sup>178</sup>
- (a) Where a company does not deliver an output by the end of AMP8 and the company is not planning to deliver this output in the following period, Ofwat will apply a non-delivery PCD clawback to the funding for this output. Ofwat

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<sup>173</sup> Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.1.

<sup>174</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.14.

<sup>175</sup> Thames Investor Group (2025) Response to CMA PR24 PD - Annex 1, paragraph 4.63.

<sup>176</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 8(iii).

<sup>177</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraphs 180 - 183.

<sup>178</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#).

said it did not consider this will lead to underfunding as the company would not be delivering the output in the current or following price review period.<sup>179</sup>

- (b) Where a company does not deliver PCD outputs by 31 March 2030, but is required to or will deliver the outputs in the next price review period (2030-35) Ofwat will:<sup>180</sup>
- (i) not apply a non-delivery PCD clawback at the end of the 2025-30 period where a company has spent at least 60% of the allowed expenditure within the relevant PCD. The non-delivery PCD clawback would be applied at the end of the 2030-35 period if the PCD outputs are not delivered.
  - (ii) apply a non-delivery PCD clawback at the end of the 2025-30 period where a company has spent less than 60% of the allowed expenditure within the relevant PCD. If there is still a need for the investment, it will provide the same level of funding at PR29, adjusted in line with the relevant RPE it applied in its PR24 FD to ensure allowances are set at the level that companies would have received had they delivered the work in AMP8.

6.91 The guidance states that for both of the scenarios under (b) above, Ofwat will apply late delivery penalties in the form of a time incentive PCD so that companies are no better off by delivering late.<sup>181</sup> Ofwat said it did not expect the flexibility on non-delivery PCDs under (b) above to be used for high-frequency PCDs (such as mains renewals and metering),<sup>182</sup> and the guidance sets out to which PCDs the flexibility under (b) above would and would not apply.<sup>183</sup>

### **Our assessment and decisions**

6.92 We considered that the non-delivery PCD arrangements – as described in Ofwat’s PR24 FD<sup>184</sup> and in Ofwat’s Response<sup>185</sup> (but before the issuance of Ofwat’s Updated November 2025 PCD Guidance) – left 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.

6.93 Our view is that arrangements that leave regulatory discretion of this kind could have material adverse consequences for customers. This would include through

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<sup>179</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.1.4, p13.

<sup>180</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.1.4, p13.

<sup>181</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.1.4, p13.

<sup>182</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.1.4, p14.

<sup>183</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), Appendix A3.

<sup>184</sup> Ofwat (2025) [PR24 Final Determinations: Expenditure allowances](#), pp311–314.

<sup>185</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraphs 7.20–7.22.

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 generating undesirable incentives for delay. For example, uncertainty over how clawback arrangements would be applied has the potential to exacerbate, rather than improve, risks of delay.

- 6.94 We consider 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. In our view, clear guidance on how the PCD non-delivery clawback arrangements will be applied is the most appropriate way for this risk to be addressed.
- 6.95 We consider that Ofwat's Updated November 2025 PCD Guidance (see paragraphs 6.90 to 6.91 above) adequately addresses the risks described in paragraphs 6.92 to 6.94 (ie that the regulatory discretion afforded to Ofwat could act as a deterrent to investment for companies and have material adverse consequences for customers). In particular, we note that under Ofwat's guidance – where a company has not delivered required outputs by the end of AMP8 but is still required to or plans to deliver those outputs, then:
- (a) The purpose of using clawback when it is applied would be to limit the scope for potential financing benefits to accrue when delivery (and associated expenditure) is materially later than had been assumed in the setting of PR24 funding allowances.
  - (b) Even where clawback is applied, its effect on overall funding levels would be offset through the provision of equivalent funding (after relevant RPE adjustments) in AMP9 allowances.
  - (c) PCD timing incentives would be otherwise used to address concerns of the potential benefits of delay.
- 6.96 As set out in paragraph 6.80, Southern also requested we reduce the level of clawback for projects that have been cancelled and where a company could demonstrate that it had efficiently incurred costs in relation to the cancelled project. The level of clawback would be reduced to reflect that expenditure. In our view, the PCD arrangements in Ofwat's PR24 FD already include an appropriate means of addressing the risk that companies may efficiently incur some costs in relation to a project that is subsequently cancelled. As noted in paragraph 6.85, the PCD framework allows companies to retain 6% of their expenditure allowance to cover development costs, where they demonstrate that under-delivery was due to an investment no longer being required (in the short term and long-term) and where there were material benefits to customers from stopping the investment. In

our view, this is a reasonable and proportionate means of addressing the scope for companies to incur such costs.

6.97 Given the above, our decision is to retain Ofwat's PR24 FD approach to non-delivery PCDs, with the benefit of the Updated November 2025 PCD Guidance.

### **Time Incentive (TI) PCDs**

6.98 As described above (in paragraph 6.12(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.<sup>186</sup>

6.99 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;<sup>187</sup> and
- (b) Southern asked for the removal of all TI PCDs applied to within-AMP milestones and instead proposed the application of late delivery time incentive penalties where it failed to provide PCD outputs by a corresponding delivery date set by a relevant quality regulator (eg the EA or DWI).<sup>188</sup>

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

### **Ofwat's PR24 FD approach**

6.101 Ofwat's approach to setting TI PCDs in PR24 was as follows.<sup>189</sup>

- (a) A cumulative delivery target was set for 31 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.<sup>190</sup>
- (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.<sup>191</sup>

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<sup>186</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

<sup>187</sup> [Anglian SoC](#), paragraph 584.

<sup>188</sup> [Southern SoC](#), p361, paragraph 148; Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.29.

<sup>189</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), pp306–311.

<sup>190</sup> 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.

<sup>191</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p310.

- (d) Ofwat said that PR19 evidence suggested that on-time delivery was three times more likely than late delivery.<sup>192</sup> 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 approximately £22 billion of expenditure within the whole PR24 FD (approximately 40% of enhancement and 6% of base expenditure),<sup>193</sup> and applied to selected expenditure areas: water supply, supply and resilience interconnectors, metering, mains renewals, storm overflows and phosphorus removal.<sup>194</sup>

## Parties' submissions

### *Disputing Companies*

6.102 In their statements of case, 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.<sup>195</sup>
- (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.<sup>196</sup>
- (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.<sup>197</sup>
- (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 projects, which is not representative of the significantly more complex AMP8 capital programme. KPMG analysis showed an expected loss

<sup>192</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p310.

<sup>193</sup> Ofwat (2025) Teach-in slides: Risk and return – risk sharing mechanisms, slide 27.

<sup>194</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), p15.

<sup>195</sup> [Anglian SoC](#), paragraph 579.

<sup>196</sup> [Anglian SoC](#), paragraph 580; [Southern SoC](#), p326, paragraph 2.

<sup>197</sup> [Anglian SoC](#), paragraph 580; South East (2025) [Response to other Disputing Companies' SoCs](#), paragraph 2.19(a).

on time incentive PCDs for the notional company of 8 basis points of RoRE.<sup>198</sup>

- 6.103 Anglian requested the removal of annual time limits and time incentives across all PCDs.<sup>199</sup>
- 6.104 Southern requested that the outperformance rate be set equal to two thirds of the underperformance rate (instead of one third as in the Ofwat PR24 FD).<sup>200</sup> In its response to the CMA PR24 PD, Southern also requested the removal of all TI PCDs applied to within-AMP milestones and instead proposed the application of late delivery time incentive penalties where it failed to provide PCD outputs by a corresponding delivery date set by a relevant quality regulator.<sup>201</sup>

### *Ofwat*

- 6.105 In response to the statements of case, 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.<sup>202</sup>
  - (b) Companies will break even if they deliver 75% of outputs on time: this provides flexibility to manage delivery risks.<sup>203</sup>
  - (c) In areas where the pool of projects is smaller (such as water supply, supply interconnectors and resilience interconnectors), the Ofwat PR24 FD allows a one-year grace period before late delivery penalties start to apply, which provides additional headroom.<sup>204</sup>
  - (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.<sup>205</sup>
  - (e) Water related TI PCDs were set in line with company business plan delivery profiles.<sup>206</sup> 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

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<sup>198</sup> [Southern SoC](#), paragraphs 73–75; and [Anglian SoC](#), paragraph 581.

<sup>199</sup> [Anglian SoC](#), paragraph 584.

<sup>200</sup> [Southern SoC](#), p361, paragraph 148.

<sup>201</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.29.

<sup>202</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.56.

<sup>203</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.56.

<sup>204</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.57.

<sup>205</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.58.

<sup>206</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.61.

should incentivise spreading delivery more evenly across the period and reduce supply chain risks.<sup>207</sup>

- (f) Severn Trent presented a significantly backloaded profile which Ofwat challenged, but announced to investors in March 2025 that it is forecasting to outperform TI PCD targets and gain up to £50 million in on-time delivery rewards.<sup>208</sup>

6.106 With respect to its use of PR19 evidence to calibrate TI 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.<sup>209</sup>
- (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).<sup>210</sup>
- (c) Companies did not face TI incentives in PR19: companies with bespoke WINEP performance commitments in PR19 delivered on time approximately 90% of the time compared to a sector WINEP average of 76% on time. This suggested that the Ofwat PR24 FD estimate of on-time delivery may be conservative for PR24.<sup>211</sup>

6.107 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).<sup>212</sup> 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.<sup>213</sup>

### *Third parties*

## **Thames Water**

6.108 In its response to the CMA PR24 PD, Thames Water submitted that customers are as likely to value early as to dislike late delivery of investments. To penalise a

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<sup>207</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.61.

<sup>208</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.64.

<sup>209</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.79.

<sup>210</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.80.

<sup>211</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.81.

<sup>212</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.85.

<sup>213</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.85–7.86.

delay several times as much as an early delivery is rewarded seems arbitrary, unless clear justification for such treatment can be demonstrated through customer preferences. If not, Thames Water submitted that the time-incentive payment framework should be amended such that it is symmetrical, with rewards for outperformance of similar magnitude to penalties for under-performance, and either both accruing over time or neither.<sup>214</sup>

## **Our assessment and decisions**

- 6.109 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.<sup>215</sup>
- 6.110 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.<sup>216</sup>
- 6.111 Given this context, our decision is that it is appropriate for TI PCDs to be introduced for AMP8 to encourage the timely delivery of the funded investment programmes.<sup>217</sup> We discuss submissions – including KPMG’s analysis – on the calibration of TI PCDs in chapter 8 (Risk and Return), and find the evidence submitted to us suggests that companies would expect to face no penalty or a small net reward.
- 6.112 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).<sup>218</sup> TI PCDs will – by design – affect the financial implications of different delivery timelines that companies might choose to adopt,

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<sup>214</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 190.

<sup>215</sup> 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.

<sup>216</sup> See also Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p8.

<sup>217</sup> Contrary to the response we received from Thames Water (Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 190), we do not think it is consistent with the intention of TI PCDs to apply a reward for early delivery.

<sup>218</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraphs 7.56 and 7.57.

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

- 6.113 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 receives the expenditure allowance and when it begins to incur the relevant costs.<sup>219</sup> We note that this potential benefit suggests that the assessment of the financial impact of the TI PCDs referred to in paragraph 6.111 may be conservative.<sup>220</sup>
- 6.114 We do not consider the Thames Water's submissions referred to in paragraph 6.108 to be well aligned with the aims that underpinned Ofwat's introduction of TI PCDs. We note that Ofwat's introduction of TI PCDs was not based on an assumption that customers are as likely to value early as to dislike late delivery of investments and instead focuses on the incentives companies face to deliver on time.
- 6.115 Given the above, our decision is to retain the TI PCDs specified in Ofwat's PR24 FD.

### **The scope for PCDs to be adjusted within the AMP**

- 6.116 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.
- 6.117 In its statement of case, Southern asked for an adjustment mechanism to allow for changes to PCDs within the AMP.
- 6.118 In the CMA PR24 PD, we welcomed Ofwat's September 2025 consultation on the development of a narrowly defined PCD change control process, noting that it could provide a means to take account of significant changes that may affect likely delivery requirements related to material, specific schemes.<sup>221</sup> Ofwat published written guidance on its PCD change control process in November 2025 (and re-published this in February 2026).<sup>222</sup>
- 6.119 With the benefit of Ofwat's Updated November 2025 PCDs Guidance, our decision is not to include a within-AMP adjustment mechanism for PCDs, for the reasons set out below.

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<sup>219</sup> See Ofwat response to Ofwat RFI03, Q5, and to Ofwat RFI07, Q1.

<sup>220</sup> See Ofwat response to Ofwat RFI07 Q1.

<sup>221</sup> [CMA PR24 PD Volume 3](#), p40, paragraph 6.100.

<sup>222</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#),

## Parties' submissions

### *Disputing Companies*

- 6.120 In its statement of case, Southern requested that a within-AMP adjustment mechanism be added such that:<sup>223</sup>
- (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 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.
- 6.121 Southern and Anglian made submissions on Ofwat's September 2025 proposals for a PCD change control process in their responses to the CMA PR24 PD, ahead of Ofwat's decisions on the process in its Updated November 2025 PCD Guidance. Southern submitted that the proposed process was:<sup>224</sup>
- (a) too limited in scope and excluded PCDs that would remain vulnerable to deliverability risks:<sup>225</sup> Southern said it was essential that the change control process extends to include its storm overflows PCD, and that it did not accept that Ofwat has provided for sufficient flexibility in respect of the delivery of this PCD.<sup>226</sup> Southern submitted that the PCD design does not allow for substitution at a scheme level, rather only within a scheme for a different design, and that it only allows for additional funding to be released for additional storm overflow delivery once all listed schemes are delivered.<sup>227</sup> Southern said that this inflexibility was of particular concern given continued uncertainty and potential changes surrounding storm overflows, including because the EA is continuing to develop guidance on ecological harm for coastal and transitional waters (which could change necessary priorities and spill targets for some overflows).<sup>228</sup>

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<sup>223</sup> Southern SoC, p362, paragraph 151.

<sup>224</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 5.6–5.20.

<sup>225</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.14.

<sup>226</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.16.

<sup>227</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.17.

<sup>228</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.18.

(b) unsatisfactory with respect to changes to delivery and completion dates that had been agreed with quality regulators.<sup>229</sup> Southern said that Ofwat's proposed approach treated agreement with quality regulators as only a starting point for its consideration of a PCD change.<sup>230</sup> Southern submitted that this imposes a significant evidential burden with respect to any change to output delivery (or completion date).<sup>231</sup> Southern also submitted that this left a risk of regulatory uncertainty caused by potential misalignment between the requirements under PCDs and of quality regulators, and that the CMA should ensure that Ofwat implements a full and automatic adjustment mechanism to align PCD outputs and delivery dates with outputs and delivery dates agreed with the relevant quality regulator.<sup>232</sup>

6.122 Anglian submitted that there is a tension between Ofwat's detailed control via the PCD framework and its aim for a proportionate change control process.<sup>233</sup> Anglian submitted that Ofwat's proposal for a single annual change window risks exposing companies to prolonged regulatory uncertainty.<sup>234</sup> Anglian requested that Ofwat be directed to make the following changes to its guidance.<sup>235</sup>

- (a) Provide greater clarity on which PCDs are included within the scope of the change control process, and that scheme specific PCDs be included:<sup>236</sup> Anglian suggested publishing a clear list of eligible PCDs and the criteria used to assess them.<sup>237</sup>
- (b) Apply a more flexible approach to its materiality threshold: a rigid threshold risks blocking recovery of efficient costs and hindering support for broader government goals.<sup>238</sup> Anglian noted there is a tension between the detailed control Ofwat applies through PCDs and its aim to reduce administrative burden. A strict materiality threshold could lead to misalignment with quality regulators.<sup>239</sup> Anglian considered that the threshold should not apply when (i) the change involves scope or output; (ii) the revised scope delivers equal or greater customer or environmental benefit; and (iii) the relevant quality regulator has approved the change.<sup>240</sup>
- (c) Allow for more frequent change control requests with a more timely conclusion: Anglian proposed a quarterly change control process, with fast-

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<sup>229</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.7.

<sup>230</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.7.

<sup>231</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.7.

<sup>232</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 5.8–5.13.

<sup>233</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 503.

<sup>234</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 504.

<sup>235</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraphs 494–505.

<sup>236</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 496–498.

<sup>237</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 495.

<sup>238</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 499.

<sup>239</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 500.

<sup>240</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraph 501.

tracked requests responded to within one month and full assessments completed within three months.<sup>241</sup>

### *Ofwat*

- 6.123 In its response to the statements of case, 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;<sup>242</sup> 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.<sup>243</sup>
- 6.124 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.<sup>244</sup>
- 6.125 In response to a request for information, Ofwat told us that it 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.<sup>245</sup> 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.<sup>246</sup> Ofwat initiated a consultation on this proposed change control process on 10 September 2025,<sup>247</sup> and published its decisions

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<sup>241</sup> Anglian (2025) [Response to CMA PR24 PD](#), p179 and paragraphs 505.

<sup>242</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.4.

<sup>243</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.14.

<sup>244</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.24.

<sup>245</sup> Ofwat response to Ofwat RF113, question 1(b).

<sup>246</sup> Ofwat response to Ofwat RF113, question 1(b).

<sup>247</sup> Ofwat (2025) [Consultation on changes to PR24 price control deliverables](#), Section 2.2).

concerning the new process in its Updated November 2025 PCD Guidance (see paragraphs 6.126 to 6.129 below).

### **Ofwat's Updated November 2025 PCD Guidance**

- 6.126 Ofwat introduced a change control process in its Updated November 2025 PCD Guidance that would allow companies to seek within-AMP adjustments to a subset of PCDs, including:<sup>248</sup>
- (a) Scheme-specific PCDs: ie PCDs which apply to specific schemes (for example, water resilience PCDs) rather than a whole programme of work.
  - (b) PCDs where the output tracked is less well-defined: PCDs where the output does not track variations in the scope of work and there is a risk that customers lose out from under-delivery of benefits (for example, Drinking Water Protected Areas and Water Framework Directive PCDs).
- 6.127 The process can be applied to take account of:
- (a) in-period changes in completion dates due to delays arising from factors outside of a company's control or unambiguous errors in Ofwat's PR24 FD; or
  - (b) changes in scope of work or output to correct unambiguous errors in Ofwat's PR24 FD or where the PCD does not provide a company with enough flexibility to manage change and changes in scope of work have been agreed with the quality regulator where relevant.<sup>249</sup>
- 6.128 Ofwat will only consider changes that are material in terms of costs. Ofwat will consider changes to be material where the impact on costs is greater than 0.5% of water or wastewater wholesale totex, or greater than £10 million.<sup>250</sup>
- 6.129 Companies can submit change control requests with every delivery plan submission. Ofwat said that it expects its review of a request to take between two and twelve months, with requests of changes to completion dates to have a shorter review period and requests for changes in scope of work or output to have a longer review period. Ofwat will not review requests which have not been approved by a quality regulator.<sup>251</sup>

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<sup>248</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), p6; section 2.2; and Appendix A3.

<sup>249</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.2.3.

<sup>250</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), p6 and section 2.2.3.

<sup>251</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.2.4.

## Our assessment and decisions

- 6.130 When considering submissions on the appropriateness of introducing a within-AMP adjustment mechanism as part of these redeterminations, we have taken account of:
- (a) the change control process Ofwat introduced in its Updated November 2025 PCDs Guidance that would allow companies to seek within-AMP adjustments to a sub-set of PCDs; and
  - (b) Ofwat's response to Southern regarding the scope for flexibility in relation to storm overflows PCDs (which are not covered by the change control process referred to in (a));
  - (c) Ofwat's submissions on the volume of changes that could arise (given the experience in AMP7); and
  - (d) our view 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.
- 6.131 We welcome Ofwat's introduction of a change control process in its Updated November 2025 PCD Guidance. We note that Ofwat's guidance specifies to which PCDs the change control process will and will not apply.<sup>252</sup> The Updated November 2025 PCD Guidance also provides some flexibility in relation to the materiality threshold that Ofwat identified (as changes below the threshold may be considered where that is in the interests of customers).<sup>253</sup> With respect to Southern's submissions that it was essential that the change control process extends to include its storm overflows PCD, and that it did not accept that Ofwat has provided for sufficient flexibility in respect of the delivery of this PCD,<sup>254</sup> Ofwat said that:<sup>255</sup>
- (a) Ofwat's PR24 Reconciliation Rulebook: Guidance Document sets out that schemes can be dropped or replaced as required, providing the change is signed off by the EA/Natural Resources Wales;<sup>256</sup>
  - (b) its approach provides companies with flexibility to switch the location of storm overflows schemes, by holding companies to account for the number of schemes and total volume of equivalent storage delivered; and

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<sup>252</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), Appendix A3.

<sup>253</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.2.3.

<sup>254</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 5.16.

<sup>255</sup> Ofwat response to Ofwat RFI40, Q1.

<sup>256</sup> Ofwat (2025) [PR24 Reconciliation Rulebook: Guidance Document](#)

(c) its approach includes an uncertainty mechanism to allow for funding adjustments when a number of defined conditions are met.

- 6.132 We note Anglian and Southern’s submissions requesting a more streamlined change control process, including Southern’s request that there be a full and automatic adjustment mechanism to align PCD outputs and delivery dates with outputs and delivery dates agreed with the relevant quality regulator.<sup>257</sup> Our view is that such an adjustment mechanism would not be appropriate.
- 6.133 PCDs provide a mechanism through which companies can be held to account for relevant outputs that they have been funded to deliver and based on an assumed delivery schedule. Where changes to outputs and delivery dates have been agreed with the relevant quality regulator, that does not in our view imply that an adjustment to the PCD is necessary to maintain consistency between the requirements of quality regulators and economic regulation, or that the implications of such a change should be expected to be automatically straightforward. 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 non-delivery PCD clawback arrangements may already provide an effective end-of-period means of taking that into account.<sup>258</sup> Under such circumstances, changes to the PCD arrangements may risk inconsistencies arising between the volume and timing of outputs that companies are required to deliver and volumes and timing of outputs that underpinned their funding.
- 6.134 Given the above, our decision is to not include a within-AMP adjustment mechanism. Our view is that Ofwat’s change control process, together with the flexibility otherwise included within the PCD arrangements (including in relation to storm overflows), provides a proportionate means through which within-AMP changes can be taken into account. 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 proposed in the recent Defra White Paper.<sup>259</sup>

### **PCDs and overlapping penalties**

- 6.135 Ofwat’s PR24 FD framework includes different incentive and penalty mechanisms, some of which may also overlap with other legal requirements on companies.
- 6.136 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.

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<sup>257</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 5.8–5.13.

<sup>258</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p306.

<sup>259</sup> [Defra White Paper](#).

6.137 Our decision is not to introduce such an offset mechanism, for the reasons set out below.

### **Parties' submissions**

#### *Southern*

6.138 In its statement of case, 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.<sup>260</sup> 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.<sup>261</sup> Southern said that Ofwat's analysis (outlined at paragraph 6.140 below) only considered short term impacts and that the effects are larger if the impact is considered across the lifetime of the investment.<sup>262</sup>

6.139 Southern requested that an offset mechanism be introduced to address the financial double jeopardy it said arises from overlaps between PCDs and ODIs.<sup>263</sup> 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.<sup>264</sup> 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.<sup>265</sup> 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.<sup>266</sup>

#### *Ofwat*

6.140 In response to the statements of case, 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.<sup>267</sup> 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.<sup>268</sup> 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

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<sup>260</sup> [Southern SoC](#), p326, paragraph 2 and paragraph 117.

<sup>261</sup> [Southern SoC](#), p352, paragraph 118.

<sup>262</sup> See [Southern SoC](#), p352, paragraphs 122–126 for Southern's view of the overlap between PCDs and ODIs.

<sup>263</sup> [Southern SoC](#), p363, paragraph 152.

<sup>264</sup> [Southern SoC](#), p363, paragraph 153.

<sup>265</sup> [Southern SoC](#), p363, paragraph 153.

<sup>266</sup> [Southern SoC](#), p353, paragraph 122.

<sup>267</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

<sup>268</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

incentives (eg to not deliver outputs).<sup>269</sup> It said it would reset PCLs at PR29 and would consider the extent to which non-delivery was reflected in PCLs then.<sup>270</sup>

- 6.141 Ofwat submitted that the PCD framework is a tool to encourage timely delivery of outputs 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.<sup>271</sup> Ofwat said that the possibility of enforcement action, on its own, would not fully address its concerns on non- or partial delivery.<sup>272</sup>

### **Our assessment and decisions**

- 6.142 Ofwat's assessment identified limited scope for overlap between the operation of PCDs and ODIs.<sup>273</sup> Southern said that it disagreed with this conclusion because it only considered short-term effects.<sup>274</sup> We note that Ofwat considered the relationship between enhancement funding and PCLs as part of its PR24 FD.<sup>275</sup> We have considered that relationship in paragraphs 6.370 to 6.379 below in the context of water supply interruptions where we highlight some of the practical difficulties associated with identifying the quantum of improvement that should be associated with specific schemes.
- 6.143 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 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.
- 6.144 In reaching our 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) TI 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,

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<sup>269</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.44.

<sup>270</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

<sup>271</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.46.

<sup>272</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.48.

<sup>273</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.41.

<sup>274</sup> [Southern SoC](#), p353, paragraph 122.

<sup>275</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.43 and Table 22.

as noted in paragraph 6.113 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.

6.145 Our 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 decide that no adjustment should be made for any overlap with other statutory and regulatory obligations.<sup>276</sup>

### **PCDs and administrative and regulatory burdens**

6.146 This section concerns the administrative and regulatory burdens in Ofwat's PR24 FD.

6.147 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).<sup>277</sup>

6.148 Our decision is to maintain the PCD reporting and assurance arrangements in Ofwat's PR24 FD, for the reasons set out below.

### **Ofwat's PR24 FD approach**

6.149 Ofwat's PR24 FD sets out a range of reporting and independent assurance requirements in relation to PCDs.<sup>278</sup>

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<sup>276</sup> We note that the Defra White Paper found that the incentive framework has contributed to regulatory flexibility and the UK government will instruct the new regulator to rationalise the incentive framework so that it is simpler, more predictable and is not duplicative ([Defra White Paper](#), p26). This concern is broader than the specific request here, where we find that an offset mechanism (as suggested by Southern) would introduce perverse performance incentives.

<sup>277</sup> [Anglian SoC](#), paragraph 625.

<sup>278</sup> [Ofwat PR24 FD Price Control Deliverables Appendix](#), pp10–12.

## Parties' submissions

### *Disputing Companies*

- 6.150 In its statement of case, 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.<sup>279</sup> 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).<sup>280</sup> Anglian submitted that the administrative burden in Ofwat's PR24 FD exerts unnecessary pressure on water companies and hinders their ability to operate effectively.<sup>281</sup>
- 6.151 In its statement of case, Southern also submitted that Ofwat's PR24 FD failed to adequately consider the bureaucratic costs from reporting obligations.<sup>282</sup> Southern was concerned that Ofwat had not allowed any flexibility to the reporting framework and questioned the necessity for the burdensome level of reporting.<sup>283</sup>
- 6.152 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.<sup>284</sup>

### *Ofwat*

- 6.153 In its response to the statements of case, Ofwat submitted that the scale of its PR24 FD enhancement funding (£44 billion) underpinned the proportionality of its reporting and assurance requirements.<sup>285</sup> 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.<sup>286</sup>
- 6.154 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)<sup>287</sup> can be useful

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<sup>279</sup> [Anglian SoC](#), paragraph 619.

<sup>280</sup> [Anglian SoC](#), paragraphs 624–625.

<sup>281</sup> [Anglian \(2025\) Response to other Disputing Companies' SoCs](#), p3.

<sup>282</sup> [Southern SoC](#), p351, paragraphs 110–115.

<sup>283</sup> [Southern SoC](#), p351, paragraph 115.

<sup>284</sup> [Anglian SoC](#), paragraph 627; see also Thames Investor Group (2025) Response to CMA PR24 PD - Annex 1, paragraph 4.75.

<sup>285</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.108.

<sup>286</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.108.

<sup>287</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.25.

where the scope of work is highly uncertain in relation to significant investments, justifying the additional regulatory and administrative burden.<sup>288</sup> 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.<sup>289</sup> It said that broader use of evaluative PCDs would give rise to significant administrative burden and would not bring significant value.<sup>290</sup>

### **Our assessment and decisions**

- 6.155 Our 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 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.
- 6.156 Our decision is that it would not be appropriate to introduce evaluative PCDs (similar to those used by Ofgem) in AMP8. We note that the narrowly defined PCD change control process set out in Ofwat's Updated November 2025 PCD Guidance may provide an alternative means (to the use of evaluative PCDs) of providing some flexibility in relation to the specification of some PCDs.<sup>291</sup>
- 6.157 Our decision is to retain the PCD reporting and assurance specified in Ofwat's PR24 FD.

### **Consequential updates to PCDs**

- 6.158 This section covers our decisions on consequential updates to PCDs following the decisions set out in chapter 4 (Base costs) and chapter 5 (Enhancement costs).
- 6.159 Where we have changed expected outputs and/or allowances in base or enhancement costs in relation to matters where an existing PCD is in place following Ofwat's PR24 FD,<sup>292</sup> we instruct Ofwat to make the consequential changes required to reflect those updated outputs and/or allowances in the relevant existing PCD. Any consequential updates to non-delivery PCDs and TI

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<sup>288</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.30.

<sup>289</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.30.

<sup>290</sup> Ofwat (2025) [Response to common issues on expenditure allowances](#), paragraph 7.31.

<sup>291</sup> Ofwat (2026) [Price control deliverables guidance \(updated from November 2025\)](#), section 2.2.

<sup>292</sup> As per [Ofwat PR24 FD Price Control Deliverables Appendix](#) and associated excel files published here: <https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/price-control-deliverables> (accessed 26 February 2026).

PCDs should reflect updates to outputs and expenditure allowances post adjustment and frontier shift.

6.160 For base costs, we consider that consequential updates to PCDs are required due to changes to:

- water mains renewals sector wide adjustment;
- meter replacement sector wide adjustment; and
- network reinforcement sector wide adjustment.

6.161 For enhancement costs, we consider that consequential updates to PCDs are required due to changes in allowances for:

- Anglian, Northumbrian, Southern and Wessex - phosphorus removal;
- Anglian, Northumbrian and Southern - supply interconnectors;
- Northumbrian - power resilience;
- Northumbrian - catchment nutrient balancing schemes;
- Southern - bioresources IED;
- Southern - WINEP requirements to install flow monitors at emergency overflow sites;
- South East - resilience interconnectors;
- South East - service reservoirs;
- South East - demand (water efficiency initiatives); and
- South East - PFAS.

6.162 As we consider these changes to be purely mechanical in nature, we have not published updated PCD non-delivery and time incentive rates in this report.<sup>293</sup> We do not intend that any design or methodological changes are made to existing PCDs beyond the following.

- (a) On Northumbrian power resilience scheme, following our analysis in chapter 5 (Enhancement costs), we decide that the technology employed for the purposes of the PCD must be limited to fixed power generators.

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<sup>293</sup> Only Wessex and South East suggested that the CMA should publish more detailed information on these types of consequential updates, with the other main parties expressing broad support for a light-touch approach. See main parties' responses to Main parties RFI02, Q1 addressed to all main parties.

- (b) For the two scheme level enhancement areas we have assessed in detail (phosphorus removal and supply interconnectors), we set out our decision on PCDs in Appendix E.
- (c) Where we have entirely removed any existing Ofwat PR24 FD allowances in chapter 5 (Enhancement costs) (for instance, because a scheme has been added into the large schemes gated process or we have removed the requirement for catchment nutrient balancing schemes), we decide that any accompanying PCD in Ofwat's PR24 FD should be removed.

6.163 Where we have introduced new allowances in chapter 4 (Base costs) or chapter 5 (Enhancement costs), we have decided in some instances that PCDs are required to protect customers:

- South East - Bewl;
- South East - Lead;
- Wessex - Disinfection; and
- Anglian - Boundary Boxes.

6.164 Details of these PCD decisions are included in Appendix G. We have decided not to introduce a new PCD for any further new allowances or to incorporate them into existing Ofwat PR24 FD PCDs in light of the factors in Ofwat's PR24 FD approach to PCDs (including in particular its materiality threshold).<sup>294</sup>

6.165 We expect Ofwat to implement these changes promptly following our final report and to consult with the relevant Disputing Companies as needed prior to implementing the changes.

## **Outcome Delivery Incentives (ODIs)**

6.166 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).<sup>295</sup> Our determinations below are 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

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<sup>294</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), pp 308-309.

<sup>295</sup> Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p4.

environment.<sup>296</sup> PCLs are the committed levels of performance set by Ofwat for each performance commitment.<sup>297</sup>

- (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.<sup>298</sup>
- (c) ODI risk protections: ODI risk protections limit the financial risk to customers and companies as a result of ODI payments.<sup>299</sup> 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.<sup>300</sup>

### Ofwat's PR24 FD approach

6.167 Ofwat's PR24 FD defined 24 common performance commitments, shown in Figure 6.3, and seven bespoke (or company-specific) performance commitments.<sup>301</sup> Common performance commitments applied to all companies (to the extent relevant; see Figure 6.4 below),<sup>302</sup> whereas bespoke performance commitments applied to specific companies.<sup>303</sup> 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).<sup>304</sup> We provide an overview of Ofwat's PR24 FD approach to setting PCLs, ODI rates and risk protections in the relevant sections below.

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<sup>296</sup> Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p4.

<sup>297</sup> Ofwat (2022) [PR24 and beyond a discussion paper on outcome delivery incentives](#), p4.

<sup>298</sup> Ofwat (2024) [PR24 Final Determinations Glossary](#), p10.

<sup>299</sup> Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 38.

<sup>300</sup> Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 38.

<sup>301</sup> Ofwat (2025) Teach-in slides: Delivering outcomes for customers and the environment, slide 6.

<sup>302</sup> 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.

<sup>303</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p16 and Table 4.

<sup>304</sup> 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
<b>Customers receiving excellent service everyday</b>	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
<b>Environmental outcomes</b>	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
<b>Asset health</b>		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

6.168 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.<sup>305</sup> 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’.<sup>306</sup> 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.<sup>307</sup> 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.<sup>308</sup>

6.169 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.

6.170 As part of these considerations, we have updated the PCL and ODI rates which we have assessed as part of the redeterminations to include 2024/25 outturn

<sup>305</sup> 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.

<sup>306</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 19–22.

<sup>307</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p10, lines 21–23.

<sup>308</sup> CCW (2025) [Third party submission on the Water PR24 References – Anglian](#), paragraph 3.10.

performance data. This outturn performance data is robust and provides an updated view of the stringency of PCLs and the extent to which ODI rate changes may impact RoRE at risk. In undertaking these updates, we have assessed the implications of the changes for the operation of the PCL or ODI rate in AMP8 (as appropriate).

- 6.171 We have not updated PCLs or ODI rates which we have not assessed as part of the redeterminations. Consistent with the approach described in chapter 3 (Approach and prioritisation) at paragraph 3.47, it would be inappropriate to apply outturn performance data to performance commitments where we are unable to properly analyse this data within the timescale of the redetermination process or assess the implications of using the data, including whether it would give rise to any unintended consequences.
- 6.172 Broader questions concerning the overall balance of risk under the ODI framework, including the role played by the OAM and the ASM, are covered in chapter 8 (Risk and Return).

### **Performance Commitment Levels (PCLs)**

- 6.173 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:<sup>309</sup>
- (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.

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<sup>309</sup> Ofwat (2025) Teach-in slides: Overview and PR24 building blocks, slide 35.

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

Common level	Company-specific level
<ul style="list-style-type: none"> <li>• Compliance risk index;</li> <li>• Serious pollution incidents;</li> <li>• Discharge permit compliance;</li> <li>• Unplanned outage</li> <li>• Water supply interruptions;</li> <li>• Internal sewer flooding*;</li> <li>• Total pollution incidents*;</li> <li>• Biodiversity;</li> <li>• Business customer experience in Wales</li> </ul>	<ul style="list-style-type: none"> <li>• Storm overflows</li> <li>• Per capita consumption;</li> <li>• Repairs to burst mains;</li> <li>• Sewer collapses;</li> <li>• Leakage;</li> <li>• Business demand;</li> <li>• Bathing water quality;</li> <li>• River water quality;</li> <li>• External sewer flooding;</li> <li>• Customer contacts about water quality;</li> <li>• Operational greenhouse gases (water); and</li> <li>• Operational greenhouse gases (wastewater).</li> </ul>

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.

6.174 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.<sup>310</sup>

6.175 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:

- (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, South East and CCW’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.<sup>311</sup>

<sup>310</sup> Ofwat (2025) Teach-in slides: Overview and PR24 building blocks, slide 35.

<sup>311</sup> 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.

## Storm overflows

- 6.176 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,<sup>312</sup> and the outcomes it expects water companies to meet are set out in Defra's Storm Overflows Discharge Reduction Plan.<sup>313</sup>
- 6.177 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.<sup>314</sup> 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 Ofwat's PR24 FD to improve storm overflows.<sup>315</sup>
- 6.178 Ofwat also introduced a new performance commitment for storm overflows at PR24.<sup>316</sup> Storm overflows are defined under Ofwat's performance commitment framework as any structure or apparatus in the company's sewerage system 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.<sup>317</sup> Performance is measured as the average number of spills per storm overflow in the relevant year.<sup>318</sup> The performance commitment was designed to financially incentivise water companies to continuously monitor and limit the frequency and volume of their spills.<sup>319</sup>
- 6.179 Southern requested that its storm overflow PCLs be reset from the level in Ofwat's PR24 FD.
- 6.180 Our decision is that Southern's storm overflow PCLs should remain at the levels specified in Ofwat's PR24 FD, for the reasons set out below.

### *Ofwat's PR24 FD approach*

- 6.181 In Ofwat's 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).<sup>320</sup> Ofwat set PCLs for PR24 by starting with

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<sup>312</sup> Secretary of State (2022) [Government's strategic priorities for Ofwat](#).

<sup>313</sup> Defra (2023) [Storm overflows discharge reduction plan](#).

<sup>314</sup> Ofwat (2025) [PR24 final determinations: Sector Summary](#), p14.

<sup>315</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p 128, Table 18.

<sup>316</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p159.

<sup>317</sup> Ofwat (2025) [Storm overflows performance commitment definition](#).

<sup>318</sup> Ofwat (2025) [Storm overflows performance commitment definition](#).

<sup>319</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p159.

<sup>320</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p165.

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.<sup>321</sup> 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 EDMs (which monitor spills) were operational across all storm overflows in the relevant year.<sup>322</sup> Ofwat requested that companies submit forecasts based on an assumption of 100% uptime (ie 100% monitoring of all flows),<sup>323</sup> and set PCLs using this assumption.<sup>324</sup> Ofwat adjusted the forecasts submitted by three companies, including Southern, to make them consistent with this assumption.<sup>325</sup> The adjustment Ofwat made to Southern's forecast is described in paragraph 6.193 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 exceeded this level.<sup>326</sup> This reduction was applied to Southern's forecast number of average spills per storm overflows when setting its PCL for 2029/30.<sup>327</sup>
- (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.<sup>328</sup> This resulted in a lower PCL being set for 2028/29 than would otherwise have been implied by Ofwat's approach.<sup>329</sup>

6.182 The impact of these adjustments on the PCLs Southern requested in its statement of case is shown in Table 6.4 below.

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<sup>321</sup> Ofwat's approach to setting storm overflows PCLs is set out in detail in Ofwat (2025) [PR24 final determinations: Performance Commitment Model – Storm overflows](#).

<sup>322</sup> Ofwat (2025) [Storm overflows performance commitment definition](#), p4.

<sup>323</sup> Ofwat (2024) [PR24 final determinations: Southern Water - Outcomes appendix](#), p5.

<sup>324</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

<sup>325</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

<sup>326</sup> 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](#).

<sup>327</sup> 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](#).

<sup>328</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p170.

<sup>329</sup> 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](#).

**Table 6.4: Southern’s requested storm overflow PCLs in its statement of case and the impact of Ofwat’s adjustments**

	2025/26	2026/27	2027/28	2028/29	2029/30
Southern’s requested PCLs in its statement of case	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
- Reprofiting				-1.29	
Ofwat’s PR24 FD PCLs	17.99	17.95	17.15	15.83	13.71

Source: [Southern SoC](#), p401, Table 9; and, ‘Analysis\_Additional (ADJUSTMT)’ and ‘Analysis\_Additional (ENG)’ tabs of Ofwat (2025) PR24 final determinations: Performance Commitment Model – Storm overflows.

### *Parties’ submissions*

#### **Southern**

6.183 In its statement of case, Southern requested that its storm overflows PCLs be reset to the levels shown in the first row of Table 6.4 above (ie before Ofwat applied its adjustments).<sup>330</sup> 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.<sup>331</sup> Southern said that Ofwat had set different PCLs for each company 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.<sup>332</sup>

6.184 Southern submitted the following.<sup>333</sup>

- (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. In its response to the CMA PR24 PD, Southern referred to the adjustment that Ofwat made in relation to this as a ‘double counting spreadsheet error’, and said that correcting for this error leads to the recalibrated PCL it requested in its statement of case.<sup>334</sup>

<sup>330</sup> [Southern SoC](#), p397, paragraphs 149–150, and p401, Table 9.

<sup>331</sup> [Southern SoC](#), p397, paragraph 149.

<sup>332</sup> [Southern SoC](#), p396, paragraph 147.

<sup>333</sup> [Southern SoC](#), p397, paragraph 149.

<sup>334</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.41–6.42.

- (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.

6.185 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 6.5 below. Southern's approach included an adjustment to reflect a specific term from Ofwat's performance commitment definition document: the Unmonitored Storm Overflow Adjustment.<sup>335</sup>

**Table 6.5: 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.

6.186 Southern submitted that Ofwat's target setting did not consider the impact of recent outturn performance driven by exogenous factors, and said that, for example, 2023/24 was one of the wettest on record which led to a deterioration in storm overflow performance across the sector.<sup>336</sup>

6.187 In its response to the CMA PR24 PD, Southern requested that we reset the storm overflows PCL to align with the approach we provisionally took to the water supply interruptions common PCL in the CMA PR24 PD, and in particular to:<sup>337</sup>

- (a) set a baseline (2024/25) level equal to the median of average sector performance over the period 2020 to 2025; and
- (b) assume a linear improvement from that baseline level to the median of company forecasts for 2029/30.

<sup>335</sup> See Ofwat (2025) [Storm overflows performance commitment definition](#), pp3–4.

<sup>336</sup> [Southern SoC](#), p397, paragraph 148.

<sup>337</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.39 - 6.40.

- 6.188 Southern said that it would be appropriate to apply this approach, recognising the long run median represents performance under a more typical set of weather patterns over multiple years.<sup>338</sup> Southern submitted that this approach would provide a stretching but achievable target that would eliminate the negative skew of the ODIs while delivering a 51% improvement over 5 years from the 2024/25 sector median.<sup>339</sup>
- 6.189 In support of this request, Southern said that at the time of business plan submissions companies only had access to data up to 2022/23, which was effectively four years of data.<sup>340</sup> Southern submitted that subsequently published outturn data for 2023/24 and 2024/25 indicated a material increase in storm overflows, rising from a median of 20 in 2022/23 to 34 in 2024/25.<sup>341</sup> Southern submitted that this increase was primarily attributable to different weather conditions impacting system performance.<sup>342</sup> Southern said that the median company would require a 42% improvement in a single year from the 2024/25 starting point in order to achieve 20 spills per storm overflow, and that this was not only unlikely but would also be unreasonable and create a strong negative RORE skew.<sup>343</sup>
- 6.190 Table 6.6 below shows the PCLs that Southern requested in its response to the CMA PR24 PD on the basis of the approach described in paragraph 6.187 above, and how that compares to the PCLs it requested in its statement of case and to the PCLs in Ofwat’s PR24 FD.

**Table 6.6: Southern’s requested PCLs for storm overflows**

	2025/26	2026/27	2027/28	2028/29	2029/30
Storm overflows PCLs Southern requested in its response to our provisional determination	28.89	25.92	22.94	19.97	17.00
Storm overflows PCLs Southern requested in its statement of case	20.45	20.41	19.61	19.61	17.27
Ofwat’s PR24 FD storm overflows PCLs	17.99	17.95	17.15	15.83	13.71

Source: Southern (2025) [Response to CMA PR24 PD](#), p117, Table 34; Southern SoC, p401, Table 9.

- 6.191 Southern submitted that it fully supports the objective of reducing storm overflows, but that it is critical that the PCL is fair, evidence-based, and reflective of sector-wide performance, particularly given the public scrutiny of the issue.<sup>344</sup> In its response to the CMA PR24 PD, Southern requested first that the CMA re-baseline

<sup>338</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.39.

<sup>339</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.40.

<sup>340</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.37.

<sup>341</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.37.

<sup>342</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.37.

<sup>343</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.38.

<sup>344</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.36.

the storm overflows PCL and align with the approach taken in the CMA PR24 PD to water supply interruptions. If the CMA did not adopt this approach, Southern requested ‘as a minimum’ that the CMA should correct the ‘spreadsheet error’ outlined at paragraph 6.184(a) above.<sup>345</sup>

## Ofwat

- 6.192 In response to Southern’s statement of case, 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.<sup>346</sup> 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.<sup>347</sup>
- 6.193 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%.<sup>348</sup> As shown in Table 6.7 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 6.7: 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.

- 6.194 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.<sup>349</sup>

<sup>345</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.48–6.49.

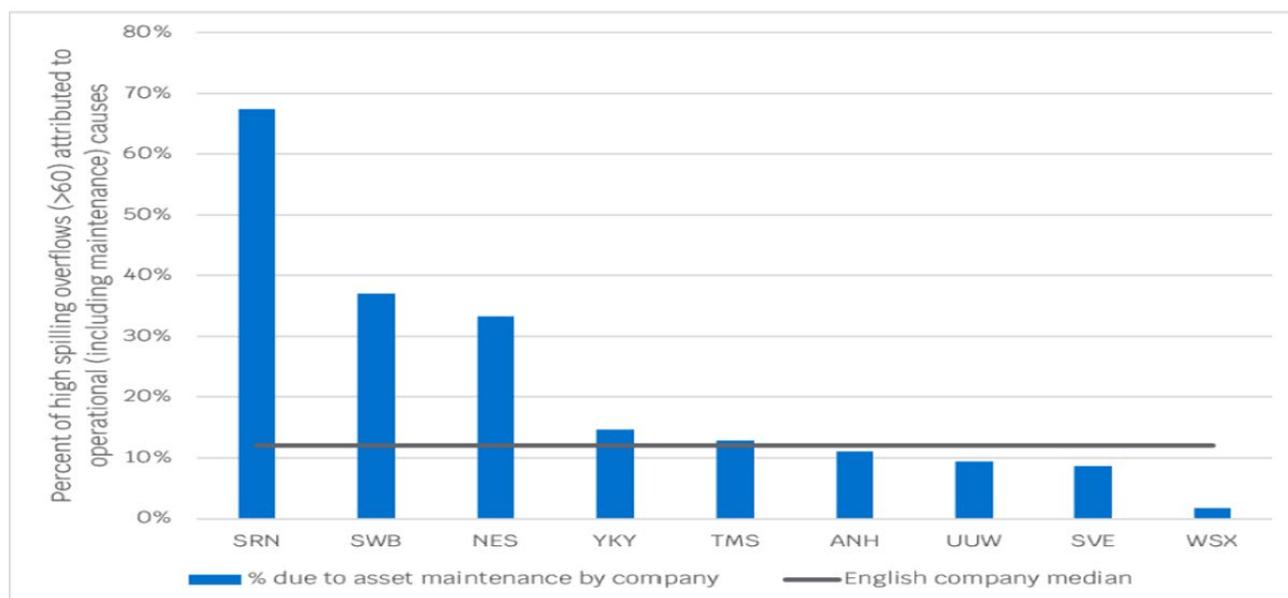
<sup>346</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.140.

<sup>347</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.160–4.161.

<sup>348</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.148 and 4.166.

<sup>349</sup> 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 EDM returns 2024**



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

6.195 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%.<sup>350</sup> 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.<sup>351</sup>

6.196 Ofwat said that it expected companies to forecast performance for 2025-30 based on a ‘typical weather’ year.<sup>352</sup> It said that Southern provided insufficient evidence to support treating it differently from other companies.<sup>353</sup> 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.<sup>354</sup>

### Third parties

6.197 CCW supported the CMA’s PR24 PD in confirming ‘firm’ storm overflow targets and incentives.<sup>355</sup>

<sup>350</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.167.

<sup>351</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.167.

<sup>352</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163.

<sup>353</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163.

<sup>354</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.163–4.164.

<sup>355</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 4.17.

### *Our assessment and decisions*

- 6.198 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.
- 6.199 With respect to Southern's comparison to the approach we applied to the water supply interruptions PCL in the CMA PR24 PD, we note the following.
- (a) 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.
  - (b) Ofwat introduced a new performance commitment for storm overflows in its PR24 FD,<sup>356</sup> whereas water supply interruptions was a well-established performance commitment.
  - (c) The storm overflows PCLs in Ofwat's PR24 FD were underpinned by substantial enhancement funding: Southern was allowed £1.06 billion of enhancement funding in Ofwat's PR24 FD to improve storm overflows.<sup>357</sup> By contrast, Ofwat's PR24 FD treated the water supply interruptions common PCL as funded wholly from base expenditure allowances.
- 6.200 In our view, given the context within which the storm overflows PCLs are being introduced, each company's own business plan forecasts with respect to storm overflows provide an appropriate starting point. We consider the PCLs that Southern requested in its statement of case (which were in line with the values Southern had included in its business plan) are consistent with this approach.
- 6.201 With respect to the increased outturn levels of storm overflows that have been observed in 2023/24 and 2024/25, Southern submitted that these increases were primarily attributable to different weather conditions impacting system performance.<sup>358</sup> We would expect the potential for such weather-related impacts to have already been taken into account sufficiently in business plan forecasts.
- 6.202 Our decision is that it is not appropriate to set the storm overflows PCL according to Southern's request in its response to the CMA PR24 PD.
- 6.203 We focus below on whether the adjustments that Ofwat made to Southern's forecast levels of performance are appropriate. Table 6.4 above shows the impact of each of the three adjustments Ofwat made to Southern's forecast. We consider each adjustment in turn below.

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<sup>356</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p159.

<sup>357</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p 128, Table 18.

<sup>358</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.37.

## The uptime adjustment

- 6.204 Ofwat asked companies to provide forecasts assuming 100% uptime, and Southern (as noted in its statement of case) did not do that.<sup>359</sup> 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.<sup>360</sup> 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).<sup>361</sup>
- 6.205 Southern's business plan forecast included an adjustment to reflect its assumption of 97% rather than 100% uptime (ie the addition of an Unmonitored Storm Overflows Adjustment of 3; see Table 6.5 above). Ofwat's approach removed the effect of this Southern adjustment, and – as was shown in Table 6.7 above – applied a different adjustment to reflect Southern's assumption of 97% rather than 100% uptime (with Ofwat's adjustment based on the assumption that monitored and unmonitored storm overflows spill at the same rate). We do not consider there is a double counting error in Ofwat's approach, given the approach Ofwat took to remove the effect of Southern's adjustment. 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 decision is that it is appropriate to make the uptime adjustment.

## The scope for improvements from base funding

- 6.206 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.'<sup>362</sup>

- 6.207 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

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<sup>359</sup> Southern SoC, p363, paragraph 149; and in Southern's response to Southern RFI02, Q1, paragraph 1.6.

<sup>360</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p173.

<sup>361</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p162.

<sup>362</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p78, lines 14–17.

operational and maintenance issues can give rise to storm overflows spills supports its inclusion of an additional challenge to the PCL.

- 6.208 In response to the CMA PR24 PD, Southern submitted that Ofwat's evidence that Southern has the highest percentage of high spill storm overflows attributable to operational and maintenance issues mischaracterises the issue. Southern submitted that the vast majority of those spills were due to infiltration (ie high ground water pressures forcing water into sewers and causing spills), and that this is a long-standing sewer design challenge, not a short-term asset maintenance issue.<sup>363</sup> We note, however, that Ofwat's PR24 FD approach was based on its assessment that all companies should be able to deliver some additional improvement from base expenditure allowances, and did not rely on an assessment of Southern's performance with respect to operational and maintenance issues relative to that of other companies.
- 6.209 Our 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**

- 6.210 The profiling adjustment Ofwat made only affected Southern's PCL in 2028/29. As set out in paragraph 6.195, 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%).
- 6.211 Our 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.
- 6.212 In its hearing, Southern pointed to its programme as being more focused on environmental benefits than spill reduction in this AMP.<sup>364</sup> 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 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

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<sup>363</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.47.

<sup>364</sup> (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.

Ofwat made was inappropriate. Our decision is that the profiling adjustment made by Ofwat is appropriate and should be retained.

#### *Our decision on Southern's storm overflow PCLs*

- 6.213 Following the assessment above, our decision is that Southern's storm overflow PCLs should remain at the levels specified in Ofwat's PR24 FD.

#### **External sewer flooding**

- 6.214 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.<sup>365</sup> The Ofwat PR24 FD performance commitment measures the number of external sewer flooding incidents in the relevant year per 10,000 sewer connections.<sup>366</sup> An external sewer flooding incident is the flooding of a property in an external sewer flooding event,<sup>367</sup> 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).<sup>368</sup>
- 6.215 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 in AMP7, and a common endpoint set for 2029/30 based on the median of companies' proposed PCLs for that year.<sup>369</sup>
- 6.216 Our decision is to apply a company-specific PCL for Anglian. The company-specific PCL we have adopted uses the midpoint between Anglian's AMP7 average performance and the AMP7 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 decision is set out below.

#### *Ofwat's PR24 FD approach*

- 6.217 Ofwat's PR24 FD 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.<sup>370</sup> PCLs were set for each company in each year of AMP8 by assuming a straight line

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<sup>365</sup> Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), p3.

<sup>366</sup> Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), p2.

<sup>367</sup> 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.

<sup>368</sup> Ofwat (2024) [PR24 Common performance commitments: External sewer flooding – PC definition](#), pp2–3.

<sup>369</sup> [Anglian SoC](#), paragraphs 541–543.

<sup>370</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p73.

between a company-specific baseline level that Ofwat determined for 2024/25 and the common target level for 2032/33.

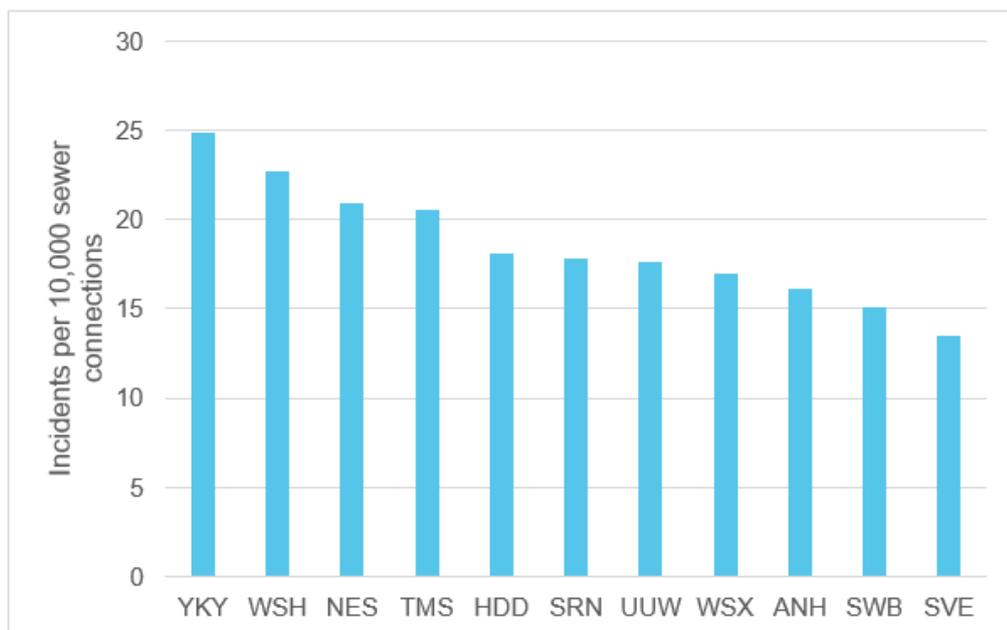
6.218 Ofwat determined the baseline PCLs for 2024/25 (shown in Figure 6.6 below) in the following ways.<sup>371</sup>

- (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
  - (ii) an Ofwat estimate that was set equal to that company's average outturn performance in the first four years of AMP7 (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).

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<sup>371</sup> 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.

**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**

- 6.219 Anglian was the only Disputing Company to request a change to its external sewer flooding PCL. Anglian submitted within its statement of case that Ofwat’s approach effectively penalised it for historically achieving strong performance in reducing external sewer flooding.<sup>372</sup> 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.<sup>373</sup> 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.<sup>374</sup>
- 6.220 Anglian submitted that Ofwat 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.<sup>375</sup>

<sup>372</sup> [Anglian SoC](#), paragraph 527.

<sup>373</sup> [Anglian SoC](#), paragraph 531.

<sup>374</sup> [Anglian SoC](#), paragraphs 533–534.

<sup>375</sup> [Anglian SoC](#), paragraph 537; and Anglian (2025) [Reply to Ofwat Response](#), p10.

- 6.221 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.<sup>376</sup> 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).<sup>377</sup> 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.<sup>378</sup>
- 6.222 Anglian requested that an ‘industry-standard’ PCL be applied for external sewer flooding, in line with Ofwat’s approach for internal sewer flooding.<sup>379</sup>
- 6.223 Anglian requested that a common 2024/25 baseline be set based on median company performance in AMP7, and a common endpoint set for 2029/30 based on the median of companies’ proposed PCLs for that year.<sup>380</sup> 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 in Ofwat’s PR24 FD of 16.13 incidents per 10,000 sewer connections.<sup>381</sup>
- 6.224 In its response to the CMA PR24 PD, Anglian said that nine out of eleven wastewater companies had financial ODIs for external sewer flooding in AMP7 (the two remaining companies being Hafren Dyfrdwy and Thames Water), and that all companies had funding for sewer flooding through the base cost models used at PR19.<sup>382</sup> Anglian said that historical performance data does not give a reason for treating external sewer flooding differently to internal sewer flooding and that over AMP7 there were much smaller differences between companies on external sewer flooding than there were for internal sewer flooding.<sup>383</sup>
- 6.225 Anglian also submitted in response to the CMA PR24 PD that the CMA had not explained how the more demanding PCLs for Anglian on external sewer flooding would be funded from its base cost allowances.<sup>384</sup> We address Anglian’s submissions on this point in the assessment from paragraph 6.228 below.

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<sup>376</sup> [Anglian SoC](#), paragraph 538.

<sup>377</sup> [Anglian SoC](#), paragraph 539.

<sup>378</sup> [Anglian SoC](#), paragraph 540.

<sup>379</sup> [Anglian SoC](#), paragraphs 541–543.

<sup>380</sup> [Anglian SoC](#), paragraphs 541–543.

<sup>381</sup> [Anglian SoC](#), paragraphs 543 and Table 13.

<sup>382</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 475.

<sup>383</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 477.

<sup>384</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 470.

## Ofwat

- 6.226 Ofwat said in response to the Anglian statement of case that the comparison Anglian made with internal sewer flooding was valid as it is moving towards setting both performance commitments on a common basis.<sup>385</sup> 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.<sup>386</sup> Ofwat contrasted this to internal sewer flooding where all companies had faced targets at PR19.<sup>387</sup> Ofwat said it considered the use of company-specific PCLs for external sewer flooding trending towards a common level in the 2030-35 period remained appropriate.<sup>388</sup>
- 6.227 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.<sup>389</sup> 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.<sup>390</sup> 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.<sup>391</sup>

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<sup>385</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.37.

<sup>386</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.38.

<sup>387</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.38.

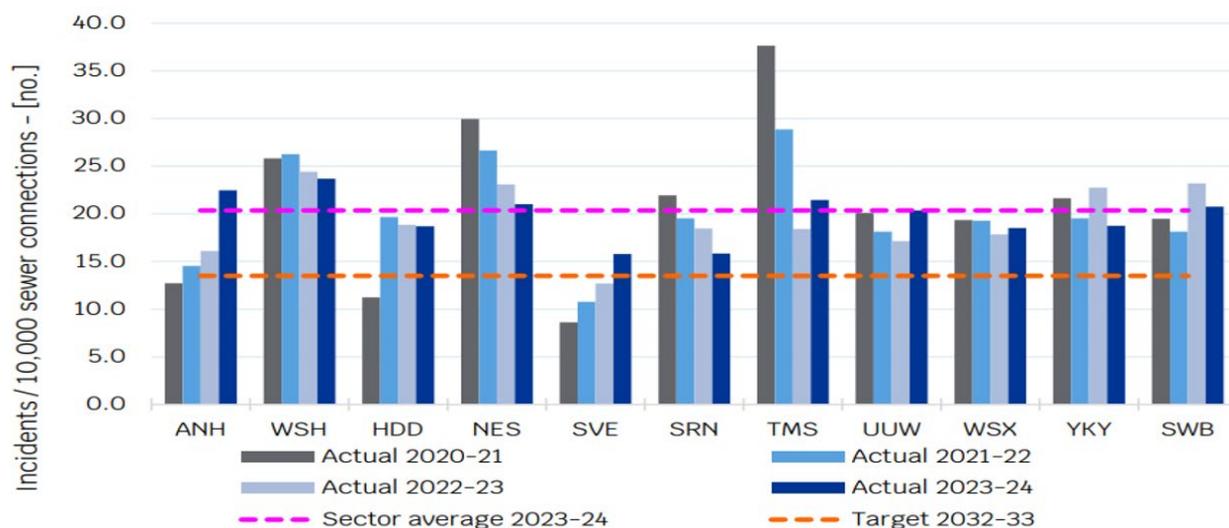
<sup>388</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.37.

<sup>389</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.39 and p34, figure 4.1.

<sup>390</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.39.

<sup>391</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.40.

**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 decisions*

- 6.228 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 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).<sup>392</sup> However, the circumstances would also imply a risk of imposing PCLs that are unduly lenient for companies that are not lagging.
- 6.229 Anglian submitted that over AMP7 there were much smaller performance differences between companies on external sewer flooding than there were for internal sewer flooding.<sup>393</sup> However, the PCLs that applied in AMP7 for external sewer flooding were company-specific and varied materially across companies. By contrast, for internal sewer flooding the AMP7 PCLs were applied to all companies and at a common level.<sup>394</sup> In our view, there were material differences in the

<sup>392</sup> [Anglian SoC](#), paragraph 537.

<sup>393</sup> [Anglian \(2025\) Response to CMA PR24 PD](#), paragraph 477.

<sup>394</sup> Ofwat (2004) [PR24 FD CA13 Internal sewer flooding](#), Tab: ‘PR19\_PCLs’.

incentives companies faced in relation to external sewer flooding in AMP7 and this was a relevant factor when setting AMP8 PCLs.

- 6.230 Given these circumstances, our assessment is that, it would not be appropriate, when setting AMP8 PCLs, to simply apply a common baseline level of performance for 2024/25 based on an assessment of median sector performance, as requested by Anglian. Rather, our 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.
- 6.231 We focus our attention on the approach used by Ofwat to set the company-specific PCL for Anglian (as set out in paragraph 6.218(b)(ii) above), namely to set Anglian's assumed baseline performance level for 2024/25 in line with its average AMP7 performance.
- 6.232 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 would result 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.
- 6.233 Our 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.
- 6.234 In line with the above, our view 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:
- (a) using 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) using Anglian’s outturn performance data could weaken incentives for performance improvements over time (through poor incentive design).

6.235 Our 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.

6.236 Anglian submitted that the CMA PR24 PD did not explain how Anglian would be able to fund meeting an external sewer flooding PCL from its base cost allowance if set (at the beginning of AMP8) at a level more demanding than the AMP7 industry median, and pointed to the view (set out in paragraph 6.232 above) that the regime for base costs effectively sets allowances reflecting the average level of performance in the sector.<sup>395</sup> Anglian submitted that the CMA had placed too much weight on the risk of its PCLs for external sewer flooding being unduly lenient, in a context where Anglian said it faced a very demanding ODI package relative to other companies under Ofwat’s PR24 FD.<sup>396</sup>

6.237 Anglian also submitted that the risks identified by the CMA (in paragraph 6.234 above) apply to a number of other performance commitments (such as water quality contacts, repairs to mains bursts, sewer collapses and unplanned outages) where Ofwat had put weight on individual company performance when setting PCLs in its PR24 FD, and requested that the CMA consider revising these other PCLs if adopting the approach described in paragraph 6.235.<sup>397</sup> It said that if the CMA applied its PR24 PD approach more broadly, this would be likely to lead to Anglian facing less demanding PCLs for other performance commitments.<sup>398</sup>

6.238 Our view is that the approach described in paragraph 6.235 (of setting the baseline for 2024/25 equal to the average of the AMP7 sector median and Anglian’s average AMP7 performance) takes appropriate account of the above submissions from Anglian and provides a balanced approach to the risks we have identified. In forming this view, in addition to the points highlighted in paragraphs 6.228 to 6.235 above regarding the impact of setting PCLs on the incentives companies may face, we have considered the following.

(a) While base cost funding may be viewed as effectively reflecting the average level of performance in the sector, this does not imply that it can be viewed straightforwardly as funding delivery of the average level of each specific performance metric. Differences in the circumstances companies face, and

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<sup>395</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraphs 470, 478 and 479.

<sup>396</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraphs 471, and 481–483.

<sup>397</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraphs 472, and 484 –487.

<sup>398</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 485.

have faced in the past (including with respect to the ODIs they faced), can affect the level of performance that is likely to be achievable by a given company on a given metric. Differences in circumstances companies face will also impact how informative the performance of one company is likely to be when setting and assessing the stringency/leniency of targets for another.

- (b) Ofwat's PR24 FD approach involved determining whether PCLs for a given performance commitment should be set at company-specific or common levels including because of the type of circumstances referred to in (a),<sup>399</sup> and our assessment of that was set out in paragraph 6.230. Our view is that – given those circumstances – it was appropriate for Ofwat to take account of company-specific performance to some extent when setting Anglian's AMP8 PCLs for external sewer flooding in its PR24 FD.
- (c) We have highlighted the risk that improvement incentives could be dulled by setting PCLs for a given company by reference to its past performance (see paragraph 6.232 above). However, that does not imply it is inappropriate to refer to past performance in general (and indeed such an approach is commonly applied in incentive regulation). Rather, it highlights a potential advantage of using approaches that avoid reliance on company-specific data (such as use of the sector median) where appropriate.

6.239 Performance data for 2024/25 was not available to Ofwat for its PR24 FD but has since been published. Our view is that this data should be taken into account when determining Anglian's baseline level of performance for external sewer flooding to set its AMP8 PCLs to provide an updated view of the stringency and achievability of the PCLs. Therefore, our decision is that it is appropriate to use evidence from the 2020-25 period (ie the whole of AMP7) when determining Anglian's average AMP7 outturn and the industry median, when applying the approach set out in paragraph 6.235 above.

6.240 Our decision is to:

- (a) set a baseline for 2024/25 equal to the average of Anglian's AMP7 performance and the median of average AMP7 company performance;
- (b) 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
- (c) assume linear improvement from the 2024/25 baseline level to the assumed 2032/33 convergence point in order to determine Anglian's AMP8 PCLs.

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<sup>399</sup> Ofwat (2024) [PR24 Draft Determinations: Delivering outcomes for customers and the environment](#), p110.

6.241 In line with the above, our decision is that the external sewer flooding PCLs for Anglian should be set at the levels shown in Table 6.8 below.

**Table 6.8: 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	17.46	16.89	16.33	15.76	15.19

Source: CMA.

6.242 Our 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**

6.243 Ofwat's PR24 FD defines total pollution incidents 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 (**EPA**) methodology.<sup>400</sup> Under this methodology, total pollution incidents are reported as the total number of pollution incidents (categories 1 to 3)<sup>401</sup> 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.<sup>402</sup>

6.244 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 to reflect flaws in the way in which the total pollution incidents metric is normalised across companies (ie using sewer length); (ii) the PCL reflect changes to the EA's categorisation of pollution

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<sup>400</sup> Ofwat (2025) [PR24 Common Performance Commitments: Total pollution incidents – PC definition](#), p2.

<sup>401</sup> Incidents are categorised as having either a major (category 1), significant (category 2), minor (category 3), or no (category 4) impact on the water environment (EA (October 2025) [Water and sewerage companies: EPA methodology for 2026-30](#), Section 2.1).

<sup>402</sup> Ofwat (2025) [PR24 Common Performance Commitments: Total pollution incidents – PC definition](#), p2.

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.

6.245 Our decision is to adopt Ofwat’s PR24 FD approach to determining the total pollution incidents PCL, updated to take account of the latest outturn data, for the reasons set out below.

#### *Ofwat’s PR24 FD approach*

6.246 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).<sup>403</sup> 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 of sewer length.<sup>404</sup> Ofwat applied a 30% improvement to the 2024/25 baseline level to derive the 2029/30 PCL of 18.63 incidents.<sup>405</sup> Ofwat identified this 30% improvement level as aligning with the ambition set out in the EA’s Water Industry Strategic Environmental Requirements (**WISER**).<sup>406</sup>

#### **Ofwat’s consultation on the new EPA methodology to be applied from 2026 to 2030**

6.247 The EA published a new EPA methodology to be applied for 2026-30 shortly after publication of the CMA PR24 PD.<sup>407</sup> The new methodology included with respect to the total pollution incidents metric:<sup>408</sup>

- (a) the continued use of sewer length when normalising total pollution incidents levels across companies (with updated sewer length values to be applied).
- (b) changes to the types of incidents that will be recorded such that:
  - (i) companies will no longer be able to submit ‘no impact claims’ to request for a category 3 incident to be downgraded to a category 4 incident for sewerage discharges.

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<sup>403</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p184.

<sup>404</sup> 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](#).

<sup>405</sup> 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](#).

<sup>406</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p186.

<sup>407</sup> EA (October 2025) [Water and sewerage companies: EPA methodology for 2026-30](#).

<sup>408</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p12 and p16.

- (ii) dry-day spills from storm overflows recorded using EDMs will be reported against the EPA total pollution incidents metric as pollution incidents in England only. In Wales, these will not be reported against the EPA metric.

6.248 Ofwat subsequently consulted on proposed changes to the total pollution incidents PCL from 2026/27 onwards to take account of these changes to the EPA methodology.<sup>409</sup> In its consultation, Ofwat said that as the number of recorded pollution incidents is expected to increase under the new EPA methodology, if left unchanged all companies would be unlikely to meet the PCL and could incur significant underperformance payments.<sup>410</sup> Ofwat said that this would not align with its intention in its PR24 FD to set stretching but achievable targets, but that a lack of data means that it is not possible to estimate the impact of the reporting changes using historical data or apply a reliable adjustment factor to reset PCLs.<sup>411</sup>

6.249 For companies in England,<sup>412</sup> Ofwat proposed to set the PCL annually at the median number of total pollution incidents per 10,000 km of sewer length reported by companies in England.<sup>413</sup> Ofwat said that this approach ensures that the PCL:<sup>414</sup>

- (a) reflects the most up-to-date understanding of performance on total pollution incidents under the new EPA methodology;
- (b) adjusts dynamically to sector-wide trends, including the increased number of incidents expected due to expanded reporting requirements; and
- (c) continues to incentivise companies to match or exceed average sector performance.

6.250 Ofwat's consultation closed on 10 December 2025. [§].<sup>415</sup>

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<sup>409</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#).

<sup>410</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p18.

<sup>411</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p18.

<sup>412</sup> Ofwat proposed different changes for companies in Wales given differences between the new reporting arrangements introduced by Natural Resources Wales and those introduced by the EA. See Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p20.

<sup>413</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p19.

<sup>414</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p20.

<sup>415</sup> [§].

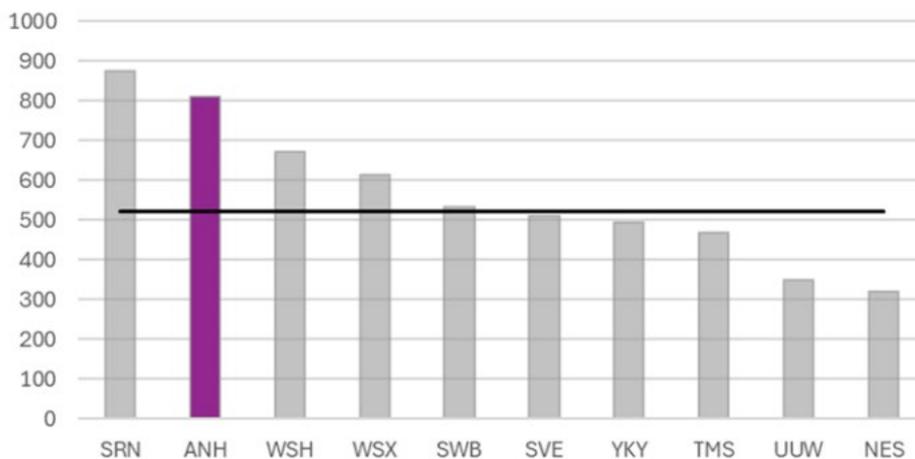
## Parties' submissions

### Disputing Companies

#### Anglian

- 6.251 In its statement of case, 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,<sup>416</sup> but submitted that Ofwat had set an unachievable PCL in its PR24 FD.<sup>417</sup>
- 6.252 Anglian submitted that Ofwat's PR24 FD applied a flawed normalisation metric which unfairly impacted Anglian.<sup>418</sup> In particular, Anglian said that Ofwat's approach normalises performance solely by length of sewer and ignores pollution risk from other assets.<sup>419</sup> 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 (see Figure 6.8 and Figure 6.9 below).<sup>420</sup> 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.<sup>421</sup>

**Figure 6.8: Number of pumping stations per 10,000 km of sewer by company (black line represents median)**



Source: [Anglian SoC](#), p133, Figure 36.

<sup>416</sup> [Anglian SoC](#), paragraph 467.

<sup>417</sup> [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).

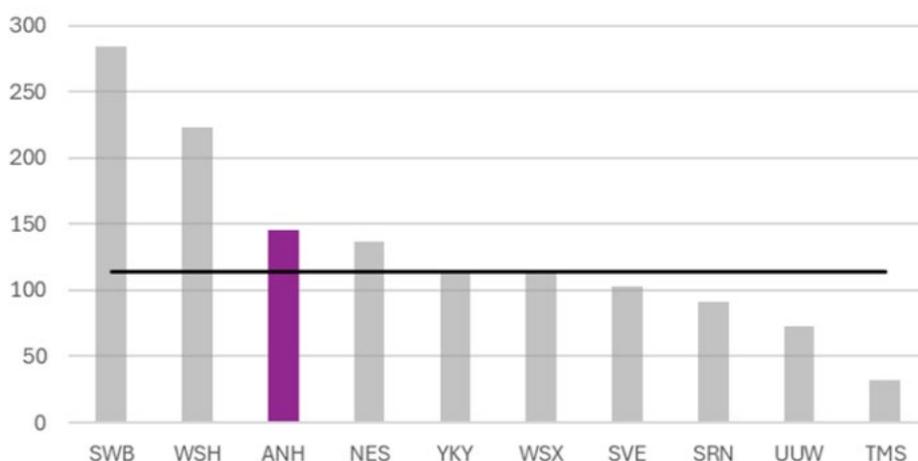
<sup>418</sup> [Anglian SoC](#), section 5.3.2, paragraphs 472–477.

<sup>419</sup> [Anglian SoC](#), paragraph 473.

<sup>420</sup> [Anglian SoC](#), paragraphs 472 and 475.

<sup>421</sup> [Anglian SoC](#), paragraph 473.

**Figure 6.9: Number of sewage treatment works per 10,000 km of sewer by company (black line represents median)**



Source: [Anglian SoC](#), p133, Figure 37.

- 6.253 Anglian noted that, in October 2024, the EA and Natural Resources Wales had consulted on aspects of the EPA process for 2026-2030, including the normalisation of the performance metric on total pollution incidents.<sup>422</sup>
- 6.254 Anglian said that in its response to that consultation it had 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).<sup>423</sup> Anglian said that its performance since 2018/19 has been close to or better than the industry median under these normalisation approaches.<sup>424</sup>
- 6.255 Anglian said that either of these alternative metrics it put forward would be an improvement on the current approach, and either metric has a stronger operational and engineering rationale than the Ofwat PR24 FD metric.<sup>425</sup> Anglian submitted there is clear statistical evidence that the two alternative metrics it had proposed are more reflective of drivers of pollution than the current performance metric, with both better explaining the variation across companies' performance on pollution incidents than using sewer length alone.<sup>426</sup>
- 6.256 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.<sup>427</sup> Based

<sup>422</sup> [Anglian SoC](#), paragraph 478.

<sup>423</sup> [Anglian SoC](#), paragraph 478.

<sup>424</sup> [Anglian SoC](#), paragraphs 488 and 493.

<sup>425</sup> [Anglian SoC](#), paragraph 494.

<sup>426</sup> [Anglian SoC](#), paragraph 495.

<sup>427</sup> [Anglian SoC](#), paragraphs 496 and 497.

on its proposed adjusted sewer length approach, Anglian requested that its total pollution incident PCLs be increased by 24% in each year of AMP8.<sup>428</sup>

- 6.257 In response to the CMA PR24 PD, Anglian said that the EA's consultation on normalisation had presented only two options, of which the current approach (based on sewer length) was simply less unsatisfactory than the alternative (based on population equivalent).<sup>429</sup> Anglian said that the EA's assessment appeared to depend heavily on what Anglian referred to as a preliminary and limited academic study from the University of Brighton, without sufficient industry consultation or examination of alternatives.<sup>430</sup>
- 6.258 Anglian said that its submissions to the CMA on total pollution incidents did not relate to the measurement of individual company performance for the purpose of EPA reporting, but rather to Ofwat's use of such measurements (designed for environmental reporting) in its role as economic regulator to set financial incentives, and the fairness of the resulting comparisons.<sup>431</sup>
- 6.259 Anglian said that regulatory alignment is generally desirable but it not an overriding objective, and that the EA's EPA is designed for comparative annual performance reporting, not setting financial penalties or incentives.<sup>432</sup> Anglian contrasted this to PCLs set by Ofwat which can trigger significant financial consequences through ODIs.<sup>433</sup>
- 6.260 Anglian said that it was deeply concerned by the direction of travel in Ofwat's consultation on how to take account of changes to the EPA methodology because it would:<sup>434</sup>
- (a) incentivise the industry to focus resources on low impact escapes; companies will have the same incentive to reduce incidents that have historically been considered as having no impact as they will to reduce far more serious incidents.
  - (b) duplicate incentives; dry-day spills will be incentivised by both the total pollution incidents and the storm overflows performance commitments with no recognition of the overlap in proposed incentive rates in Ofwat's consultation.
  - (c) lack robust data; the EA has opted to gather two years of actual data before setting a performance threshold for its reputational incentives through the

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<sup>428</sup> Anglian SoC, paragraphs 498 and 503.

<sup>429</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 436.

<sup>430</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 336.

<sup>431</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 432.

<sup>432</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 433.

<sup>433</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 433.

<sup>434</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 458.

EPA, whereas Ofwat has proposed setting material financial incentives using this limited data.

- (d) exacerbate existing problems with the measures; adding a significant additional number of incidents raises further questions about the validity of normalising by sewer length as even more incidents will occur from assets that are not sewers.

6.261 In response to the CMA PR24 PD, Anglian said it was pleased to see the CMA's steer to Ofwat that the redetermination should be the reference point for Disputing Companies.<sup>435</sup> However, Anglian was concerned that Ofwat's consultation and proposals would effectively replace the CMA's PR24 PD by removing the proxy PCL, leaving Anglian exposed to the same or greater risk exposure than at the CMA PR24 PD.<sup>436</sup> Anglian said it would welcome the CMA being more explicit that Ofwat's ongoing process should not undermine the redetermination.<sup>437</sup>

6.262 More broadly, Anglian submitted that further consideration of potential solutions is merited through discussion between the CMA, Ofwat, EA and Disputing Companies. It submitted two potential options.<sup>438</sup>

- (a) Apply reputational incentives for two years until sufficient actual data is collected to reset financial incentives.
- (b) Exclude dry-day spills from the scope of the performance commitment (as this data will be disaggregated) until sufficient data is collected to reset the financial incentives, while adopting Ofwat's consultation proposals to include category 4 incidents within the performance commitment.

6.263 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.<sup>439</sup> 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.<sup>440</sup>

### *Southern*

6.264 In its statement of case, 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

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<sup>435</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 465.

<sup>436</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 465.

<sup>437</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 465.

<sup>438</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 466.

<sup>439</sup> [Anglian SoC](#), paragraph 519.

<sup>440</sup> [Anglian SoC](#), paragraph 520.

sewers, and that the upper quartile performance level was 28.33.<sup>441</sup> 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.<sup>442</sup>

- 6.265 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).<sup>443</sup> 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.<sup>444</sup> Southern submitted that its proposed approach would provide a more accurate reflection of actual industry performance, while still representing a significant stretch.<sup>445</sup>
- 6.266 Southern supported Anglian's submissions in its statement of case regarding this PCL.<sup>446</sup>

## Ofwat

- 6.267 In its response to the statements of case, Ofwat recognised that poorer performing companies would have to deliver very significant improvements to meet the median sector performance for total pollution incidents.<sup>447</sup> Ofwat submitted that Anglian and Southern are companies that need to address their performance issues and deliver improvements.<sup>448</sup> 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.<sup>449</sup>
- 6.268 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.<sup>450</sup> At its hearing, Ofwat stated that it had taken into account recent performance by

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<sup>441</sup> [Southern SoC](#), p391, paragraph 123.

<sup>442</sup> [Southern SoC](#), p391, paragraph 123.

<sup>443</sup> [Southern SoC](#), p391, paragraphs 124–126 and p394, Table 7.

<sup>444</sup> [Southern SoC](#), p391, paragraph 125.

<sup>445</sup> [Southern SoC](#), p391, paragraph 127.

<sup>446</sup> Southern (2025) [Response to other Disputing Companies' SoCs](#), paragraph 85.

<sup>447</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.6.

<sup>448</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.13.

<sup>449</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.12.

<sup>450</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

companies and its PR24 FD approach takes account of changes in reporting.<sup>451</sup> 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.<sup>452</sup>

- 6.269 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.<sup>453</sup> 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.<sup>454</sup>
- 6.270 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.<sup>455</sup> 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.<sup>456</sup> Ofwat noted that normalisation was considered as part of the consultation on EPA changes.<sup>457</sup>
- 6.271 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.<sup>458</sup> Ofwat subsequently published a consultation in October 2025 on its proposals to adjust relevant aspects of the total pollution incidents performance commitment to maintain the level of stretch and performance payments in line with its PR24 FD.<sup>459</sup> In its response to the CMA PR24 PD, 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.<sup>460</sup>

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<sup>451</sup> (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p67, lines 21–23.

<sup>452</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

<sup>453</sup> 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).

<sup>454</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.72.

<sup>455</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.1.

<sup>456</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.2.

<sup>457</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.64.

<sup>458</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.2.

<sup>459</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p17.

<sup>460</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 6.12; and see also Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p12, paragraph 3.6.

### Third parties

6.272 In their responses to the CMA PR24 PD, Thames Water and Yorkshire Water asked the CMA to consider Ofwat’s proposals in its October 2025 consultation (on its proposals to adjust relevant aspects of the total pollution incidents performance commitment) as part of its final redeterminations.<sup>461</sup>

#### *Our assessment and decisions*

6.273 The PCLs requested by Anglian and Southern are shown in Table 6.9 below together with the levels Ofwat set in its PR24 FD. Below we provide our assessment and decisions on these requests under the following headings.

- (a) The normalisation approach.
- (b) Changes to the categorisation of pollution incidents.
- (c) Exogenous factors and using the most recent available performance data.

**Table 6.9: 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

6.274 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.

6.275 Anglian’s submissions on normalisation highlighted what it considered to be the shortcomings of the EA’s current approach. 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. Our view is that the EA and Natural Resources Wales October 2024 consultation provided an appropriate process for determining whether the normalisation changes proposed by Anglian should be made within

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<sup>461</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 173 and Yorkshire Water (2025) [Response to CMA PR24 PD](#), p7.

the EPA framework. The outcome of that review was that the current normalisation approach – based on the length of each companies’ sewer network – should be retained.

- 6.276 Ofwat’s PR24 FD and consultation approach of continuing to define performance by reference to the definition included in the EA and Natural Resources Wales EPA methodology maintained (and maintains) simplicity and consistency between regulators. As set out in paragraph 6.258 above, Anglian said that its submissions did not relate to the measurement of company performance for the purpose of EPA reporting, but rather with Ofwat’s use of such measurements in its role as economic regulator to set financial incentives. However, there is no apparent reason in principle why the economic regulator would want to use a different metric to that used by the EA, and we note that the financial incentives Ofwat applied at PR19 also used this EPA metric.<sup>462</sup> That is, Ofwat did not introduce a new measure of total pollution incidents in its PR24 FD. Rather, it determined that the EPA metric which had been used in the application of financial incentives during AMP7 – normalised by reference to sewer length – should continue to be used to set financial incentives in AMP8.
- 6.277 While there may be scope for improving the ways in which relative performance with respect to pollution incidents is assessed over time, we do not consider Anglian’s submissions<sup>463</sup> to provide a sufficient justification for introducing a new metric as part of this redetermination which would differ from that used by the EA/Natural Resources Wales under the EPA framework.
- 6.278 Our decision is to retain the approach to normalisation used by Ofwat in its PR24 FD.

### **Changes to the categorisation of pollution incidents**

- 6.279 The changes the EA has made to the EPA methodology to be applied from 2026-30 that affect the categorisation of pollution incidents will impact all wastewater companies. Ofwat’s change control process, including its recent consultation, provides a mechanism through which this impact can be taken into account in the performance commitment’s calibration. We note Anglian’s submissions regarding the potential implications of the EPA methodology changes for the total pollution incidents PCL, but consider that Ofwat’s review provides an appropriate process for considering those submissions, and supporting evidence, alongside the submissions and evidence provided by other companies and by the EA.

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<sup>462</sup> Ofwat (2020) [PR19 FD - Delivering outcomes for customers policy appendix](#), p237.

<sup>463</sup> Including the comparisons it highlighted with respect to the composition of wastewater assets across companies (as shown in Figure 6.8 and Figure 6.9 above), and the statistical analysis of potential alternatives that Anglian had submitted to the EA/Natural Resources Wales.

6.280 As such, our 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).

#### **Exogenous factors and using the most recently available performance data**

6.281 Southern’s submissions raised the question of whether 2023/24 or 2024/25 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 view is that it would not be appropriate to determine the base year value using performance data from only a single year when setting the PR24 total pollution incidents PCLs.

6.282 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.<sup>464</sup> 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.<sup>465</sup> 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.<sup>466</sup> While these comments refer to 2023/24 data, they highlight that outturn performance in a given year may be materially affected by prevailing conditions within that year.

6.283 Performance data for 2024/25 was not available to Ofwat for its PR24 FD but has since been published. Our view is that this data should be taken into account when setting PCLs for total pollution incidents. Therefore, our decision is that it is appropriate when setting the baseline value for the total pollution incidents PCL to use evidence from the 2020-25 period (ie the whole of AMP7), which takes account of 2023/24 and 2024/25 data, but does not wholly rely on performance in either of those years.

#### **Our decision on the total pollution incidents PCL**

6.284 Table 6.10 below shows the PCLs that we have decided to apply to the Disputing Companies for total pollution incidents. These values have been determined by

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<sup>464</sup> [Southern SoC](#), p391, paragraph 125; [Anglian SoC](#), paragraphs 459–460.

<sup>465</sup> [Southern SoC](#), p396, paragraph 148.

<sup>466</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.122.

applying Ofwat’s PR24 FD approach to setting the total pollution incidents PCLs, but the base year value has been determined using performance data from 2020-25.

**Table 6.10: Decision on common PCLs for total pollution incidents (number of incidents per 10,000km of sewers)**

PCL	2025/26	2026/27	2027/28	2028/29	2029/30
PCL	27.44	25.69	23.93	22.18	20.43

Source: CMA.

6.285 While Table 6.10 shows PCLs for all years of AMP8, we note that in practice – given the changes the EA has made to its EPA methodology, and that the performance commitment definition in Ofwat’s PR24 FD refers to that methodology – the PCLs for 2026/27 onwards may be replaced by revised values following Ofwat’s consultation (see paragraphs 6.247 to 6.250 above which describe Ofwat’s proposed changes). As set out in paragraph 6.280, our decision is that Ofwat’s change control process provides an appropriate process for determining what changes to the PCLs should be made for the Disputing Companies to take account of EPA methodology changes.

### Water Supply Interruptions

6.286 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.<sup>467</sup> 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.<sup>468</sup>

6.287 Anglian, Southern and South East requested changes to the water supply interruptions PCL.<sup>469</sup>

- (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.

<sup>467</sup> Ofwat (2025) [Water supply interruptions PC definition](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p88.

<sup>468</sup> Ofwat (2025) [Water supply interruptions PC definition](#), p2.

<sup>469</sup> 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).

(c) South East's submissions focused on company-specific factors related to its water supply interruptions PCL and are considered separately from paragraphs 6.322 to 6.404 below.

6.288 Our decision is to set the common PCL for water supply interruptions per the approach proposed in Anglian's request, such that a 2024/25 baseline is set equal to the median of companies' average performance in AMP7 (including data for 2024/25) 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. Our decision is to retain the enhanced ODI thresholds for water supply interruptions specified in Ofwat's PR24 FD for the reasons set out below.

#### *Ofwat's PR24 FD approach*

6.289 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.<sup>470</sup> This was in line with the level of the final PR19 target that applied to all companies in 2024/25.<sup>471</sup>

#### *Parties' submissions*

### **Disputing Companies**

#### *Anglian*

6.290 Anglian said in its statement of case 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.<sup>472</sup>

6.291 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 than the upper quartile of 6.18 minutes (and the median of 9.38 minutes) based on Ofwat's reports of average company performance (from 2020/21 to 2023/24).<sup>473</sup>

6.292 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.<sup>474</sup> In reply to Ofwat's Response, Anglian submitted that this would be a pragmatic alternative, reflecting industry data and consistent with

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<sup>470</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp89–91.

<sup>471</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p91.

<sup>472</sup> [Anglian SoC](#), paragraphs 549–550.

<sup>473</sup> [Anglian SoC](#), paragraph 552; and see Anglian (2025) [Response to CMA PR24 PD](#), paragraph 491.

<sup>474</sup> [Anglian SoC](#), paragraph 553.

Ofwat's approach to internal sewer flooding, while achieving a 43% improvement by the end of AMP8.<sup>475</sup>

### *Southern*

#### **Water supply interruptions common PCL**

- 6.293 In its statement of case, Southern submitted that the PCLs in Ofwat's PR24 FD did not reflect what was achievable in the sector, and in particular the following.<sup>476</sup>
- (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 Ofwat's 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 Ofwat's 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.
- 6.294 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.<sup>477</sup> In reply to Ofwat's Response, Southern considered that Ofwat provided limited rationale for why the methodology underpinning this PCL diverges from the approaches to other performance commitments.<sup>478</sup>
- 6.295 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.<sup>479</sup>

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<sup>475</sup> Anglian (2025) [Reply to Ofwat Response](#), p10.

<sup>476</sup> [Southern SoC](#), p386, paragraph 101.

<sup>477</sup> [Southern SoC](#), p387, paragraph 102.

<sup>478</sup> Southern (2025) [Reply to Ofwat Response](#), paragraph 7.

<sup>479</sup> [Southern SoC](#), p387, paragraph 103.

## Water supply interruptions enhanced ODI rates

6.296 In its response to the CMA PR24 PD, Southern noted that the CMA should recalibrate the thresholds for the application of enhanced ODI rates for water supply interruptions in line with the revised PCL.<sup>480</sup>

### Ofwat

#### *Water supply interruptions common PCL*

- 6.297 In response to the statements of case, Ofwat submitted that the CMA should not adjust the PCL on the basis of either Anglian or Southern's requests.<sup>481</sup> 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.<sup>482</sup>
- 6.298 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.<sup>483</sup>
- 6.299 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.<sup>484 485</sup>
- 6.300 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.<sup>486</sup> 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.<sup>487</sup> Ofwat said it

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<sup>480</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.8 and 6.94.

<sup>481</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92; Ofwat (2025) [Response to Southern SoC](#), paragraph 4.197.

<sup>482</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.189; Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.17.

<sup>483</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.12.

<sup>484</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.194.

<sup>485</sup> See also Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p18, Table 2.

<sup>486</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

<sup>487</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

considered this especially important given that customers had told it that water supply interruptions have a high impact on them.<sup>488</sup>

- 6.301 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.<sup>489</sup> Ofwat said this indicated that Anglian could deliver the required PCL of 5 minutes from the first year of the 2025-30 period and throughout the period.<sup>490</sup> 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.<sup>491</sup>
- 6.302 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.<sup>492</sup> 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.<sup>493</sup> 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.<sup>494</sup>
- 6.303 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 had made an efficient cost allowance of £623.72 million for interconnections and resilience.<sup>495</sup>
  - (b) Southern was provided with 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 had allowed a further £181.74 million for supply connectors enhancement.<sup>496</sup> Ofwat noted that Southern's statement of case recognised that it has an ageing asset base, and has historically not focused its spending

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<sup>488</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.89.

<sup>489</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.90.

<sup>490</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.90.

<sup>491</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92.

<sup>492</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.190–4.191; Ofwat (2025) [Response to common issues on outcomes](#), Table 1.

<sup>493</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.195.

<sup>494</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.195.

<sup>495</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.91.

<sup>496</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.196.

on improving the resilience of its assets, with this having been partly down to management decisions.<sup>497</sup>

6.304 In response to the CMA PR24 PD, Ofwat submitted that the CMA's proposed PCL would be a significant reduction of service standards and ambition relative to all disputing companies' current and historic performance which will unfairly impact their customers.<sup>498</sup> It submitted that weakening the common PCL would lack ambition and create a windfall for Northumbrian and Wessex at the expense of customers.<sup>499</sup>

*Water supply interruptions enhanced ODI rates*

6.305 In its response to the CMA PR24 PD, Ofwat said that if a less stringent common PCL for water supply interruptions was to be applied, it would be inappropriate to adjust the threshold at which enhanced ODI rates apply. Ofwat submitted that enhanced ODI thresholds do not automatically require updating where PCLs have changed.<sup>500</sup> Ofwat said it would be inappropriate to make an adjustment because the updated enhanced threshold would not represent genuine frontier performance.<sup>501</sup>

6.306 Ofwat said changing the enhanced ODI thresholds would result in companies receiving enhanced payments for catch-up performance rather than delivering major innovation or improvement.<sup>502</sup> Making an adjustment would not be in the interests of customers as it could lead to payments without evidence of sector-wide benefit.<sup>503</sup> Ofwat said that this would be inconsistent with its objective of setting enhanced ODIs to encourage companies to innovate and improve performance beyond the current industry frontier to the benefit of customers in the long-term.<sup>504</sup>

6.307 Ofwat said that its comments were consistent with the approach it had taken to external sewer flooding where it had not adjusted the enhanced ODI thresholds between its draft determinations and PR24 FD because such an adjustment would not have reflected frontier performance.<sup>505</sup>

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<sup>497</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.196.

<sup>498</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p19, Table 2.

<sup>499</sup> Ofwat (2025) [Response to CMA PR24 PD: Overview](#), paragraph 1.19; and Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.4 and p19, Table 2.

<sup>500</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.12 and p26.

<sup>501</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.12 and p26.

<sup>502</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p26.

<sup>503</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p26.

<sup>504</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p27.

<sup>505</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.12 and p27.

## Third parties

### CCW

6.308 In response to the CMA PR24 PD, CCW submitted that easing early-year targets for water supply interruptions would compare poorly to Ofwat's PR24 PD.<sup>506</sup> Easing these targets would weaken incentives where customers expect faster progress.<sup>507</sup> CCW said that reducing the target would dilute the incentive to deal with water supply interruptions quickly and could be seen as giving companies the opportunity to backload delivery until later (customers would pay now, but get the benefits later).<sup>508</sup> CCW submitted that this is an area of service where several companies are failing.<sup>509</sup>

### *Our assessment and decisions*

6.309 The PCLs requested by Anglian and Southern are shown in Table 6.11 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 separately in paragraphs 6.243 to 6.285 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).<sup>510</sup>

**Table 6.11: 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.

6.310 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 view is that this approach does not take sufficient account of available evidence on the levels of performance that companies have

<sup>506</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 2.4; and see paragraph 4.4.

<sup>507</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 2.4.

<sup>508</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.10.

<sup>509</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.10.

<sup>510</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p89.

shown themselves able to achieve in recent years while subject to the financial reward and penalty arrangements that applied under the PR19 ODI framework.

- 6.311 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.<sup>511</sup> 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 decision is that – given this evidence – a baseline level of 5 minutes for 2024/25 is not appropriate.
- 6.312 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.<sup>512</sup> With respect to historical performance, our view is that the selected references Ofwat made to companies having achieved levels of interruptions below 5 minutes<sup>513</sup> 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,<sup>514</sup> in line with the approach Ofwat itself took when identifying an appropriate baseline level against which to set other common PCLs.<sup>515</sup>
- 6.313 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 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 water supply interruptions PCL for 2029/30.
- 6.314 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.<sup>516</sup> 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

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<sup>511</sup> [Anglian SoC](#), paragraph 552.

<sup>512</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.194.

<sup>513</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.10.

<sup>514</sup> 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.

<sup>515</sup> See, for example, Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.6.

<sup>516</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p110, lines 3–4.

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.

- 6.315 In our 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.
- 6.316 Given this context, our decision is that it is appropriate to set common PCLs for water supply interruptions as per the approach set out in Anglian's request, such that a 2024/25 baseline level is set equal to the median of companies' average performance in AMP7, and PCLs are set assuming a linear improvement from this baseline position to 5 minutes in 2029/30. In forming this decision, we have taken account of the importance of water supply interruptions performance to customers, the points highlighted above and the following considerations.
- (a) Setting a 2024/25 baseline level equal to the median of companies' average performance in AMP7 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.<sup>517</sup> 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.

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<sup>517</sup> We consider the implications of this for the overall balance of risk under the ODI package in chapter 8 (Risk and Return).

(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.

6.317 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).

6.318 Ofwat said that a target of 8 minutes 43 seconds – which was the common PCL Anglian requested for 2025/26 – would represent a significant deterioration as it would effectively move performance back by almost 5 years.<sup>518</sup> 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 decision is that it is appropriate to anchor the PR24 PCLs by reference to what has been achieved in AMP7, while at the same time setting targets that encourage material improvement in this area.

6.319 Performance data for 2024/25 was not available to Ofwat for its PR24 FD but has since been published. Our decision is that it is appropriate when setting the baseline value for the water supply interruptions PCL to use evidence from the 2020-25 period (ie the whole of AMP7) to provide an updated view of the stringency and achievability of the PCLs. This results in a common PCL for 2025/26 that is around 3% more stringent than that requested by Anglian.

6.320 In line with the above, our decision is that the common PCLs for water supply interruptions should be set at the levels shown in Table 6.12 below for all Disputing Companies excluding South East (whose submissions we assess below).

**Table 6.12: Decision on common PCLs for water supply interruptions (minutes lost per customer – mm:ss)**

	2025/26	2026/27	2027/28	2028/29	2029/30
PCL	08:25	07:34	06:42	05:51	05:00

Source: CMA.

6.321 Our decision is that the enhanced ODI thresholds for water supply interruptions should remain at the levels set in Ofwat’s PR24 FD. Enhanced ODIs are intended to encourage companies to innovate and improve performance beyond the current

<sup>518</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.92.

industry frontier, to the benefit of customers. We agree with Ofwat that adjusting the enhanced ODI threshold to align with the revised PCLs in Table 6.12 above would not be in the interests of customers.<sup>519</sup>

### **Water Supply Interruptions – South East**

- 6.322 South East requested in its statement of case that a company-specific PCL be set for water supply interruptions that would take into account its full enhancement programme and the impact of extreme weather. South East also submitted that its penalty collar should be set at -0.5% RoRE.
- 6.323 The CMA PR24 PD set out our provisional view that that a company-specific PCL should be set for South East. Our provisional assessment was that the submissions we had received on relevant enhancement schemes did not provide a reliable basis for determining the level at which a company-specific PCL should be set. Further, that South East's estimates of the contribution from enhancement schemes were likely to significantly overstate the contribution that it is appropriate to take into account when determining a company-specific PCL.
- 6.324 Given that, we considered other relevant sources of evidence, and our provisional decision was to 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 provisional view of the common PCL, and to apply the common target of 5 minutes for year 5.
- 6.325 Our final decision, for the reasons set out below, is to:
- (a) 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 3:57 minutes for the first four years of AMP8 versus our common PCL (see Table 6.12 above), and to apply the common target of 5 minutes for year 5;
  - (b) apply a deadband between the company-specific and common PCL; and
  - (c) apply a penalty collar of -1% RoRE.
- 6.326 Our assessment below addresses the following questions in turn.
- (a) Should a company-specific PCL be applied to South East for water supply interruptions?

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<sup>519</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p26.

- (b) At what level should a company-specific PCL be set?
- (c) What penalty collar and ODI rates should be applied?

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

### **Parties' submissions**

#### *South East*

- 6.327 In its statement of case, 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.<sup>520</sup> 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 impact of this on its customers.<sup>521</sup> 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.<sup>522</sup> 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.<sup>523</sup>
- 6.328 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.<sup>524</sup> 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.<sup>525</sup>
- 6.329 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.<sup>526</sup> South East said that operational headroom in its western region has been consistently higher than in Kent and Sussex and submitted that a

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<sup>520</sup> [South East SoC](#), paragraph 5.11.

<sup>521</sup> [South East SoC](#), paragraph 5.12.

<sup>522</sup> [South East SoC](#), paragraph 5.12; South East (2025) [Reply to Ofwat Response](#), paragraph 1.9(b)

<sup>523</sup> [South East SoC](#), paragraph 5.13.

<sup>524</sup> [South East SoC](#), paragraph 5.15.

<sup>525</sup> [South East SoC](#), paragraph 5.15.

<sup>526</sup> [South East SoC](#), paragraph 5.16.

permanent change in customer behaviour as a result of COVID-19 had eroded operational headroom.<sup>527</sup>

- 6.330 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.<sup>528</sup> 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.<sup>529</sup>
- 6.331 South East said it had developed a multi-AMP enhancement investment programme that addresses root causes and delivers a resilient network for its customers.<sup>530</sup> South East submitted that this will improve its performance significantly over AMP8, including by ensuring that its network is more resilient to extreme weather and the impact of climate change.<sup>531</sup> 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 required in Ofwat's PR24 FD.<sup>532</sup>
- 6.332 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.<sup>533</sup>
- 6.333 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.<sup>534</sup> South East submitted that it had provided evidence on equivalent points.<sup>535</sup>
- 6.334 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.<sup>536</sup> Replying to Ofwat's Response,

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<sup>527</sup> [South East SoC](#), paragraph 5.16.

<sup>528</sup> [South East SoC](#), paragraph 5.17(a).

<sup>529</sup> [South East SoC](#), paragraphs 5.17(b) and 5.17(c).

<sup>530</sup> [South East SoC](#), paragraph 5.17(d); and see South East (2026) Recent supply interruption incidents on SEW's network and the needs case for investment at Bewl WTW.

<sup>531</sup> [South East SoC](#), paragraph 5.17(d).

<sup>532</sup> [South East SoC](#), paragraph 5.18.

<sup>533</sup> [South East SoC](#), paragraph 5.21.

<sup>534</sup> [South East SoC](#), paragraph 5.23 and Annex F, paragraph 38(a).

<sup>535</sup> [South East SoC](#), paragraph 5.23 and Annex F, paragraph 38(a) and Table ANF4; and South East (2025) [Response to CMA PR24 PD](#), paragraph 5.11.

<sup>536</sup> [South East SoC](#), paragraph 5.24 and Annex F, Table ANF6.

South East submitted that Ofwat's approach to the water supply interruptions PCL is disconnected from other parts of the price control.<sup>537</sup>

### *Ofwat*

- 6.335 In response to the statements of case, Ofwat said that the CMA should not adopt the changes South East proposed to the water supply interruptions PCL.<sup>538</sup> It submitted that South East's proposed PCLs 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.<sup>539</sup> 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.<sup>540</sup>
- 6.336 Ofwat provided the graph shown in Figure 6.10, and said that South East's performance had been worse than the median performer in each of the last nine years, and generally by a large amount.<sup>541</sup> Ofwat submitted that South East's performance had 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.<sup>542</sup>

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<sup>537</sup> South East (2025) [Reply to Ofwat Response](#), paragraph 1.8.

<sup>538</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.222.

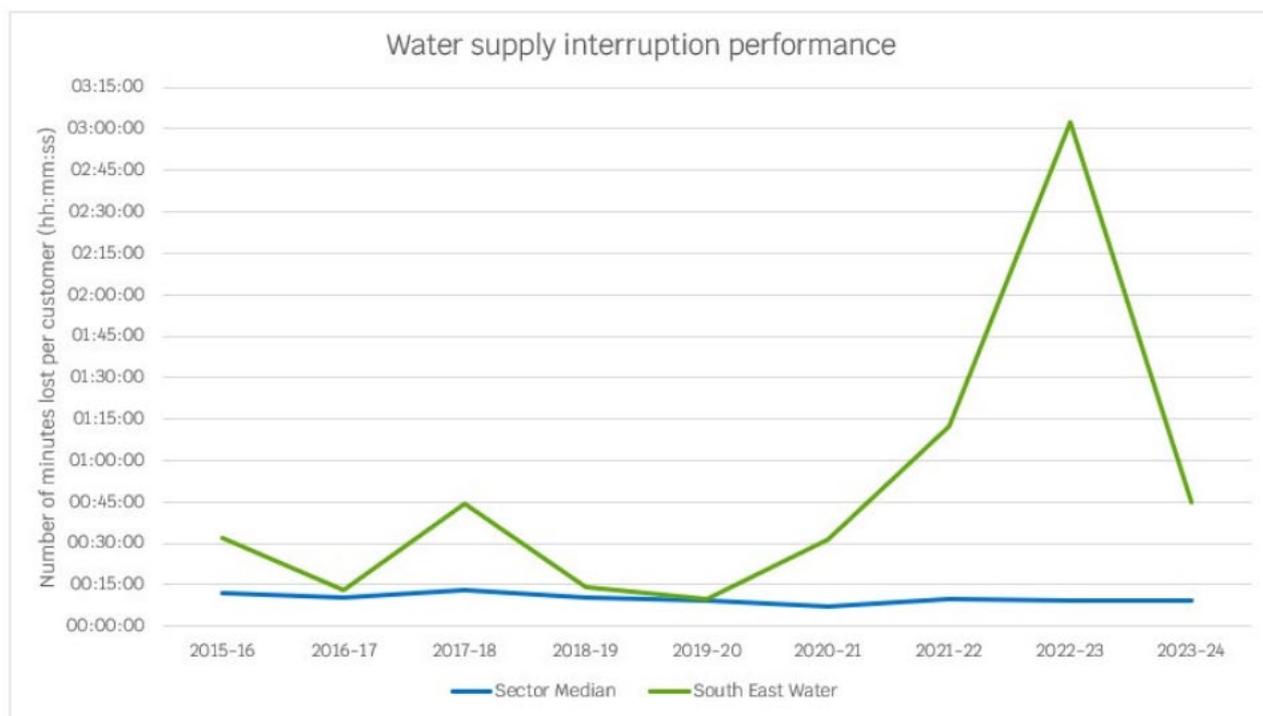
<sup>539</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.223.

<sup>540</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.223.

<sup>541</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.224.

<sup>542</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.225.

**Figure 6.10: South East water supply interruption performance since 2015/16 compared to sector median**



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

6.337 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.<sup>543</sup> Ofwat said that, in addition to this, South East had not demonstrated it had undertaken adequate root cause analysis to account for its poor performance.<sup>544</sup>

6.338 Ofwat submitted that it would not be appropriate to set a company-specific PCL for South East, including because:<sup>545</sup>

- (a) a high evidential bar should be set for deviating from a common performance level where it will result in targets being set at a lower level of performance in that region; and
- (b) using the framework in Ofwat’s PR24 FD, Ofwat did not consider the evidence South East provided to be compelling.

<sup>543</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.243.

<sup>544</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.243.

<sup>545</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.243; Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp22–23.

6.339 In its response to the CMA PR24 PD, Ofwat submitted that a reduced target would negatively impact customers, lead to inconsistent service across regions and risk weakening incentives for maintaining and improving performance in a vital area.<sup>546</sup>

### CCW

6.340 In response to South East's statement of case, 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.<sup>547</sup> Customers would expect an ambitious target to drive tangible improvement in return for any bill increase.<sup>548</sup> In response to the CMA PR24 PD, CCW submitted that lowering the target for the start of the AMP would lessen the penalty South East receives for failing to consistently provide water supply resilience, and would instead accept a below standard performance. CCW said this would be of no benefit to customers of South East, who should expect consistent, uninterrupted water.<sup>549</sup>

### Our assessment and decision

6.341 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.

6.342 We consider the evidence presented to us shows that water supply interruptions performance can be materially affected by activities associated with base funding allowances. We comment on this evidence further in paragraphs 6.371 to 6.375 below, but note that Ofwat emphasised the scope for operational changes to improve water supply interruptions performance (including by improvements made by Severn Trent),<sup>550</sup> 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.<sup>551</sup>

6.343 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

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<sup>546</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.5.

<sup>547</sup> CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraphs 3.4 and 3.10; and see CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.10

<sup>548</sup> CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.10.

<sup>549</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 4.13.

<sup>550</sup> See paragraph 6.359 below.

<sup>551</sup> [South East SoC](#), paragraph 5.17.

companies to deliver an efficient level of performance. More generally, it could weaken incentives for companies to strive for the efficient operation and maintenance of the network. In particular, company-specific 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.

- 6.344 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. This is because expected ODI penalties would be lower. As noted above, as well as potentially dampening performance improvement incentives, this increases the risk that customers receive a poorer level of service than companies have been funded to deliver.
- 6.345 Given these risks, our decision is that it is appropriate, as per the approach Ofwat identified as appropriate in its PR24 FD,<sup>552</sup> to only set a company-specific PCL, where there is compelling evidence that a company-specific approach would be justified.
- 6.346 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.<sup>553</sup>
- (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?
  - (b) Does the company provide compelling evidence to demonstrate it is taking reasonable and appropriate action to improve performance in this area?
- 6.347 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.<sup>554</sup> 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

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<sup>552</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p25.

<sup>553</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.240.

<sup>554</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p92.

region-specific risks or issues to enable delivery of the common performance level.<sup>555</sup> Ofwat said that scenario (ii) was applicable to South East and that:<sup>556</sup>

‘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).’

6.348 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.<sup>557</sup> 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.<sup>558</sup> Ofwat said that consistently good performance on supply interruptions requires more than capital schemes.<sup>559</sup>

6.349 We consider that it is appropriate to make a company-specific adjustment to the water supply interruptions 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 view is that the fact that water supply interruptions performance will also be affected by operational 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.

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<sup>555</sup> Ofwat response to Ofwat RFI17, Q1 (part A).

<sup>556</sup> Ofwat response to Ofwat RFI17, Q1 (part B).

<sup>557</sup> Ofwat response to Ofwat RFI17, Q1 (part B).

<sup>558</sup> Ofwat response to Ofwat RFI17, Q1 (part B).

<sup>559</sup> Ofwat response to Ofwat RFI17, Q1 (part B).

*At what level should a company-specific PCL be set?*

**Parties' submissions**

*South East*

6.350 South East said in its statement of case that 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.<sup>560</sup>

- (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 estimated this as increasing water supply interruptions by 09:47 minutes per year during AMP8.
- (c) It took account of the reduction in interruption minutes as a result of enhancement schemes: South East estimated 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 6.11 below.

**Figure 6.11: 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
<b>D - Total with extreme weather and full AMP8 enhancement programme</b>	<b>33.42</b>	<b>30.42</b>	<b>29.51</b>	<b>24.15</b>	<b>8.11</b>

Source: *South East SoC*, Table 5.3.

6.351 Figure 6.12 below shows South East's view of the improvement in its water supply interruptions performance that would be expected to result from resilience

<sup>560</sup> *South East SoC*, paragraph 5.25 and Table 5.3.

schemes in AMP8, which together make up row C in Figure 6.11 above. In total, South East estimated an improvement of 25:81 minutes over AMP8 related to twelve schemes.

**Figure 6.12: 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
<b>Year 1 total expected performance improvement</b>			<b>0.50</b>
Smart water networks	All	Y2	3.00
<b>Year 2 total expected performance improvement</b>			<b>3.50</b>
Tonbridge WTW	Kent	Y3	0.91
<b>Year3 total expected performance improvement</b>			<b>4.41</b>
Bowl Upgrage[3<]	Kent	Y4	4.31
Interconnectivity [3<]	Kent	Y4	1.05
<b>Year 4 total expected performance improvement</b>			<b>9.77</b>
[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
<b>Year 5 total expected performance improvement</b>			<b>25.81</b>

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

6.352 South East submitted that under Ofwat’s PR24 FD PCL and penalty collar it would incur penalties of £31 million based on its P50 assessment (as set out in the final row D in Figure 6.11 above), which it said was ‘clearly unacceptable’.<sup>561</sup>

6.353 South East said that one remedy it considered requesting in its statement of case was the removal of the impact of extreme weather from the PCL.<sup>562</sup> South East

<sup>561</sup> South East SoC, paragraph 5.26.

<sup>562</sup> South East SoC, paragraph 5.27.

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 there are no standards for water infrastructure design to allow funding to be calibrated against that risk.<sup>563</sup> 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.<sup>564</sup>

6.354 Instead, South East requested in its statement of case that a company-specific PCL be set at a stretching but achievable level as set out in Table 6.13 below.<sup>565</sup> South East said that these PCLs were based on the figures shown in row D of Figure 6.11 above, and included an efficiency and ambition stretch.<sup>566</sup> 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.<sup>567</sup>

**Table 6.13: 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	30:00	29:00	24:00	08:00

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

6.355 In its response to the CMA PR24 PD, South East submitted that the company specific PCL the CMA proposed would be unachievable and too stretching.<sup>568</sup> South East maintained in its response to the CMA PR24 PD that the PCL set out in its statement of case is based on the most appropriate position, as it is based on comprehensive evidence and takes into account all of South East’s relevant enhancement schemes.<sup>569</sup> South East said that while the values shown in Table 6.11 were its best estimate of the company-specific PCL that in its view should apply, it had developed two alternative proposed approaches to take account of considerations in the CMA PR24 PD.<sup>570</sup>

(a) First, South East determined the scale of the uplift to the common PCL based on its view of how relevant enhancement schemes would contribute to water supply interruption performance (referring to schemes which were wholly or partially funded in Ofwat’s PR24 FD or in the CMA PR24 PD).<sup>571</sup> South East presented variants of this approach based on 100% and 50% of the

<sup>563</sup> [South East SoC](#), paragraph 5.27 (a).

<sup>564</sup> [South East SoC](#), paragraph 5.27.

<sup>565</sup> [South East SoC](#), paragraph 5.28; South East (2025) [Response to other Disputing Companies’ SoCs](#), paragraph 3.8.

<sup>566</sup> [South East SoC](#), paragraph 5.29.

<sup>567</sup> [South East SoC](#), paragraph 5.29.

<sup>568</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.4 and 5.49.

<sup>569</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 1.33 and 5.47.

<sup>570</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.34–5.43.

<sup>571</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.38(a).

contribution it identified. South East submitted that including 50% of the contribution it had identified represented a highly conservative approach.<sup>572</sup>

- (b) Second, South East proposed amending the PCLs it had submitted in response to Ofwat’s PR24 DD to reflect its assessment of the impact of extreme weather (an uplift of 09:28 minutes).<sup>573</sup> South East submitted that this was a conservative position. Its estimate was predicated on an expected annual frequency of one to two extreme weather events over AMP8 but that the number could likely be higher than that under current climate conditions.<sup>574</sup>

6.356 South East compared its proposals to its performance in the first half of 2025/26 (ie to the end of September 2025), which it presented as a cross-check for what was reasonable (see Figure 6.13).<sup>575</sup> South East submitted that its further analysis suggested a minimum range for its starting AMP8 PCL of between 18 and 33 minutes.<sup>576</sup>

**Figure 6.13: South East alternative PCL proposals in its response to CMA PR24 PD**

	25/26	26/27	27/28	28/29	29/30
<b>SoC - SEW</b>	00:33:00	00:30:00	00:29:00	00:24:00	00:08:00
<b>Approach 1: Uplifting the common PCL to reflect our region specific issues - total impact</b>	00:26:43	00:25:47	00:23:56	00:21:58	00:05:00
<b>Approach 1: Uplifting the common PCL to reflect our region specific issues - 50% of impact</b>	00:17:43	00:16:47	00:15:23	00:13:57	00:05:00
<b>Approach 2: Our DDR PCL with extreme weather</b>	00:21:50	00:20:54	00:19:58	00:19:03	00:05:00
<b>Cross-Check: Year-to-date performance</b>	00:18:00 <i>(only includes H1 FY26)</i>				

Source: South East (2025) [Response to CMA PR24 PD](#), Table 5.8.

### Ofwat

6.357 In its response to South East’s statement of case, 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.<sup>577</sup> Ofwat said that its

<sup>572</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.38(b) and 5.40.

<sup>573</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.35(iii) and 5.41–5.42.

<sup>574</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.43.

<sup>575</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.44–5.46.

<sup>576</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.49.

<sup>577</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.226.

reviews of previous severe weather incidents had found that South East Water had failed to adequately prepare, for instance:

- (a) Ofwat's review of water companies' response to the 'Beast from the East' in June 2018 found that South East's plans were not sufficiently robust to enable it to deal with the situation that the company was actually confronted with;<sup>578</sup>
- (b) the freeze thaw event in December 2022 was exacerbated by South East'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;<sup>579</sup> 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.<sup>580</sup>

6.358 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.<sup>581</sup> Ofwat said it did not consider South East to be significantly impacted by COVID-19 above and beyond other water companies.<sup>582</sup> 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%.<sup>583</sup> 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.<sup>584</sup> 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.<sup>585</sup> Ofwat submitted that despite the allowances provided at PR19 for inter-zonal investment and to improve resilience, South East's water supply interruptions performance deteriorated over the 2020-24 period.<sup>586</sup>

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<sup>578</sup> 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](#).

<sup>579</sup> 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](#).

<sup>580</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.229, referring to [OF-OU-051] Ofwat (2023) [Prepare Better, Perform Better – Cold Weather Events](#).

<sup>581</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.227.

<sup>582</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.231.

<sup>583</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.233.

<sup>584</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.235.

<sup>585</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.235.

<sup>586</sup> Ofwat (2025) [Response to South East SoC](#), paragraphs 4.236–4.237.

- 6.359 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:<sup>587</sup>
- (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;<sup>588</sup> 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.<sup>589</sup>
- 6.360 In its response to the CMA PR24 PD, Ofwat said the approach in the CMA PR24 PD would reward South East for consistently poor performance over the past decade.<sup>590</sup>
- 6.361 Ofwat said that if the CMA decided to implement a company-specific PCL for South East, it proposed the following approach.<sup>591</sup>
- (a) The PCL could be set at 11:27 minutes for 2025/25. This was the average of the two best years of historical performance for South East since 2015/16. Ofwat said that this would be consistent with the approach it had used when setting a company-specific PCL for United Utilities for internal sewer flooding in its PR24 FD, and noted that South East had requested consistency compared to the approach Ofwat had taken to United Utilities when setting that company-specific PCL.
  - (b) A linear glidepath could apply from the above starting point to 5:00 minutes in 2029/30. Ofwat said that this would be consistent with the approach it had taken when setting other PCL glidepaths in its PR24 FD, including for United Utilities for internal sewer flooding.

### **Our assessment and decisions**

- 6.362 When assessing the appropriate level of company-specific PCLs to apply, we considered the following proposals, and the submissions made in support of them.
- (a) South East's PCL proposal in its statement of case (as shown in Table 6.13).

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<sup>587</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.238.

<sup>588</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.238.

<sup>589</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.239; and see Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p21.

<sup>590</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p20.

<sup>591</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp23-25.

- (b) South East's proposals under 'Approach 1' in its response to the CMA PR24 PD (as shown in Figure 6.13).
- (c) South East's proposal submitted in response to Ofwat's PR24 DD and its proposal under 'Approach 2' in its response to the CMA PR24 PD.
- (d) Ofwat's proposal in its response to the CMA PR24 PD (as set out in paragraphs 6.360 and 6.361).

*South East's PCL proposal in its statement of case*

- 6.363 In its statement of case, South East requested a company-specific PCL for the first year of AMP8 (33 minutes) that is around four times the level at which we have decided that the common PCL should be set (as set out in Table 6.12 above). Applying South East's request would involve making a substantial company-specific adjustment to the water supply interruptions PCL. As set out in paragraphs 6.341 to 6.345, given the risks of dampening performance improvement incentives and of customers receiving a poorer level of service than companies have been funded to deliver, we consider that it is only appropriate 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. We have taken this into account when assessing evidence on what scale of company-specific adjustment is appropriate.
- 6.364 South East's statement of case proposal was underpinned by its submissions on:
- (a) The challenges it faces in relation to water supply interruptions.
  - (b) The extent to which South East expected its planned enhancement schemes to impact on its performance with respect to water supply interruptions, and the expected timing of that impact.
- 6.365 We consider these in turn.

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

- 6.366 South East's requested PCL in its statement of case included an adjustment to the common PCL that goes beyond its view of the impact of enhancement schemes. As can be seen in Figure 6.11 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 6.11.

- 6.367 Our 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 view, we have taken account of the risk highlighted in paragraph 6.343 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.
- 6.368 As set out in paragraphs 6.327 to 6.354, 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.<sup>592</sup> In its response to the CMA PR24 PD, South East said that these submissions demonstrated the current risks it faces, and how they are expected to evolve, which is relevant for considering the impact of its enhancement schemes on the appropriate level of PCL. South East said these submissions provide evidence on the characteristics of its network which limit the scope for improvements through operational responses alone.<sup>593</sup>
- 6.369 Our 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). These schemes may support its ability to meet the common PCL for water supply interruptions. However, our 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.

### **South East's planned enhancement schemes**

- 6.370 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.<sup>594</sup> Ofwat provided us with the nine responses it received,<sup>595</sup> and noted that companies had generally struggled to quantify the benefits of schemes

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<sup>592</sup> [South East SoC](#), paragraphs 5.11–5.16.

<sup>593</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.27.

<sup>594</sup> Ofwat response to Ofwat RF117, Q2 (query clarification), p1.

<sup>595</sup> Ofwat response to Ofwat RF117, Q2 (query clarification).

in this area.<sup>596</sup> Ofwat said that, in addition to citing operational improvements as a driver of water supply interruptions performance, companies stated that:<sup>597</sup>

- (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.

6.371 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.<sup>598</sup> Ofwat said that it considered that companies can do a lot operationally to ‘get a grip’ on these kind of events,<sup>599</sup> and emphasised how companies react and respond.<sup>600</sup> 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,<sup>601</sup> and referred to operational changes which had resulted in improvements to Severn Trent’s performance.<sup>602</sup>

6.372 As per paragraph 6.358 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.<sup>603</sup> In its response to Ofwat’s RFI regarding the benefits of enhancement schemes to water supply interruptions performance (described in paragraph 6.370), Affinity said:<sup>604</sup>

‘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.’

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<sup>596</sup> Ofwat response to Ofwat RFI17, Q2 (query clarification).

<sup>597</sup> Ofwat response to Ofwat RFI17, Q2 (query clarification).

<sup>598</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p110, lines 8–15.

<sup>599</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p111, lines 14–15.

<sup>600</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p120, lines 16–18.

<sup>601</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p109, lines 23–25 and p110, lines 1–2.

<sup>602</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.239; and Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p21.

<sup>603</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.227.

<sup>604</sup> Affinity submission provided in Ofwat response to Ofwat RFI7, Q2 (query clarification).

- 6.373 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.<sup>605</sup>
- 6.374 In its response to the CMA PR24 PD, South East said that the submissions from Ofwat referred to in paragraphs 6.371 and 6.372 above were anecdotal, and that there are equivalent examples of other companies – such as Portsmouth Water and Wessex – demonstrating the importance of network characteristics.<sup>606</sup> South East submitted that, in general, it is not appropriate to use the experience of other companies to indicate the extent of improvement possible through operational responses in its area, because the scope for improvement varies by company and is driven by regional and network characteristics.<sup>607</sup>
- 6.375 Our view is that it is appropriate to use the experience of other companies to indicate the potential impact that the adoption of different operational responses can have, and that the submissions from Ofwat included both quantified evidence of the scale of improvements in performance that other companies have achieved and informative commentary on the approaches that had supported the achievement of those improvements. Our view is that it is important to take account of the scope for operational improvements when assessing the appropriate scale of company-specific adjustment to make to the water supply interruptions common PCLs. We consider this further in the context of South East’s submissions in paragraph 6.376 below.
- 6.376 As was shown in Figure 6.12, South East presented 12 schemes as delivering an improvement in water supply interruptions performance of 25:81 minutes.<sup>608</sup> Our view is that South East’s estimates of the contribution from these schemes are likely to significantly overstate both (a) the set of schemes, and (b) the contribution of each of those schemes that it is appropriate to take into account when determining a company-specific PCL. In forming this view, in addition to the matters addressed in paragraphs 6.370 to 6.375, we have considered the following.
- (a) The extent to which it is appropriate to treat the schemes – and the contribution to water supply interruptions performance that may be associated with them – as funded by AMP8 enhancement allowances. The list of schemes presented by South East includes additional tankers and smart metering schemes. Our view is that it would not be appropriate to take account of these schemes as we have treated them as related to base expenditure and not something for which the PCL should be adjusted (for the

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<sup>605</sup> Affinity submission provided in Ofwat response to Ofwat RF17, question 2 (query clarification).

<sup>606</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.24–5.26.

<sup>607</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.23.

<sup>608</sup> Our assessments of South East’s requests for additional enhancement funding (including our decision to allow funding for Bewl) are set out in chapter 5 (on Enhancement costs).

reasons set out in paragraphs 6.341 to 6.345). Also, as highlighted in our assessments (in chapter 5) of South East's requests for additional enhancement funding in relation to resilience interconnectors, for some schemes the outcome to be delivered overlaps to some extent with base activities (notably, the replacement of existing assets), and for some others with an outcome that had been funded (but not delivered) at PR19.

- (b) In line with the evidence discussed in paragraph 6.370, enhancement investments can be designed (in whole or in part) to reduce or prevent future risks. We note that only five of the 12 schemes taken into account in South East's PCL proposals (shown in Figure 6.12) were in 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. Those five schemes account for 9:58 minutes (ie 37%) of the overall improvement of 25:81 minutes South East identified. Also, we note that Ofwat identified one of the resilience interconnector schemes included in Figure 6.12) (Kilwood supply [§]) as an example of an investment to address future risks (ie preventing deterioration),<sup>609</sup> which suggests that it should be excluded from an assessment of the appropriate company-specific PCL.
- (c) South East said that its assessment of the contribution from each scheme 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.<sup>610</sup> However, as was noted in paragraph 6.357, 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.<sup>611</sup> As was noted in paragraphs 6.371 to 6.375 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 relevant (ie for the determination of a company-specific PCL) expected impact of enhancement schemes would need to reflect the extent to which the impact on customers could have been lessened through other means (including appropriate preparatory operational and maintenance activity).

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<sup>610</sup> South East response to South East RFI07, Q1, paragraph 51.

<sup>611</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p125, lines 23–24, and p126, lines 1–2.

- 6.377 In its response to the CMA PR24 PD, South East questioned what was meant by ‘future risks’ (as referred to in (b) above), and submitted that all of its AMP8 enhancement schemes were designed to address current risks.<sup>612</sup> South East referred to analysis it had undertaken which showed that the number of properties without supply in four AMP7 interruption events would have been zero if its PR24 enhancement schemes had been completed given the support they would have provided.<sup>613</sup>
- 6.378 Our view is that the distinction between current and future risks is significant in the context of determining the appropriate scale of a company-specific adjustment to South East’s PCL. With respect to the South East analysis referred to in paragraph 6.377, it is to be expected that its planned enhancement schemes would lessen the risks of supply interruptions. However, in our view, the analysis does not demonstrate that it would be appropriate to treat all – or all of the contribution from each of – those enhancement schemes as relevant for determining a company-specific adjustment to the common PCL. Water companies are required (including through the WRMP process) to develop plans that reflect forecasts of how the supply and demand conditions in their areas are expected to evolve over time, including as a result of climate change. Given this, we would expect enhancement projects to be justified in part on the basis of the capacity they are expected to provide to enable the management of evolving supply/demand risks.<sup>614</sup> Our view is a that reliable assessment of the expected impact of enhancement schemes relevant to the determination of a company-specific PCL would need to take account of this.
- 6.379 Given the above, our view is that the submissions we have received do not provide a reliable basis for determining the contribution delivered by relevant enhancement schemes when setting a company-specific PCL for South East.

*South East’s proposals under ‘Approach 1’ in its response to the CMA PR24 PD*

- 6.380 As was noted in paragraph 6.355(a), South East’s response to the CMA PR24 PD included a proposed approach (‘Approach 1’) that excluded four schemes from its assessment of the relevant impact of enhancement schemes, and included a variant where the scale of contribution to water supply interruption performance identified as relevant to setting the company-specific PCL was set equal to 50% of

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<sup>612</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.15–5.17.

<sup>613</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.17–5.19 and Table 5.3.

<sup>614</sup> We note that company responses provided in Ofwat response to Ofwat RFI17, Q2 (query clarification) are consistent with this. For example, in its response, Severn Trent said that: ‘While our investment plans include a series of strategic schemes designed to improve the resilience of our water services, their primary purpose is to mitigate long-term risks (for example, those associated with climate change) which if not appropriately managed, could result in increased supply interruptions to customers in the future’ (Severn Trent submission provided in Ofwat response to Ofwat RFI7, Q2 (query clarification), p1).

South East's estimate of that contribution.<sup>615</sup> However, as per the above, we consider that the submissions we have received do not provide a reliable basis for determining the contribution delivered by relevant enhancement schemes when setting a company-specific PCL for South East.

- 6.381 Our view is that the limited extent of the exclusions South East made, and application of a 50% reduction to the estimates South East submitted, is not sufficient to address the deficiencies or risks we have identified. In arriving at this decision, we have taken into account the assessment set out in paragraphs 6.341 to 6.345 above that moving away from a PCL that has been set at a common level, and setting a company-specific PCL, risks dampening performance improvement incentives and customers receiving a poorer level of service than companies have been funded to deliver. Our view is that, in this context, a company-specific adjustment should only be made where there is compelling evidence that it would be justified.
- 6.382 We consider the alternative approach that South East proposed in its response to the CMA PR24 PD ('Approach 2') below, as it takes South East's proposed PCLs in response to Ofwat's PR24 DD as its starting point.

*South East's proposed PCLs in response to Ofwat's PR24 DD and its proposal under 'Approach 2' in its response to the CMA PR24 PD*

- 6.383 Given the absence of a reliable basis for assessing the scale of the contribution from South East's enhancement schemes that it is appropriate to taken into account when determining the company-specific uplift to the common PCL, and, more generally, the lack of an established industry methodology for quantifying the benefits of improvements to supply interruptions (see paragraph 6.370(a)), we considered other potentially relevant reference points.
- 6.384 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).<sup>616</sup> 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.<sup>617</sup>
- 6.385 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.<sup>618</sup> South East said that its response to Ofwat's PR24 DD had included a request to remove

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<sup>615</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.38(a).

<sup>616</sup> South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p18.

<sup>617</sup> South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p18; South East response to South East RFI06, Q1, paragraph 13.

<sup>618</sup> South East response to South East RFI06, Q1, paragraphs 4(b) and 8.

severe weather from performance measurement for water supply interruptions.<sup>619</sup> 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 operational headroom.<sup>620</sup> South East also said that its proposal did not explicitly take into account the specific timing of its enhancement schemes.<sup>621</sup>

6.386 Our view 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. We note that:

- (a) South East’s PR24 DD proposal would imply a company-specific uplift over the common PCL for 2025/26 that we have determined (8:25 minutes) of 3:57 minutes, and is therefore consistent with taking account of South East’s estimates in Figure 6.12 above, while reflecting our 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 6.384, it is the average of South East’s three best years of performance over AMP6 and AMP7 (2016/17, 2018/19 and 2019/20).
- (c) While we note South East’s submission that Ofwat’s QAA process meant that it faced significant regulatory and financial pressure to propose a PCL in its PR24 DD representations that would be acceptable to Ofwat,<sup>622</sup> we consider that in the absence of such pressure there would have been a material risk that it proposed an inappropriately high PCL.

6.387 As set out in paragraph 6.355(b), in its response to the CMA PR24 PD South East included a proposal (under its ‘Approach 2’) which took 12:22 minutes as its starting point and then applied an uplift of 9:28 minutes to reflect its view of the potential impact of severe weather events. This proposed uplift was drawn from the analysis that we considered in paragraphs 6.366 to 6.369 above, which took South East’s view of its expected water supply interruptions performance in AMP8 as its starting point, with that expected performance calibrated based on the levels of interruptions that had been experienced by its customers as a result of past incidents.

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<sup>619</sup> South East response to South East RFI06, Q1, paragraph 9; South East (2025) [Response to CMA PR24 PD](#), paragraph 5.29.

<sup>620</sup> South East response to South East RFI06, Q1, paragraph 9.

<sup>621</sup> South East response to South East RFI06, Q1, paragraph 9(c).

<sup>622</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.30.

- 6.388 As set out in paragraph 6.367, our view is that the common PCL (not a company-specific forecast of performance) is the appropriate starting point when considering the case for a company-specific adjustment. The evidence we received highlighted the extent to which the impact of severe weather events on customers can be affected by the effectiveness of company plans, preparations and operational responses, and that past Ofwat reviews had found South East to have failed to adequately prepare for a number of severe incidents. The common PCL (that all other companies face)<sup>623</sup> does not include any specific adjustment for severe weather events, and our decision on its level took account of the impact of such events indirectly by setting the starting position for AMP8 by reference to sector outturn performance in AMP7 (which reflects the effects of the full range of weather circumstances that applied to different companies in that period). Our view is that it would not be appropriate to make an upward adjustment to take account of the risks of severe weather events (as proposed by South East (under 'Approach 2') in its response to the CMA PR24 PD).
- 6.389 We note that South East presented its performance in the first half of 2025/26 (which it said was 18:00 minutes) as a cross-check on what a reasonable level would be for its company-specific PCL.<sup>624</sup> In our view this comparison does not provide for an appropriate cross-check, because it takes no account of the level of service that customers should be viewed as having already funded, or the extent to which performance may be related to South East's management and operation of its system. The purpose of setting a company specific PCL is not to provide an estimate of the level of performance that South East might deliver.<sup>625</sup> As set out in paragraph 6.345, we consider that it is only appropriate to move away from the common PCL that applies to other companies performance with respect to water supply interruptions, where there is compelling evidence that a company-specific approach would be justified taking account of the risks of dampening performance improvement incentives and of customers receiving a poorer level of service than companies have been funded to deliver. Our view is that South East's PR24 DD proposal for a PCL of 12:22 minutes in 2025/26 provides a reasonable basis for balancing the risks associated with setting a company-specific PCL.

*Ofwat's proposal in response to the CMA PR24 PD*

- 6.390 In its response to the CMA PR24 PD, Ofwat proposed that South East's PCL for 2025/26 be set at the average of the two best years of historical performance for South East since 2015/16 (11:27 minutes). We do not consider the fact that this would align with the approach Ofwat took in relation to one other specific (internal

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<sup>623</sup> Either at the 5:00 minute level set in Ofwat's PR24 FD, or – for the Disputing Companies – at 8:25 minutes, as in Table 6.12.

<sup>624</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.44.

<sup>625</sup> The two recent high profile supply interruption incidents that have affected South East's customers are described in Chapter 5.

sewer flooding) PCL decision in its PR24 FD means that it should be applied in this context. Ofwat's proposed approach is very similar to that which underpins the 12:22 minute figure discussed above, with the only difference being that the average of the two rather than three best years of historical performance is used. In considering these alternatives, we put weight on the fact that South East proposed 12:22 in its PR24 DD representations, and note that in doing so South East commented that:<sup>626</sup>

'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.'

- 6.391 Our view is that the PCL for 2025/26 that South East submitted in its PR24 DD representations provides a more appropriate reference point in this context than that proposed by Ofwat in its response to the CMA PR24 PD.

### **Our decisions**

- 6.392 Our decision is that South East's company-specific PCL should be set at 12:22 minutes for South East for 2025/26. This would imply a company-specific uplift over the common PCL for 2025/26 that we have determined (8:25 minutes) of 3:57 minutes. Our decision is that this level of company-specific uplift (3:57 minutes) should also be applied to the common PCL for water supply interruptions in the second, third and four years of AMP8, with South East then subject to the common PCL in year 5.
- 6.393 Our 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. We note Ofwat's submission that a linear profile (reducing each year towards 5:00 minutes) should instead be applied,<sup>627</sup> but our view is that this would not be appropriate as it would not take sufficient account of the profile over which South East's relevant enhancement schemes would likely be capable of contributing to performance improvements (given the delivery dates identified in Figure 6.12).
- 6.394 Our decision is that the company-specific PCLs shown in Table 6.14 below should apply to South East.

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<sup>626</sup> South East (2024) [PR24 DD Response: Performance Commitments and Outcome Delivery Incentives](#), p19.

<sup>627</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p24.

**Table 6.14: 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	08:25	07:34	06:42	05:51	05:00
South East PCL	12:22	11:31	10:40	9:48	05:00

Source: CMA analysis.

### *Penalty collar and ODI rate*

#### **Parties' submissions**

##### *South East*

- 6.395 South East submitted in its statement of case 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.<sup>628</sup>
- 6.396 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. It submitted that this would result in it being penalised twice as much as other companies in respect of water supply interruptions, and four times as much as most companies for most PCLs.<sup>629</sup> 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. However, South East submitted that the magnitude of its resilience issues cannot be resolved via operational changes.<sup>630</sup> 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.<sup>631</sup>
- 6.397 In its response to the CMA PR24 PD, South East said that, with a tighter collar and the same ODI rate, South East would face the same marginal incentives to improve. To the extent that Ofwat or the CMA may be concerned about the lack of incentives it would face if it hits the collar, this concern should be mitigated by the number of other mechanisms that would continue to incentivise South East and protect customers. This would include reputational incentives, the overlap with other ODIs such as C-MeX, as well as substantial costs such as the operation cost

<sup>628</sup> [South East SoC](#), paragraph 5.32.

<sup>629</sup> [South East SoC](#), paragraph 5.35.

<sup>630</sup> [South East SoC](#), paragraph 5.34(c).

<sup>631</sup> [South East SoC](#), paragraph 5.37.

of fixing service disruptions and Guaranteed Standards Scheme (**GSS**) payments.<sup>632 633</sup>

- 6.398 South East submitted that, given that the CMA PR24 PD adopted the approach of fixing risk at source, it is necessary for South East to face a tighter collar to ensure it is not faced with an unreasonable level of downside risk for water supply interruptions.<sup>634</sup>
- 6.399 South East proposed that a collar be set at -0.5% RoRE in line with Ofwat's approach to most PCLs.<sup>635</sup>

#### *Ofwat*

- 6.400 In its response to the statements of case, 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.<sup>636</sup> 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.<sup>637</sup>
- 6.401 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.<sup>638</sup> 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.<sup>639</sup> Ofwat submitted that the -2% RoRE collar further incentivises the step-change in performance that is needed to provide resilience against this measure into future price control periods.<sup>640</sup>

#### *CCW*

- 6.402 In its response to the CMA PR24 PD, CCW submitted that adjusted ODI collars would help but do not remove the risk that customers wait longer for improvements they are paying for.<sup>641</sup>

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<sup>632</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.3.

<sup>633</sup> Customers are entitled to guaranteed minimum standards of service, as laid down by down by the UK and Welsh Governments. These rights are known as the guaranteed standards scheme (GSS).

<sup>634</sup> South East (2025) [Response to CMA PR24 PD](#), paragraph 5.3.

<sup>635</sup> [South East SoC](#), paragraph 5.38.

<sup>636</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.249.

<sup>637</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.253.

<sup>638</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

<sup>639</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

<sup>640</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.256.

<sup>641</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 4.13.

## Our assessment and decisions

- 6.403 Our decision is that the penalty collar for South East should be set at -1% RoRE, ie the same collar that was applied to all other companies in relation to water supply interruptions in Ofwat's PR24 FD. As was noted in paragraph 6.401, Ofwat said that -1% RoRE was equivalent to around 20 minutes of underperformance in relation to water supply interruptions. Given our 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 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 outweighed by the impact that could have on the overall balance of risk that South East could face.<sup>642</sup> Our decision is that setting the company-specific PCLs in Table 6.14 above and the common penalty collar of -1% RoRE provides a balanced approach.
- 6.404 Our 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 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 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.<sup>643</sup>

### Leakage

- 6.405 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.<sup>644</sup>
- 6.406 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

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<sup>642</sup> Our overall assessment of submissions related to the balance of risk is included in Chapter 8. Ofwat noted that a consequence of a lower collar is to reduce the downside overall risk faced by South East (Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p29).

<sup>643</sup> In its response to the CMA PR24 PD, Ofwat supported the rationale for the proposed deadband. Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp 27–28.

<sup>644</sup> Ofwat (2025) [Performance commitment definition - Leakage](#); Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp120–121.

that we provide the associated enhancement allowances based on Ofwat's models.

- 6.407 For the reasons set out below, our 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 linear glide path from the new baseline to the 2029/30 PCL. We discuss our assessment and decision on related enhancement allowances separately in chapter 5 (Enhancement costs).

#### *Ofwat's PR24 FD approach*

- 6.408 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.<sup>645</sup>
- 6.409 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.<sup>646</sup> For most companies,<sup>647</sup> 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.<sup>648</sup>
- 6.410 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.<sup>649</sup>
- 6.411 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.<sup>650</sup>

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<sup>645</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p122.

<sup>646</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp119–120.

<sup>647</sup> All companies except SES and Southern.

<sup>648</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p121.

<sup>649</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.48.

<sup>650</sup> Ofwat (2024) [PR24 final determinations: South East Water - Outcomes appendix](#), p3.

**Table 6.15: Ofwat PR24 FD Leakage PCL for Anglian and South East (percentage reduction of three-year average leakage from the 2019/20 baseline)**

Company	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
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**

- 6.412 In its statement of case, Anglian requested that we adjust its baseline to reflect its 2024/25 outturn performance and provide the associated enhancement allowances based on Ofwat's models.<sup>651</sup> 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.<sup>652</sup>
- 6.413 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.<sup>653</sup>

#### **Ofwat**

##### *Leakage PCL for Anglian and South East*

- 6.414 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.<sup>654</sup>
- 6.415 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

<sup>651</sup> [Anglian SoC](#), paragraph 570.

<sup>652</sup> [Anglian SoC](#), paragraph 435.

<sup>653</sup> [Anglian SoC](#), paragraphs 435–437.

<sup>654</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.57–4.58.

the time, these figures were a forecast and not an assured outturn, and it considered them to be 'insufficiently ambitious'.<sup>655</sup>

- 6.416 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.<sup>656</sup> Ofwat submitted that the impact of the clawback could be considered to align the PR19 cost allowances with the leakage reduction delivered in AMP7.<sup>657</sup>
- 6.417 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.
- 6.418 Ofwat said that through its PR19 blind year reconciliation process,<sup>658</sup> 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.
- 6.419 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.<sup>659</sup>
- 6.420 In its response to the CMA PR24 PD, Ofwat submitted that, contrary to its response to Ofwat RFI 12, it did not support setting a linear profile from the baseline to 2029/30 for Anglian's leakage PCL. Instead, it said the CMA should accelerate progress towards alignment with Anglian's WRMP targets. Ofwat submitted this would be consistent with its approach in its PR24 FD, where it used annual leakage levels consistent with companies' WRMP forecasts 2027/28, 2028/29 and 2029/30 as the basis for its PCLs wherever possible.<sup>660</sup>

#### *Enhanced leakage ODI thresholds for Anglian and South East*

- 6.421 Ofwat submitted in its response to the CMA PR24 PD that the enhanced leakage ODI rate thresholds for Anglian and South East should be adjusted to reflect changes made to their leakage PCLs.<sup>661</sup>
- 6.422 Ofwat said that as the leakage PCL is set on a company-specific basis, there is no set industry frontier level of performance.<sup>662</sup> Ofwat said that companies are given efficient unit cost enhancement allowances to achieve the leakage reductions they have committed to deliver, such that material improvement beyond these targets would require genuine innovation and frontier levels of performance

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<sup>655</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.51–4.55.

<sup>656</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.58.

<sup>657</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.57.

<sup>658</sup> See Chapter 9 (Other issues) paragraphs 9.2 and 9.3 for an explanation of this process.

<sup>659</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraph 4.59.

<sup>660</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp29-31, Table 2.

<sup>661</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp31-32.

<sup>662</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p31.

improvement.<sup>663</sup> Ofwat submitted that if no changes were made to the current leakage enhanced thresholds, the incentive power is weakened, which would not be in customers' interests and would reduce faster progression towards government targets.<sup>664</sup>

### *Our assessment and decisions*

#### **Anglian and South East leakage PCLs**

- 6.423 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 data.<sup>665</sup> 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.<sup>666</sup>
- 6.424 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.<sup>667</sup> 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.
- 6.425 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;<sup>668</sup> and
  - (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.<sup>669</sup>

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<sup>663</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp31-32. Anglian's submission on the funding needed to meet its leakage PCL are assessed in chapter 4.

<sup>664</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p32.

<sup>665</sup> South East (2025) [Reply to Ofwat Response](#), p9.

<sup>666</sup> Ofwat (2019) [PR19 final determinations: Delivering outcomes for customers policy appendix](#), pp115–116.

<sup>667</sup> 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.

<sup>668</sup> Anglian (2025) [APR2025 - Data tables section 3](#), sheet: '3A', cells B10:G10 and sheet '3F', cells L18:N18

<sup>669</sup> 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.

6.426 Table 6.16 below shows the PR24 PCLs for Anglian and South East that would result from adopting the following approach:

- (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 linear glide path from the new baseline to the company's 2029/30 PCL.

**Table 6.16: 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.

6.427 The PCLs shown in Table 6.16 align with the adjustments proposed by Anglian and South East, and that were initially proposed by Ofwat.<sup>670</sup> Ofwat submitted that Anglian's PCLs should be adjusted to accelerate progress towards alignment with its WRMP targets (see paragraph 6.420 above).<sup>671</sup>

6.428 Our view is that a linear profile should be applied when setting Anglian's PCLs as per the figures shown in Table 6.16 This maintains the end point (ie the 2029/30 PCL) set in Ofwat's PR24 FD. However, the 2024/25 outturn data implies a different start point to that which had been assumed in Anglian's WRMP, which we consider lessens the relevance of the profile it included in its WRMP.

6.429 Our decision is that the leakage PCLs for Anglian and South East should be set at the levels shown in Table 6.16.

6.430 We discuss our assessment and decisions on related enhancement allowances separately in chapter 5 (Enhancement costs).

### **Anglian and South East enhanced ODI thresholds for leakage**

6.431 Our view is that the company-specific basis upon which leakage targets are set and funded makes it appropriate for enhanced ODI rate thresholds to be set by reference to the PCLs that Anglian and South East will face in PR24. This will ensure that Anglian and South East face appropriate incentives to deliver material improvements in their leakage performance. Therefore, our decision is to set the enhanced leakage ODI thresholds for Anglian and South East at the levels shown in Table 6.17.

<sup>670</sup> Ofwat response to Ofwat RF112, Q3–4; [Anglian SoC](#), paragraph 571; South East response to South East RF104, Q1.

<sup>671</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), pp29-30.

**Table 6.17: Decision on Anglian and South East’s enhanced ODI thresholds for leakage (percentage reduction in 3-year average from 2019/20 baseline)**

Company	2025/26	2026/27	2027/28	2028/29	2029/30
Anglian	5.8%	7.4%	11.1%	14.7%	18.1%
South East	-5.9%	-1.1%	7.9%	16.5%	24.8%

Source: CMA analysis and Ofwat (2025) Response to CMA PR24 PD: Outcomes (Tables) (OF-RTPD-094).

## C-MeX

- 6.432 C-MeX is a measure of residential water customers’ experiences of service quality. It is designed to incentivise water companies to provide an excellent customer experience for residential customers.<sup>672</sup>
- 6.433 A company’s performance on C-MeX is a score out of 100 calculated from the average scores of two satisfaction surveys:<sup>673</sup>
- (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.
- 6.434 Some of the Disputing Companies in their statements of case and some third parties requested changes to the C-MeX measure. These were:
- (a) changes to the formula used to calculate the C-MeX PCL;<sup>674</sup> and
  - (b) suggestions to use a measure based on the volume of customer complaints; these included using customer complaints as part of C-MeX or as a standalone measure in addition to C-MeX.<sup>675 676</sup>
- 6.435 In its response to the CMA PR24 PD, Southern provided new data<sup>677</sup> which, it submitted, supported the need to change the formula used to calculate the C-MeX PCL.
- 6.436 Our decision is to retain Ofwat’s PR24 FD approach for the reasons set out below.

<sup>672</sup> Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p1.

<sup>673</sup> Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p3.

<sup>674</sup> South East SoC, Annex F, paragraph 89; and [Southern SoC](#), p406, Table 15.

<sup>675</sup> For example, CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.39 to 3.42.

<sup>676</sup> Thames Investor Group (2025) Response to CMA PR24 PD - Annex 1, paragraph 4.46(a)

<sup>677</sup> Southern (2025) [Response to CMA PR24 PD](#) paragraph 6.60.

### *Ofwat's PR24 FD approach*

- 6.437 Ofwat's PR24 FD calculated the C-MeX score as a weighted average of the scores from the two surveys: 66.7% of the CSS score and 33.3% of the CES score.
- 6.438 For each reporting year the PCL is defined using the C-MeX surveys and information from a third-party survey (the UK Customer Satisfaction Index, **UKCSI**).<sup>678</sup> 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.<sup>679</sup> The formal definition for the first three years of AMP8 is:<sup>680</sup>

$$PCL (FD) = CMEX_{mean} + \frac{UKCSI(All)_{Mean} - UKCSI(Water)_{Mean} - 5}{UKCSI(Water)_{SD}} \times CMEX_{SD}$$

- 6.439 The adjustment factor includes 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.<sup>681</sup> For the final two years of AMP8, the formula is the same but with the downward adjustment reduced to four.<sup>682</sup>
- 6.440 The PCL aims to link payments to performance. During PR19, the PCL was set as the median C-MeX score. On that basis, 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.<sup>683</sup> 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.
- 6.441 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.

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<sup>678</sup> 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).

<sup>679</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p238.

<sup>680</sup> Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p6.

<sup>681</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p240.

<sup>682</sup> Ofwat (2025) [PR24 Common performance commitments: Customer measure of experience C-MeX- PC definition](#), p6.

<sup>683</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p240.

## Parties' submissions

### Disputing Companies

6.442 South East and Southern both asked for changes to the C-MeX PCL in their statements of case.<sup>684</sup>

#### South East

6.443 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).<sup>685</sup> South East provided evidence<sup>686</sup> 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.<sup>687</sup> 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.<sup>688</sup>

**Table 6.18: 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	Avg
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.

6.444 South East suggested that Ofwat's formula should be adapted by replacing the UKCSI all-sector average used in Ofwat's PR24 FD formula with a UKCSI all-sector regional average.<sup>689</sup>

6.445 In its response to the CMA PR24 PD, South East disagreed with our decision not to adjust its C-MeX PCL, stating that, as the C-MeX PCL is updated throughout AMP8, the true materiality of the difference between the south east of England and the rest of England cannot be estimated at this stage. South East submitted that continuing to benchmark South East's performance against national UKCSI scores would put South East at an unfair disadvantage and is an issue that is straightforward for the CMA to correct.<sup>690</sup>

<sup>684</sup> 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).

<sup>685</sup> South East SoC, Annex F, paragraph 77 onwards.

<sup>686</sup> South East response to South East RFI001, Q1 and Q2.

<sup>687</sup> South East SoC, Annex F, paragraph 85 and Table ANF8.

<sup>688</sup> South East SoC, Annex F, paragraph 65 and 79.

<sup>689</sup> South East SoC, Annex F, paragraph 89.

<sup>690</sup> South East (2025) [Response to CMA PR24 PD](#), paragraphs 5.50 and 5.51.

## Southern

6.446 In its statement of case, 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.<sup>691</sup> 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).<sup>692</sup> The number of companies receiving rewards based on Ofwat's PR24 FD approach would have decreased year on year in AMP7. Southern stated that this methodology does not generate a balanced incentive.<sup>693</sup>

**Table 6.19: Application of Ofwat's PR24 FD 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.

6.447 Southern created a logarithmic forecast of the UKCSI water scores and all sector average.<sup>694</sup> 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.<sup>695</sup> The forecast model of UKCSI scores as set out in Figure 6.14 below shows that the gap between the UKCSI all-sector average and water sector average is increasing.

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<sup>691</sup> [Southern SoC](#), p402, paragraph 169.

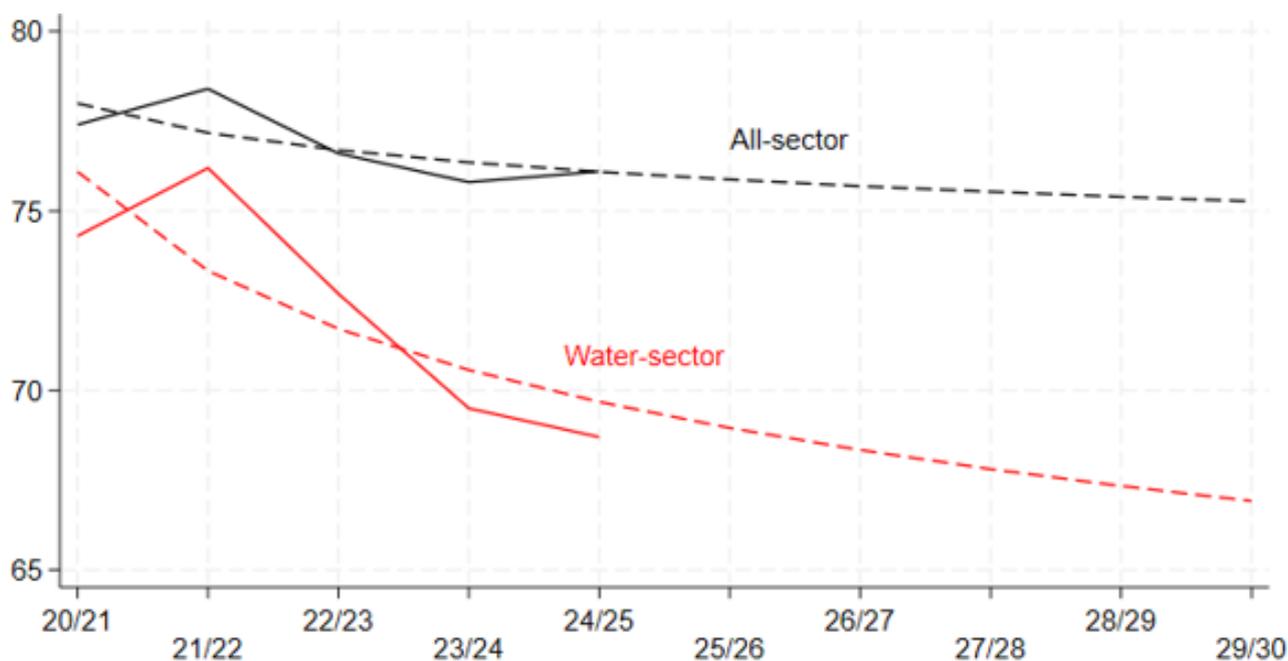
<sup>692</sup> [Southern SoC](#), p402, Table 10.

<sup>693</sup> [Southern SoC](#), p402, paragraph 171.

<sup>694</sup> [Southern SoC](#), p402, paragraph 172 and Table 11.

<sup>695</sup> [Southern SoC](#), p402, paragraph 172.

Figure 6.14: UKCSI scores and Southern's forecast



Solid lines: UKCSI scores. Dotted lines: Southern's forecast.

Source: CMA presentation of Southern's forecast.

6.448 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).<sup>696</sup> Southern's larger downward adjustment would result in more companies exceeding the PCL.<sup>697</sup>

6.449 In response to the CMA PR24 PD, Southern submitted that the CMA has not considered the step change in negative media coverage on the industry's performance from 2022/23 onwards.<sup>698</sup> It provided an analysis of interim C-MeX data based on the first quarter of 2025/26 and subsequently provided the data for the second quarter.<sup>699</sup> <sup>700</sup> It submitted that this provided further evidence that the current C-MeX measure has a downward bias. Southern submitted that it will take time to change the media sentiment and the public's view of Southern Water, and that it was at risk of receiving maximum penalty for the AMP irrespective of improving performance. It asked that the downward adjustment should be set at 7.8 in the first year of AMP8, with a glidepath bringing it down to 5 by the end of the AMP.<sup>701</sup> Alternatively, given the highly negative media sentiment on the industry, the PCL could be set each year as the industry median, aligning to the PR19 approach.

<sup>696</sup> Southern SoC, p402, paragraph 170, and p406, paragraph 185 and Table 15.

<sup>697</sup> Southern SoC, pp403–404, paragraph 173, Table 12 and Figure 14.

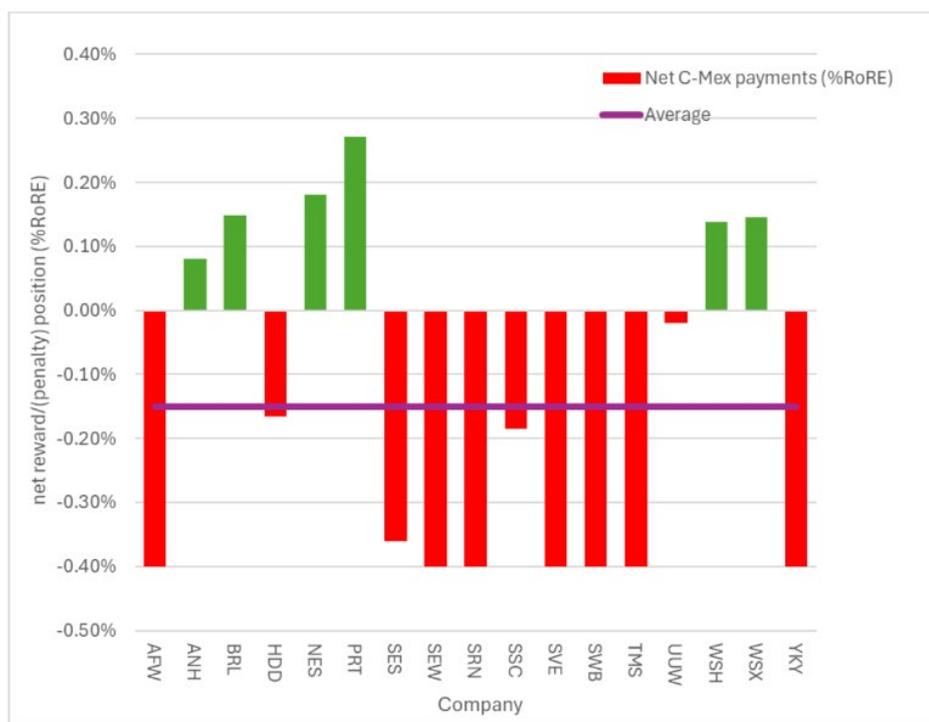
<sup>698</sup> Southern (2025) Response to CMA PR24 PD, paragraph 6.51.

<sup>699</sup> Southern (2025) Response to CMA PR24 PD, paragraph 6.60.

<sup>700</sup> E-mail from Southern, 12 Jan 2026.

<sup>701</sup> Southern (2025) Response to CMA PR24 PD, paragraphs 6.74 and 6.75 and Table 36.

**Figure 6.15 Net rewards/penalties (%RoRE) based on 2025/26 first quarter data**



Source: Southern (2025) [Response to CMA PR24 PD](#), p122, figure 15.

6.450 Southern said its analysis of the 2025/26 first quarter data showed that eleven companies would receive penalties, and only six would receive rewards (see Figure 6.15).<sup>702</sup>

### Third parties

#### CCW

6.451 In its response to the statements of case, CCW requested that a separate performance commitment and ODI be introduced on the volume of complaints.<sup>703</sup> 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.<sup>704</sup> In the hearing we held with CCW, it noted that performance is ‘dropping’ in C-MeX scores.<sup>705</sup> It submitted that our redeterminations are an opportunity to add a separate performance commitment and ODI based on the volume of complaints.<sup>706</sup> CCW stated that it had engaged

<sup>702</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.61. (Southern stated that four would receive rewards, and 13 would receive penalties. But the graph they produced shows the correct figures are six and 11).

<sup>703</sup> For example, CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.42.

<sup>704</sup> For example, CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.41.

<sup>705</sup> (Non-confidential) transcript of the Third Party Hearing for CCW on 23 June 2025, p70, line 11.

<sup>706</sup> CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.42.

with Ofwat extensively on creating an additional metric to measure customer complaint volumes either as part of C-MeX or as a standalone metric.<sup>707</sup>

6.452 In response to the CMA PR24 PD, CCW said it disagreed with our decision to not introduce a measure based on the volume of complaints. It said there is already usable data and that CCW and companies publish regular, standardised complaint volumes and league tables, other UK regulators successfully use complaint-rate metrics, and a complaints-based metric could be implemented quickly with assurance/audit protections and would be less gameable than surveys. It said C-MeX must include a complaints-volume component or a separate complaints volume-based ODI and noted that Ofgem uses a combination of both survey evidence and complaint data in setting its ODI for customer satisfaction on energy network performance.<sup>708</sup> It submitted that complaints have risen in recent years, yet companies can still earn C-MeX rewards based on satisfaction surveys, and that without a complaints element there is no financial push to reduce volumes. It said our concerns about data quality were overstated and the sector has enough consistent data now (backed by assurance and cross-checks).<sup>709</sup>

#### *Thames Investor Group*

6.453 In its response to the statements of case, the Thames Investor Group submitted that MeXes are a very poor proxy for service quality (even customer service quality) and instead track popularity and perception.<sup>710</sup> In its response to the CMA PR24 PD, it noted that the CMA PR24 PD recommended that CCW and Ofwat should work to develop an appropriate metric for complaint data for PR29. It considered that it is not open to the CMA to delegate remedial work to Ofwat, particularly if this is delayed until PR29.<sup>711</sup>

6.454 In its response to the statements of case, the Thames Investor Group submitted that C-Mex is flawed.<sup>712</sup> In its response to the CMA PR24 PD, it repeated this view and submitted that the final determination should withdraw the C-MeX metric and/or minimise the associated ODI rate.<sup>713</sup>

#### *Thames Water*

6.455 In its response to the statements of case, Thames Water submitted that C-MeX is flawed, as penalties are driven by reputation rather than performance,<sup>714</sup> that

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<sup>707</sup> CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.39.

<sup>708</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.16.

<sup>709</sup> CCW (2025) [Response to CMA PR24 PD](#), paragraph 3.17.

<sup>710</sup> Thames Investor Group (2025) [Third party submission on the Water PR24 References](#), Annex 5, page 14, paragraph 41(b).

<sup>711</sup> Thames Investor Group (2025) [Response to CMA PR24 PD](#), paragraph 18.

<sup>712</sup> Thames Investor Group (2025) [Third party submission on the Water PR24 References](#), Annex 4: Compass Lexecon (2025) [Third-party submission on behalf of Investor Group](#), p80, paragraph 5.93.

<sup>713</sup> Thames Investor Group (2025) [Response to CMA PR24 PD](#), paragraph 18.

<sup>714</sup> Thames Water (2025) [Submission on Disputing Companies' statements of case](#), paragraph 49(ii).

companies have minimal practical ability to change their C-MeX scores, and external factors such as media reports are more impactful on scores.<sup>715</sup> In its response to the CMA PR24 PD, Thames Water considered that the CMA has three overarching options in respect of C-MeX: fundamental reform of C-MeX, altering the PCL, and/or altering the ODI rate. It accepted that fundamental reform was unlikely, though it noted that the IWC recommended fundamental change to C-MeX.<sup>716</sup>

- 6.456 Thames Water's response to the CMA PR24 PD also looked at the interim C-MeX scores from the first quarter of 2025/26. It submitted that the data demonstrates that the PCL is not well-calibrated.

#### *Water UK*

- 6.457 In its response to the statements of case, 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.<sup>717</sup> 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.<sup>718</sup>

#### *Yorkshire Water*

- 6.458 In its response to the CMA PR24 PD<sup>719</sup>, Yorkshire water submitted that the 2025/26 Q1 interim C-MeX results showed all companies' C-MeX scores reducing and seven receiving the maximum penalty. Yorkshire said it would be appropriate for the CMA (and Ofwat) to reconsider the decisions on the C-MeX performance commitment.

#### **Ofwat**

- 6.459 In response to the statements of case, 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.<sup>720</sup> Ofwat stated that the

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<sup>715</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 158.

<sup>716</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraph 156.

<sup>717</sup> Water UK (2025) [Third party submission on the Water PR24 References](#), p46.

<sup>718</sup> Water UK (2025) [Third party submission on the Water PR24 References](#), p48.

<sup>719</sup> Yorkshire Water (2025) [Response to CMA PR24 PD](#), p6.

<sup>720</sup> Ofwat (2025) [Response to South East SoC](#), paragraphs 4.212 and 4.214.

average difference is 0.4% across the five years and as low as 0.2% in one year.<sup>721</sup> 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.<sup>722</sup> Ofwat considered that customers in different regions of the England and Wales should not experience different standards of customer service.<sup>723</sup>

- 6.460 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.<sup>724</sup> Ofwat considered it unjustified to assume that the PR19 performance trend will persist.<sup>725</sup> Ofwat expected that changes to the C-MeX ODI rates and to the performance commitment definition would have a positive impact on companies' performance.<sup>726</sup>
- 6.461 Ofwat had been engaging with CCW on whether it should use the volume of customer complaints as part of a performance commitment, but did not have enough confidence in the complaints data.<sup>727</sup> In response to a request for information, it stated that there has been mis-recording in the data following a change in definition in 2019.<sup>728</sup> 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.<sup>729</sup> 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.<sup>730</sup>
- 6.462 Nevertheless, Ofwat did not rule out the possibility of using complaints data as part of a future performance commitment. It was exploring options for the design of C-MeX and other performance commitments for PR29 and was in active discussion with CCW on this point.<sup>731</sup> Ofwat had 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 was considering the potential impact of the IWC Final Report on the future design of C-MeX.<sup>732</sup>
- 6.463 In its response to the CMA PR24 PD, Ofwat supported our provisional view that South East Water and Southern Water had not provided compelling evidence to

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<sup>721</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.212.

<sup>722</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.214.

<sup>723</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.214.

<sup>724</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.280.

<sup>725</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.281.

<sup>726</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.281.

<sup>727</sup> 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.

<sup>728</sup> Ofwat response to Ofwat RF119, Q1.

<sup>729</sup> Ofwat response to Ofwat RF119, Q1.

<sup>730</sup> Ofwat response to Ofwat RF119, Q1.

<sup>731</sup> Ofwat response to Ofwat RF119, Q3.

<sup>732</sup> Ofwat response to Ofwat RF119, Q3.

support their arguments that there is a regional bias to C-MeX scores, or that poor historic performance should result in a larger downward adjustment to the UKCSI. Ofwat stated that the decline in performance across the 2020-2025 period makes it more important than ever for companies to deliver genuine improvements in customer service.<sup>733</sup>

#### *Our assessment and final decision*

6.464 Our assessment, below, considers the following requests

- (a) The request in South East's statement of case to change the formula for the PCL by introducing a regional aspect.
- (b) The requests in Southern's statement of case to change the formula for the PCL by changing the downward adjustment and the request in Southern's response to our PD to replace the formula by the C-MeX median.
- (c) The request from CCW to use customer complaints data,

6.465 We consider submissions from the third parties where relevant as part of our assessment of the above requests.

#### *Introducing a regional aspect to the PCL formula*

6.466 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. 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. We agree with Ofwat that any difference is small.<sup>734</sup> 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, so the question of statistical significance is of limited relevance to the setting of the PCL.

6.467 Our decision is therefore not to amend the PR24 FD C-MeX PCL to use the UKCSI all-sector regional average.

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<sup>733</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), p12, paragraph 3.9.

<sup>734</sup> 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.

*Southern's request to increase the downward adjustment or replace the formula with the C-MeX median*

- 6.468 Southern's request to increase in the size of the downward adjustment included in the C-Mex formula was supported by its forecasting of a decline in Water Companies' future UKCSI performance. We consider that the forecasting method Southern used in its statement of case is not robust. 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.
- 6.469 In support of its contention that there is a negative balance of risk on C-MeX, Southern submitted that:
- (a) An assessment of the number of water companies that would have been in reward in each of year of AMP7, had the AMP8 C-Mex metric applied, showed that only 5 companies would have been in reward in 2023/24, and 3 in 2024/25. (Table 6.19)
  - (b) Ofwat analysis based on interim data for the first quarter of 2025/26 showed that only 6 companies would have be in reward if those results applied for a full year, and that the second quarter results for 2025/26 implied a similar position. (Figure 6.15).
  - (c) Ofwat analysis based on interim data for the first quarter of 2025/26 also showed in aggregate, the penalties would be larger than the rewards and that seven companies would receive the maximum penalty of 0.4% of RoRE. (Figure 6.15).

**Table 6.20: 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
Number of water companies in reward	13	14	12	5	3

Source: CMA presentation of Southern's analysis [Southern SoC](#), p402, Table 10.

- 6.470 With respect to (a), we have analysed the data and agree with the analysis Southern produced in its statement of case that if the formula was applied to the last two years, more companies would have received penalties than rewards. As can be seen in Table 6.20, the number of companies that would have been in reward in 2023/24 (five) and 2024/25 (three) is considerably fewer than in previous years.
- 6.471 However, 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 two and four points). This would have resulted in more companies receiving rewards than penalties. Our view is that 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. That assessment is not materially affected by the fact that (as under point (b) above) Ofwat analysis of interim data for an additional quarter implies that (if those results applied for the whole year) six companies would be in reward.

- 6.472 Southern's submission regarding the number of companies that would receive the maximum penalty based on interim data for the first quarter of 2025/26 (see paragraph 6.450) raises a potential additional issue, as – if the interim first quarter results for 2025/26 applied for the whole year – it could imply that for a significant number of companies, marginal improvement incentives may effectively end up being switched off (with the penalty cap having been hit).
- 6.473 Southern, Thames Water and Yorkshire Water submitted that these interim results show the measure is not well calibrated. Southern suggested setting the PCL as the industry median (the PR19 approach), and the Thames Investor Group submitted that the C-MeX measure should be withdrawn (and/or the associated ODI rate minimised).<sup>735</sup> Our view is that neither of these options would provide an effective means of addressing the performance failings that Ofwat identified in AMP7.
- 6.474 Ofwat informed us that it does not use individual quarter's results except for indicative purposes, and it does not consider survey numbers for an individual quarter robust enough to make definitive judgements.<sup>736</sup> Our view is that the interim data for the first two quarters of 2025/26 (which became available in the latter stages of the redetermination process) does not justify changes being made to the C-Mex arrangements introduced in Ofwat's PR24 FD. We note that, if appropriate, it would be open to Ofwat to review the C-Mex arrangements once more data is available. We do not, contrary to the submission of the Thames Investor Group, consider this to be delegating remedial action to Ofwat. Our view is that, based on currently available evidence, the C-Mex arrangements should not be changed, but recognise that Ofwat, or the future water sector regulator, may take a different view in the future.

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<sup>735</sup> Submissions related to the C-Mex ODI rate are considered in paragraph 6.588 to 6.596.

<sup>736</sup> Ofwat response to Ofwat RFI27, Q1.

## The request to use customer complaint data

- 6.475 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'.<sup>737</sup> In the CMA PR24 PD we were 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.<sup>738</sup> <sup>739</sup> 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.<sup>740</sup> Ofwat also noted that Southern had previously been found to be significantly mis-recording its data.<sup>741</sup> These issues informed our provisional decision that we would not support using complaints data in C-MeX until the quality and reliability of the data has improved.
- 6.476 We noted that other sector regulators have been publishing complaints data at a firm level for many years.<sup>742</sup> It was not clear to us if other regulators' data suffer from the same quality issues as identified in the water sector, so we did not regard this as strong evidence that robust company-level data can be recorded. But, as we had not seen arguments stating that robust company-level data cannot be obtained, we said we would support Ofwat and CCW continuing to work together to strengthen the data for PR29.<sup>743</sup>
- 6.477 In their responses to the CMA PR24 PD, CCW and the Thames Investor Group both submitted that it is more appropriate to use data on complaints, rather than survey data, to measure customer experience. In our view, neither has made a convincing case that the current complaints data is sufficiently reliable to use, so our assessment remains unchanged since the CMA PR24 PD. We encourage Ofwat and CCW to continue to work to strengthen the data for PR29 with the aim of including a complaint-related measure into a future performance commitment or some other form of performance incentive.

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<sup>737</sup> (Non-confidential) transcript of the Third Party Hearing for CCW on 23 June 2025, p71, lines 3–6.

<sup>738</sup> Ofwat response to Ofwat RFI19, Q1.

<sup>739</sup> AtkinsRéalis provides audit and assurance to non-financial aspects of Yorkshire Water's annual reporting.

<sup>740</sup> Ofwat response to Ofwat RFI19, Q1.

<sup>741</sup> Ofwat response to Ofwat RFI19, Q1.

<sup>742</sup> 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.

<sup>743</sup> Ofwat have engaged with CCW: (Non-confidential) transcript of the hearing for Ofwat on 10 July 2025, p90, lines 23-24 and p91, lines 10-13.

## Non-household voids (Ofwat's PR19 Final Determinations)

- 6.478 Non-household voids are premises in the non-household water retail market that are classified as unoccupied and therefore non-chargeable.<sup>744</sup> 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.<sup>745</sup> 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.<sup>746</sup> South East's performance in AMP7 resulted in a £3.9 million underperformance penalty under its PR19 non-household voids ODI.<sup>747</sup>
- 6.479 South East requested that this penalty be removed as a PR19 adjustment applied in PR24.
- 6.480 Our 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*

- 6.481 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.<sup>748</sup>

### *Parties' submissions*

#### **South East**

- 6.482 In its statement of case, 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.<sup>749</sup> South East submitted that it was a relatively good performer in

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<sup>744</sup> South East SoC, Annex I, paragraph 1; and Ofwat (2019) [PR19 final determinations: Business Retail Market Representations](#), p6.

<sup>745</sup> South East SoC, Annex I, paragraph 1; and Ofwat (2019) [PR19 final determinations: Business Retail Market Representations](#), p6.

<sup>746</sup> Ofwat (2019) [PR19 Final Determinations: South East Water— Outcomes performance commitment appendix](#), p78-80.

<sup>747</sup> South East SoC, Annex I, paragraph 4.

<sup>748</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.259.

<sup>749</sup> [South East SoC](#), paragraph 5.10.

relation to non-household voids, and that the penalty was a reflection of the following.<sup>750</sup>

- (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.<sup>751</sup>

6.483 South East said that it did not challenge its non-household voids ODI at PR19 because it weighted the regulatory settlement in the round.<sup>752</sup> South East submitted that the issues which had subsequently arisen could not have been anticipated,<sup>753</sup> 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.<sup>754</sup> South East requested that a PR19 adjustment be implemented as part of our redeterminations to remove its £3.9 million penalty.<sup>755</sup>

### **Ofwat**

6.484 In its response to South East's statement of case, 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 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.<sup>756</sup> 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

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<sup>750</sup> South East SoC, Annex I, paragraph 3.

<sup>751</sup> South East SoC, Annex I, paragraph 24.

<sup>752</sup> South East SoC, Annex I, paragraph 8.

<sup>753</sup> South East SoC, Annex I, paragraph 8.

<sup>754</sup> South East SoC, Annex I, paragraph 9.

<sup>755</sup> [South East SoC](#), paragraph 5.10.

<sup>756</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

commitments that other companies had accepted.<sup>757</sup> 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.<sup>758</sup>

- 6.485 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.<sup>759</sup> 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.<sup>760</sup>
- 6.486 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.<sup>761</sup> 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.<sup>762</sup>
- 6.487 Ofwat submitted that, in contrast, South East (as part of the 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.<sup>763</sup> 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).<sup>764</sup> Ofwat provided the table at Figure 6.16 below, and submitted that South East's customers had not seen any of the stated additional benefits that this performance commitment intended to provide.<sup>765</sup>

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<sup>757</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

<sup>758</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.264.

<sup>759</sup> Ofwat (2025) [Response to South East SoC](#), paragraphs 4.266–4.267.

<sup>760</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.267.

<sup>761</sup> Ofwat (2025) [Response to South East SoC](#), paragraphs 4.268–4.269.

<sup>762</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.268.

<sup>763</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.269.

<sup>764</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.269.

<sup>765</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.272 and Table 4.13.

**Figure 6.16: 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 decisions*

- 6.488 As noted in paragraph 6.483, 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. In effect, its request now seeks to make a retrospective adjustment to remove its penalty.
- 6.489 Our view is that the submissions we received from South East concerning features of those arrangements,<sup>766</sup> 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.
- 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.
  - We do not consider South East to have provided adequate evidence to demonstrate the impact of COVID-19 on its performance in relation to its non-household voids performance commitment. We note that while (in line with Figure 6.16), 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).<sup>767</sup>
- 6.490 Our decision is that no adjustment should be made to the ODI penalties that South East faced under its PR19 non-household voids ODI.

<sup>766</sup> South East SoC, Annex I, paragraphs 13–25.

<sup>767</sup> CMA calculations based on Figure 6.16.

## ODI rates

6.491 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.

### Ofwat's PR24 FD approach

6.492 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.<sup>768</sup> The five steps are as follows.<sup>769</sup>

- (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.<sup>770</sup>
- (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.<sup>771</sup>
- (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,

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<sup>768</sup> Additionally, the river water quality performance commitment, as a non-financial, reputational-only performance commitment, does not have an associated ODI rate.

<sup>769</sup> 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).

<sup>770</sup> 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.

<sup>771</sup> 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.<sup>772</sup> Once the standardisation exercise was complete, Ofwat reconverted each company's unit rate back into an ODI rate.<sup>773</sup>
- (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.

6.493 For the experience measure performance commitments Ofwat used a simplified, two-step version of this methodology.<sup>774</sup>

- (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

6.494 In their statements of case, Southern and Anglian requested changes to elements of Ofwat's approach to setting ODI rates for certain performance commitments.

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<sup>772</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p31.

<sup>773</sup> 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.

<sup>774</sup> 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 business customer experience in Wales performance commitment (**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](#).

6.495 Southern requested:<sup>775</sup>

- (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;<sup>776</sup>
- (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;<sup>777</sup>
- (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;<sup>778</sup> and
- (d) for the experience measures relevant to Southern (C-MeX, D-MeX and BR-MeX), the amount of risk allocated to be determined 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.<sup>779</sup>

6.496 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.<sup>780</sup>

### **Effective ODI rates and the use of 2024/25 performance data**

6.497 Our decisions (set out later in the section) on the use of 2024/25 performance data were informed by consideration of the way in which expectations with respect to the potential range of company performance (relative to PCLs) can impact on the incentives that a given ODI rate might generate. Given that, before assessing the specific requests to adjust ODI rates, we highlight broader incentive considerations that informed our decisions with respect to the updating of ODI rate calculations.

6.498 ODI rates set the per unit level of reward that companies receive when their performance improves and the equivalent level of penalty that companies face when that performance deteriorates. However, the scope for companies to earn

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<sup>775</sup> See Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

<sup>776</sup> Southern SoC, p398, paragraphs 154–155 and p401, Table 9.

<sup>777</sup> Southern SoC, p392, paragraphs 129–130 and p394, Table 7.

<sup>778</sup> Southern SoC, p388, paragraph 108 and Table 5.

<sup>779</sup> Southern SoC, p406, paragraph 185 and Table 14.

<sup>780</sup> Anglian SoC, paragraph 512.

ODI rewards and face ODI penalties puts RoRE at risk, and (as set out in paragraphs 6.599 to 6.600 below), Ofwat's PR24 FD included caps and collars to ensure that the level of exposure that companies face with respect to a given performance commitment does not exceed a defined level (in a context where exposing companies to unduly high levels of RoRE risk would not be in the long-term interests of customers). These caps and collars mean that the ODI rate which applies to further improvement/deterioration once the cap/collar has been hit effectively goes to zero.

- 6.499 Higher ODI rates have the potential to benefit customers by sharpening incentives for companies to deliver improvements. The effectiveness, however, of applying a higher rate will be affected by the extent to which – given what is known about the range of performance outcomes that may prevail – those incentives are likely to be 'switched off' as a result of a cap or collar having been hit. This 'switching off' effect means that whether higher or lower ODI rates are likely to generate more effective incentives, and benefit customers, will depend on an assessment of the range of performance over which it is desirable for incentives to apply.
- 6.500 Our view is that Ofwat's top-down methodology (described in paragraph 6.492 above) provides an appropriate means of taking this into account. This has been done by identifying the 10th and 90th percentile level of historical performance and using that as the relevant performance range when assessing whether ODI rates might otherwise be set at an undesirably high level. For the ODI rates that we have assessed, our view is that the inclusion of 2024/25 data (which was not available to Ofwat at the time of its PR24 FD) when identifying the 10th and 90th percentile level of historical performance is likely to provide a more reliable basis for estimating the relevant performance range within Ofwat's methodology through the use of more (and more recent) information on the levels of performance that have companies have achieved.
- 6.501 As set out in the sections below, this results in ODI penalty and reward rates being reduced in three out of the four performance areas that we have assessed. However, for the reasons set out above we consider these changes are likely to provide more effective incentive arrangements and to benefit customers as they are based on a more up-to-date and reliable assessment of the relevant performance range, and therefore of relevant trade-offs that affect the desirability of ODI rates being set at different levels.

### **Storm overflows**

- 6.502 As was set out in paragraph 6.176, 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.<sup>781</sup> The storm overflows performance commitment measures the average number of spills from a company's sewerage system per storm overflow.<sup>782</sup>

6.503 Southern requested that we change the proxy PCL for PR19 with the effect of reducing the ODI rates for PR24.

6.504 Our decision is to retain the proxy PCL target for PR19 that Ofwat used in its PR24 FD and to update the storm ODI rates by taking account of 2024/25 performance data for the reasons set out below.

#### *Ofwat's PR24 FD approach*

6.505 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 6.492(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.<sup>783</sup> Using this proxy, the 10th or 90th percentiles of the distribution of performance deviations were -37% and 40% respectively.<sup>784</sup> Therefore, Ofwat used a performance range of 40%.<sup>785</sup>

6.506 Table 6.21 sets out the ODI rates calculated for the WaSCs in Ofwat's PR24 FD.

**Table 6.21: 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.

<sup>781</sup> Secretary of State (2022) [Government's strategic priorities for Ofwat](#); and see Defra (2023) [Storm overflows discharge reduction plan](#).

<sup>782</sup> See paragraphs 6.178 and 6.181.

<sup>783</sup> Ofwat (2023) [PR24: Using collaborative customer research to set outcome delivery incentive rates](#), p70–71.

<sup>784</sup> Ofwat (2024) [PR24 final determination: ODI Rates Performance Range Model 3](#), tab 'P10P90'.

<sup>785</sup> Ofwat (2024) [PR24 final determination: ODI Rates Performance Range Model 3](#), tab 'P10P90'.

*Parties' submissions*

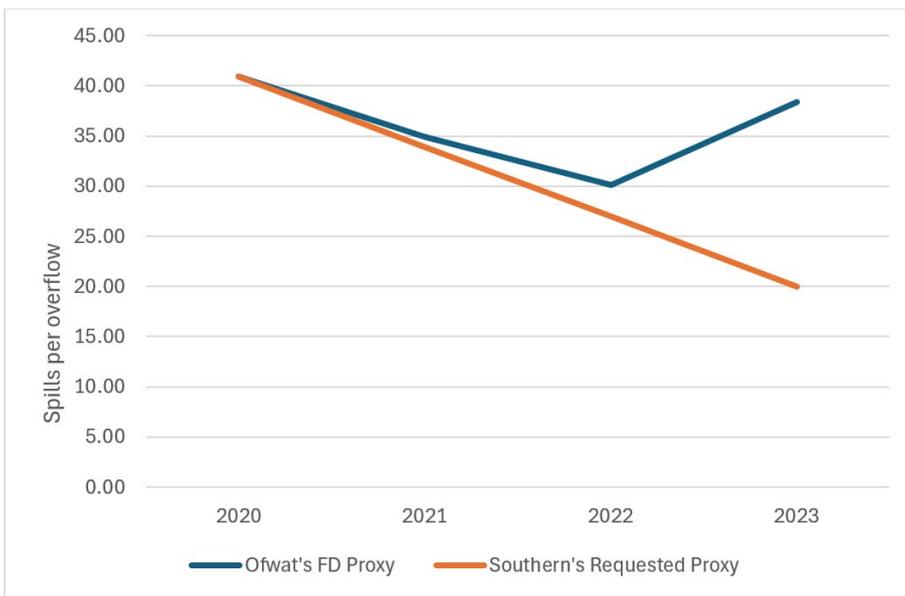
**Southern**

6.507 In its statement of case, Southern submitted that:<sup>786</sup>

- (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
- (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.

6.508 Southern's requested proxy had the same start point in 2020 as Ofwat's, ie the midpoint of the 10th or 90th percentiles, but applied a target of 20 spills per overflow in 2023, with a linear glidepath between them over 2021 and 2022.<sup>787</sup> Using this proxy, the 10th and 90th percentiles of the distribution of performance deviations would be -85% and 30% respectively.<sup>788</sup> Therefore, a performance range of 85% would be used, with the effect of reducing the ODI rates calculated.<sup>789</sup>

**Figure 6.17: 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.

6.509 In the Outcomes hearing, Southern stated that:

<sup>786</sup> Southern SoC, p398, paragraphs 151–155.

<sup>787</sup> Southern SoC, p398, paragraph 154.

<sup>788</sup> Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

<sup>789</sup> Southern SoC, p398, paragraphs 154–155.

- (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;<sup>790</sup> and
- (b) a 20 spills per overflow target mirrored the 50% reduction in incidents Ofwat sought for pollution incidents performance over PR19.<sup>791</sup>

## Ofwat

6.510 In response to Southern’s statement of case, Ofwat stated the following.<sup>792</sup>

- (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.<sup>793</sup>
- (b) Ofwat’s PR24 FD proxy PCL for storm overflows was representative of historic industry performance.<sup>794</sup>

6.511 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.<sup>795</sup> 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.<sup>796</sup> 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.<sup>797</sup> Therefore, the performance range used would increase from 40% to 44%.<sup>798</sup>

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<sup>790</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p140, lines 22–24.

<sup>791</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p142, lines 1–6.

<sup>792</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.172–4.173.

<sup>793</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.172.

<sup>794</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.173.

<sup>795</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p143, lines 5–13.

<sup>796</sup> (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.

<sup>797</sup> Ofwat opening statement slides for the hearing for Outcomes on 30 June 2025, p11.

<sup>798</sup> Ofwat response to Ofwat RF113, Q2(b), Supporting Documentation; and Ofwat opening statement slides for the hearing for Outcomes on 30 June 2025, p11.

### *Our assessment and conclusions*

- 6.512 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.
- 6.513 The purpose of the 'performance range' parameter in Ofwat's methodology described at paragraph 6.492(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 the methodology used to set the PCL for PR24 than any historical debates around hypothetical targets in previous periods.
- 6.514 In this respect, we note that the PCL for storm overflows in PR24 was set on a company-specific basis, using company forecasts.<sup>799</sup> 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 6.525 to 6.526 below).
- 6.515 In any case, we do not 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 decide to adopt the proxy PCL target for PR19 that Ofwat used in its PR24 FD.
- 6.516 When 2024/25 outturn data (which was not available to Ofwat when setting ODI rates in its PR24 FD) is added, the implied performance range from adopting this approach reduces by around 1% relative to the value Ofwat used in its PR24 FD.<sup>800</sup> The inclusion of this data provides a better view of the extent to which ODI rates may put RoRE at risk (see paragraphs 6.497 to 6.501 above). As such, we have used this data when applying Ofwat's top-down approach to setting ODI rates for storm overflows for the Disputing Companies, which results in ODI rates

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<sup>799</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p169.

<sup>800</sup> This aligns with the results in: Anglian's response to CMA PR24 FD, Annex 17 (Datapack ODI rate models updated with 2024-25 data).

that are around 2% higher than those in Ofwat's PR24 FD. Our decision is to apply the ODI rates for storm overflows set out in Table 6.22 below.

**Table 6.22: CMA decision on Storm overflows ODI rates**

<i>Company</i>	<i>ODI Rate (£m)</i>
Anglian	1.35
Northumbrian	1.35
Southern	0.85
Wessex	1.12

Source: CMA Analysis based on Ofwat (2025) PR24 final determinations: PR24 ODI rates, Tab 'Top Down Models'.

### **Total pollution incidents**

- 6.517 As described in paragraph 6.243 above, the total pollution incidents performance commitment measures the number of categories 1 to 3 pollution incidents from a company's sewerage system.
- 6.518 Southern requested that only PR19 data should be used to determine the ODI rate.
- 6.519 Anglian requested that we derive its ODI rate from its own company-specific customer research, which is how ODI rates were set at PR19.
- 6.520 Our decision is to use both PR14 and PR19 (including 2024/25) 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 decided not to make any further changes in response to Anglian's separate request.

#### *Ofwat's PR24 FD approach*

- 6.521 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.<sup>801</sup> Using this data, the 10th and 90th percentiles of the distribution of performance

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<sup>801</sup> Ofwat (2024) PR24 final determinations: ODI rates Performance Range Model 1, tab 'b.PCL values'.

deviations were -66% and 41% respectively. Therefore, Ofwat used a performance range of 66%.<sup>802</sup>

6.522 Table 6.23 below sets out the ODI rates calculated for the WaSCs at the PR24 FD.

**Table 6.23: 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	2.32
South West Water	0.43
Southern	0.98
Thames Water	2.70
United Utilities	1.92
Wessex	0.87
Yorkshire Water	<b>1.29</b>

Source: Ofwat (2025) PR24 final determination: PR24 ODI rates, tab 'Top Down Models', cells AO157:AO170.

### **Ofwat's consultation on the new EPA methodology to be applied from 2026 to 2030**

6.523 As set out in paragraph 6.247 above, in October 2025 the EA published a new EPA methodology to be applied for 2026-30.<sup>803</sup> The new methodology included changes to the types of incidents to be recorded within the total pollution incidents metric.<sup>804</sup>

6.524 Ofwat subsequently consulted on proposed changes to the total pollution incidents ODI rate from 2026/27 onwards to take account of the expected increase in the number of recorded pollution incidents under the new EPA methodology.<sup>805</sup> Ofwat stated that in light of the reporting changes, the ODI rate in its PR24 FD would be too strong and could lead to excessive outperformance or underperformance payments.<sup>806</sup> Ofwat proposed resetting the ODI rate by applying the top-down approach it used in its PR24 FD to calculate the likely performance range, but used 2024 outturn data and estimated three likely future performance scenarios (with different assumptions about how pollution incidents might be recorded

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<sup>802</sup> 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'.

<sup>803</sup> EA (October 2025) [Water and sewerage companies: EPA methodology for 2026-30](#).

<sup>804</sup> EA (October 2025) [Water and sewerage companies: EPA methodology for 2026-30](#); and Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p16.

<sup>805</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#).

<sup>806</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p22.

differently).<sup>807</sup> Under this approach, Ofwat proposed a unit rate for English water companies of £38,600 per incident.<sup>808</sup>

### *Parties' submissions*

#### **Disputing Companies**

##### *Southern*

6.525 Southern requested that only PR19 data should be used to determine the ODI rate, with PR14 data excluded. In its statement of case Southern submitted that:<sup>809</sup>

- (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;
- (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.

6.526 Southern stated that 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.<sup>810</sup>

6.527 In its response to the CMA PR24 PD, Southern welcomed the CMA's recognition of the limitations in Ofwat's approach to setting the performance range for total pollution incidents in the CMA PR24 PD, and its alignment with Southern's view that a more robust methodology is needed to inform the ODI rate.<sup>811</sup>

##### *Anglian*

6.528 In its statement of case, 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.<sup>812</sup>

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<sup>807</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p22-24.

<sup>808</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p23. Table 4 provides the ODI rate by company under Ofwat's proposed approach.

<sup>809</sup> [Southern SoC](#), pp392-393, paragraphs 128-132.

<sup>810</sup> Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis.

<sup>811</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.27.

<sup>812</sup> [Anglian SoC](#), paragraphs 509-515.

6.529 Anglian submitted that:<sup>813</sup>

- (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.

6.530 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.<sup>814</sup>
- (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.<sup>815</sup>
- (c) The PR24 FD ODI rate created significant risk exposure to Anglian on the total pollution incidents performance commitment.<sup>816</sup>

6.531 Additionally, in the hearings 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.<sup>817</sup>
- (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;

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<sup>813</sup> [Anglian SoC](#), paragraphs 509–515.

<sup>814</sup> (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p58, lines 7–25.

<sup>815</sup> (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p59, lines 8–21.

<sup>816</sup> (Non-confidential) transcript of the hearing for Anglian on 7 July 2025, p60, lines 15–26 and p61, lines 1–18.

<sup>817</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p136, lines 20–24 and p137, lines 1–2.

- (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.<sup>818</sup>

- (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.<sup>819</sup>

6.532 In its response to the CMA PR24 PD, Anglian welcomed the CMA PR24 PD approach to reduce the Ofwat PR24 incentive rate for total pollution incidents.<sup>820</sup> However, it noted that the evidence it had put forward demonstrated that the CMA PR24 PD proposal would not fully correct for the shortcomings of Ofwat's original process and rate.<sup>821</sup>

6.533 With respect to Ofwat's proposed changes to take account of the new EPA methodology for 2026-30, Anglian raised the concern that Ofwat's ongoing process could leave Anglian with a greater level of risk exposure than provided for by the redetermination if the scale of impact is underestimated.<sup>822</sup>

### *Northumbrian*

6.534 In light of Ofwat's consultation on changes to the total pollutions ODI and the CMA PR24 PD, in its response to the CMA PR24 PD Northumbrian asked that the CMA and Ofwat ensure they are 'joined up' in changes they are making in respect of the total pollution incidents ODIs.<sup>823</sup> Northumbrian submitted that the CMA's PR24 FD should make clear that:<sup>824</sup>

- (a) any changes to the total pollutions incentive rate would only apply to year 1 of AMP8 if Ofwat makes changes to the incentive following its consultation; and

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<sup>818</sup> (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.

<sup>819</sup> (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.

<sup>820</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 447.

<sup>821</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraphs 454–455; and Anglian (2025) Response to Hearings (non-confidential).

<sup>822</sup> Anglian (2025) [Response to CMA PR24 PD](#), paragraph 465.

<sup>823</sup> Northumbrian (2025) [Response to CMA PR24 PD](#), paragraph 343.

<sup>824</sup> Northumbrian (2025) [Response to CMA PR24 PD](#), paragraph 344.

- (b) the changes outlined in Ofwat’s consultation would apply for all Disputing Companies for years 2 to 5 of AMP8.

### **Ofwat**

6.535 In response to Southern’s statement of case, Ofwat submitted that:<sup>825</sup>

- (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 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.

6.536 In response to Anglian’s statement of case, Ofwat submitted that:<sup>826</sup>

- (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.

6.537 Ofwat did not support a reduction to the ODI rate. It noted in its response to the CMA PR24 PD that the performance commitment was set as ‘high importance’ for PR24, informed by customer preferences and the UK government’s strategic priorities for Ofwat. Ofwat said that retaining a strong, consistent ODI rate for

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<sup>825</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.128–4.133.

<sup>826</sup> Ofwat (2025) [Response to Anglian SoC](#), paragraphs 4.76–4.84.

2025/26 is important so that companies are sufficiently rewarded or penalised for their pollution incidents performance relative to the 2025/26 PCL in line with non-Disputing Companies. Ofwat submitted that any changes to the ODI rate in advance of its consultation process on the EPA methodology changes would be unnecessary and introduce additional complexity.<sup>827</sup>

#### *Our assessment and conclusions*

- 6.538 As set out from paragraph 6.523 above, Ofwat has consulted on changes to the total pollution incidents ODI rate as a result of changes to the EPA methodology. These changes would apply to all companies from 2026/27 onwards.<sup>828</sup> Ofwat's consultation closed on 10 December 2025. [§].<sup>829</sup>
- 6.539 Our assessment and decision below relate to the ODI rates in Ofwat's PR24 FD for total pollution incidents. We comment on Ofwat's consultation at the end of this section.

#### **Ofwat PR24 FD ODI rates**

- 6.540 As set out in paragraphs 6.525 to 6.526 above, Southern submitted that the performance range Ofwat used when setting ODI rates for total pollution incidents in its PR24 FD 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.
- 6.541 Conceptually, our 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 on data from one single period and is likely to result in less robust estimates of variance in performance levels.
- 6.542 Our decision is that a better approach would be to include data from the PR14 period but consider deviations from a proxy common PCL (which more closely mirrors the approach used in Ofwat's PR24 FD), rather than from the historical company-specific PCLs. Specifically, we have estimated a proxy PCL for each

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<sup>827</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.7.

<sup>828</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p22-24.

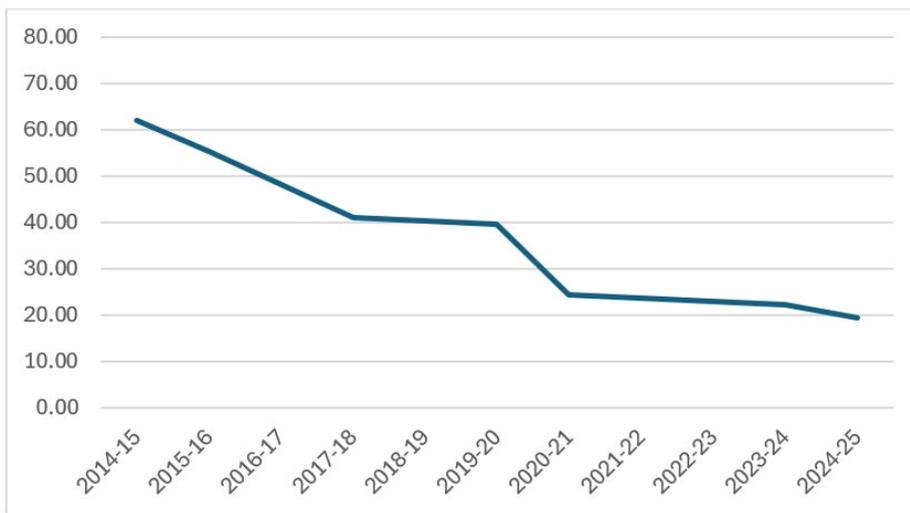
<sup>829</sup> [§].

year of the PR14 period as the mid-point between the 10th and the 90th percentile PCL in that year.

6.543 In its response to the CMA PR24 PD, Ofwat proposed an alternative approach to determining a proxy PCL for the PR14 period that involved using the midpoint of the 10th and 90th percentile of outturn performance (rather than PCL) in each year.<sup>830</sup> We found that this alternative approach implied a very similar (less than 1 percentage point different) performance range to that we determined using the approach set out in the CMA PR24 PD, when 2024/25 data is included. Given this, we focus our attention below on the approach set out in the CMA PR24 PD.

6.544 Figure 6.18 below displays the proxy ‘common’ performance target that we have used to determine the ODI rate.

**Figure 6.18: CMA 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.

6.545 Using our proxy, and the same dataset Ofwat used in its PR24 FD (ie before considering 2024/25 outturn data), 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, on this basis, our approach would result 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.

6.546 When 2024/25 outturn data (which was not available to Ofwat when setting ODI rates in its PR24 FD) is added, the implied performance range increases to 170%. The inclusion of this data provides a better view of the extent to which ODI rates

<sup>830</sup> Ofwat (2025) Response to CMA PR24 PD: Outcomes (Tables) (OF-RTPD-094).

may put RoRE at risk (see paragraphs 6.497 to 6.501 above). As such, we have used this data and apply a performance range of 170% for Ofwat’s top-down approach to setting ODI rates for total pollution incidents. We note that this range is smaller than the range of 284% calculated under Southern’s request.

6.547 Using this performance range at the third step of Ofwat’s methodology results in a unit rate of around £97,000 per pollution incident for use when setting ODI rates (which – as was shown in Table 6.23 – apply to a measure of the number of incidents per 10,000 km of sewer length). Table 6.24 below shows how this 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 6.24: Total pollution incidents unit rate compared to PR24 FD and PR19 unit rates**

	<i>Unit rate: £ per pollution incident</i>
CMA approach	96,939
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.

6.548 Under our approach, unit rates for PR24 would be significantly lower than the levels in Ofwat’s PR24 FD, but would be around 2 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.

6.549 Our view is that our 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.

6.550 Our 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 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. We note that in its response to the CMA PR24 PD, Southern recognised that our approach here addresses key limitations of the Ofwat PR24 FD methodology by more

accurately reflecting the true performance range and corrects for the significant underestimation observed under the Ofwat PR24 FD approach.<sup>831</sup>

- 6.551 Our 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.
- 6.552 We have assessed whether any further changes to the total pollutions ODI rate are required in light of Anglian's submissions and have 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%.<sup>832</sup> Our approach uses a performance range to 170%.
  - (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 approach would adequately mitigate the risk of such an effect having a material impact.
- 6.553 In summary, we have recalculated Disputing Companies' ODI rates with our proposed methodology to identify the likely range of PR24 performance – see Table 6.25 below which sets out our redetermined 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 slightly higher than the sector median in AMP7 (excluding Hafren Dyfrdwy). Our decision is that these rates balance the concerns about the level of risk companies face and the need to

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<sup>831</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.28.

<sup>832</sup> Anglian (2025) Response to Hearings (non-confidential), p5.

ensure that the rates are sufficiently strong to incentivise the Disputing Companies to perform well on the total pollution incidents performance commitment.

**Table 6.25: Disputing Companies' total pollution incidents ODI rates under the 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	0.74
Northumbrian	0.29
Southern	0.39
Wessex	0.34

Source: CMA analysis of Ofwat (2025) PR24 final determination: PR24 ODI rates, Tab 'Top Down Models', 157:170.

### **Ofwat's proposed ODI rates following changes to the EPA methodology**

- 6.554 In October to December 2025, Ofwat consulted on proposed changes to the total pollution incidents ODI rates to apply from 2026-30 following changes to the EPA methodology.<sup>833</sup> We consider that Ofwat's change control process provides an appropriate forum for determining any changes to the total pollution incidents ODI rates in a context where those changes will affect all companies in the sector (not only the Disputing Companies).
- 6.555 For the Disputing Companies, the ODI rates that we have redetermined (shown in Table 6.25 are the relevant reference point against which changes should be assessed by Ofwat as part of its change control process. We note that Ofwat recognised this in its recent consultation.<sup>834</sup>

### **Water supply interruptions**

- 6.556 As set out in paragraph 6.286, 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).
- 6.557 Southern requested that we use only PR19 data to calculate the performance range with the overall effect of reducing the ODI rates.
- 6.558 Our decision is to retain Ofwat's PR24 FD approach and take account of performance data from 2024/25 when setting ODI rates (in addition to PR14 and other PR19 data) for the reasons set out below.

### *Ofwat's PR24 FD approach*

- 6.559 Applying the third step of its top-down methodology as described in paragraph 6.492(c), Ofwat used all the historic performance data available from 2016/17 to

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<sup>833</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#).

<sup>834</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p3.

2023/24 to calculate the water supply interruptions ODI rate. 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%.<sup>835</sup>

6.560 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. Under the fifth step of Ofwat’s methodology, the ODI rates for each company were set in line with the relevant median PR19 unit rate,<sup>836</sup> other than where that would result in Ofwat’s RoRE cap (which for water supply interruptions was 0.9%) being exceeded. Where the RoRE cap was exceeded, the ODI rate as at the RoRE cap was used.<sup>837</sup>

6.561 This resulted in ODI rates for Anglian, Southern and Wessex being set in line with the PR19 WaSC median unit rate and ODI rates for South East being set in line with the ‘large WoC’ unit rate. ODI rates for Northumbrian were set in line with the 0.9% RoRE cap.<sup>838</sup>

6.562 Table 6.26 below sets out the ODI rates used in Ofwat’s PR24 FD.

**Table 6.26: 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
<b>Sutton and East Surrey</b>	<b>0.08</b>

Source: Ofwat (2025) PR24 final determination: PR24 ODI rates, tab ‘Top Down Models’, cells AO103:AO119.

<sup>835</sup> 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.

<sup>836</sup> As noted in paragraph 6.475(b) above, Ofwat identified separate median unit rates within the groupings of the WaSCs, the ‘large WoCs’, the ‘small WoCs’ and Hafren Dyfrdwy. Therefore, WaSC median unit rates were applied when determining ODI rates for Anglian, Northumbrian, Southern and Wessex, and ‘large WoCs’ median unit rates were applied for South East.

<sup>837</sup> Ofwat (2025) [ODI rates](#), tab ‘Top Down Models’, rows 99–121.

<sup>838</sup> Ofwat (2025) [ODI rates](#), tab ‘Top Down Models’, rows 99–121.

## *Parties' submissions*

### **Southern**

- 6.563 In its statement of case, Southern requested that we use only PR19 data to calculate the performance range used in the third step of Ofwat's top-down methodology.<sup>839</sup> Southern submitted the following.<sup>840</sup>
- (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.<sup>841</sup> 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.
- 6.564 Using Southern's approach, the 10th and 90th percentiles of the distribution of performance deviations would be -599% and 48% respectively.<sup>842</sup> Therefore, a performance range of 599% would be used, with the effect of reducing the ODI rates calculated.<sup>843</sup>
- 6.565 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.<sup>844</sup>

### **Ofwat**

- 6.566 In its response to Southern's statement of case, Ofwat submitted that its general position when calculating performance ranges for existing performance commitments was to use all available historic performance data because

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<sup>839</sup> [Southern SoC](#), p388, paragraph 108 and Table 5.

<sup>840</sup> [Southern SoC](#), pp387–388, paragraphs 105–108.

<sup>841</sup> 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 6.568.

<sup>842</sup> [Southern SoC](#), p389, Table 5; and Southern SoC, SOC-6-0026, PCs and ODIs supporting analysis, tab 'WSI'.

<sup>843</sup> [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 6.492(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).

<sup>844</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p130, lines 5–16.

performance across multiple periods provided more robust estimates of future performance.<sup>845</sup>

6.567 Additionally, Ofwat noted that:

- (a) at PR14 the impact of severe weather was included in measured performance for all companies except for Southern;<sup>846</sup>
- (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;<sup>847</sup>
- (c) at PR14 Southern did not remove or exclude any severe weather incidents from its measured performance;<sup>848</sup> 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.<sup>849</sup>

#### *Our assessment and decision*

6.568 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 be likely to result in a more appropriate performance range than Ofwat's PR24 approach by considering the significance of the definition change on measured performance.

6.569 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.

6.570 Therefore, we do not accept that excluding PR14 data would result in a more robust estimate of the performance range. As such, we decide to retain Ofwat's PR24 FD approach to include PR14 and PR19 data.

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<sup>845</sup> 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 RF113, Q1(d), pp8–9).

<sup>846</sup> Ofwat response to Ofwat RF112, Q1(a); and (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p132, lines 7–9.

<sup>847</sup> Ofwat response to Ofwat RF112, Q1(a).

<sup>848</sup> Ofwat response to Ofwat RF112, Q1(a).

<sup>849</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.203.

6.571 When 2024/25 outturn data (which was not available to Ofwat when setting ODI rates in its PR24 FD) is taken into account, the implied performance range under Ofwat’s approach increases from 342% to 413%. Table 6.27 below shows how the unit rates that result from taking 2024/25 outturn data into account compare to the unit rates at PR19 and in Ofwat’s PR24 FD. As can be seen, when 2024/25 data is taken into account, the impact on unit rates (relative to Ofwat’s PR24 FD) varies between companies. This is because the higher performance range increases the extent to which Ofwat 0.9% RoRE cap (under the fifth step of Ofwat’s methodology) would be exceeded if the relevant PR19 median unit rate were to be applied. The result is that the 0.9% RoRE cap becomes the basis upon which ODI rates are set for all of the Disputing Companies except South East.

**Table 6.27: Comparison of implied ODI unit rates**<sup>850</sup>

<i>£ per minute of interruption</i>	<i>PR19</i>	<i>Ofwat’s PR24 FD</i>	<i>Ofwat’s PR24 FD approach with 2024/25 outturn data</i>
Anglian	0.62	0.47	0.46
Northumbrian	0.60	0.35	0.29
South East	0.22	0.32	0.32
Southern	0.25	0.47	0.42
Wessex	0.27	0.47	0.42

Source: Ofwat (2025) PR24 final determination: PR24 ODI rates, tab ‘Top Down Models’ and CMA analysis.

6.572 Our view is that the inclusion of 2024/25 data provides a better view of the extent to which ODI rates may put RoRE at risk. Therefore, we consider that it is appropriate to use this data when applying Ofwat’s top-down approach to setting ODI rates for water supply interruptions. While, as shown in Table 6.27, this results in lower ODI rates for four of the Disputing Companies than Ofwat’s PR24 FD, in line with our assessment in paragraphs 6.497 to 6.501, we consider that these lower rates are likely to provide more effective performance improvement incentives than retaining the rates included in Ofwat’s PR24 FD in an area that is of high importance to customers. In particular, they are based on a more up-to-date and reliable assessment of the relevant performance range, and therefore of relevant trade-offs that affect the desirability of ODI rates being set at different levels. The reduction extends the range over which – and the proportion of circumstances within which – ODI rates can be expected to provide effective improvement incentives, in a context where higher rates would increase the risk of financial incentives effectively being ‘switched off’ as a result of a reward cap or penalty collar having been reached.

6.573 As such, our decision is that the ODI rates for water supply interruptions should be set at the levels shown in Table 6.28 (which are consistent with the unit rates

<sup>850</sup> Note that the water supply interruptions PCL measures minutes of interruption per customer and ODI rates are calibrated in line with that. This table shows the implied ODI rates per minute of interruption (ie before the size of the customer base is taken into account).

shown in the right hand column of Table 6.27, scaled to reflect the size of each company's customer base).

**Table 6.28: CMA redetermined water supply interruptions ODI rates**

	<i>ODI rate (£m)</i>
Anglian	1.05
Northumbrian	0.61
South East	0.31
Southern	0.48
Wessex	0.27

*Source: CMA analysis based on Ofwat (2025) PR24 final determination: PR24 ODI rates, tab 'Top Down Models'.*

*Note: These rates apply to differences between average outturn and target levels of interruption per customer (which aligns with the way in which the PCL is defined and performance against it measured). This differs from the unit rate values shown in Table 6.25, which are the implied rates per minute of interruption (for interruptions that lasted 3 hours or more) for any given property (ie before the size of the relevant company's customer base is taken into account).*

### **Customer experience measures**

6.574 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 6.437 to 6.441;
- (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;<sup>851</sup> 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.<sup>852</sup>

6.575 Southern requested a reduction to the risk allocations used to determine the ODI rates for the customer experience measures.

6.576 Our decision is to adopt the PR24 approach to ODI rates for each measure of experience (**MeX**) and to take account of performance data from 2024/25 where relevant (ie for C-Mex and D-Mex) when setting ODI rates for the reasons set out below.

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<sup>851</sup> Ofwat (2025) [Developer services measure of experience \(D-MeX\) – PC definition](#), p3.

<sup>852</sup> Ofwat (2025) [Business customer and Retailer measure of experience \(BR-MeX\)](#), p2. For the Welsh water companies, an alternative BCEW performance commitment was used.

*Ofwat's PR24 FD approach*

6.577 Ofwat's methodology for the customer experience measures is described above from paragraph 6.437. Ofwat's PR24 FD allocated the following risk to these experience measures:

- (a) for C-MeX, +/- 0.4% of both water and wastewater RoRE;<sup>853</sup>
- (b) for D-MeX, +/-0.2% of both water and wastewater RoRE;<sup>854</sup> and
- (c) for BR-MeX, +/-0.2% of both water and wastewater RoRE.<sup>855</sup>

6.578 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.

*Parties' submissions*

**Southern**

6.579 In its statement of case, Southern requested that the risk allocations used to determine the ODI rates for customer experience measures be reduced by:<sup>856</sup>

- (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.

6.580 Southern submitted that:<sup>857</sup>

- (a) Ofwat did not consider the size of the retail revenue, developer services and non-household revenue relative to companies' wholesale business;<sup>858</sup>
- (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;<sup>859</sup>

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<sup>853</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p243.

<sup>854</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p252.

<sup>855</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p260.

<sup>856</sup> [Southern SoC](#), p406, Table 14.

<sup>857</sup> [Southern SoC](#), pp404–406, paragraphs 176–184.

<sup>858</sup> [Southern SoC](#), p405, paragraph 180.

<sup>859</sup> [Southern SoC](#), p405, paragraph 181.

- (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%.<sup>860</sup>
- (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%;<sup>861</sup>
- (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;<sup>862</sup> and
- (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.<sup>863</sup>

6.581 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;<sup>864</sup> 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.<sup>865</sup>

6.582 In its response to the CMA PR24 PD, Southern pointed to the IWC Final Report, which it said suggested that there should be greater focus on actual customer service delivered versus more general measures which tend to pick up broader concerns about the industry as a whole which are susceptible to media coverage.<sup>866</sup> Southern submitted that the IWC Final Report aligned with its view that the incentive strength needs to be reduced.<sup>867</sup>

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<sup>860</sup> [Southern SoC](#), p406, Table 13.

<sup>861</sup> [Southern SoC](#), p405, paragraph 182.

<sup>862</sup> [Southern SoC](#), p405, paragraph 180.

<sup>863</sup> [Southern SoC](#), p405, paragraph 180.

<sup>864</sup> (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.

<sup>865</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 21–24 and p150, lines 1–5.

<sup>866</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.69, citing IWC Final Report, paragraph 655

<sup>867</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.69.

## Ofwat

6.583 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.<sup>868</sup>
- (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;<sup>869</sup>
  - (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;<sup>870</sup>
  - (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).<sup>871</sup>
- (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;<sup>872</sup>
  - (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;<sup>873</sup> and

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<sup>868</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.260.

<sup>869</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.248.

<sup>870</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.262–4.266.

<sup>871</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.266.

<sup>872</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.270.

<sup>873</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.268–4.269.

- (iii) the average correlation across companies between developer services revenue and regulated equity for 2020-23 was 0.84.<sup>874</sup>
- (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,<sup>875</sup> 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.<sup>876</sup>

6.584 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;<sup>877</sup> and
- (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.<sup>878</sup>

6.585 In its response to the CMA PR24 PD, Ofwat said that the decline in performance across the 2020-2025 period makes it more important than ever for companies to deliver genuine improvements in customer service.<sup>879</sup>

### **Thames Water**

6.586 Thames Water submitted, in relation to Southern's request, that the MeXes are 'over-powered', in the sense that they result in disproportionate penalties, which undermine the ability of companies receiving them to invest to the benefit of customers and the environment.<sup>880</sup>

6.587 Thames Water submitted (in its submissions in response to the statements of case and in response to the CMA PR24 PD) that the revenue at risk for C-Mex – and

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<sup>874</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.253.

<sup>875</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.254.

<sup>876</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.271.

<sup>877</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 6–11.

<sup>878</sup> (Non-confidential) transcript of the hearing for Outcomes on 30 June 2025, p149, lines 1–5.

<sup>879</sup> Ofwat (2025) [Response to CMA PR24 PD: Outcomes](#), paragraph 3.9.

<sup>880</sup> Thames Water (2025) [Third Party Submission on the Water PR24 References](#), paragraph 47.

the other two experience measures – was disproportionately high relative to the three comparators.<sup>881</sup>

- (a) Other performance commitments in PR24: Thames Water said that for C-MeX Ofwat set the maximum expected exposure at 0.4% of total appointee RoRE. For water and sewerage companies, this equates to a penalty exposure around 60% greater than other key performance commitments, which are typically set at 0.5% of either water or wastewater RoRE.
- (b) Other customer priorities: Thames Water said that Ofwat’s own research placed ‘provide good customer service’ as only eighth out of ten in customer priorities.<sup>882</sup>
- (c) Other regulated industries: Thames Water said that in RIIO-GD2, Ofgem set a cap and collar on the ‘customer satisfaction survey’ measure – which encompasses both customer interactions and developer services – of 0.5% of revenue, and that revenue is generally much smaller than RCV.

#### *Our assessment and conclusions*

- 6.588 Southern’s submissions focused on how Ofwat allocated inappropriately high amounts of risk to the experience measures, assessed as proportions of a measure of price control revenues at risk.
- 6.589 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. In line with that, our view is that, conceptually, the percentage of RoRE at risk is the most appropriate reference point when calibrating the experience measures’ ODI rates.
- 6.590 Our view is that Ofwat did not allocate an inappropriately high percentage of RoRE to the experience measures in its PR24 FD, given the performance concerns it had identified in AMP7 (see paragraph 6.585).
- 6.591 We note Southern’s reference to the IWC Final Report recommendation that there should be greater focus on actual customer service delivered (as opposed to more general measures of customer experience). The development of more effective

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<sup>881</sup> Thames Water (2025) [Response to CMA PR24 PD](#), paragraphs 162 and 165; and see Thames Water (2025) [Third Party Submission on the Water PR24 References](#), paragraph 49 and Annex – Additional evidence regarding the MexEs.

<sup>882</sup> Thames Water cited Savanta (April 2024) [Customer Spotlight: People’s views and experiences of water – Wave two – Report for Ofwat and CCW](#), pages 23-24.

customer service measures in the water sector is likely to require careful policy development work given the inevitable complexities involved, and we note the scope for policy issues of this kind to be considered as part of broader changes to the regulatory landscape proposed in the recent Defra White Paper.<sup>883</sup> However, we do not consider the scope for developing new arrangements through this broader work to mean that incentivising companies to improve performance through the use of the existing experience measures should not be a priority for PR24.

- 6.592 We did not find Thames Water's submission that Ofwat research showed the provision of good customer service as eighth out of ten in customer priorities to be informative, in a context where that research showed that 75% of customers rated good customer service at least 8 out of 10 in terms of importance. Also, we note that customer experience can be affected by performance in relation to a range of factors that go beyond a narrow set of retail activities (including, for example, as a result of streetworks). In line with the above, we do not consider the comparisons that Thames Water presented between the percentage of RoRE allocated to C-MeX as compared with various wholesale ODIs to imply that the C-MeX allocation should be viewed as inappropriately high.
- 6.593 Given the extent of relevant differences in circumstances between the energy and water sectors (including in terms of the extent of vertical integration/separation, and the ways in which roles and responsibilities are allocated), we do not consider Thames Water's comparison to Ofgem's approach to have a bearing on our assessment.
- 6.594 As such, and particularly in light of the performance concerns Ofwat has identified, our decision is to retain the PR24 FD approach to ODI rates for each experience measure.
- 6.595 For C-MeX and D-MeX, under Ofwat's top-down methodology (described in paragraph 6.492 above), the ODI rates are determined by dividing the identified amount of RoRE at risk (given the relevant allocated RoRE percentage) by a measure of the likely performance range.<sup>884</sup> When 2024/25 outturn data (which was not available to Ofwat when setting ODI rates in its PR24 FD) is taken into account, the implied performance range for C-Mex increases by around 8% relative to that used in Ofwat's PR24 FD. The implied performance range for D-MeX increases only slightly (by 0.1%). Our decision is that it is appropriate to use these updated performance ranges when applying Ofwat's top-down approach to setting C-Mex and D-Mex rates. The inclusion of this data provides a better view of the extent to which C-MeX and D-MeX rates may put RoRE at risk. While this

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<sup>883</sup> [Defra White Paper](#).

<sup>884</sup> BR-MeX are determined each year based on the specified level of RoRE allocation and are therefore not affected by the availability of 2024/25 data.

results in C-MeX rates that are around 8% lower than in Ofwat’s PR24 FD, in line with our assessment in paragraphs 6.497 to 6.501 we consider that these lower rates are likely to provide more effective performance improvement incentives than retaining the rates included in Ofwat’s PR24 FD in an area that is of high importance to customers. In particular, the ODI rates are based on a more up-to-date and reliable assessment of the relevant performance range, and therefore of relevant trade-offs that affect the desirability of ODI rates being set at different levels. The reduction extends the range over which – and the proportion of circumstances within which – ODI rates can be expected to provide effective improvement incentives, in a context where higher rates would increase the risk of financial incentives effectively being switched off (as a result of a reward cap or penalty collar having been reached).

6.596 Our decision is that the C-MeX and D-MeX ODI rates in Table 6.29 should apply in PR24, and that Ofwat’s PR24 approach to applying BR-MeX rates (using a 0.2% RoRE allocation) should be retained.

**Table 6.29: CMA decision on C-Mex and D-Mex ODI rates**

£m	C-Mex		D-Mex	
	Outperformance	Underperformance	Outperformance	Underperformance
Anglian	2.51	-2.51	1.28	-1.28
Northumbrian	1.33	-1.33	0.68	-0.68
South East	0.39	-0.39	0.2	-0.2
Southern	1.75	-1.75	0.89	-0.89
Wessex	0.98	-0.98	0.5	-0.5

Source: CMA analysis and Ofwat response to RFI35, question 4

### Individual risk protections

6.597 Only South East and Southern made specific requests to change risk protections on individual performance commitments (caps, collars and deadbands).<sup>885</sup> 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 6.322).

6.598 Our 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

6.599 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

<sup>885</sup> 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).

penalties. For new performance commitments, Ofwat’s default approach was to set caps and collars at +/-0.5% RoRE.<sup>886</sup>

6.600 Ofwat’s PR24 FD applied collars to 18 of 24 performance commitments, caps to 16 and deadbands to 3. Table 6.30 shows which ODIs had a penalty collar and/or a deadband applied in Ofwat’s PR24 FD.

**Table 6.30: 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
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**

6.601 In its statement of case, Southern’s specific requests were to:<sup>887</sup>

- (a) add a -0.5% RoRE collar to:
  - (i) water quality contacts;
  - (ii) serious pollution incidents;

<sup>886</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p39–41.

<sup>887</sup> [Southern SoC](#), p367-368, Table 1.

- (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.

6.602 Southern submitted that Ofwat's PR24 Outcomes framework is heavily skewed towards penalties,<sup>888</sup> and while the addition of collars reduced skew on the overall package, it did not eliminate the skew entirely.<sup>889</sup> Southern submitted that the ODIs contribute to a negative expected penalty for a notional company like Southern, and will lead to excessive downside risk.<sup>890</sup> 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;<sup>891</sup> and
- (b) it requests changes to individual risk protections to limit downside risk exposure<sup>892</sup> and these changes<sup>893</sup> 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.<sup>893</sup>

### **Ofwat's submissions on its approach to applying individual risk protections**

6.603 On its use of individual risk protections, in its responses to the statements of case and hearings Ofwat submitted the following.

- (a) It used individual risk protections in a targeted way because they can weaken and distort incentives at the margin.<sup>894</sup> Ofwat noted that in its PR24 FD it applied collars to almost 80% of all performance commitments and caps to

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<sup>888</sup> [Southern SoC](#), p376, paragraph 47.

<sup>889</sup> [Southern SoC](#), p377, paragraph 50.

<sup>890</sup> [Southern SoC](#), p378, paragraph 56.

<sup>891</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p83, lines 2–7.

<sup>892</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p85, lines 22–26 and p86, lines 1–10.

<sup>893</sup> (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.

<sup>894</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 1.30.

almost 70%, as it targeted performance commitments with historically higher performance volatility.<sup>895</sup>

- (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.<sup>896</sup>
- (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.<sup>897</sup>
- (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.<sup>898</sup>
- (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.<sup>899</sup>

6.604 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.<sup>900</sup>

6.605 Ofwat submitted that, overall, the adjustments it made to risk protections from its PR24 DD to its PR24 FD sufficiently addressed concerns about risk. According to Ofwat's risk assessment, its PR24 FD achieved a balanced package overall with stretching yet achievable PCLs set alongside strong financial incentives.<sup>901</sup> Ofwat said that it had introduced the aggregate sharing mechanism (**ASM**) and outturn adjustment mechanism (**OAM**)<sup>902</sup> as further risk protections for the overall Outcomes package.<sup>903</sup>

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<sup>895</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 3.23.

<sup>896</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 4.7.

<sup>897</sup> Ofwat (2025) [Response to Hearings \(non-confidential\)](#), p2.

<sup>898</sup> Ofwat (2025) [Response to common issues on outcomes](#), p32, paragraph 3.24.

<sup>899</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.221.

<sup>900</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraph 3.23 and paragraph 3.28.

<sup>901</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraphs 3.13–3.14.

<sup>902</sup> 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.

<sup>903</sup> Ofwat (2025) [Response to common issues on outcomes](#), paragraphs 3.6 and 3.27.

## **Our approach**

- 6.606 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 6.697 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).
  - (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).
- 6.607 In this context, our 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**

- 6.608 In this sub-section we assess Southern's four requests to add a -0.5% RoRE collar.

#### *Water quality contacts*

- 6.609 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.<sup>904</sup>

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<sup>904</sup> Ofwat (2025) [Customer contacts about water quality](#), p2; Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp97–99.

## Ofwat's approach in the PR24 FD

6.610 Ofwat set no cap or collar for water quality contacts.<sup>905</sup>

### Parties' submissions

#### *Southern*

6.611 In its statement of case, Southern submitted the following.

- (a) The absence of a collar created an imbalance in the ODIs framework.<sup>906</sup>
- (b) Unlike other 'service-related measures', such as water supply interruptions, water quality contacts did not have a collar at PR24 FD.<sup>907</sup>
- (c) For example, under the Ofwat PR24 FD the underperformance penalties resulting from a large-scale water incident would be capped for water supply 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.<sup>908</sup>

6.612 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.<sup>909</sup>
- (b) With Ofwat having set collars for a large number of performance commitments in its PR24 FD, there was no specific reason why the remaining performance commitments should not have a collar added to cover unforeseen circumstances.<sup>910</sup>

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<sup>905</sup> 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.

<sup>906</sup> [Southern SoC](#), p407, paragraph 189.

<sup>907</sup> [Southern SoC](#), p407, paragraph 192.

<sup>908</sup> [Southern SoC](#), p407, paragraphs 192–194.

<sup>909</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p91, lines 7–25, and p92, lines 1–10.

<sup>910</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p93, lines 23–26 and p94, lines 1–3.

## *Ofwat*

6.613 In response to Southern's statement of case, Ofwat submitted that:<sup>911</sup>

- (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 decisions**

6.614 Our 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.

6.615 We note that the water quality contacts performance commitment 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.

6.616 Therefore, our decision is not to add a collar to water quality contacts.

### *Serious pollution incidents*

6.617 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.<sup>912</sup>

### **Ofwat's PR24 FD approach**

6.618 Ofwat set a deadband for all companies of one serious pollution incident per year for all companies.<sup>913</sup>

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<sup>911</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.213–4.216.

<sup>912</sup> Ofwat (2025) [Serious pollution incidents](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp176–177. In Ofwat's consultation (Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#)), it proposed updating the definition of serious pollution incidents to refer to the updated EPA methodology (version A) (EA and Natural Resources Wales (2025) [Water and sewerage companies EPA methodology for 2026-30 version A](#)) but did not propose making changes to the PCL, ODI rate or risks protections.

<sup>913</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p180.

## Parties' submissions

### *Southern*

6.619 In its statement of case, Southern submitted that:<sup>914</sup>

- (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;<sup>915</sup> and
- (b) serious pollution incidents was the only new performance commitment without a collar.<sup>916</sup>

6.620 At its hearing, Southern further stated that:<sup>917</sup>

- (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;<sup>918</sup>
- (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;<sup>919</sup>
- (c) serious pollution incidents are under significant scrutiny from beyond Ofwat's ODIs framework, such as from the EA;<sup>920</sup> and
- (d) adding a collar would be consistent with other performance commitments' risk protections.<sup>921</sup>

### *Ofwat*

6.621 In response to Southern's statement of case, Ofwat submitted the following.<sup>922</sup>

- (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

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<sup>914</sup> [Southern SoC](#), pp394–396, paragraphs 135–143.

<sup>915</sup> [Southern SoC](#), p395, paragraph 137.

<sup>916</sup> [Southern SoC](#), p395, paragraph 140, and p396, paragraph 141.

<sup>917</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p9, line 14 to p95, line 16.

<sup>918</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 11–13.

<sup>919</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 13–16.

<sup>920</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p94, lines 14–22.

<sup>921</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p94, lines 23–25.

<sup>922</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.136–4.139.

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.

6.622 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.<sup>923</sup>

### **Our assessment and decisions**

6.623 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 decision is that a collar would weaken companies' financial incentives to perform, including to mitigate the impact of exogenous factors, like temperature, on performance.

6.624 Additionally, we note that:

- (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.

6.625 Therefore, our decision is not to add a collar to serious pollution incidents.

### *Leakage*

6.626 As set out in paragraph 6.405, 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.

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<sup>923</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p95, lines 24–26 and p96, lines 1–11.

## Ofwat's approach in the PR24 FD

6.627 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.<sup>924</sup>

### Parties' submissions

#### *Southern*

6.628 In its statement of case, Southern submitted that:

- (a) leakage was the only performance commitment with a cap but not a collar, creating an asymmetrical incentive and risk exposure;<sup>925</sup>
- (b) external factors influenced leakage performance, such as ageing infrastructure, ground movements and weather;<sup>926</sup> and
- (c) there was no apparent rationale from Ofwat for the lack of a collar and it appeared arbitrary.<sup>927</sup>

6.629 In its hearing Southern stated that:

- (a) the ODI incentive rate for leakage increased significantly in PR24;<sup>928</sup>
- (b) ageing infrastructure was effectively an external factor in the context of the base and enhancement allowance Southern had been granted;<sup>929</sup> and
- (c) a -0.5% RoRE collar would be consistent with collars on other performance commitments and reduce overall downward risk exposure.<sup>930</sup>

#### *Ofwat*

6.630 In response to Southern's statement of case, Ofwat submitted that:<sup>931</sup>

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<sup>924</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p128.

<sup>925</sup> [Southern SoC](#), p382, paragraph 80; (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 4–17.

<sup>926</sup> [Southern SoC](#), p407, paragraphs 190–191.

<sup>927</sup> [Southern SoC](#), p407, paragraph 191.

<sup>928</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 5–7.

<sup>929</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p98, lines 25–26 and p99, lines 1–24.

<sup>930</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p97, lines 4–26 and p98, lines 1–5.

<sup>931</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.208–4.212.

- (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 decisions**

- 6.631 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 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.
- 6.632 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.
- 6.633 Southern identified ageing infrastructure as an exogenous factor. However, our 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 ODI framework would be undermined if companies' past failures to maintain their assets were reflected in reductions in their incentives to perform in the future.
- 6.634 Therefore, our decision is not to add a collar to leakage.

#### *Discharge permit compliance*

- 6.635 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.<sup>932</sup>

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<sup>932</sup> Ofwat (2025) [Discharge permit compliance – PC definition](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p231.

## Ofwat's PR24 FD approach

6.636 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.<sup>933</sup>

## Ofwat's consultation on the new EPA methodology to be applied from 2026 to 2030

6.637 As set out at paragraph 6.247, the EA published a new EPA methodology for 2026-30, shortly after publication of the CMA PR24 PD, and this methodology included changes to the discharge permit compliance metric.<sup>934</sup> Ofwat subsequently consulted on proposed changes to the discharge permit compliance performance commitment to take account of these changes to the EPA methodology.<sup>935</sup>

6.638 In its consultation, Ofwat said it did not consider there to be sufficient reason to alter the PCL, ODI rate and risk protections set at final determinations for discharge permit compliance. As a result of the changes to the methodology not altering the intention of the performance commitment, nor were they expected to result in changes to the level of stretch and outperformance payments intended in the Ofwat PR24 FD.<sup>936</sup> Ofwat's consultation closed on 10 December 2025 and [§<].<sup>937</sup>

## Parties' submissions

### *Southern*

6.639 In its statement of case, Southern submitted that discharge permit compliance performance was affected by external factors beyond the company's control, such as 'Dry Weather Flow' limits,<sup>938</sup> and that 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.<sup>939</sup>

6.640 In its hearing, Southern stated that in AMP8 over 150 of its sites would receive new and stricter phosphorous and nitrogen permits, creating risk for Southern's

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<sup>933</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p235.

<sup>934</sup> EA (October 2025) [Water and sewerage companies: EPA methodology for 2026-30](#).

<sup>935</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#).

<sup>936</sup> Ofwat (2025) [Consultation on changes to three PR24 environmental performance commitments](#), p6.

<sup>937</sup> [§<].

<sup>938</sup> [Southern SoC](#), p382, paragraph 80, and pp407–408, paragraphs 196–198.

<sup>939</sup> [Southern SoC](#), p408, paragraph 199.

performance while it implemented schemes to achieve those new permitted levels.<sup>940</sup> Southern said that it had the largest number of stricter permits across companies, and that adding a collar would mitigate that elevated risk.<sup>941</sup>

6.641 In its response to the CMA PR24 PD, Southern submitted that the EA's changes to the discharge permit compliance definition in the new EPA methodology (to be applied for 2026-30) will fundamentally alter how performance is measured and represent a significant change in the performance commitment definition.<sup>942</sup> Southern said that there is no current or historical dataset for company performance under the new definition,<sup>943</sup> but submitted that the average difference in its discharge permit compliance score under the new definition between 2019 and 2024 would have been 1.54%.<sup>944</sup> Further, that if the new discharge permit compliance definition had been introduced before Ofwat's PR24 FD, then – under the approach Ofwat's applied in its PR24 FD – discharge permit compliance would clearly have qualified for the use of risk protections.<sup>945</sup>

6.642 Southern requested that, in order to take account of changes to the discharge permit compliance definition, we:<sup>946</sup>

- (a) introduce a -0.5% RoRE collar;
- (b) amend the deadband that was included in Ofwat's PR24 FD so that the starting level of risk would be consistent with that under the current discharge permit compliance definition; and
- (c) reduce the ODI rate to reflect additional variance under the new discharge permit compliance definition.<sup>947</sup>

#### *Ofwat*

6.643 In response to Southern's statement of case, Ofwat submitted that:

- (a) 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;<sup>948</sup> and

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<sup>940</sup> (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.

<sup>941</sup> (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.

<sup>942</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.84.

<sup>943</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.84.

<sup>944</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.89–6.90 and Table 37.

<sup>945</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.87–6.88.

<sup>946</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraph 6.93.

<sup>947</sup> Southern (2025) [Response to CMA PR24 PD](#), paragraphs 6.91 - 6.93.

<sup>948</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.246.

(b) the 1% deadband in the Ofwat PR24 FD helped to limit the risk faced by companies.<sup>949</sup>

6.644 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.<sup>950</sup>

6.645 Ofwat submitted that 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.<sup>951</sup> Ofwat further submitted that the impact of the updated EPA methodology on companies' performance against the discharge permit compliance performance commitment had been raised by a number of companies as an issue not addressed satisfactorily in its October 2025 consultation.<sup>952</sup> Ofwat said that it had issued a data request following its consultation to all companies and to the EA to understand the extent of this impact.<sup>953</sup> Ofwat said that there was 'some level of discrepancy' between the information provided by companies' and the EA's estimates of the impacts of the discharge permit compliance changes on measured performance (with company estimates tending to be more substantial).

6.646 Ofwat said it was in the process of querying this data from all companies to ensure that it understands the potential scale of impact.<sup>954</sup> Ofwat said that it expected to have a clear dataset following its queries to companies, and that it will review again if it is necessary to make any changes to the PCL, ODI rate and risk protections for all companies after confirming the potential impact.<sup>955</sup>

### **Our assessment and decisions**

6.647 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.

6.648 Southern identified exogenous factors as affecting performance ('Dry Weather Flow' limits and potential future EA changes in the definition of compliance (see paragraph 6.639 above)). Adding a collar would weaken companies' financial incentives to mitigate the impact of these factors on performance.

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<sup>949</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.247.

<sup>950</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p103, lines 3–13.

<sup>951</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.244–4.245.

<sup>952</sup> Ofwat response to Ofwat RFI 35, question 2.

<sup>953</sup> Ofwat response to Ofwat RFI 35, question 2.

<sup>954</sup> Ofwat response to Ofwat RFI 35, question 2.

<sup>955</sup> Ofwat response to Ofwat RFI 35, question 2.

- 6.649 The changes the EA has made to the EPA methodology to be applied from 2026-30 that affect discharge permit compliance will impact all wastewater companies. Ofwat's change control process provides a mechanism through which this impact can be taken into account in the performance commitment's calibration. We note Southern's submissions concerning how its discharge permit compliance performance may be affected by the EPA methodology changes. We consider that Ofwat's review provides an appropriate process for considering submissions and supporting evidence from Southern and others (including the EA), and for establishing what consequential changes (if any) should be made to the discharge permit compliance performance commitment. As was set out in paragraphs 6.645 and 6.646 above, Ofwat has engaged in significant data gathering as part of that review process with the aim of better understanding the scale of any impact the EPA changes may have on discharge permit compliance performance.
- 6.650 Therefore, we decide not to add a collar to discharge permit compliance or to make any other changes to the way in which the discharge permit compliance performance commitment was set in Ofwat's PR24 FD.

### **Requests to tighten an existing collar on water supply interruptions**

- 6.651 In this sub-section we assess Southern's request to tighten the -1% RoRE common collar on water supply interruptions to -0.5% RoRE.<sup>956</sup> As set out in paragraph 6.286, 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).
- 6.652 South East's separate 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 6.322.

#### *Ofwat's PR24 FD approach*

- 6.653 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 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.<sup>957</sup>
- 6.654 Ofwat set an enhanced ODI rate for outperformance on water supply interruptions beyond a certain level above the PCL and therefore also a cap.<sup>958</sup>

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<sup>956</sup> Southern SoC, p388, paragraph 109 and Table 5.

<sup>957</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p95.

<sup>958</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp93–94.

## *Parties' submissions*

### **Southern**

6.655 In its statement of case, Southern submitted that:<sup>959</sup>

- (a) the wider collar creates a more unbalanced risk and reward package; and
- (b) Ofwat's decision to use a wider collar than standard in response to the performance commitment's volatility does not consider the GSS.

6.656 At its hearing, Southern further submitted that:<sup>960</sup>

- (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**

6.657 In its response to the statements of case, Ofwat submitted the following.<sup>961</sup>

- (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.

6.658 Ofwat further submitted the following.<sup>962</sup>

- (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

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<sup>959</sup> [Southern SoC](#), p388, paragraph 109.

<sup>960</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p108, lines 19–26 and p110, lines 1–18.

<sup>961</sup> Ofwat (2025) [Response to common issues on outcomes](#), pp16–17, paragraph 1.34.

<sup>962</sup> Ofwat response to Ofwat RF112, Q2.

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 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

6.659 CCW, in its submission on South East's statement of case, submitted that GSS payments would further incentivise improvements in water supply interruptions performance.<sup>963</sup>

#### *Our assessment and conclusions*

6.660 Ofwat's decision to apply a -1% RoRE collar at its PR24 FD was based both on:<sup>964</sup>

- (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.

6.661 Ofwat noted that a -1% RoRE collar would be equivalent to around 20 minutes of underperformance.<sup>965</sup> The 0.5% RoRE collar proposed by Southern would imply that figure was halved.<sup>966</sup>

6.662 Our decision is that, given variations in companies' historic water supply interruptions performance and the importance of this performance commitment to customers,<sup>967</sup> 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. Our decision is that no further adjustments are required.

6.663 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 view is that the overlap with GSS payments does not make a -0.5% RoRE collar appropriate.

6.664 As such, our decision is to apply a 1% RoRE collar for water supply interruptions.

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<sup>963</sup> CCW (2025) [Third party submission on the Water PR24 References – South East](#), paragraph 3.15.

<sup>964</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.205.

<sup>965</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.205.

<sup>966</sup> Ofwat (2025) [Response to South East SoC](#), paragraph 4.255.

<sup>967</sup> For example, see Ofwat (2025) [Response to common issues on outcomes](#), paragraph 2.17.

## **Requests to tighten existing caps and collars for bathing water quality and storm overflows**

6.665 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.<sup>968</sup>

### *Bathing water quality*

6.666 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.<sup>969</sup> 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.<sup>970</sup>

### **Ofwat's PR24 FD approach**

6.667 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.<sup>971</sup>

### **Parties' submissions**

#### *Southern*

6.668 In its statement of case, Southern submitted that tightening the cap and collar for bathing water quality would remedy flaws in Ofwat's calibration of the performance commitment, specifically:<sup>972</sup>

- (a) an inequality in RoRE risk allocation across WaSCs;
- (b) it should not have been thought of as a common performance commitment because 74% of bathing water sites are located in four companies' areas (including Southern), yet these companies account for only 28% of wastewater customers;

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<sup>968</sup> [Southern SoC](#), p409, paragraph 205, and p400, paragraph 160.

<sup>969</sup> Ofwat (2022) [PR24 Draft Methodology: Appendix 6 – Performance commitments](#), p51.

<sup>970</sup> Ofwat (2025) [Performance commitment definition - Bathing water quality](#); and Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp140–141.

<sup>971</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), pp143–145.

<sup>972</sup> [Southern SoC](#), pp408–409, paragraph 202.

- (c) misconnections, which are an exogenous factor beyond management's control;<sup>973</sup> and
- (d) the lack of a base allowance adjustment for coastal effects.

6.669 Southern further submitted in its hearing that:<sup>974</sup>

- (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*

6.670 In its response to Southern's statement of case, 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.<sup>975</sup>

- (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 PCLs 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.

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<sup>973</sup> (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)).

<sup>974</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p110, lines 17–26 and p111, lines 1–4.

<sup>975</sup> Ofwat (2025) [Response to Southern SoC](#), pp86–88, paragraphs 4.227–4.237.

- (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.

### **Our assessment and decisions**

- 6.671 We have assessed whether Southern provided sufficient evidence to justify tightening the +/- 0.5% RoRE cap and collar. In our 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.
- 6.672 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, as set out in paragraph 6.670(b), Ofwat set company-specific PCLs based on bottom-up, site-by-site assessments of historical performance and enhancement expenditure allowances. Our assessment of Southern's coastal population CAC is set out in chapter 4 (Base costs).
- 6.673 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 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.
- 6.674 Therefore, in our view, the +/- 0.5% RoRE cap and collar provides sufficient risk protection to companies.
- 6.675 As such, our decision is to apply a +/-0.5% RoRE cap and collar to bathing water quality.

### *Storm overflows*

- 6.676 As described above at paragraphs 6.178 and 6.181, 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

6.677 Ofwat set a +/- 0.5% RoRE cap and collar to the storm overflows performance commitment.<sup>976</sup>

### Parties' submissions

#### *Southern*

6.678 In its statement of case, Southern submitted the following.<sup>977</sup>

- (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.

6.679 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.<sup>978</sup>

#### *Ofwat*

6.680 In response to Southern's statement of case, Ofwat submitted the following.<sup>979</sup>

- (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.<sup>980</sup>
- (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.

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<sup>976</sup> Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p175.

<sup>977</sup> [Southern SoC](#), pp399–400, paragraphs 156–160.

<sup>978</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p111, lines 10–17.

<sup>979</sup> Ofwat (2025) [Response to Southern SoC](#), pp73–75, paragraphs 4.174–4.185.

<sup>980</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.174.

- (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.

### **Our assessment and decisions**

- 6.681 We have taken the same approach to assessing Southern's request on storm overflows as for bathing water quality, outlined above from paragraph 6.671.
- 6.682 As set out in paragraph 6.176, 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.<sup>981</sup> 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,<sup>982</sup> with Southern allowed £1.06 billion.<sup>983</sup>
- 6.683 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.
- 6.684 Our 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.
- 6.685 Our view is that a +/- 0.5% RoRE cap and collar provides sufficient risk protection to companies. Our 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**

- 6.686 In this sub-section we assess Southern's request to widen the deadband on compliance risk index and add a -0.5% RoRE collar.
- 6.687 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

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<sup>981</sup> Secretary of State (2022) [Government's strategic priorities for Ofwat](#); and see Defra (2023) [Storm overflows discharge reduction plan](#).

<sup>982</sup> Ofwat (2025) [PR24 final determinations: Sector Summary](#), p14.

<sup>983</sup> Ofwat (2025) [PR24 final determinations: Expenditure allowances](#), p 128, Table 18.

individual compliance risk index scores for every treated water compliance failure reported by a company in a year.<sup>984</sup>

### *Ofwat's PR24 FD approach*

6.688 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.<sup>985</sup> Southern's deadband started at -1.83.<sup>986</sup> This is illustrated by Table 6.31 below.

**Table 6.31: 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.

6.689 Ofwat's PR24 FD did not set a collar for compliance risk index.<sup>987</sup>

### *Parties' submissions*

#### **Southern**

6.690 In its statement of case, 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 6.31 above.<sup>988</sup> Southern submitted that:<sup>989</sup>

- (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

<sup>984</sup> Ofwat (2025) [Compliance risk index](#); Ofwat (2025) [PR24 final determinations: Delivering outcomes for customers and the environment](#), p226.

<sup>985</sup> 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.

<sup>986</sup> [Southern SoC](#), p390, Table 6.

<sup>987</sup> Ofwat (2025) [Response to Southern SoC](#), paragraph 4.224.

<sup>988</sup> [Southern SoC](#), p389, paragraph 115 and p390, Table 6.

<sup>989</sup> [Southern SoC](#), p389, paragraphs 112–115.

- (c) the notices were expected to last for the full duration of PR24 and have agreed completion dates with the DWI in 2030.

6.691 In its hearing, Southern stated that:<sup>990</sup>

- (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.

6.692 Regarding adding a collar, Southern submitted that:<sup>991</sup>

- (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.

6.693 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 6.668 and 6.669, were also relevant here.<sup>992</sup>

### **Ofwat**

6.694 Regarding the deadband, Ofwat submitted the following in response to Southern's statement of case.<sup>993</sup>

- (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.

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<sup>990</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p106, lines 22–26 and p108, lines 1–20.

<sup>991</sup> [Southern SoC](#), p390, paragraph 117.

<sup>992</sup> (Non-confidential) transcript of the hearing for Southern on 9 July 2025, p106, lines 5–16.

<sup>993</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.217–4.218 and paragraphs 4.220–4.223.

- (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.
- (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.

6.695 Regarding Southern's request to add a collar, Ofwat submitted that:<sup>994</sup>

- (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.

## DWI

6.696 In response to a CMA RFI, the DWI told us the following.<sup>995</sup>

- (a) Ofwat consulted the DWI over its 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.<sup>996</sup>
- (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

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<sup>994</sup> Ofwat (2025) [Response to Southern SoC](#), paragraphs 4.224 and 4.226.

<sup>995</sup> DWI response to DWI RFI02.

<sup>996</sup> In addition, see DWI (2025) [Third party submission on the Water PR24 References](#), p9.

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.

- (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 decisions*

6.697 Our 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.

6.698 Therefore, our decision is that it is not appropriate to introduce the additional risk protections Southern requested. As such, our decision is to apply Ofwat's PR24 FD approach with a glidepath from Southern's PR19 deadband level to a deadband of 1 by 2029/30 and not to add a collar.