TA 6.2 Our Package of PCs and ODIs
Technical Annex

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Version

Southern Water

Navigation: TA 6.2 – Our Package of PCs and ODIs

Purpose:
To provide detailed information on our package of PCs, the associated ODIs and the rationale and supporting evidence for the decisions that we have taken.

This is a Technical Annex to Chapter 6 of our Plan, Outcomes, PCs and ODIs. It should be read in conjunction with:

- TA 6.1 Our approach to PCs and ODIs

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Appendix.

Table: Relevant Ofwat tests

Ref	Ofwat test		Comment
Primary Focus Areas			
OC1, OC2, OC3	Delivering outcomes for customers	Outcome tests relevant to: • Common PCs • Asset health PCs and ODIs • Bespoke PCs • Stretching PC service levels • Scheme-specific PCs • Transparency • C-MeX • Reputational ODIs • Financial ODIs • Enhanced outperformance and underperformance payments • ODI outperformance/underperformance payment rates • Deadbands • Caps and collars	Our approach to determining PCs and ODIs was set out in Chapter 6 and other supporting Annexes. This Technical Annex sets out the key parameters for all classes of PC and ODI, including the rationale for the targets and form of each ODI. For each of the PCs and associated ODIs the Technical Annex: • Provides a definition of the PC • Explains the rationale for the PC • Sets out our proposed performance target and the rationale for setting the target at that level • Describes the way that we consider the ODI should operate.
Secondary Focus Areas			
EC1	Customer-engagement		
CMI1	Targeted controls markets and innovation		
AV3, AV4	Addressing affordability and vulnerability		
CE4	Securing cost efficiency		
LR2	Securing long-term resilience		
CA4	Securing confidence and assurance		
PD2			

Contents

Guide to this annex

Each Performance Commitment has a section following a consistent format. This guide explains how they are laid out

[PC Name]

Short definition

For common PCs we have referenced Ofwat's definition. If they are not common we explain how they are measured. This incorporates Ofwat feedback on our draft PC definitions.

Rationale for PC and ODI

If a PC is a common PC, we say so here. If it is not, we explain why we feel it is appropriate for us to include it as a PC.

Setting stretching performance commitment targets

We have used a range of inputs to set our performance commitment levels, these are:

- Efficient level of performance – usually set by deriving marginal benefits from willingness-to-pay evidence TA.4.4(11) and matching with our marginal cost curve.
- Historic performance forecast – based on a log forecast of our historic performance
- Minimum improvement – the likely level based on a minimal level of investment
- Maximum attainable – the best possible theoretical performance, in many cases this is not realistically attainable but is shown for reference
- Forecast industry upper quartile performance

In many cases we have then used the following two step process to adjust further for customer preferences:

1. Adjust the target to be more stretching by 10% for high relative customer priorities, 5% for medium relative customer priorities, and no change for low relative customer priorities
2. An achievability adjustment – if the previous steps drives the PC to a level that is not deliverable by 2024-25, we set the PC at the most stretching level we can operationally achieve.

Approach to determining the target & implied target	Comment
Efficient Level of performance	This comes from matching marginal benefit from our willingness to pay research TA.4.4 (11) to marginal costs.
Historic performance forecast	This is a log forecast based on historic performance.
Minimum Improvement	This is based on minimum levels of investment.
Maximum Attainable	The best theoretical performance.
Comparative performance	This is based on the forecast UQ position at the end of AMP7.

Initial target	Usually based on cost benefit analysis.
Customer priority adjustment	Adjusted initial target based on customer priority.
Achievability assessment	Deliverability adjustment (if required).
Target (for 2024-25)	**Our final target for the end of the period**

Long Term Targets

We explain what our long term targets are and how they have been derived.

Final Target Profile

We show our forecast for the final year of AMP6, our targets for AMP7, and our view of likely performance trajectory through AMP8–AMP11.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
X	X	X	X	X	X	X	X	X	X

Outcome Delivery Incentive

If the PC has an associated ODI we show how we have calculated the penalty and incentive rates, the maximum and minimum penalties for the period and explain any deadbands we are proposing.

If it does not have an ODI we explain why.

Penalty and reward rates are typically based on the marginal cost and benefits as shown in TA 6.1.

	Comment
Benefit valuation annual bill impact	We use the median benefit valuation from our 'slider' bill impact research, for more details see TA.4.4(3)
Incremental benefit	The median bill valuation x the customer numbers (for either water-only or water and waste-water as appropriate) / performance range between the target and P90 level. Water customers 1,066,082 (17/18 average) Wastewater customer 1,906,726 (17/18 average)
Incremental cost	In most cases this is determined by dividing our AMP7 expenditure by the associated improvement in performance. This is related to the marginal cost stated in Table App1 multiplied by the relevant customer numbers.

Outperformance Incentive rate after adjustment	Ofwat's standard calibration, adjusted by customer relative priority and other willingness-to-pay research.
Underperformance rate after adjustment	Ofwat's standard calibration, adjusted by customer relative priority and other willingness-to-pay research.
Max AMP7 outperformance payment	Incentive rate x [cap – target]
Max AMP7 underperformance payment	Penalty rate x [target – collar]

In each case, we considered whether to adjust the ODI rate based on the triangulated results of our customer research (as described in TA 4.3), and the willingness-to-pay valuation conducted by Accent (as described in TA 4.4(11)). See TA6.1 for full details of the adjustment approach.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

We have used the below table populated with up to four sources of data to set our P90 and P10 levels:

- Historic Southern Water – in many cases we have comparable data for PR14 and before. In these cases we have used our historic variance.
- Historic Industry – where we do not have sufficient Southern Water data or where we feel that the performance of the industry as a whole is a better predictor of variability we have used this data.
- Southern Water Forecast – Where we have a forecast model or other internal source of data, we have used this.
- Expert knowledge – Where we have no appropriate data, we have used engineering judgement to determine the most likely range.

The above are listed in decreasing order of preference. We show only the data source we ultimately used to set the P90:P10 range.

	2025 target	P90	P10
Historic Southern water	X	X	X
Historic Industry	X	X	X
Southern water forecast	X	X	X
Expert knowledge	X	X	X
Final	**X**	**X**	**X**

Rewards and Penalties

Our target, P10/P90 underperformance/outperformance payment levels, and deadbands (where relevant) are laid out as below.

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	X	X	X	X	X
P10 underperformance payment	X	X	X	X	X
P90 outperformance payment	X	X	X	X	X

In most cases, our cap and collar are set using our P90 and P10.

Where we have set a deadband, we explain how we have set it.

The default is that ODIs should be recovered through in-year revenue rather than end-of-period and/or being recovered through the RCV. Where we are proposing something else, we state why this is justified.

We supply clean, safe and sustainable water

Company performance commitment reference: PR19SRN_WN02

Water quality compliance (CRI)

Short definition

Compliance Risk Index (CRI) is an Ofwat common definition. Ofwat has asked that companies adopt the measure defined by the Drinking Water Inspectorate (DWI): http://www.dwi.gov.uk/stakeholders/price-review-process/CRI_Def.pdf.

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have not used customer willingness to pay to set the target for this PC. The DWI expects us to use a target of 0 for this measure.

Approach to determining the target & implied target	Comment
Regulatory mandate **0**	The DWI and Ofwat expect us to aim for a target of 0 on this measure. The nature of this metric means that achieving this score on average over the long-term is not possible. However, we aim to keep our CRI score as low as possible.
Historic performance forecast **N/A**	There is insufficient data available to forecast based on historic performance as this is a very new measure and we only have two years of shadow data.
Maximum Attainable **0**	The best theoretical CRI performance is 0. However, as performance improves, further performance improvements become increasingly difficult.
Comparative performance **0.97**	This is based on the forecast UQ position at the end of AMP7.
Target (for 2024-25) **0**	**Based on regulatory mandate.**

Long Term Targets

We expect that the DWI and Ofwat will continue to mandate a target of 0.

Final Target Profile

Our final target for the end of AMP7 is 0.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
2.65	0	0	0	0	0	0	0	0	0

Outcome Delivery Incentive

This is a financial PC.

We incur an underperformance payment if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£1.46	From willingness-to-pay evidence
Incremental benefit	£1.26m	Standard calculation
Incremental cost	£1.4m	Standard calculation
Underperformance rate after adjustment	£0.69m	Ofwat's standard calculation + 10%
Max AMP7 underperformance payment	£4.28m	Penalty rate x [target – collar]

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the penalty by 10% to reflect customer support for improvement in drinking water quality.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Industry historic data	0	0.95	2.19
Final	**0**	**0.95**	**2.19**

Our P90 and P10 are based on the industry historic performance. Our P90 is the best possible performance we can achieve.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	0	0	0	0	0
Deadband	2.31	1.97	1.63	1.29	0.95
P10 underperformance payment	-£0.86m	-£0.86m	-£0.86m	-£0.86m	-£0.86m

We have set a collar at the P10 level of performance.

We have set a penalty deadband at 0.95 which is our P90 forecast, this is better than the forecast upper-quartile position of 0.97. This reflects the importance our customers place on water quality.

We supply clean, safe and sustainable water

Company performance commitment reference: PR19SRN_WN04

Leakage

Short definition

Leakage is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-leakage.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Customers' priority is to *improve* rather than *maintain* performance on this metric.
2. We have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **96.3**	This comes from matching marginal benefit from our willingness to pay research to marginal costs.
Historic performance forecast **111.8**	This is a log forecast based on our historic performance.
Minimum Improvement **105.4**	This is based on minimum levels of investment
15% improvement **90**	Ofwat have set a regulatory expectation for companies to reduce leakage by at least 15%.
Largest actual % reduction by a company **94**	From the start of AMP6 this is Affinity Water, who reduced their leakage by 6.5% (as shown at discoverwater.co.uk). Projecting this out to the end of the AMP is 10.8%. An equivalent reduction for us would lead us to having leakage of 94 Ml/d.
Maximum Attainable **0**	The best theoretical leakage performance would be no leaks.
Comparative performance **91.86**	This is based on the forecast UQ position at the end of AMP7.
Initial target **96.3**	Based on cost benefit analysis.
Customer priority adjustment	We adjusted our cost benefit analysis-based initial target to be 10% more stretching, based on customer priority

High: 10% 86.7	
Achievability assessment **89.6**	We applied a deliverability adjustment to our customer priority target, which led to a target of 89.6.
Target (for 2024-25) 89.6	**We have set our target at better than the forecast UQ position based on our engineering judgement of what is achievable.**

Long Term Targets

We aim to improve steadily and reach 58.5 Ml/d by 2045. This equates to a 50% reduction by 2050, in line with the National Infrastructure Commission's long term target.

Final Target Profile

Our final target for the end of AMP7 is 89.6 Ml/d.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
105.4	102.3	99.1	95.9	92.7	89.6	75.8	68.6	63.7	58.5

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we reduce leakage to below our target.

We will incur underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£2.70	From willingness-to-pay evidence.
Incremental benefit	£0.32m	Standard calculation.
Incremental cost	£0.31m	Standard calculation.
Outperformance incentive rate after adjustment	£0.17m	Ofwat's standard calculation + 10%.
Underperformance rate after adjustment	£0.2m	Ofwat's standard calculation + 20%.
Max AMP7 outperformance payment	£7.92m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£8.82m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the reward by 10% and the penalty by 20%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	89.6	80.64	98.56
Final	**89.6**	**80.64**	**98.56**

Our P10 and P90 are based 10% variation around the target.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	102.3	99.1	95.9	92.7	89.6
P10 underperformance payment	-£1.76m	-£1.76m	-£1.76m	-£1.76m	-£1.76m
P90 outperformance payment	£1.58m	£1.58m	£1.58m	£1.58m	£1.58m

Our cap and collar are set using our P90 and P10.

We have not set deadbands for this measure.

We supply clean, safe and sustainable water

Company performance commitment reference: PR19SRN_WR01

Per Capita Consumption (PCC)

Short definition

Per capita consumption is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-per-capita-consumption.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **129.9**	This comes from matching marginal benefit from our willingness to pay research to marginal costs.
Historic performance forecast **120.2**	This is a log forecast based on our historic performance.
Minimum Improvement **131**	This is based on minimum levels of investment.
Maximum Attainable **100**	We have set the maximum attainable at 100 in line with our long term Target 100 aspiration.
Comparative performance **121.5**	This is based on the forecast UQ position at the end of AMP7.
Expert judgement **120**	This is based on WRMP19 data, and forms part of our approach to demand management and Target 100.
Target (for 2024-25) **120**	We have set our target at better than the forecast UQ position based on our engineering judgement of what is achievable.

Long Term Targets

We aim to improve steadily and reach 90 l/head/day by 2045.

Final Target Profile

Our final target for the end of AMP7 is 120 l/head/day.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
131	127	125	122	121	120	110	105	98	90

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we reduce per capita consumption to below our target.

We will owe an underperformance payment if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£1.34	From willingness-to-pay evidence.
Incremental benefit	£0.356m	Standard calculation.
Incremental cost	£0.528m	Standard calculation.
Outperformance incentive rate after adjustment	£0.18m	Ofwat's standard calculation.
Enhanced outperformance incentive rate after adjustment	£0.36m	We have doubled the incentive rate, as per how the C-MeX enhancement was doubled.
Underperformance rate after adjustment	-£0.2m	Ofwat's standard calculation + 10%.
Enhanced underperformance rate after adjustment	-£0.4m	We have doubled the incentive rate, as per the enhanced C-MeX reward rate.
Max AMP7 outperformance payment	£5.36m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£5.89m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the penalty by 10%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Industry historic	120	116	124
Final	**120**	**116**	**124**

Our P10 and P90 are based on industry historic variation.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	127	125	122	121	120
Standard underperformance payment	-0.39m	-0.39m	-0.39m	-0.39m	-0.39m
Standard outperformance payment	0.36m	0.36m	0.36m	0.36m	0.36m

Enhanced Rewards and Penalties

This is the only ODI where we are proposing enhanced rewards and penalties. This is justified as we are setting ourselves a performance target which is frontier and we receive our rewards when we start to shift the frontier, see TA11.1 for industry information.

	2020-21	2021-22	2022-23	2023-24	2024-25
Industry frontier	122	121	120	119	118
Standard cap	125	123	120	119	118
Enhanced cap	123	121	118	117	116
Enhanced underperformance payment	-0.79m	-0.79m	-0.79m	-0.79m	-0.79m
Enhanced outperformance payment	0.71m	0.71m	0.71m	0.71m	0.71m

Our cap and collar are set using our P90 and P10.

We have not set deadbands for this measure.

We supply clean, safe and sustainable water

Company performance commitment reference: PR19SRN_WN07

Drinking water appearance

Short definition

Customer contacts regarding the appearance of their drinking water, reported in line with Drinking Water Inspectorate guidance.

Measurement

Number of contacts per 1,000 connected population. Measured annually (calendar year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Number of contacts regarding the appearance of drinking water per 1,000 population, per calendar year. Reporting is based on the 2006 Drinking Water Inspectorate guidance on the provision of information to the Inspectorate in respect of sections 9 and 10 of the Water Undertakers (Information) Direction 2004, which deal with the reporting of consumer information about drinking water quality.

Southern Water is mirroring the Discover Water measure and definition.

Rationale for PC and ODI

This PC is:

- a metric that we have previously tracked
- required by the DWI

This PC aligns with our strategic outcome to *supply clean, safe and sustainable water.* This PC will help us to deliver against strategic outcomes, objectives and priorities.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We have used taste and odour customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **0.46**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.
Historic performance forecast **1.28**	This is based on a log forecast of historic improvement.
Minimum Improvement **0.92**	This is based on minimum levels of investment.
Maximum Attainable **0**	The best theoretically attainable level of performance is no complaints.
Comparative performance **0.53**	This is based on the forecast UQ position at the end of AMP7.
Expert judgement **0.46**	Based on considering the root causes of failure and an assessment of the benefit to be delivered by our selected interventions.
Target (for 2024-25) **0.46**	**We have set our target at better than the forecast UQ position based on our engineering judgement of what is achievable.**

Long Term Targets

We aim to improve steadily and reach 0.28 contacts per 1,000 connected population by 2045.

Final Target Profile

Our final target for the end of AMP7 is 0.46 contacts per 1,000 connected population.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
0.92	0.82	0.74	0.65	0.55	0.46	0.35	0.32	0.29	0.28

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we reduce customer contacts relating to drinking water appearance to below our target.
We will incur underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£0.18	From willingness-to-pay evidence.
Incremental benefit	£10.85m	Standard calculation.
Incremental cost	£0.454m	Standard calculation. Note that this is low as improvements in appearance are secondary benefits of investments in our network which are mostly driven by Leakage and Asset Health.
Outperformance incentive rate after adjustment	£5.97m	Ofwat's standard calculation + 10%.
Underperformance rate after adjustment	£11.69m	Ofwat's standard calculation + 10%.
Max AMP7 outperformance payment	£0.53m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£1.03m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased both the penalty and the reward by 10%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	0.46	0.4453	0.4807
Final	**0.46**	**0.4453**	**0.4807**

Our P10 and P90 reflect expert judgement, based on historic (PR14) variances.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	0.83	0.74	0.65	0.55	0.46
P10 underperformance payment	-£0.207m	-£0.207m	-£0.207m	-£0.207m	-£0.207m
P90 outperformance payment	£0.106m	£0.106m	£0.106m	£0.106m	£0.106m

Our cap and collar are set using our P90 and P10.

We have not set deadbands for this measure.

We supply clean, safe and sustainable water

Company performance commitment reference: PR19SRN_WN08

Drinking water taste and odour

Short definition

Customer contacts regarding the taste & odour of their drinking water, reported in line with Drinking Water Inspectorate guidance.

Measurement

Number of contacts per 1,000 connected population. Measured annually (calendar year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Number of contacts regarding the taste and odour of drinking water per 1,000 population, per calendar year. Reporting is based on the 2006 Drinking Water Inspectorate guidance on the provision of information to the Inspectorate in respect of sections 9 and 10 of the Water Undertakers (Information) Direction 2004, which deal with the reporting of consumer information about drinking water quality.

Southern Water is mirroring the Discover Water measure and definition.

Rationale for PC and ODI

This PC is:

- a metric that we have previously tracked
- required by the DWI.

This PC aligns with our strategic outcome to *supply clean, safe and sustainable water*. It will help us to deliver against strategic outcomes, objectives and priorities.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **0.20**	This comes from matching marginal benefit from our willingness to pay research to marginal costs. The willingness to pay research conducted by Accent indicated that customers were willing to pay a lot for high quality water, however this was much lower in our other willingness to pay research as can be seen in APP1.
Historic performance forecast **0.11**	This is based on a log forecast of historic improvement trends. This is based on five years of data, which includes a large step change improvement. We therefore do not feel this is a realistic target.
Minimum Improvement **0.24**	This is based on minimum levels of investment.
Maximum Attainable **0**	The best theoretically attainable level of performance is no complaints.
Comparative performance **0.26**	This is based on the forecast UQ position at the end of AMP7.
Expert judgement **0.21**	This level describes the best attainable performance within the constraints of AMP7.
Initial target (for 2024-25) **0.257**	This is based on comparative performance upper quartile level of performance.
After adjustment for customer priorities **High**	The willingness to pay values were high. This was also a high relative priority, therefore we applied a 10% uplift.
Target (for 2024-25) **0.213**	**Based on the very high marginal benefit we have set our target at the maximum that we think is achievable in AMP7.**

Long Term Targets

We aim to improve steadily and reach 0.128 by 2045.

Final Target Profile

Our final target for the end of AMP7 is 0.213.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
0.242	0.236	0.230	0.225	0.219	0.213	0.165	0.149	0.135	0.128

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we reduce customer contacts relating to drinking water taste and odour to below our target.

We will incur underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£1.40	From willingness-to-pay evidence.
Incremental benefit	£23.36m	Standard calculation.
Incremental cost	-£26.47m	Standard calculation.
Outperformance incentive rate after adjustment	£12.85m	Ofwat's standard calculation + 10%.
Underperformance rate after adjustment	-£12.85m	Ofwat's standard calculation + 10%.
Max AMP7 outperformance payment	£4.10m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£4.10m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased both the penalty and the reward by 10%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Southern Water historic variance	0.213	0.149	0.277
Final	**0.213**	**0.149**	**0.277**

Our P10 and P90 are based on historic (PR14) variance.

Rewards and Penalties

Our deadbands and p10/p90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	0.236	0.230	0.225	0.219	0.213
P10 underperformance payment	-£0.82m	-£0.82m	-£0.82m	-£0.82m	-£0.82m
P90 outperformance payment	£0.82m	£0.82m	£0.82m	£0.82m	£0.82m

Our cap and collar are set using our P90 and P10.

We have not set deadbands for this measure.

Together we aim to recycle every drop of water

Company performance commitment reference: PR19SRN_WWN07

Effluent re-use

Short definition

Volume of treated effluent made available for direct re-use by customers. This includes its use by local authorities, businesses, farmers or individuals for irrigation and other purposes.

Measurement

Total volume of treated effluent re-used expressed in m^3. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The provision of treated final effluent for use by businesses, farmers and communities on an annual basis, as a substitute for potable water and/or abstractions from the environment.

The measurement will be m^3 of treated effluent utilised by local authorities, businesses, farmers and communities on an annual basis. It would be effluent that we no longer discharge direct to the environment but instead provide to a third party (at the appropriate quality required) for use. This could be, for example, to a council for watering flower beds or to a grower for crop irrigation.

Where measurement apparatus is not in place, the volume will be estimated based on the size of the vehicle (e.g. tankers or bowsers) transporting the effluent.

The PC does not include any quality parameters, because this will depend on the intended final use.

The measure excludes indirect water reuse via discharge to any watercourse under an Environment Agency permit. It also excludes any water provided under agreements in place prior to 3 September 2018.

Rationale for PC and ODI

This PC aligns with our strategic outcome to *aim to recycle every drop of water*. This PC will help us to deliver against strategic outcomes, objectives and priorities.

Our target

We have set a target of zero for this measure as we have not included any associated costs in our plan.

Outcome Delivery Incentive

We will earn an outperformance payment for the volume of effluent re-used.

The marginal values used to set the outperformance rates are based on the marginal benefits. The outperformance payment is based on cumulative performance, therefore our actual incentive rate is five times larger than in APP1, because APP1 shows an annual incentive rate.

		Comment
Benefit valuation annual bill impact (per customer)	£1.07	From willingness-to-pay evidence.
Incremental benefit	£0.002m	Standard calculation – (£0.0005m per year).
Outperformance incentive rate after adjustment	£0.001m	Ofwat's standard calculation – (£0.00025m per year).
Max AMP7 outperformance payment	£5.10m	Incentive rate x [cap – target].

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	0	5070	0
Final	**0**	**5070**	**0**

Our P10 and P90 are based on expert judgement, This is based on our benefit research (see TA.4.4 (3)) which set the level of performance our customers would fund.

Rewards and Penalties

Our incentive rate is derived from our P90 levels. The figure we have derived is £0.001m reward incentive per property. This is the incentive rate per property for our p90 of 5070 properties cumulatively.

Our collar is set at our P90 level as this is the level customers were willing to fund.

Together we aim to recycle every drop of water

Company performance commitment reference: PR19SRN_BIO01

Renewable Generation

Short definition

Total renewable electricity generated as a percentage of our total electricity consumption.

Measurement

Quantity of renewable electricity generated, measured in kWh, as a percentage of our total electricity. Measured annually (financial year).

Our Renewable Generation commitment is primarily based on the operation of Combined Heat & Power (CHP) plants converting biogas to electricity and heat. Alternative uses of biogas (e.g. direct injection to grid, use for vehicle fuels) that may be utilised will be also be captured under this commitment. In every case an appropriate gas to electricity conversion factor will be used based on equipment efficiency monitoring, industry best practice, and manufacturer guidance.

We aim to maximise our conversion efficiency rate through the use of efficient technologies.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

88% of this PC lies within the Bio-resources price control due to the majority of our renewable energy being generated from our Bio-resources activities. The remainder, which comprises solar energy, is split between Water Network Plus and Wastewater Network Plus price controls.

Full definition of the performance commitment

Total renewable electricity generated, measured in kWh, at the generation source after deducting any power not used (parasitic loads) and includes electricity both consumed on site and any surplus exported into the National Grid.

Total electricity consumption is measured in kWh and includes all electricity consumed at Southern Water sites, including both operational sites and our offices.

We will continue to quantify, monitor, report and verify greenhouse gas emissions as per Defra guidelines for operational greenhouse gas reporting using a bespoke workbook prepared each year for the waste sector (managed by UKWIR). This process is independently audited each year.

Rationale for PC and ODI

This PC is one that we have previously tracked. In response to a direct consultation question, our customers preferred the choice of renewable generation over the option to measure reduction in carbon emissions. It aligns with our strategic outcome to ‘aim to recycle every drop of water’.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance 24%	24% is how far we can get using our own gas and optimising our energy use. The rate of increase aligns to improvements over AMP5 and AMP6. Customer triangulation & customer priorities indicate that this is a lower priority for our customers, an option to increase to 30% was therefore not selected.
Target (for 2024-25) **24%**	

Long Term Targets

We aim to improve steadily and reach 100% by 2045.

Final Target Profile

Our final target for the end of AMP7 is 24%, the profile reflects our planned investments.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039-40	2044-45
17.50%	21.20%	21.30%	24.00%	24.00%	24.00%	30%	55%	80%	100%

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if generate more energy from renewables than our target.

We will incur underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£0.66	From willingness-to-pay evidence.
Incremental benefit	£43.09m	Standard calculation.
Incremental cost	£0	As our renewables generation capacity increases we will reduce the amount we have to spend on buying energy. This will be long term cost neutral and we have therefore set our marginal cost at £0 for the purposes of calculating our incentive rate.
Outperformance incentive rate after adjustment	£0.22m / %	Ofwat's standard calculation + 5%.

Underperformance rate after adjustment	£0.44m / %	Ofwat's standard calculation + 5%.
Max AMP7 outperformance payment	£3.3m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£6.6m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, customers indicated that this PC had a low relative priority (which would indicate a 5% reduction in ODI rate), but the willingness to pay was very high (would lead to a 10% increase). As part of the triangulation process, we increased both the penalty and the reward by 5%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	24%	27%	21%
Final	**24%**	**27%**	**21%**

Our P10 and P90 are based on expert judgement.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	21.20%	21.30%	24.00%	24.00%	24.00%
P10 underperformance payment	-£1.32m	-£1.32m	-£1.32m	-£1.32m	-£1.32m
P90 outperformance payment	£0.66m	£0.66m	£0.66m	£0.66m	£0.66m

Our cap and collar are set using our P90 and P10.

We have not set deadbands for this measure.

Together we aim to recycle every drop of water

Company performance commitment reference: PR19SRN_BIO02

Satisfactory bio-resources recycling

Short definition

Disposal of bio-resources in a way that is compliant with the Sludge (Use in Agriculture) Regulations, Environmental Permitting (England & Wales) Regulations 2010 and the Safe Sludge Matrix.

Measurement

% compliance with legislation applying to bio--resources recycling. Measured annually (calendar year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Satisfactory bio-resources recycling is defined as compliance with the Sludge (Use in Agriculture) Regulations, Environmental Permitting (England and Wales) Regulations 2010, in so far as they apply to the recycling and/or disposal of sewage sludge containing products and residual wastes, and the Safe Sludge Matrix.

Grit & screenings and water treatment sludge are excluded from the PC. Satisfactory recycling will be as reported to the Environment Agency on an annual basis.

Rationale for PC and ODI

This is a key performance measure for the bio-resources price control.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *maintain* performance on this metric.
2. We do not have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Maximum attainable 100%	The maximum attainable is our current performance of 100%.
Target (for 2024-25) **100%**	**We aim to maintain our current performance.**

Long Term Targets

We aim to maintain 100% compliance.

Final Target Profile

Our final target for the end of AMP7 is 100%.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 50
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Outcome Delivery Incentive

This is a financial PC.

We will owe an underperformance payment if we are not able to deliver our target.

The underperformance rate is based on the marginal cost which estimated from the avoidable costs associated with a decline in compliance.

		Comment
Benefit valuation annual bill impact	N/A	We have based our incentive on our marginal cost only for this ODI.
Incremental benefit	£0.83m	Standard calculation.
Incremental cost	£0.83m	Standard calculation.
Underperformance rate after adjustment	£0.42m / % under-delivery	Ofwat's standard calculation.
Max AMP7 underperformance payment	-£6.25m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case we have not made such an adjustment.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	100%	100%	97%
Final	**100%**	**100%**	**97%**

Our P10 is based on a scenario in which digester refurbishment is not delivered on time. Our P90 is the same as our target as we are aiming for maximum performance.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels and the figure we have derived for our penalty incentive is £0.42m per % under-delivery.

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	100%	100%	100%	100%	100%
P10 underperformance payment	-£1.25	-£1.25	-£1.25	-£1.25	-£1.25

Our collar is set at our P10 level.

We have not set deadbands for this measure.

We protect and improve rivers, reservoirs and coasts for the future

Company performance commitment reference: PR19SRN_WWN09

River water quality

Short definition

Improvements to river water quality as a result of the delivery of our environmental improvement schemes. The length of river defined as improved will be based on the delivery of specified schemes in the Water Industry National Environment Programme (WINEP).

Measurement

km of rivers improved. Measured annually (financial year) and assessed in the last three years of the AMP. There is an incentive for early delivery in years three and four of the AMP and a penalty in the final year, which we will incur if we do not deliver.

Mitigation / exceptions

Delivery of this PC will be subject to changes in the final WINEP, as a result of Ministerial decisions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The length of river water quality improvements will be derived from specified schemes in the WINEP, measured in km. It is assumed for the purposes of this PC that delivery of the WINEP schemes will deliver the specified improvements to water quality.

The PC will only include wastewater schemes, with km defined in WINEP, which lead to an improvement in river water quality, as specified by the WINEP. Where multiple schemes improve the same stretch of river, the shorter lengths are excluded.

We will continue to collaborate with the EA to understand the certainty of each need within the programme and deliver that which is ultimately deemed affordable and beneficial following ministerial direction. We have developed an uncertainty mechanism to address this variation.

Where there are changes to the schemes in the WINEP as a result of alternative solutions being identified and agreed by the Environment Agency, the length of river deemed to be improved will be based on the WINEP scheme before the alternative solutions were identified.

Delivery of the schemes will be as reported to the Environment Agency on an annual basis.

Rationale for PC and ODI

This PC aligns with our strategic outcome to *protect and improve rivers, reservoirs and coasts for the future.* This PC will help us to deliver against strategic outcomes, objectives and priorities.

It is included as an AMP7 PC due to it being highly valued by our stakeholders.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **537.2**	We have set the target for this PC aligned to regulatory direction. The EA have established through WINEP3 a programme of improvements which is currently considered to be cost beneficial, based on their broad assessment of environmental value. We have therefore aligned our expenditure to this programme of work, given the statutory nature of the requirements.
Target (for 2024-25) **537.2**	

Long Term Targets

We have not set targets beyond AMP7 for this PC as the km improved are based on the delivery of the WINEP which is to be complete by the end of AMP7.

Final Target Profile

Our target is cumulative up to our final target for the end of AMP7 of 537.2km.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 50
N/A	-	82.5	107.1	107.1	537.2	N/A	N/A	N/A	N/A

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we deliver this scheme ahead of schedule.

We will incur underperformance payments if we do not deliver the agreed length.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£0.04	From willingness-to-pay evidence in TA.4.4 (11) 91k per km improvement.
Incremental benefit	£0.09m	Standard calculation.
Incremental cost	£0.75m	Standard calculation.

Outperformance incentive rate after adjustment	£0.046m / km	Ofwat's standard calculation.
Underperformance rate after adjustment	£0.375m / km	Ofwat's standard calculation.
Max AMP7 outperformance payment	£24.52m	Incentive rate x [cap (early delivery) – target].
Max AMP7 underperformance payment	-£50.375m	Penalty rate x [target – 25% non-delivery].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case we have not made such an adjustment.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	537.2	537.2	402.9
Final	**537.2**	**537.2**	**402.9**

Our P10 and P90 are based on expert judgement, using an assumption of 25% under-delivery for the P10 and an early delivery of the same length of river for P90.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels and the figures we have derived for our incentives are a £0.375m penalty incentive and an £0.046m reward incentive per km.

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	N/A	82.5	107.1	107.1	537.2
P10 underperformance payment	0	0	0	0	-£50.4m
P90 outperformance payment	£24.5m	£20.8m	£19.6m	£19.6m	0.0

Our collar is set at our P10 level, our cap is set at 537.2km. Our outperformance payment is based on delivering the improvements early, with a maximum reward of £24.5m if we deliver all the improvements in the first year of AMP7. This will incentivise us for early delivery of the environmental benefits. We have not set deadbands for this measure.

Incentive type and timing

We are liable for a penalty at the end of the AMP if we have not delivered the agreed scheme. We are able to claim a reward from 2020-21 onward if we deliver the scheme early.

We protect and improve rivers, reservoirs and coasts for the future

Company performance commitment reference: PR19SRN_WR05

Abstraction Incentive Mechanism

Short definition

Our Abstraction Incentive Mechanism (AIM) will deliver a reduction in our total abstraction from the River Itchen. The reductions will limit abstraction when the river is at its most environmentally vulnerable. It has been derived to reduce the impact of abstraction on the sensitive chalk streams in our western area, in particular the River Itchen.

Measurement

Average Ml/d below the September abstraction limit on the River Itchen for September. Measured annually (financial year).

Mitigation / exceptions

This commitment will not apply when we are operating under a Drought Order and we need to protect customer supplies.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The River Itchen abstraction licence includes abstractions at Otterbourne and Twyford. This is a continuation and enhancement of one of Southern Water's existing AMP6 AIM schemes, to abstract within the expected September monthly aggregate abstraction limit of 2,280 Ml. In AMP7 we will reduce our September monthly abstractions below the abstraction licence condition.

The average Ml/d below the September abstraction limit on the River Itchen is calculated following Ofwat's guidance on the calculation of AIM performance in Ml as defined below:

> AIM performance in Ml/d = (average daily abstraction during period when flows are at or below the trigger threshold - baseline average daily abstraction during period when flows are at or below the trigger threshold).

Rationale for PC and ODI

This PC aligns with our strategic outcome to *protect and improve rivers, reservoirs and coasts for the future* with the objective to reduce how much water we abstract from environmentally sensitive sources.

It is a mandatory bespoke PC.

This PC is:

- a metric that we have previously tracked
- an example of a mandatory bespoke PC
- a customer and stakeholder priority

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We do not have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **n/a**	We do not have relevant benefit information to assess the efficient level of service
Historic performance forecast **n/a**	n/a
Minimum Improvement **n/a**	n/a
Maximum Attainable **15**	We have set the target based on our maximum amount possible we can reduce from our abstraction rate.
Comparative performance **n/a**	n/a
Target (for 2024-25) **15**	

Long Term Targets

Our long term target is to maintain our performance on this measure at 15 Ml/d.

Final Target Profile

Our final target for the end of AMP7 is 15 Ml/d.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 50
N/A	15	15	15	15	15	15	15	15	15

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we abstract less water from the source, which is reducing more from our abstraction license.

We will incure underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£1.14	From willingness-to-pay evidence.
Incremental benefit	£1.02m	Standard calculation.
Incremental cost	£0.77m	Standard calculation.
Outperformance incentive rate after adjustment	£0.49m	Ofwat's standard calculation -5%.
Underperformance rate after adjustment	£0.6m	Ofwat's standard calculation -5%.
Max AMP7 outperformance payment	£2.98m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£3.59m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, customers valued this commitment less than other PCs and we have therefore reduced the value of both reward and penalty rates by 5%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern WaterWater performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	15	16.19	13.81
Final	**15**	**16.19**	**13.81**

Our P10 and P90 are based on expert analysis of the historical variance.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	15	15	15	15	15
P10 underperformance payment	-£0.72m	-£0.72m	-£0.72m	-£0.72m	-£0.72m
P90 outperformance payment	£0.57m	£0.57m	£0.57m	£0.57m	£0.57m

Our collar is set at our P10 and P90 level as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

We safeguard and enhance rivers, reservoirs and coasts for the future.

Company performance commitment reference: PR19SRN_WWN11

Maintain Bathing waters at ‘Excellent’.

Short definition

Maintain the number of bathing waters with ‘Excellent’ water quality classification as defined under the revised Bathing Water Directive.

Measurement

The number of bathing waters at ‘Excellent’ over the relevant assessment period.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

This PC is designed to ensure that we maintain the performance of the bathing waters improved to excellent in AMP6, which our customers have paid for.

This definition is to maintain the number of bathing waters with ‘Excellent’ water quality at 57 throughout AMP7.

The relevant assessment period is a four-year assessment from the Environment Agency unless there have been fundamental changes to a bathing water. The Environment Agency apply Pollution Risk Forecasting (PRF) to 21 of our bathing waters, this PC would also include PRF.

Measurement of performance will be in line with the official samples taken as part of the revised Bathing Water Directive which is published by Defra. In the revised Bathing Water Directive applied by the Environment Agency - 'Excellent' is defined as EC: ≤250 cfu/100ml and IE: ≤100 cfu/100ml with 95th percentile confidence level for coastal bathing waters. (https://environment.data.gov.uk/bwq/profiles/help-understanding-data.html)

Through AMP6 we have delivered improvements at seven specific Bathing Waters. We recognise the particular importance of maintaining the new classification for these seven bathing waters as part of this measure. Therefore if any of the bathing waters listed below are not maintained, a penalty will be incurred.

- Minster Leas
- Leysdown
- Deal Castle
- Worthing
- Middleton-on-Sea
- Selsey
- Shanklin

Rationale for PC and ODI

This is a bespoke PC recognising the improvements that we have made to bathing waters in AMP6.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *to maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Approach to determining the target & implied target	Comment
Efficient Level of performance **57**	Our target at the end of AMP7 is based on efficient and effective delivery and maintenance of our systems.
Initial target (for 2024-25) **57**	Based on this analysis, we determined an initial target of 57 in 2024-25.

We forecast that 57 bathing waters, including the seven improved, will be at 'Excellent' at the end of AMP6. Our forecast is that we will maintain all 57 at Excellent, before taking account of future improvements.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
57	57	57	57	57	57	N/A	N/A	N/A	N/A

Excellent,.Outcome Delivery Incentive

Maintain Bathing waters at 'Excellent' is a financial PC.

We will incur underperformance payments if we are not able to meet our target.

We undertook specific customer research to understand the value customers' place on maintaining bathing waters. The marginal values implied the overall penalty set out in the table below:

		Comment
Benefit valuation annual bill impact	N/A	Not used.
Incremental benefit	£0.90m	Based on PR14 Cost Adjustment Claim.
Incremental cost	£0.90m	Based on PR14 Cost Adjustment Claim.
Underperformance rate after adjustment	£0.45m	Total penalty / 7 bathing waters improved / 5 years.
Max AMP7 underperformance payment	-£15.75m	This is the money we received at PR14 to improve these bathing waters minus the half of the reward that was shared with customers in AMP6.

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not adjust the ODI rate as the customer priority was medium (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Southern Water forecast	57	57	50
Final	**57**	**57**	**50**

Our P90 and P10 rate is based on a Southern Water forecast.

Rewards and Penalties

Our deadbands and P10/P90 underperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	57	57	57	57	57
P10 underperformance payment	-3.15m	-3.15m	-3.15m	-3.15m	-3.15m

Our collar is set at our P10 level as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

There is no deadband associated with this PC.

We safeguard and enhance rivers, reservoirs and coasts for the future.

Company performance commitment reference: PR19SRN_WWN12

Improve the number of Bathing waters to at least 'Good' (Cost Adjustment Claim).

Short definition

To bring at least five named bathing waters to 'Good' water quality classification.

Measurement

Number of bathing waters at 'Good' after the relevant assessment period.

Mitigation / exceptions

Based on previous guidance from the Environment Agency relating to Wet Weather Waivers, we will apply an abnormal weather approach, whereby a season is classed as 'abnormal' when there are a number of samples 2 standard deviations away from typical wet weather affected samples. As this PC is based on a single year of performance in 2024-25, if the year is classified as an 'abnormal' wet weather year then performance assessment would be deferred to the following year.

If during investigations an alternative bathing water is identified a single swap can be made.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Five named bathing waters have been selected for improvement by 2025 to at least 'Good' status.

The following bathing waters are to be taken to 'Good' classification:

- Broadstairs, Viking Bay
- Littlestone
- Lancing, Beach Green
- Hastings Pelham Beach
- Felpham.

The relevant assessment period is a single year of assessment from the Environment Agency, which differs from the standard four-year average. Measurement of performance will be in line with the official samples taken as part of the revised Bathing Water Directive which is published by Defra. (https://environment.data.gov.uk/bwq/profiles/help-understanding-data.html)

The PC is designed to ensure if we do not deliver the improvements associated with the Cost Adjustment Claim (CAC) the money associated with those improvements not delivered will be given back to customers.

Further details of this PC are included within our CAC submission. In the case of the CAC not being accepted this would no longer be a PC.

Rationale for PC and ODI

This is a bespoke PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' ambition is to *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Our stretching PC target is associated with the effective delivery of bathing water improvements enabled as a direct result of this CAC.

We have forecast that we will deliver at least five additional bathing waters to good by 2025. As this is a cost adjustment claim, we have not projected performance to 2045.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
0	0	0	0	0	5				

Outcome Delivery Incentive

Improve the number of Bathing waters to at least 'Good' (CAC) is a financial PC.

We will incur underperformance payments if we are not able to deliver our target, based on the value of the CAC. The outperformance payment is based on the incremental benefits of improving the same named bathing waters to Excellent.

		Comment
Benefit valuation annual bill impact (per customer)	£2.30	From willingness-to-pay evidence.
Incremental benefit	£3.13m	Standard calculation.
Incremental cost	£5.38m	Standard calculation.
Outperformance incentive rate after adjustment	£3.13m	We used the non-standard calculation of (IB) as we have not applied cost sharing to this incentive.
Underperformance rate after adjustment	£2.69m	We used the non-standard calculation of (IC*50%) ensuring we pay back the value of the CAC.
Max AMP7 outperformance payment	£15.66m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£13.44m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not adjust the ODI rate as the customer priority was medium (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert knowledge	5	5	0
Final	**5**	**5**	**0**

Our P90 and p10 rate is based on expert knowledge derived from our cost adjustment claim.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels and the figure we have derived for our total penalty and reward. For Improve bathing waters to 'Good', this equates to a £2.69m penalty incentive rate and a £3.13m reward incentive rate.

This is the only ODI to which we have **not** applied a totex sharing ratio. This is because, for us to get the bathing waters to Excellent would not require more totex, it would be based on us being more effective with our interventions, therefore it is not appropriate to assume that customers would pay 50% through the totex menu true-up.

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target					5
P10 underperformance payment					-£13.44m
P90 outperformance payment					£15.60m

Our collars and caps are set at our P10 and P90 levels to align with our considerations of willingness to pay and overall affordability.

We have not set a deadband for this ODI.

Incentive type and timing

We have committed to delivering this bathing water improvement by the end of AMP7 and bathing waters are assessed on an annual basis. The penalty is assessed at the end of period due to it being a cost adjustment claim.

We safeguard and enhance rivers, reservoirs and coasts for the future.

Company performance commitment reference: PR19SRN_WWN15

Enhancing the value of our natural and social capital

Short definition

We will develop natural capital accounts so that changes over time (positive and negative) as a result of our investments can be monitored, evaluated and reported.

The approach will support our contribution to Defra's 25 year Environment Plan and provide a mechanism for measuring our contribution to biodiversity and wider environmental net gain.

Measurement

We will establish baseline natural capital accounts for at least 3 catchments (the Test, Arun & Western Streams and Medway catchments) supported by natural and social capital metrics that will allow us to monitor and measure changes in natural capital stocks (extent and condition) and the value of water-related ecosystem services over time (through AMP7) as a result of our investments/activities. These accounts will be published on our Southern Water website and will be updated periodically.

We will use our Strategic Environment Panel to review our progress annually to ensure that we are making good process to embed natural and social capital principles into our investment planning processes.

Mitigation / exceptions

None

Full definition of the performance commitment

The Natural Capital Committee (NCC) defines natural capital as:
"the elements of nature that directly or indirectly produce value to people, including ecosystems, species, freshwater, land, minerals, the air and oceans, as well as natural processes and functions".[1]

Natural (and social) capital accounts are an extension of traditional financial reporting. Applying a natural capital approach involves identifying, quantifying and valuing the impacts or dependencies of a given activity or decision on natural capital and the ecosystem services that flow from it (flood regulation, biodiversity, food etc). This information is captured in a natural capital account. The nature and significance of any impact and dependency can then be properly accounted for in decision-making.

With respect to water companies, this requires an understanding of:

- The extent and condition of natural capital that is present in the catchments within which it operates.

[1] Natural Capital Committee (2017) How to do it: a natural capital workbook. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/608852/ncc-natural-capital-workbook.pdf

- The type, quantity and value of benefits that flow from these natural capital stocks and the beneficiaries to whom they accrue.
- The impacts and dependencies of operations and specific investment decisions on natural capital and associated ecosystem services.
- Customers' preferences for environmental goods and services expressed in terms of their willingness to pay to maintain or enhance natural capital and ecosystem service provision.

Evidence

This is a new measure for Southern Water and as a result we need to build our evidence base to inform this approach. The measure has been co-created with key stakeholders (Blueprint for Water and our Strategic Environment Panel). We will continue to develop our approach to natural and social capital in collaboration with key strategic and catchment stakeholders to gain their insight and validation of our approach. We are drawing on evidence such as Sussex Local Nature Partnership's natural capital asset mapping work co-ordinated by the Sussex Biodiversity Records Centre and Kent Nature Partnership's natural capital asset account.

We will also incorporate information on national metrics, such as the anticipated metrics to support Defra's 25-year Environment Plan (likely to include water, hazard regulation – flood & drought, biodiversity etc.) as they arise. Initial feedback has suggested that catchment partners see this work as vital for guiding thinking about how to start applying natural and social capital principles in practice within our catchments and there is a strong desire to co-design and collaborate.

Our Strategic Environment Panel

Southern Water's Strategic Environment Panel (SEP)2 help us to deliver sustainable water and sewerage services to meet the needs of our current and future customers. The panel includes representatives from local authorities, environmental groups, regulators, and business groups. We have agreed with the SEP that we will bring together a core group of natural capital technical experts to guide, challenge and endorse our approach.

Our Target

We will set up natural capital accounts for at least 3 of our 10 river catchments (the Test, Arun & Western Streams and Medway) catchments in AMP7.

As this is a new measure in AMP7, our CCG was concerned that there was insufficient information on which to set targets for the whole of AMP7. They recommended that we revisit our targets after the first two years of AMP7. We believe this would be an appropriate way of ensuring that the targets remain stretching.

Outcome delivery incentive

This is a reputational measure with no associated ODI because:

- It is a low customer (but high stakeholder) priority.
- We have not tracked this metric previously and only have limited data available to benchmark an appropriate target.

[2] https://www.southernwater.co.uk/stakeholder-panel

We recognise the true value of water in our daily lives

Company performance commitment reference: PR19SRN_WR03

Target 100

Short definition

% of household population with estimated per capita consumption of less than 100 l/h/d, in line with our Target 100 initiative. Per capita consumption is defined as the average amount of water used by each customer that lives in a household property.

Measurement

% of metered household customers. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

% of household population with estimated per capita consumption of less than 100 l/h/d, in line with our Target 100 initiative.

The proportion of customers using less than 100 l/h/day is calculated using billed household consumption, divided by estimated occupancy at the household level. Household occupancy will be based on third party demographic data (e.g. from Experian or similar).

A metered household property is one which is charged on the basis of measured consumption. The measure excludes unmeasured household properties and business properties.

Billed household consumption will be based on data from our billing system. It excludes meter under-registration and supply-pipe leakage. All household properties for which estimated occupancy data is available will be included.

Reporting of the metric is subject to further investigation of the implications of GDPR on the availability of occupancy data at the individual household property level.

Rationale for PC and ODI

This PC aligns with our strategic outcome to *recognise the true value of water in our daily lives* with the objective to help our customers use less water in their homes and businesses.

It is included as an AMP7 PC due to it being directly aligned with our strategic direction to support our customers to reduce their water usage.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We do not have customer willingness to pay information with regard to levels of improvement and have used expert judgement to set the level of performance.

Approach to determining the target & implied target	Comment
Efficient Level of performance **55%**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.
Historic performance forecast **N/A**	
Minimum Improvement **49%**	Based on a minimal level of investment.
Maximum Attainable **55%**	This is based on a statistical assessment and aligns to our PCC forecast and our target 100 strategy.
Comparative performance **N/A**	We do not have comparative performance data for this measure.
Final target (2024-25) **55%**	

Long Term Targets

For our long term target we have projected performance to 2045. Our long term projection is based on the highest level of performance that we think will operationally be possible to attain, but are expecting year-on-year improvements to the level of 80% by 2045.

Final Target Profile

Our final target for the end of AMP7 is 55%. However, to acknowledge the effort required to improve from our current position, this reduction will be year-on-year, reaching 80% in 2024-25.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
N/A	49%	51%	53%	54%	55%	62%	68%	73%	80%

Outcome delivery incentive

This is a reputational measure with no associated ODI because:

- As a financial incentive would be duplicating the incentive for PCC.
- The measure is an estimation of our per person water consumption, therefore it is liable to inaccuracies.

We recognise the true value of water in our daily lives

Company performance commitment reference: PR19SRN_WR04

Water saved from water efficiency visits

Short definition

Total estimated volume of water saved as a result of water efficiency visits to residential properties, based on the number and usage of water saving devices installed. This is the cumulative saving in m^3/d to the end of AMP7.

Measurement

Total estimated m^3/d of water saved. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The total estimated reduction in consumption is based on the number and type of water saving devices fitted and their estimated usage reduction. This will be calculated by our water efficiency visit supplier at the time of the visit.

A water saving device is any physical device designed to save water (for example a low flow shower head or tap aerator) or other intervention (for example dripping tap repair).

The estimated saving will be based on the estimated daily saving associated with each device installed and the customer's stated usage.

The annual savings will be calculated as the sum of the estimated daily savings at each property.

The measure includes all residential properties, but excludes business properties.

Rationale for PC and ODI

This PC aligns with our strategic outcome to *recognise the true value of water in our daily lives* with the objective to help our customers use less water in their homes and businesses.

It is included as an AMP7 PC to help us deliver our Target 100 goal (which has high support from our stakeholders) through behavioural and physical interventions.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* rather than *maintain* on this metric.
2. We do not have customer willingness to pay information with regard to levels of improvement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **2500**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.
Historic performance forecast **n/a**	We do not have historical information on this measure.
Minimum Improvement **n/a**	n/a
Maximum Attainable **n/a**	n/a
Comparative performance **n/a**	We do not have comparative performance data for this measure.
Initial Target **2,500**	
Target adjustment for customer priority **2,625**	The water saved from water efficiency visits PC has a medium overall relative importance ranking, therefore we considered applying a 5% increase on the target.
Target (for 2024-25) **2,500**	**We have kept the target at 2500, due to it not being cost efficient to deliver more visits in order to save more water.**

Long Term Targets

For our long term target we have projected performance to 2045. Our long term projection is based on the highest level of performance that we think will operationally be possible to attain, but are expecting year-on-year improvements to the level of 12,500 m^3/d saved by 2045.

Final Target Profile

Our final target for the end of AMP7 is 2,500 m^3, the profile reflects the profile of the water efficiency visits programme.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 50
N/A	500	1,000	1,500	2,000	2,500	5,000	7,500	10,000	12,500

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we help our customers to save more water through water efficiency visits than our target.
We will owe an underperformance payment if we achieve less than our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£0.28	From willingness-to-pay evidence.
Incremental benefit	£800 per m^3/d	Standard calculation.
Incremental cost	£6000 per m^3/d	Standard calculation.
Outperformance incentive rate after adjustment	£818 per m^3/d	Ofwat's standard calculation.
Underperformance rate after adjustment	£409 per m^3/d	Ofwat's standard calculation.
Max AMP7 outperformance payment	£0.75m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£0.75m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not make such an adjustment.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	2,500	2,865	2,135
Final	**2,500**	**2,865**	**2,135**

Our P10 and P90 are based on expert judgement as there was no historic data on which to base our assessment.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target					
P10 underperformance payment	-£0.15m	-£0.15m	-£0.15m	-£0.15m	-£0.15m
P90 outperformance payment	£0.15m	£0.15m	£0.15m	£0.15m	£0.15m

Our collar is set at our P10 and P90 level as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

We recognise the true value of water in our daily lives

Company performance commitment reference: PR19SRN_RR02

Access to daily water consumption data

Short definition

Total number of residential properties provided with a device which can give access to daily water consumption.

Measurement

Number of residential properties provided with devices. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Total number of residential properties provided with a device which can give access to daily water consumption.

A device is any product installed at the customer's property which enables the customer to access daily water consumption data, without physically accessing the meter. This includes any smart devices installed, including our next generation of smart meters.

The measure includes all residential properties, but excludes business properties.

Rationale for PC and ODI

This bespoke PC is designed to support our behavioural change campaign, enabling the provision of information enabling customers to make more informed decisions about their water usage.

Our target

We have set a target of zero for this measure as we have not included any associated costs in our plan.

Outcome Delivery Incentive

Outperformance rates are based on the marginal benefits. The outperformance payment is based on cumulative performance therefore our actual incentive rate is five times larger than in APP1, because APP1 showing an annual incentive rate.

		Comment
Benefit valuation annual bill impact (per customer)	£0.12	From willingness-to-pay evidence.
Incremental benefit	£0.00004m	Standard calculation – (£0.000007m per year).
Outperformance incentive rate after adjustment	£0.000018m	Ofwat's standard calculation – (£0.000004m per year).
Max AMP7 outperformance payment	£0.32m	Incentive rate x [cap – target].

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	0	17,644	0
Final	**0**	**17,644**	**0**

Our P10 and P90 are based on expert judgement, based on our benefit research (see TA.4.4 (3)) which set the level of performance our customers would fund.

Rewards and Penalties

Our incentive rate is derived from our P90 levels and the figure we have derived is £0.000018m reward incentive per property. This is the incentive rate per property for up to 17,644 properties (cumulative).

Our collar is set at our P90 level as this is the level customers were willing to fund us up until.

We provide a refreshingly easy customer experience

Company performance commitment reference: PR19SRN_RR01

Customer measure of experience (C-MeX)

Short definition

New Ofwat customer service measure to replace SIM. Defined by Ofwat in: https://www.ofwat.gov.uk/outcomes-definitions-pr19/

Our target

Based on our current knowledge of how C-MeX will work, we are aiming for above average performance on this measure by the end of AMP7.

This is a common measure where the targets and incentives for all companies will be the same.

By working together we can secure a resilient economy for the south east

Company performance commitment reference: PR19SRN_WN01

Developer services measure of experience (D-MeX)

Short definition

New Ofwat developer services measure. Defined by Ofwat in: https://www.ofwat.gov.uk/outcomes-definitions-pr19/

Our target

Based on our current knowledge of how D-MeX will work, we are aiming for upper quartile performance on this measure by the end of AMP7.

This is a common measure where the targets and incentives for all companies will be the same.

By working together we can secure a resilient economy for the south east

Company performance commitment reference: PR19SRN_WWN13

Improve the number of bathing waters at ‘Excellent’ quality (Cost Adjustment Claim).

Short definition

To bring at least two from four named bathing waters to ‘Excellent’ water quality classification.

Measurement

Number of the specified four bathing waters at ‘Excellent’ after the relevant assessment period.

Mitigation / exceptions

As this PC is based on a single year of performance in 2024-25, if the year is classified as an ‘abnormal’ wet weather year then performance assessment would be deferred to the following year. Based on previous guidance from the Environment Agency relating to wet weather waivers, a season is classed as ‘abnormal’ when there are a number of samples two standard deviations away from the typical wet weather affected samples.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Two from four named bathing waters will be selected for improvement by 2025 to ‘Excellent’ status.

The relevant assessment period is a single year of assessment from the Environment Agency, which differs from the standard 4-year average. Measurement of performance will be in line with the official samples taken as part of the revised Bathing Water Directive which is published by Defra. In the revised Bathing Water Directive applied by the Environment Agency - 'Excellent' is defined as EC: ≤250 cfu/100ml and IE: ≤100 cfu/100ml with 95th percentile confidence level for coastal bathing waters. (https://environment.data.gov.uk/bwq/profiles/help-understanding-data.html)

Two from the following four bathing waters will be improved to ‘Excellent’ classification:

- Gurnard
- Seagrove
- Ramsgate Sands
- Pevensey Bay

The PC is designed to ensure if we do not deliver at least two of the four named bathing waters to Excellent, the money associated with the non-delivery of the improvements will be returned to customers.

Further details of this PC are detailed within our Cost Adjustment Claim (CAC) submission. In the case of the CAC not being accepted this would no longer be a PC.

Rationale for PC and ODI

This is a bespoke PC designed to ensure that if we do not deliver our committed improvement to the named bathing waters, the money associated with the programme will be returned to customers.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Our stretching PC target is associated with the effective delivery of bathing water improvements enabled as a direct result of this CAC.

We have forecast that we will deliver at least two additional bathing waters to Excellent by 2025. As this is a CAC, we have not projected performance to 2045.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
-	-	-	-	-	2	-	-	-	-

Outcome Delivery Incentive

Improve bathing waters to 'Excellent' is a financial PC.

We will earn an outperformance payment if we deliver more bathing waters to Excellent than our target of 2.

We will incur underperformance payments if we deliver fewer than our target.

We undertook specific customer research to understand the value customers' place on improving bathing waters. This is the basis for the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact (per customer)	£2.30	From willingness-to-pay evidence
Incremental benefit	£3.13m	Standard calculation
Incremental cost	£2.75m	Standard calculation
Outperformance incentive rate after adjustment	£1.57m	Ofwat's standard calculation
Underperformance rate after adjustment	£1.37m	We used a non standard calculation (IC*50%) ensuring we pay back the value of the CAC
Max AMP7 outperformance payment	£0.52m	Incentive rate x [cap – target]
Max AMP7 underperformance payment	-£2.75m	Penalty rate x [target – collar]

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not adjust the ODI rate as the customer priority was medium (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert knowledge	2	4	0
Final	**2**	**4**	**0**

Our P90 and P10 rate is based on expert knowledge relating to our cost adjustment claim.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target					2
P10 underperformance payment					-£2.77m
P90 outperformance payment					£3.13m

The outperformance payment applies where we deliver more than two bathing waters; our maximum outperformance would be based on improving all four bathing waters named in the definition.

Our collars and caps are set at our P10 and P90 levels to align with our considerations of willingness to pay and overall affordability.

We have not set a deadband for this measure.

Incentive type and timing

We have committed to this bathing water improvement by the end of AMP7 and bathing waters are assessed on an annual basis. The penalty is assessed at the end of period due to it being a CAC.

We make sure our bills are affordable for all our customers

Company performance commitment reference: PR19SRN_RR03

Void properties

Short definition

Number of household properties that are classified as void and are therefore not billed, as a percentage of total household connected properties

Measurement

Percentage of total household connected properties that are void. The number of voids and number of connections will be based on data sourced at the end of each financial year.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

To note, we have only included a PC relating to managing void properties for household customers. For non-household retail, we are not proposing a PC for managing voids. We will be conducting regular audits of the non-household voids in our records to ensure we are fully transparent and encourage non-household retailers to also manage their voids.

Full definition of the performance commitment

Our PC is to reduce the number of household properties that are classified as void, as a percentage of the total household properties connected to our network. The number of voids and number of connections will be based on data sourced at the end of each financial year. This PC covers properties that are classified as household properties. It does not include or cover business properties. Household properties are defined as properties used as single domestic dwellings receiving water for domestic purposes which are not factories, offices or business premises.

A void household property is a household that we do not bill as we do not believe it is occupied. The definition of void properties will match that used in our annual performance report. Total household properties connected to our network is the sum of billed household properties and void household properties. This includes properties which are billed exclusively by our partner water service providers through joint-billing arrangements. Our PC is calculated by dividing the number of void household properties by the total number of connected household properties.

Rationale for PC and ODI

This PC:

- aligns with our strategic outcome to make sure our bills are affordable for our customers
- aligns with our strategic objective to make sure people pay for the water they use so bills are fair for all

This PC will help us to deliver against strategic outcomes, objectives and priorities.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our customers' priority is to *improve* against this metric rather than *maintain*.
2. We do not have customer willingness to pay information with regard to levels of improvement
3. We have therefore drawn on historic performance, minimum improvement, maximum attainment and management insight to set our target.

Approach to determining the target & implied target	Comment
Historic performance forecast **2.3%**	Our current performance is 3.6%. However in recent years our best performance was significantly better at 2.3%.
Minimum Improvement **2.8%**	As compared to our current performance, a minimum level of improvement would be to reduce our voids percentage to the average level of performance achieved over the past three years. This is 2.8%.
Maximum Attainable **2.0%**	It is not possible to achieve a voids rate of 0% as there are a number of voids that are truly vacant properties. We believe that this level of voids is around 2.0% for our operational area.
Comparative performance **2.1%**	Forecast UQ for all WaSCs in 2024-25.
Initial Target **2.1%**	Set at upper quartile forecast.
Target adjustment for customer priority	The Voids PC has a low overall relative importance ranking, therefore we do not consider it appropriate to revise our initial target.
Target (for 2024-25) **2.1%**	

Upper quartile forecast

We projected performance for companies across the industry. At present, upper quartile performance for all companies is 2.3% and upper quartile for water and sewerage companies is 2.6%. Projecting this forward to the end of AMP7 we considered that the upper quartile for the industry could drop to 1.9%. The upper quartile for water and sewerage companies could fall to around 2.1%.

This is summarised in the tables below.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Quartile 1	2.3%	2.3%	2.3%	2.2%	2.1%	2.0%	2.0%	2.0%	1.9%	1.9%
Median	2.6%	2.9%	3.0%	2.9%	2.7%	2.5%	2.4%	2.3%	2.2%	2.1%
Mean	3.2%	3.6%	3.6%	3.4%	3.2%	3.0%	2.8%	2.7%	2.6%	2.4%
Quartile 3	4.2%	4.7%	4.7%	4.3%	3.9%	3.6%	3.4%	3.1%	2.9%	2.8%

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Quartile 1	2.3%	2.6%	2.8%	2.7%	2.5%	2.4%	2.3%	2.2%	2.1%	2.1%
Median	3.4%	3.5%	3.8%	3.4%	3.1%	3.0%	2.8%	2.7%	2.6%	2.4%
Mean	3.7%	3.7%	3.8%	3.6%	3.3%	3.1%	2.9%	2.8%	2.6%	2.5%
Quartile 3	4.7%	4.8%	4.8%	4.4%	4.0%	3.7%	3.5%	3.2%	3.0%	2.8%

Long Term Targets

Our long-term target is to maintain our 2.1% performance.

Final Target Profile

Our final target for the end of AMP7 is 2.1%. However, to acknowledge the effort required to improve from our current position, this reduction will be year-on-year, reaching 2.1% in 2024-25.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
2.60%	2.40%	2.30%	2.20%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%

Outcome Delivery Incentive

This is a financial PC.

We will earn an outperformance payment if we reduce the number of void properties to below our target.

We will incur underperformance payments if we are not able to deliver our target.

The penalty and reward rates are based on the marginal cost and benefits.

		Comment
Benefit valuation annual bill impact (per customer)	£0.07	From willingness-to-pay evidence
Incremental benefit	£0.64m / %	Standard calculation
Incremental cost	£2.85m / %	Standard calculation
Outperformance incentive rate after adjustment	£0.3m / %	Ofwat's standard calculation
Underperformance rate after adjustment	£0.3m / %	Ofwat's standard calculation
Max AMP7 outperformance payment	£0.32m	Incentive rate x [cap – target]
Max AMP7 underperformance payment	£0.32m	Penalty rate x [target – collar]

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we reduced both the penalty and reward rates by 5%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	2.06%	1.85%	2.27%
Final	2.06%	1.85%	2.27%

Our P10 and P90 are based on expert judgement.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels. Our total penalty is £0.3m our total reward is £0.3m per % change in the voids rate.

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	2.40%	2.30%	2.20%	2.10%	2.10%
P10 underperformance payment	-£0.063m	-£0.063m	-£0.063m	-£0.063m	-£0.063m
P90 outperformance payment	£0.063m	£0.063m	£0.063m	£0.063m	£0.063m

Our collar is set at our P10 and P90 level as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

We make sure our bills are affordable for our customers

Company performance commitment reference: PR19SRN_RR04

Effectiveness of Financial Assistance

Short definition

The percentage of customers that pay their bills following the receipt of financial assistance. This is a measure of the effectiveness of financial assistance interventions.

Measurement

The percentage of our customers that make payments as expected following the receipt of financial assistance.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Our PC is the percentage of customers that pay their bills following the receipt of financial assistance. This is measured as the percentage of our customers that make payments as expected following the receipt of financial assistance from Southern Water.

For the purposes of this PC, we include those residential customers who have received support through our Essentials social tariff, WaterSure, Water Direct, our NewStart Debt Matching scheme and any new financial assistance schemes Southern Water implements.

To be included, the customer must have been a continuous occupant for a minimum period following signing-up to receive one of these financial assistance packages. In addition, the customer must not have transitioned to our partner water services provider for joint-billing within 12 months of sign-up. For each included customer, the effectiveness of the earliest scheme is measured if the customer has signed-up to more than one scheme.

For the purposes of this PC, customers ‘paying their bills’ is defined as customers making payments as expected in accordance with their payment scheme, plan or billed amount. Here we define making payments as expected as either having paid in ten distinct months (of twelve) or having paid 90% of the billed value.

Our performance will be measured by dividing the number of customers that first received assistance in the relevant year and made payments as expected by the total number of customers that first received assistance in that year. Note that due to the need for a full year to pass following sign-up to a scheme to monitor payment, data relating to customers who signed-up in a given year would be reported the following year. For example, our 2017-18 baseline concerns customers who signed-up in 2016-17.

Rationale for PC

This PC:

- Improves upon and supersedes our AMP6 PC relating to financial assistance. This represents a maturing of our approach to tackling affordability.
- It aligns to our strategic priority of delivering affordable bills, as well as providing support to customers in vulnerable circumstances.

Our target

Over the last three years, our average performance has been 66%. We have therefore based our target on significantly improving our performance in AMP7 to reach 90% by the end of AMP7 and to maintain that level of performance thereafter.

As this is a new measure in AMP7, our CCG was concerned that there was insufficient information on which to set targets for the whole of AMP7. They recommended that we revisit our targets after the first two years of AMP7. We believe this would be an appropriate way of ensuring that the targets remain stretching.

Long Term Targets

For our long term target we have projected performance to 2045. Our long term projection is based on the highest level of performance that we think it will operationally be possible to attain of 90%.

Final Target Profile

Our final target profile mirrors our initial target.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
65%	70%	75%	80%	85%	90%	90%	90%	90%	90%

Marginal costs

Our marginal costs are £0.031 per household per % improvement.

Outcome delivery incentive

This is a reputational measure with no associated ODI, because of:

- The circular impact a financial incentive would have on an affordability measure.
- The effectiveness of the measure will be is highly dependent on economic factors, where by the strength of the economy will impact ones able to make payment.

We make sure our bills are affordable for our customers

Company performance commitment reference: PR19SRN_RR06

Gap Sites

Short definition

To monitor our success in tackling household gap sites.

Measurement

Measure to be developed over the next two years and to be agreed with Ofwat.

Mitigation / exceptions

N/A

Any other information relating to the performance commitment

We are not currently in a position to define a PC relating to household gap sites as we do not have data or relevant information to develop an appropriate measure. Over the remaining years of the AMP we will work to acquire the necessary data to develop a measure, and baseline our performance in the first year of AMP7. We will then improve upon our defined measure throughout the AMP.

Full definition of the performance commitment

A PC to monitor our success in tackling household gap sites.

A household gap site is a residential property where water and/or wastewater services are being consumed, but the property is not on our system and is therefore not billed.

Rationale for PC

This PC is closely aligned with our plan outcome of delivering affordable bills for our customers and Ofwat identified a requirement in their final methodology for a PC relating to managing gap sites.

Our target

We recognise that we need to first spend the remainder of this AMP assessing our current state and establishing how best to measure our performance for Gap Sites. For this reason, we are proposing a percentage improvement on the metric we will define over the remainder of the AMP and we will baseline our PC in the first year of AMP7.

As set out in TA.13.2, we are working with a third party provider to carry out an initial desktop data validation exercise to identify the addressable gap sites in our household portfolio. Based on this we will conduct a field pilot which is likely to involve lettering and possibly agents visiting prosperities believed to be occupied with the aim obtaining occupier details. The results of these pilot activities will inform our future approach and give us data from which we can baseline and track our performance.

As this is a new measure in AMP7, our CCG was concerned that there was insufficient information on which to set targets for the whole of AMP7. They recommended that we revisit our targets after the first two years of AMP7. We believe this would be an appropriate way of ensuring that the targets remain stretching.

Final Target Profile – improvement on base year

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
0	0	1.25%	1.25%	1.25%	1.25%	N/A	N/A	N/A	N/A

Marginal costs

We do not have marginal costs for this PC as we have not fully developed the measure

Outcome Delivery Incentive

This is a reputational measure with no associated ODI because:

- This PC is of relatively low value to customers, as judged by our customer insight triangulation.
- We have not tracked data internally relating to gap sites. Similarly, this information is not available on a comparative basis. We therefore do not have a clear view of what relative excellent performance looks like on this metric.

We support our customers in vulnerable circumstances

Company performance commitment reference: PR19SRN_RR05

Customer satisfaction with vulnerability support

Short definition

The proportion of customers that have received non-financial support that believe Southern Water's support addresses their specific requirements and needs. A measure of the quality of support provided to customers in vulnerable circumstances.

Measurement

The proportion of customers that have received non-financial support that believe Southern Water's support addresses their specific requirements and needs.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Our PC is the proportion of customers that have received non-financial support that believe Southern Water's support addresses their specific requirements and needs. The customers included in this PC are those that have received non-financial support from Southern Water such as those customers on our Priority Services Register.

We define non-financial support as any support that is provided to a customer with specific requirements or needs which affects the customer for reasons that are not specific to their financial position. We provide this support through our Priority Services Register e.g. through braille bills or talking bills.

This PC will be measured through a survey of customers that have received such support. We will ask customers whether the support provided addresses their specific requirements and needs in relation to their water and wastewater service. We will provide information about the support we provide as part of the questionnaire so that customers clearly understand the premise of the question. The questionnaire used will be consistent with that used to run our baseline survey for 2017/18. Customers will be able to respond with a "Yes" or "No" answer and provide additional comments to give us feedback on any improvements we could still make to our tailored support. Our performance will be measured as the total number of yes responses divided by the number of responses.

This PC has been developed to hold us to account in providing excellent support to our customers in vulnerable circumstances. We want our support to be tailored to our customers' needs and therefore want to understand whether they are satisfied with the specific support that they are provided. This PC will help us to ensure that the quality of support provided consistently delivers outcomes for customers that allows them to receive an inclusive service, through addressing their specific requirements and needs. We will also be tracking the number of people that we support on the PSR via the common performance metrics.

Rationale for PC

This PC is to meet Ofwat's requirement for a bespoke PC relating to vulnerability. It directly relates to our outcome to *support our customers in vulnerable circumstances*.

Our target

Our current performance is 71%, we aim to reach 90% by the end of AMP7 and to maintain that performance thereafter.

As this is a new measure in AMP7, our CCG was concerned that there was insufficient information on which to set targets for the whole of AMP7. They recommended that we revisit our targets after the first two years of AMP7. We believe this would be an appropriate way of ensuring that the targets remain stretching.

Long Term Targets

For our long term target we have projected performance to 2045. Our long term projection is based on the highest level of performance that we think it will operationally be possible to attain of 90%.

Final Target Profile

Our final target profile mirrors our initial target.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
74%	77%	81%	84%	87%	90%	90%	90%	90%	90%

Outcome delivery incentive

This is a reputational measure with no associated ODI, because:

- As we have not tracked this metric previously, only have limited data available to benchmark an appropriate target. In addition, this metric is not reported by other companies and therefore we do not have a clear view of what relative excellent performance looks like.
- It benefits only a specific segment of customers, while a financial payment or penalty would affect all customers.

We innovate to create sustainable communities

Company performance commitment reference: PR19SRN_WN09

Replace lead customer pipes

Short definition

This is a co-delivery measure with our customers to reduce the amount of lead in our customer pipes. It will apply only in our Deal water supply zone, where we are trialling this approach to eliminating lead pipes and fittings. The measure will be the number of residential properties receiving grants from Southern Water towards removing lead pipes in the home.

Measurement

Number of residential properties that receive grants (cumulative to the end of AMP7) Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

This is a co-delivery measure with our customers to reduce the amount of lead in our customer pipes. The measure will be the number of residential properties receiving grants towards removing lead pipes and fittings in the home. This will be expressed as the number of grants given by the Lead Working Group to residential properties each year.

A grant is a cash subsidy provided to the householder for the purposes of replacing lead plumbing.

In AMP7 this will apply in the Deal (Kent) trial area only and if successful will be rolled-out at company level in AMP8.

The measure includes all residential properties, but excludes business properties.

Rationale for PC and ODI

This bespoke PC supports our regulatory notice from the DWI to undertake a trial. It is also highly valued by our customers and supports the co-delivery of outcomes with our customers.

Our target

We have set a target of zero for this measure as we have not included any associated costs in our plan.

Outcome Delivery Incentive

The outperformance rates are based on the marginal benefits. The outperformance payment is based on cumulative performance. Therefore our actual incentive rate is five times larger than in APP1, as APP1 shows the annual incentive rate.

		Comment
Benefit valuation annual bill impact (per customer)	£0.10	From willingness-to-pay evidence
Incremental benefit	£0.00025m	Standard calculation – (£0.00005m per year)
Outperformance incentive rate after adjustment	£0.00012m	Ofwat's standard calculation – (£0.000025m per year)
Max AMP7 outperformance payment	£0.27m	Incentive rate x [cap – target]

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	0	2158	0
Final	0	2158	0

Our P10 and P90 are based on expert judgement, reflecting our benefit research (see TA.4.4 (3)), which set the level of performance our customers would fund.

Rewards and Penalties

Our incentive rate is derived from our P90 levels and the figure we have derived is £0.00012m reward incentive per property. This applies to a maximum of 2,158 properties (cumulatively).

Our collar is set at our P90 level as this is the level our customers were willing to fund.

We innovate to create sustainable communities

Company performance commitment reference: PR19SRN_WWN06

Surface water management

Short definition

This is a co-delivery measure with our customers to reduce the amount of surface water entering Southern Water's combined or surface water sewerage network including through the use of SuDS and soakaways. Removing surface water from the sewer network can help alleviate flooding and pollution.

Measurement

Number of properties disconnected from a combined drainage system within the year. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The number of properties disconnected from the combined sewerage network through solutions such as:

- Provision of a soakaway, either through providing a grant to the customer or through installation by Southern Water.
- Provision of a sustainable drainage system which does not connect to a combined sewer network or which materially attenuates the flow of surface water to the combined network (e.g. a rain garden).

Properties includes any residential or business buildings (where each building on a commercial site counts as one property).

Rationale for PC and ODI

This is a co-delivery PC and ODI designed to support sustainable solutions to growth, flooding, and pollution in our communities. It also supports the co-delivery of outcomes with our customers.

Our target

We have set a target of zero for this measure as we have not included any associated costs in our plan.

Outcome Delivery Incentive

The outperformance rates are based on the marginal benefits. The outperformance payment is based on cumulative performance therefore our actual incentive rate is five times larger than in APP1, as APP1 shows an annual incentive rate.

		Comment
Benefit valuation annual bill impact (per customer)	£0.25	From willingness-to-pay evidence.
Incremental benefit	£0.0008m	Standard calculation – (£0.00017m per year).
Outperformance incentive rate after adjustment	£0.0004m	Ofwat's standard calculation – (£0.00008m per year).
Max AMP7 outperformance payment	£1.19m	Incentive rate x [cap – target].

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert judgement	0	2842	0
Final	0	2842	0

Our P10 and P90 are based on expert judgement, this is our benefit research TA.4.4 (3) which set the level of performance our customers would fund.

Rewards and Penalties

Our incentive rate is derived from our P90 levels and the figure we have derived is £0.0004m reward incentive per property. This is the incentive rate per property for our P90 of 2,842 properties cumulatively.

Our collar is set at our P90 level as this is the level customers were willing to fund us up until.

We innovate to create sustainable communities

Company performance commitment reference: PR19SRN_N01

Community engagement

Short definition

This measure is to improve our community engagement. We have engaged London Benchmarking Group (LBG), recognised as the global standard for measuring corporate community investment and philanthropy to measure our performance in line with organisations both within and outside our sector. The commitment includes volunteering, partnering with charities, raising money for charities, flagship programmes such as Learn to Swim, community and outreach events and administering community grants.

Measurement

Rank of where we are in the benchmarking of utilities by LBG.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

London Benchmarking Group (LBG) will provide Southern Water with a global standard in measuring corporate community investment. More than a thousand organisations use LBG.

The measure will be the company's annual position in the LBG annual report which will be influenced by our ongoing commitment to increase hours volunteered, partnering with charities, raising money for charities, flagship programmes such as Learn to Swim, community and outreach events and administering community grants.

Baseline ranking will be set in the 2019-20 financial year, where we will have a full picture of our industry ranking.

Rationale for PC and ODI

This PC is highly valued by our stakeholders and aligns with our outcome of "We innovate to create sustainable communities"

Our target

We are aiming to be in the top 25% of utilities in community impact by LBG by 2024-25 we will set our target at upper quartile to emulate this. This is a stretching target as we do not yet know our baseline position, but believe we should be near the top of the rankings due to the amount of involvement we have in the community.

Outcome Delivery Incentive

This is a reputational measure with no associated ODI, because:

- It is a relatively low customer priority
- We currently have limited data on this metric and will only know our baseline position in 2019-20.
- This metric is subject to external influences in our communities.

We innovate to create sustainable communities

Company performance commitment reference: PR19SRN_N02

Schools visited and engagement with children

Short definition

The number of schools we have visited to raise awareness and improve understanding of the value of water, water efficiency and ‘unflushables’.

Measurement

The number of schools which have been visited in the year. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The measure is the total number of schools that have been visited in the year. It is measured annually on a financial year basis.

A ‘visit’ is defined as any activity involving a school, either at the school premises or other venue, which has as its aim the education of pupils in relation to our core activities, including the value of water, water efficiency, unflushables and the water cycle.

‘Schools’ includes any establishment involved in the education of children under the age of 18.

Rationale for PC and ODI

This is a bespoke, non-financial PC. We are proposing it as a PC to improve the visibility to customers of the work we are doing educating young people on the value of water, water efficiency, and ‘unflushables’

Our target

We are aiming to visit approximately 1 in every 8 schools in our region. This is equivalent to 250 schools over AMP7, and is consistent with the number of school visits in AMP6.

Outcome Delivery Incentive

This is a reputational measure with no associated ODI because:

- This metric is not reported by other companies and therefore we do not have a clear view of what relative excellent performance looks like.
- Whether we can visit a school is dependent on the school’s willingness/availability to let us visit them.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WN10

Water supply resilience

Short definition

Number of residential properties at risk of long term loss of supply (>48 hours) in our Thanet, Brighton and the Isle of Wight Water Supply Zones. This measure is being trialled in these areas during AMP7.

Measurement

Number of residential properties at risk of long term loss of supply (>48 hours). Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

Our calculation of properties for the measure includes an 'institution factor'. When a zone contains a critical facility such as a hospital or prison, we apply an uplift factor of 500 for each premise, in order to represent it within our measurement.

Full definition of the performance commitment

The measure is being trialled in AMP7 for Thanet, Brighton and the Isle of Wight Water Supply Zones as these are our highest risk areas.

We are now systematically quantifying resilience across our asset base using an industry leading approach. The number of residential properties at risk of long term loss of supply is defined in line with our AMP7 resilience framework.

The approach calculates the number of residential properties remaining at risk of long term loss of supply (>48 hours) in Thanet, Brighton and the Isle of Wight.

Outputs from the resilience assessment are represented as "properties at risk" – the number of properties remaining at risk of losing supply for more than 48 hours in a number of High Impact Low Likelihood (HILL) scenarios considered in the assessment.

Rationale for PC and ODI

This is a bespoke, non-financial PC. We are proposing it as PC to improve the visibility to customers of how our plans and the interventions we make in AMP7 are improving the resilience of their water supply.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* the AMP6 level of performance
2. We have not used willingness-to-pay research to set our target performance level but have instead used engineering judgement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **38,407**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.
Target (for 2024-25) **38,407**	We have used our zonal resilience assessment to quantify the reduction in property numbers at risk as a result of our interventions. This utilises option appraisal and cost benefit to determine the best value in the long term.

Long Term Targets

For our long term target we will review the findings from our AMP7 trial and consider its wider application.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
n/a	59,930	59,930	59,930	59,930	38,407	-	-	-	-

Outcome Delivery Incentive

This is a reputational measure with no associated ODI because:

- We have not tracked this metric previously, so we have only limited data available to benchmark an appropriate target. In addition, this metric is not reported by other companies and therefore we do not have a clear view of what relative excellent performance looks like.
- We already have a financial incentive on interruptions.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WN11

Properties at risk of receiving low pressure

Short definition

Number of properties on the DG2 low water pressure register.

Measurement

Number of properties on the DG2 register. Measured annually (financial year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Number of properties on the DG2 low water pressure register at 31 March annually.

The DG2 measure is ten metres head of pressure, at the external stop tap, at a flow of nine litres per minute. This is in line with Ofwat's guidance found here: https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Properties-at-risk-of-receiving-low-pressure.pdf

Southern Water is mirroring the Discover Water measure and definition.

Rationale for PC and ODI

We proposed dropping this PC, but our customers expressed concerns that doing so would lead to a deterioration in performance, therefore we have retained this PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *maintain* the AMP6 level of performance
2. We have not used willingness-to-pay research to set our target performance level but have instead used engineering judgement.

Approach to determining the target & implied target	Comment
Efficient Level of performance **254**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.

Approach to determining the target & implied target	Comment
Historic performance forecast **257**	Our average performance over the last three years has been 257 properties on the register.
Minimum Improvement **254**	The minimum performance we would seek to achieve would be to keep the level stable.
Maximum Attainable **0**	The best theoretically possible performance would be no properties on the register however as the rate decreases, further improvement becomes progressively more expensive.
Target (for 2024-25) **254**	We will maintain the current level of performance.

Long Term Targets

For our long term target we have projected performance to 2045. Our long term projection is based on maintaining performance.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2044-45 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
254	254	254	254	254	254	254	254	254	254

Outcome Delivery Incentive

This is a financial PC.

We will incur underperformance payments if we are not able to deliver our target.

The penalty rate is based on the marginal cost.

		Comment
Benefit valuation annual bill impact (per customer)		We do not have WTP - this is a cost based penalty.
Incremental benefit	£0.003m	Standard calculation.
Incremental cost	£0.003m	Standard calculation.

Underperformance rate after adjustment	£0.0017m	We used the standard calculation of (IC-(IC*p) = £1,700 / property.
Max AMP7 underperformance payment	-£0.685m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not make such an adjustment.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Historic PR14	254	254	336
Final	254	254	336

Our P10 rate is based on the PR14 final determination ODI penalty collar.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	254	254	254	254	254
P10 underperformance payment	£0.137m	£0.137m	£0.137m	£0.137m	£0.137m

Our collar is set at our P10 level as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN08

External sewer flooding

Short definition

The number of external flooding incidents per 10,000 properties connected for sewerage services. External sewer flooding is defined as per Ofwat's guidance.

Measurement

Incidents of external flooding within the property curtilage. Measured annually (financial year). We state our targets in absolute numbers of floods.

Mitigation / exceptions

There are no mitigations or exceptions. We are including floods due to severe weather, which have historically been excluded from external sewer flooding measures.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The PC is external flooding incidents. It includes incidents caused by severe weather. A flooding event is the escape of wastewater from a sewerage system, irrespective of size, as evidenced by standing water, running water or visible deposits of silt or sewage solids. External flooding is defined as flooding within the curtilage of a building normally used for residential, public, community and business purposes. It includes buildings in those curtilages which do not comply with the definition for internal flooding.

A flooding incident is defined as the number of properties (or curtilages) flooded during each flooding event from a public sewer. For example, five properties which suffered two flooding events during a year, would count as ten incidents. Where a property floods both internally and externally during the same event it shall only be recorded as an internal flooding incident. We are following the guidance as prescribed by Ofwat at:
https://www.ofwat.gov.uk/wpcontent/uploads/2018/03/Reporting-guidance-sewer-flooding.pdf

Rationale for PC and ODI

This is a standard metric for the water industry although it is not a common PC. Flooding is a priority area for customers.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Approach to determining the target & implied target	Comment
Efficient Level of performance **4,135**	We used willingness-to-pay research to match the marginal benefit to our customers to our marginal costs to achieve this performance.
Historic performance forecast **N/A**	N/A
Minimum Improvement **4,724**	This is our current level of performance, at a minimum we would expect to maintain this.
Maximum Attainable **0**	The best theoretical performance would be no external sewer flooding however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **2,788**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 2,788.
Initial target (for 2024-25) **4,135**	This is our CBA level
Customer priority adjustment **High: 10%** **3,722**	We have used customer and stakeholder priority to adjust this measure as it is more of an asset health measure see TA 4.3
Final target **3,299**	Our target is based on average industry performance. This has not previously been a priority area for improvement and as such our understanding of root causes is less developed than that for internal flooding. Therefore the uncertainties and risks of achieving upper quartile are too great.

We have projected performance to 2045 based on the highest level of performance that we think it will operationally be possible to attain.

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
4718	4129	3875	3637	3464	3299	2982	2695	2486	2202

Outcome Delivery Incentive

External Sewer Flooding is a financial PC.

We will earn an outperformance payment if we reduce the number of external floods to below our target.
We will owe an underperformance payment if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing External Sewer Flooding. The marginal values implied the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact (per customer)	£0.39	From willingness-to-pay evidence.
Incremental benefit	£0.007m	Standard calculation.
Incremental cost	£0.001m	Standard calculation.
Outperformance incentive rate after adjustment	£0.004m	Ofwat standard calculation + 10% (Increased by 10% as it's a high customer + stakeholder priority see TA.4.3).
Underperformance rate after adjustment	£0.008m	Ofwat standard calculation + 20% (Increased by 20% as it's a high customer + stakeholder priority see TA.4.3 and the WTP gave a high penalty).
Max AMP7 outperformance payment	£7.03m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£14.12m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research (basing on our customer and stakeholder priority) and available valuation information. In this case, we increased the ODI reward rate by 10% and the penalty rate by 20%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern Water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Historic PR14	3,299	2,945	2,945
Final	3,299	2,945	2,945

Our P90 rate is based on the historic variance. We have capped our P10 rate at 2,945 to reflect customer preferences.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	4129	3875	3637	3464	3299
P10 underperformance payment	£2.8m	£2.8m	£2.8m	£2.8m	£2.8m
P90 outperformance payment	£1.4m	£1.4m	£1.4m	£1.4m	£1.4m

Our collars and caps are set at our P10 and P90 levels, as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN10

Combined Sewer Overflows (CSO) monitoring

Short definition

Effective monitoring of all our CSOs, this includes monitors in place and available, with data assurance and with results published at least annually.

Measurement

% of CSOs with effective monitoring measured annually (calendar year).

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

Effective monitoring of all our CSOs, this includes monitors in place and available, with data assurance and with results published at least annually.

The monitor in place and available is an 'Event and Duration Monitor', providing at least 10 months valid data in any one year. Assured data means data that has been validated, through either internal or external review. Data will be considered to be published if it is made available on our website or other appropriate media.

Rationale for PC and ODI

This is a high stakeholder priority. This is a bespoke PC which reflects the importance of improving resilience for our wastewater business

Setting stretching performance commitment targets

In determining the target for this PC, we set our target at the maximum possible level of performance.

Approach to determining the target & implied target	**Comment**
Efficient Level of performance **100%**	We used an optioneering approach in order to set our target at the most efficient level. This approach reflects customers' willingness to pay.
Historic performance forecast	We will have installed monitors in 98.8% of locations by the end of AMP6 but data assurance will not have been completed hence 92% by the end of AMP6.

Approach to determining the target & implied target	Comment
92%	
Minimum Improvement **N/A**	N/A
Maximum Attainable **100%**	The best theoretical performance would be for all CSOs to be fitted with monitors, we intend to reach this level by the end of AMP7.
Comparative performance **N/A**	N/A
Target (for 2024-25) **100%**	We intend to fit all our CSOs with monitors.

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
92.00%	95%	97.00%	99.00%	99.90%	100%	100%	100%	100%	100%

Outcome Delivery Incentive

This is a reputational measure with no associated ODI, because.

- We will be at maximum performance at the end of the AMP, once we have fully understood the data from this PC we will be able to reconsider making this financial in AMP7.
- It is a low customer priority as per TA.4.3.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN14

Growth (Cost Adjustment Claim)

Short definition

This measure is designed to monitor and assure the delivery of one enhancement scheme related to population growth in Whitfield.

The measure ensures that customers are protected in the event that an alternative, lower cost solution is found.

Measurement

Expenditure incurred to address population growth in Whitfield. Measured at end of period. Delivery and costs will be confirmed by third party assurance.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Rationale for PC and ODI

This is a bespoke PC to ensure customers are fully protected for expenditure associated with our cost adjustment claim.

Setting stretching performance commitment targets

Our PC is directly linked to the level of expenditure associated with this Cost Adjustment Claim. Customers are protected if an alternative lower cost solution is found by the proposal of a project delivery specific, penalty-only ODI. Any savings in scheme costs will be shared with customers.

Outcome Delivery Incentive

Growth (Cost Adjustment Claim) is a financial PC.

Rewards and Penalties

To incentivise further efficiency and protect customers beyond the totex sharing mechanism we propose an overall incentive mechanism of 75:25, in order to ensure customers are protected and benefit from efficiency in delivery.

Mechanism	Incentive Rate
Totex Mechanism recovers 50% for customers	50p/£

Incentive mechanism recovers a further 25%	25p/£

Incentive type and timing

We have committed to delivering this scheme by the end of the period, the penalty is therefore also assessed at the end of period.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WN03

Water Supply Interruptions

Short definition

Water supply interruptions is an Ofwat common definition. Defined by Ofwat in:
https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-supply-interruptions.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Table 1 - Setting our initial target

Approach to determining the target & implied target	Comment
Efficient Level of performance **00:06:11**	We used willingness-to-pay research to match the marginal benefit of our customers to our marginal costs to achieve this performance. Our marginal costs are very high, therefore this does not change the performance level.
Historic performance forecast **00:06:11**	Based on an extrapolation of our historical improvement trajectory.
Minimum Improvement **00:06:11**	At a minimum we would seek to maintain our end of AMP6 performance through AMP7.
Maximum Attainable **0**	The best theoretical performance would be no customer interruptions however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **00:05:32**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 00:05:32.
Initial target **00:06:11**	Based on CBA

Approach to determining the target & implied target	Comment
Customer priority adjustment **High: 10% 00:05:34**	We adjusted our CBA based initial target to be 10% stricter based on customer priority
Target (for 2024-25) **00:05:30**	Based on this analysis, we determined a target of 00:05:30 in 2024-25, this is based on outperforming the forecast UQ level of performance.

Long Term Targets

We have projected performance to 2045 based on the highest level of performance that we think it will operationally be possible to attain.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
00:06:11	00:06:11	00:06:01	00:05:51	00:05:40	00:05:30	00:04:35	00:04:04	00:03:32	00:02:58

Outcome Delivery Incentive

Water Supply Interruptions is a financial PC.

We will earn an outperformance payment if we reduce the average time customers are without water to below our target.

We will incur underperformance payments if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing Water Supply Interruptions. The marginal values implied the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact (per customer)	£0.12	From willingness-to-pay evidence.
Incremental benefit	£0.123m	Standard calculation.
Incremental cost	£0.303m	Standard calculation.

Outperformance incentive rate after adjustment	0.064m / minute	Ofwat standard calculation + 10%.
Underperformance rate after adjustment	0.064m / minute	Ofwat standard calculation + 10%.
Max AMP7 outperformance payment	£1.55m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£1.55m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the ODI reward and penalty rates by 10%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Historic PR14	00:05:30	00:00:55	00:10:05
Final	00:05:30	00:00:55	00:10:05

Our P90 and P10 rate is based on the historic variance.

Rewards and Penalties

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	00:06:11	00:06:01	00:05:51	00:05:40	00:05:30
P10 underperformance payment	£0.31m	£0.31m	£0.31m	£0.31m	£0.31m
P90 outperformance payment	£0.31m	£0.31m	£0.31m	£0.31m	£0.31m

Our collars and caps are set at our P10 and P90 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN01

Internal sewer flooding

Short definition

Internal sewer flooding is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-sewer-flooding.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Approach to determining the target & implied target	Comment
Efficient Level of performance **392**	We used willingness-to-pay research to match the marginal benefit to our customers to our marginal costs to achieve this performance.
Historic performance forecast **313.5**	Based on a log forecast of our historical performance trend.
Minimum Improvement **389**	This is the level of performance we would expect to reach based on a minimal level of investment.
Maximum Attainable **0**	The best theoretical performance would be no sewer flooding however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **350**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 350.
Initial target **392**	Based on CBA

Approach to determining the target & implied target	Comment
Customer priority adjustment **High: 10%** **352.8**	We adjusted our CBA based intial target to be 10% stricter based on customer priority
Target for 2024/25 **350**	We have set the final target on aiming to reach the forecast upper quartile level of performance as per Ofwats guidance.

Long Term Targets

We have projected performance to 2045 based on the highest level of performance that we think it will operationally be possible to attain.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
398	371	365	359	354	350	316	286	258	234

Outcome Delivery Incentive

Internal Flooding is a financial PC.

We will earn an outperformance payment if we reduce the number of internal floods to below our target.

We will incur underperformance payments if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing Internal Flooding. The marginal values implied the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact (per customer)	£0.47	From willingness-to-pay evidence.
Incremental benefit	£0.043m	Standard calculation.
Incremental cost	£0.147m	Standard calculation.

Outperformance incentive rate after adjustment	£0.024m	Ofwat standard calculation + 10%.
Underperformance rate after adjustment	£0.026m	Ofwat standard calculation + 20%.
Max AMP7 outperformance payment	£7.45m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£8.12m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the ODI reward rate by 10% and the penalty rate by 20%.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Historic Southern water	350	287	413
Final	350	287	413

Our P90 and P10 rate is based on the historic variance.

Rewards and Penalties

Our deadbands and p10/p90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	371	365	359	354	350
P10 underperformance payment	-£1.62m	-£1.62m	-£1.62m	-£1.62m	-£1.62m
P90 outperformance payment	£1.49m	£1.49m	£1.49m	£1.49m	£1.49m

Our collars and caps are set at our P10 and P90 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN02

Pollution incidents (categories 1 to 3)

Short definition

Pollution incidents (categories 1 to 3) is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/outcomes-definitions-pr19/

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Approach to determining the target & implied target	Comment
Efficient Level of performance **107**	We used willingness-to-pay research to match the marginal benefit to our customers to our marginal costs to achieve this performance.
Historic performance forecast **79**	Log forecast from historical data.
Minimum Improvement **105**	Based on minimum level of investment.
Maximum Attainable **0**	The best theoretical performance would be no pollution incidents however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **85**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 85.
Initial target (for 2024-25) **85**	Based on this analysis, we determined an initial target of 82 in 2024-25, this is based on the forecast UQ level of performance.

Approach to determining the target & implied target	Comment
After adjustment for customer priorities **Medium: 5%** **81**	Our customers have told us that pollution incidents is of medium importance and we have therefore adjusted our target by 5%.
Achievability assessment **82**	We applied an achievability adjustment to our adjusted target, this now aligns with our potion target set by the EA of a 40% reduction from 2016.
Final target (for 2024/25) **82**	Set based on outperforming the forecast UQ level of performance and our engineering judgement of what is achievable.

Long Term Targets

We have projected performance to 2045 based on the highest level of performance that we think it will operationally be possible to attain.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2044-50 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
116	110	107	100	93	82	60	35	15	15

Outcome Delivery Incentive

Pollution Incidents is a financial PC.

We undertook specific customer research to understand the value customers' place on reducing Pollution Incidents. The marginal values implied the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact (per customer)	£0.75	From willingness-to-pay evidence.
Incremental benefit	£0.143m	Standard calculation.
Incremental cost	£0.135m	Standard calculation.
Outperformance incentive rate after adjustment	£0.079m	Ofwat standard calculation + 10%.

Underperformance rate after adjustment	£0.083m	Ofwat standard calculation + 10%.
Max AMP7 outperformance payment	£3.93m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	£4.16m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we increased the ODI rate by 10% based on our willingness-to-pay research.

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert knowledge	82	72	92
Final	82	72	92

Our P90 and P10 rate is based on engineering judgement of a performance level variance of 10, as historic statistical variances gave wat we believe are unrepresentative values.

Rewards and Penalties

Deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	110	107	100	93	82
P10 underperformance payment	-£0.83m	-£0.83m	-£0.83m	-£0.83m	-£0.83m
P90 outperformance payment	£0.79m	£0.79m	£0.79m	£0.79m	£0.79m

Our collars and caps are set at our P10 and P90 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set deadbands for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WR02

Risk of severe restrictions in a drought

Short definition

Risk of severe restrictions in a drought is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Drought-resilience-metric-March-18.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *to maintain* the AMP6 level of performance which is the maximum attainable.
2. We have not used willingness-to-pay research to set our target performance level.

Approach to determining the target & implied target	**Comment**
Efficient Level of performance **0%**	Our current level of performance is the maximum attainable, our WRMP sets the target at 0%.
Maximum Attainable **0%**	The best possible performance would be no customers at risk from severe water restrictions in a drought.
Comparative performance **N/A**	We do not have comparative information for this measure.
Initial target (for 2024-25) **0%**	We are maintaining our current level of performance which is the maximum attainable.
After adjustment for customer priorities **N/A**	N/A
After adjustment for operational constraints	There are no operational constraints that would prevent us reaching the target level as this is our current level of performance.

Approach to determining the target & implied target	Comment
0%	

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2044-50 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Outcome Delivery Incentive

This is a reputational measure with no associated ODI, as per Ofwat's guidance. In addition, as we have not tracked this metric previously, we have only limited data available to benchmark an appropriate target. This metric is not reported by other companies and therefore we do not have a clear view of what relative excellent performance looks like.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN03

Risk of sewer flooding in a storm

Short definition

Risk of sewer flooding in a storm is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Developing-and-Trialling-Wastewater-Resilience-Metrics-Atkins.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *to maintain* the AMP6 level of performance
2. We have not used willingness-to-pay research to set our target performance level. We have therefore used technical achievability as a basis for setting our performance target.

Approach to determining the target & implied target	**Comment**
Efficient Level of performance **12.42%**	We used an optioneering approach in order to set our target at the most efficient level. We are still developing our understanding of this measure as we have only been collecting it for one year. We are therefore aiming to maintain our current level of performance.
Historic performance forecast **12.42%**	Our current level of performance 12.42%.
Minimum Improvement **12.42%**	The minimum we would expect to do on this measure is to maintain our current level of performance.
Maximum Attainable **0**	The best theoretical performance would be no customers at risk from sewer flooding in a storm however as the % decreases, further improvement becomes progressively more expensive.
Comparative performance **N/A**	We do not have comparative information for this measure.
Initial target (for 2024-25)	We are maintaining our current level of performance.

Approach to determining the target & implied target	Comment
12.42%	
After adjustment for customer priorities **12.42%**	Our customers have told us that this measure is of low priority, we have not made an adjustment.
After adjustment for operational constraints **12.42%**	There are no operational constraints that would prevent us reaching the target level.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2044-50 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
12.42%	12.42%	12.42%	12.42%	12.42%	12.42%	10.57%	8.72%	6.87%	5.02%

As this is a new measure in AMP7, our CCG was concerned that there was insufficient information on which to set targets for the whole of AMP7. They recommended that we revisit our targets after the first two years of AMP7. We believe this would be an appropriate way of ensuring that the targets remain stretching.

Marginal Costs

We have not collected marginal cost data for this measure as we do not have sufficient data to do so.

Outcome Delivery Incentive

This is a reputational measure with no associated ODI, as per Ofwat's guidance. In addition, as we have not tracked this metric previously, we have only limited data available to benchmark an appropriate target. This metric is not reported by other companies and therefore we do not have a clear view of what relative excellent performance looks like.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WN05

Mains bursts

Short definition

Mains bursts is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-mains-repairs-per-1000km.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. We have used willingness-to-pay research to set our target performance level

Approach to determining the target & implied target	Comment
Efficient Level of performance **86**	We used an optioneering approach in order to set our target at the most efficient level to 85.6.
Historic performance forecast **95**	This is based on a log forecast of historic improvement trends
Minimum Improvement **120**	Based on maintenance spend and mandatory projects complete.
Maximum Attainable **0**	The best theoretical performance would be no mains bursts however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **86**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 86.2.
Initial target (for 2024-25) **86**	Based on this analysis, we determined an initial target of 85.57 in 2024-25.

Approach to determining the target & implied target	Comment
After adjustment for customer priorities **82**	Our customers have told us that sewer collapses is of medium importance and we have therefore tried to adjust the target by 5%.
After adjustment for operational constraints **86**	This is the maximum level of performance we can deliver and is better than the forecast upper quartile, therefore our final target is 85.6.

Long Term Targets

We have projected performance to 2045 based on the highest level of performance that we think it will operationally be possible to attain.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
130	120	111	103	94	86	78	67	62	56

Outcome Delivery Incentive

Mains Bursts is a financial PC.

We will earn an outperformance payment if we reduce the number of mains bursts to below our target.

We will incur underperformance payments if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing Mains Bursts. The marginal values implied the overall reward and penalty set out in the table below:

		Comment
Benefit valuation annual bill impact	£1.81	From willingness-to-pay evidence.
Incremental benefit	£0.111m	Standard calculation.
Incremental cost	£0.065m	Standard calculation.
Outperformance incentive rate after adjustment	-£0.078m	Ofwat standard calculation.

Underperformance rate after adjustment	£0.055m	Ofwat standard calculation.
Max AMP7 outperformance payment	£4.82m	Incentive rate x [cap – target].
Max AMP7 underperformance payment	-£6.80m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not adjust the ODI rate as the customer priority was medium (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Historic Industry	86	66	105
Final	86	66	105

Our P90 and P10 rate is based on industry historic variance.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels. This equates to a £0.078m penalty incentive rate and a £0.055m reward incentive rate per unit movement in the PC.

Our deadbands and P10/P90 underperformance/outperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	120	111	103	94	86
Underperformance deadband	122	113	105	96	88
P10 underperformance payment	£1.36m	£1.36m	£1.36m	£1.36m	£1.36m
Outperformance deadband	117	109	100	92	83
P90 outperformance payment	£0.96m	£0.96m	£0.96m	£0.96m	£0.96m

Our collars and caps are set at our P10 and P90 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have set deadbands for this measure based on 15% of the standard deviation based on historic annual variance to account for the natural volatility in this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WN06

Unplanned outages

Short definition

Unplanned outage is an Ofwat common definition. Defined by Ofwat in:
https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-unplanned-outage.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. As this is an asset health measure which is not directly visible to customers, we have not used willingness-to-pay research to set our target performance level. We have therefore used technical achievability as a basis for setting our performance target.

Approach to determining the target & implied target	Comment
Efficient Level of performance **3.2%**	We used an optioneering approach in order to set our target at the most efficient level.
Historic performance forecast **7%**	In 2017-18, our performance on this measure was 15%, we forecast that we will be able to reach 7% by the final year of AMP6.
Minimum Improvement **15%**	Our view is that a minimum we would seek to hold performance at what we achieved in 2017-18
Maximum Attainable **0%**	The best theoretical performance would be 0% (no unplanned outages) although achieving this level of performance is unlikely to be economically efficient.
Comparative performance **N/A**	Comparative information is not available for this measure.

Approach to determining the target & implied target	Comment
Target (for 2024-25) **3.2%**	Based on this analysis, we determined an initial target of 3.2% in 2024-25.
After adjustment for customer priorities **3.2%**	Our customers have told us that this measure is of medium importance, we therefore should adjust by 5%. Although 3.2% is our maximum deliverable target in 2025.
Target (for 2024-25) **3.2%**	We have set the target on our maximum deliverable performance in AMP7

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
7%	7%	7%	6%	5%	3%	3%	2%	2%	2%

Outcome Delivery Incentive

Unplanned Outages is a financial PC.

We will incur underperformance payments if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing Unplanned Outages. The overall reward and penalty is set out in the table below:

	Median	Comment
Benefit valuation annual bill impact (per customer)	£0.20	From willingness-to-pay evidence.
Incremental benefit	£1.06m / %	Standard calculation.
Incremental cost	£1.79m / %	Standard calculation.
Underperformance rate after adjustment	-£0.53m / %	As the incremental costs are larger than the incremental benefit the standard calculation works by:(IB)-(minimum(IC,IB)*p).
Max AMP7 underperformance payment	-£0.64m	Penalty rate = [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we did not adjust the ODI rate as the customer priority was medium (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert knowledge	3.2%	3.2%	3.4%
Final	3.2%	3.2%	3.4%

Our P90 and P10 rate is based on engineering judgement made based on expert knowledge, with our P90 set at our target level as this is a penalty only measure.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels and the figure we have derived for our total penalty. This equates to a £0.533m penalty incentive rate per % movement in the index. Our P10 underperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	7%	7%	6%	5%	3%
P10 underperformance payment	£0.11m	£0.11m	£0.11m	£0.11m	£0.11m

Our collars are set at our P10 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have not set a deadband for this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN04

Sewer collapses

Short definition

Sewer collapses is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Reporting-guidance-sewer-collapses-per-1000km.pdf

Rationale for PC and ODI

This is a common PC.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance
2. As this is an asset health measure which is not directly visible to customers, we have not used willingness-to-pay research to set our target performance level. We have therefore used technical achievability as a basis for setting our performance target.

Approach to determining the target & implied target	Comment
Efficient Level of performance **225**	We used an optioneering approach in order to set our target at the most efficient level.
Historic performance forecast **145.7**	This is based on a log forecast of historic improvement trends.
Minimum Improvement **231**	Our view is that a minimum we would seek to hold the number of collapses / year steady at our forecast 2019/20 performance.
Maximum Attainable **0**	The best theoretical performance would be 0 sewer collapses however as the rate decreases, further improvement becomes progressively more expensive.
Comparative performance **214**	Our industry forecasts are based on expected performance improvements for each company and in 2024/25 the UQ performance is 214.

Approach to determining the target & implied target	Comment
Initial target (for 2024-25) **225**	Based on our CBA analysis, we determined an initial target of 225 in 2024-25.
After adjustment for customer priorities **225**	Our customers have told us that sewer collapses is of low importance and we have therefore not adjusted our target which is based on the efficient level.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2045 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
231	230	228	227	226	225	223	221	218	216

Outcome Delivery Incentive

Sewer Collapses is a financial PC.

We will incur underperformance payments if we are not able to deliver our target.

We undertook specific customer research to understand the value customers' place on reducing sewer collapses. The marginal values implied the overall reward and penalty set out in the table below:

	Median	Comment
Benefit valuation annual bill impact (per customer)	£1.90	From willingness-to-pay evidence.
Incremental benefit	£0.15m	Standard calculation.
Incremental cost	£0.22m	Standard calculation.
Underperformance rate	-£0.072m	As the incremental costs are larger than the incremental benefit the standard calculation works by: (IB)-(minimum(IC,IB)*p). (Reduced by 5% as it's a low customer + stakeholder priority see TA.4.3).
Max AMP7 underperformance payment	-£8.6m	Penalty rate x [target – collar].

We considered whether to adjust the ODI rate based on broader evidence such as the results of our qualitative customer research and available valuation information. In this case, we adjusted the ODI rate as the customer and stakeholder priority was low (compared to other PC areas).

P10 and P90 values

For each of our ODIs we calculated the P10s and P90s based on historical Southern water performance, historical industry performance, our forecasts and expert knowledge. We then chose the most appropriate P10s and P90s.

	2025 target	P90	P10
Expert knowledge	225	225	262
Final	225	225	262

Our P10 rate is based on the absolute variance of 24 collapses in our PR14 ODI. This is 24 plus the deadband proposed below. Our P90 is set at our target level as this is a penalty only measure.

Rewards and Penalties

Our incentive rate is derived from our P10 and P90 levels and the figure we have derived for our total penalty. This equates to a -£0.072m penalty incentive rate per unit movement in the index. We have not applied the totex sharing ratio to these. Our deadband and p10 underperformance payment levels are set out below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Target	230	228	227	226	225
Deadband	243	241	240	239	238
P10 underperformance payment	£1.72m	£1.72m	£1.72m	£1.72m	£1.72m

Our collars are set at our P10 levels as it is reasonable to assume that any performance outside these levels would be due to extreme exogenous factors.

We have set our underperformance deadband for Sewer Collapses using 25% of the standard deviation based on historic annual variance to account for the natural volatility in this measure.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN05

Treatment works compliance

Short definition

Treatment works compliance is an Ofwat common definition. Defined by Ofwat in: https://www.ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf

Measurement

For AMP7, we are proposing to rationalise the way we measure our performance of wastewater compliance by combining the two AMP6 performance measures into a single measure that reflects both the total number and relative size of failed treatment works. We are proposing the same trigger point for both measures, which will use the quality measures in our permits. This aligns the definition of a failed works between the numeric and PE measures, improving transparency for stakeholders.

A discharge can be confirmed as failing for the breaches listed in section 2.3 of the EA document linked above. This determination is made by the EA.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

The principles behind the proposal for a combined measure are:

- We would align the two current definitions of a failed works, basing it on the more comprehensive set of measures used for numeric compliance. This is far simpler to communicate to our operational workforce and our stakeholders; effectively, a 'fail is a fail'.
- We would align the penalty threshold with the EA's definition of a 4-star company, as used in their annual Environmental Performance Assessment. This demonstrates our commitment to improve performance and aligns our measures of success.
- Any penalties would take account of the number of customers affected by a failed works, with a simple cost per customer served.

Any treatment works that falls into the penalty zone would attract two incentive penalties. The first based on the cumulative number of failed works in the year and the second the cumulative population equivalent served by the larger of the failed works in that year.

Rationale for PC and ODI

This is a common commitment.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

- Our customers' priority is to *improve* rather than *maintain* on this metric.
- We have not used customer willingness to pay information with regard to levels of improvement and have set our target at 100%.

Approach to determining the target & implied target	Comment
Maximum Attainable **100%**	The maximum attainable is to have no works failing.
Target (for 2024-25) **100%**	We have set our target at the maximum attainable.

Final Target Profile

Our target is to achieve 100% compliance.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
99.03%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Outcome Delivery Incentive

This is a financial PC.

We have set a two-part ODI for this PC:

- Numeric compliance – which measures the % of our treatment works which are compliant
- Population Equivalent (PE) – which applies a penalty based on the size (Population Equivalent) of the failing works, it assumes the larger of the failing works count towards the penalty

The overall size of this penalty is the largest of our ODIs by some margin. This is due to the wider social and environmental importance associated with this commitment as well as our historical challenges in this area.

We have set the overall level of this penalty based on the following considerations:

- Our willingness to pay data on pollution data implies £55m as the likely size for this ODI (equates a failing works to a pollution incident every quarter)
- For the three other WaSCs that had similar targets at PR14, the 'par' level was about £50m across compliance measures (see table below, all figures in 17/18 prices)
- If overall incentive exposure, as measured by RoRE, increased for other companies to 3% as per the PR19 methodology, the largest penalty measure would be £100m (see table)

Company	Numeric consent	PE	Total	PR14 RoRE	Scaled to 3% RoRE
Thames Water	£48m	0	£48m	1.5%	£96m
Yorkshire Water	£20m	£20m	£49m	1.2%	£100m
Anglian Water	£18m	£18m	£36m	1.5%	£72m

We have therefore set our total penalty exposure to £100m which we expect to be the largest of any WaSC. We are proposing that this exposure is split equally between the numerical compliance and PE components.

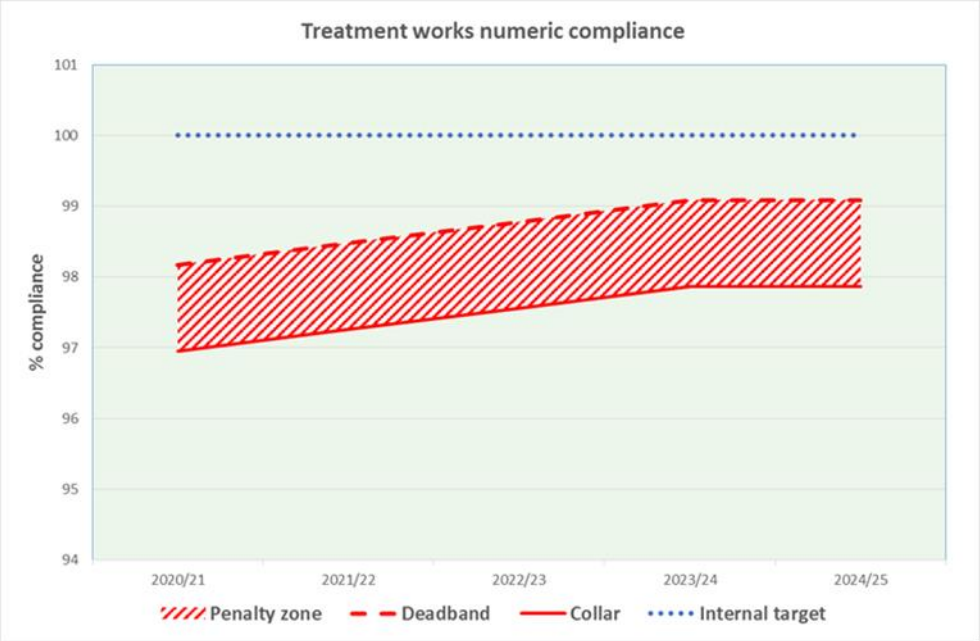
Collar and deadband

We are proposing to progressively tighten our deadband from the current values to 2023-24 based on the EA's definition of a four star company which they report annually in their Environmental Performance Assessment.

	2020-21	2021-22	2022-23	2023-24	2024-25
Deadband %	98.17%	98.48%	98.78%	99.09%	99.08%[3]
Collar %	96.95%	97.26%	97.56%	97.87%	97.86%
Deadband (nr works)	6	5	4	3	3
Collar (nr works)	10	9	8	7	7
P10 penalty (numeric)	£10m	£10m	£10m	£10m	£10m
P10 penalty (PE)	£10m	£10m	£10m	£10m	£10m
P10 penalty (total)	£20m	£20m	£20m	£20m	£20m

We are also progressively tightening our collar to maintain a constant penalty range throughout the AMP. This is illustrated graphically in the figure below.

Figure 1: illustration of tightening deadband and collar



Incentive rates

We have set the penalty rate for the numerical compliance measure by dividing the total penalty by the penalty zone range of 4. £10m / 4 = **£2.5m penalty per failed works**.

[3] In 2024/25 our deadbands and collars are adjusted to reflect a reduction in the number of EPA permits we have, moving from 324 to 321.

For the PE measure, we have set the maximum penalty at 70,000 PE which is based on the size of our 20 largest treatment works. These works cover two-thirds of our total population between them. We believe that this provides a better and more progressive incentive structure than the AMP6 ODI. Any of our largest 20 works will trigger the maximum penalty of £2.5m.

The penalty rate is therefore £10m / 70,000 = £142.86 / PE for any works in the penalty zone up to maximum PE of 70,000. For the purposes of this calculation, all failed works will be ranked by PE so that the largest works fall within the penalty zone. For example, if we have four failed works in 2024-25, one of which was a large works (in the top 20) we will have two penalties assessed:

- £2.5m for the numerical compliance component
- £10m for the PE component.

Incentive type and timing

Due to the size of this incentive and its link to long-term asset health we are proposing to reflect any penalties in our RCV reflected in PR24 rather than as revenue-linked penalties payable in-year.

The services we provide are effective and fit for the future

Company performance commitment reference: PR19SRN_WWN16

Thanet Sewers (Cost Adjustment Claim)

Short definition

This measure is designed to monitor and assure the delivery of one enhancement scheme related to the reduction of exfiltration from sewers located within unique adits (tunnels) in Thanet.

Measurement

Scheme delivered to address exfiltration in Thanet. Reported annually to the EA. This scheme is due to be completed by the end of the period.

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Rationale for PC and ODI

This is a bespoke PC to ensure customers are fully protected for expenditure associated with our cost adjustment claim.

Setting stretching performance commitment targets

Our stretching PC target is directly linked to our effective delivery of the expenditure associated with this Cost Adjustment Claim.

Customers are protected if the investment is cancelled by the proposal of a project delivery specific, penalty-only ODI. Should the scheme not be delivered, the associated funding allowance will be returned to customers in full.

Outcome Delivery Incentive

Thanet Sewers (Cost Adjustment Claim) is a financial PC.

Rewards and Penalties

Should we fail to deliver the scheme we will return of the cost allowance through this ODI, in combination with the totex sharing mechanism.

Incentive type and timing

We have committed to delivering these schemes by the end of the period, the penalty is therefore also assessed at the end of period.

We safeguard and enhance rivers, reservoirs and coasts for the future

Company performance commitment reference: PR19SRN_WN12

Distribution input

Short definition

The average daily amount (Ml/d) of potable water entering the distribution system for distribution to Southern Water customers in a year.

Measurement

Performance will be measured and reported annually

Mitigation / exceptions

There are no mitigations or exceptions.

Any other information relating to the performance commitment

None.

Full definition of the performance commitment

The average daily amount (Ml/d) of potable water entering the distribution system for distribution to Southern Water customers in a year. It excludes bulk exports to other undertakers, but includes bulk imports. The Distribution Input figures are calculated by grouping key input flows per water distribution area to form total Southern Water Distribution Input.

Rationale for PC and ODI

This is a non-financial PC, continuing on from AMP6.

It is retained as a proxy measure for net abstraction at the request of our CCG. We have committed to developing a net abstraction measure during AMP7.

Setting stretching performance commitment targets

In determining the target for this PC, we took account of the fact that:

1. Our ambition is *improve* against this metric rather than *maintain* the AMP6 level of performance.
2. As this is a non-financial measure we have not completed detailed comparative analysis, but have continued the trajectory of sustainable reductions started in AMP6.

Long Term Targets

We have projected performance to 2045 based on our WRMP.

Final Target Profile

Our target profile which combines our commitments for PR19 with our projected performance to 2044-50 is summarised in the table below.

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2029-30	2034-35	2039- 40	2044- 45
535	525	520	516	510	506	487	476	470	466

Outcome Delivery Incentive

This is a reputational measure with no associated ODI, because:

- It is a relatively low customer priority.
- It would duplicate the incentives for leakage and PCC.