

# SRN-DDR-052: Price Control Deliverables

## Draft Determination Response

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from  
**Southern  
Water** 

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## Summary

This document explains the principles we have used to set out our Price Control Deliverables (PCDs) and make representations on specific features of each PCD as proposed by Ofwat at Draft Determinations (DD).

It starts by detailing out the downside risks of the PCD package that Ofwat proposes at DD, which in summary are:

- RoRE risk;
- Project risk and managing complex programmes;
- Cash flow risk;
- Penalty duplication;
- Bureaucratic costs;
- Punitive non-delivery;
- DDCM is a duplication and should be discontinued; and
- PCDs for projects in the Delivery Mechanism and Large Scheme Gated Process.

We then set out the conditions that underpin our PCD design proposals seeking to mitigate the risks above.

Finally, we make specific representations on the outputs, payment rate and time incentive DD proposals for specific PCDs.

The table below maps the PCDs that Ofwat proposed for us at DD against the PCDs we are proposing, a high-level summary of where we accept Ofwat's DD proposals, and where we make alternative representations – marked in purple.

**Table 1: Summary of our PCD representations**

Ofwat PCD proposals		Our response to Ofwat DD proposals				
Name	PCD Ref.	Separate PCD	Proposed conditions	PCD outputs	PCD payment	Time incentives
Mains renewals	PCDB1	Yes	Condition 2 to 4	Only leakage enhancement mains replacements	Efficient delivery rate	We reject time incentives
Water supply	PCDW11a	Portfolio – supply and interconnectors	Condition 1 to 4	WAFU benefit in MI/d with exclusion of some schemes	Flat efficient benchmark unit rate	We reject time incentives
Interconnectors	PCDW11b					
Metering	PCDW12	Yes	Condition 2 to 4	Outputs should measure units installed and replaced and meters connected, not enduring performance.	Efficient benchmark rate per meter unit, excluding IT infrastructure and boundary box costs.	We reject time incentives
Water quality	PCDW13 & PCDW14	Yes	Condition 2 to 4	Schemes delivered, as opposed to grouping schemes into DWI notices (as proposed by Ofwat at DD).	Rate per scheme, as opposed to rate per DWI notice.	n/a
Security SEMD	PCDW17	Yes	Condition 2 to 4	Security deliverables, as opposed to	Rate per security deliverable, as	n/a

Ofwat PCD proposals		Our response to Ofwat DD proposals				
Name	PCD Ref.	Separate PCD	Proposed conditions	PCD outputs	PCD payment	Time incentives
				DWI notices (as proposed by Ofwat at DD). We included a NIS deliverable at DD, given that the NIS costs are now material.	opposed to rate per DWI notice	
Resilience	PCDW16b	Yes –Supply resilience enhancement programme (five sites)	Condition 2 to 4	Percentage of works completed	Rate per % non-completion per site	n/a
Flow monitoring	PCDWW2a	Portfolio – overall wastewater WINEP PCD	Condition 1 to 4	Number of WINEP actions, as opposed to Ofwat’s proposals of a suite of granular deliverables per enhancement area (schemes, PE, number of screens, m3 of storage, ha of wetlands)	Flat unit rate per action, as opposed to Ofwat proposal of a suite of unit rates (per scheme, PE, number of screens, m3 of storage, ha of wetlands)	We reject time incentives
MCERTS	PCDWW3					
Nitrogen Removal	PCDWW9					
Treatment for tightening of sanitary parameters	PCDWW12					
Storm Overflows - scheme level	PCDWW5					
Storm Overflows - Screen Only	PCDWW6					
Storm Overflows – PFF	PCDWW5c					
Storm Overflows – Wetlands	PCDWW5b					
Phosphorus removal	PCDWW10					
Growth at STWs	PCDWW27	Yes	Condition 2 to 4	Schemes delivered as per Ofwat DD proposal	Efficient scheme cost, as per Ofwat proposal	n/a
Industrial Emissions Directive	PCDWW30	Yes	Condition 2 to 4	Completion date of 16 sites is 31 March 2030, as opposed to Ofwat DD proposal of completion by 2024/25.	Rate per percentage point of scheme completion, as opposed to Ofwat DD proposal of specific rate per scheme.	n/a
Sludge Storage (cake pads)	PCDWW24b	Yes	Condition 2 to 4	Surface capacity built as per Ofwat DD proposal, which aligns with our business plan submission.	Ofwat rate failed to account for the full cost of the scheme, which at business plan submission was split between data tables CWW3 and SUP12. Our proposed rate accounts for the full cos of the scheme.	n/a
WINEP Carryover	PCDWW35	Yes	Condition 2 to 4	As per Ofwat DD proposal	As per Ofwat DD proposal	We reject time incentives
PR19 ODI (legacy)	PCDPR19-3	We reject this PCD as it is a duplication of an existing AMP7 non-delivery protection mechanism.				

## Downside risks

We have never sought to work against our customers' interests. Therefore, we do not challenge the basic concept that underspent funds that are no longer needed, should be returned to customers because this is fair. However, we have significant concerns about the regulatory risk that the very complex and novel design of Price Control Deliverables (PCDs) being introduced at a late stage in the PR24 process imply.

At PR24, Ofwat has created three forms of claw backing funds:

- Non-delivery PCDs – involving the clawback of monies for benefits expected from material investment but which are not delivered by the end of PR24.
- Time incentive PCDs – same as non-delivery PCDs with the additional feature that provide for out-performance or under-performance payments for timely delivery against target.
- Delayed Delivery Cashflow Mechanism (DDCM) – is a cash flow mechanism that claws back underspend enhancement allowances when companies are behind in their delivery with allowances being released later if/when the companies catch up on their delivery. Ofwat proposes the mechanism triggers in year 2 (when enhancement spend is less than 50% of enhancement allowance for year 1 and 2) and year 3 (when the cumulative enhancement spend is less than 65% of total enhancement allowance).

We have concerns that PCDs add additional downside risk through the compounded effect of the following eight factors.

### Risk factor 1: RoRE risk

We are concerned that overall, PCDs represent a significant regulatory risk, which is not recognised in the Draft Determination (DD). Based on a calculation of recent all-company fulfilment of enhancement cases from PR19's FD, we can analyse the effect PCDs had they been already in place. When this effect is applied to PCDs proposed for PR24, the effect of these PCDs would be to strip revenue from companies, where funds are ultimately needed to finish projects. This has the effect of increasing the downside risk by 4.21% of RoRE on non-delivery and an additional downside risk of 1% of RoRE on timing incentives for the notional company. For more details, please see SRN-DDR-011 KPMG Industry Risk Analysis (club project).

Strangely Ofwat does not recognise any regulatory risk from PCDs. In essence, Ofwat assumes that fulfilling the enhancement project on time is easy and once applied, PCDs will not be employed. Based on recent history, we cannot agree with this implication.

### Risk factor 2: Project risk and managing complex programmes

The construction industry has learnt about project risk and how risk is increasingly understood and realised along the design and fulfilment stages of projects. Ofwat's approach to cost efficiency does not give any leeway to higher allowances to deal with risk of projects at their early stage, as set at the start of the AMP. The exception is the WINEP investigations where Ofwat allows some upfront allowances for investigating the best solutions to deliver the WINEP outcomes.

When this is combined with the PR24 enhancement plans, which represent the most complex programme of work in recent history, we anticipate that for many companies – as is seen across infrastructure and construction – plans will be proven to be imperfect and the timing and costings of projects will not be able to be fulfilled as currently envisaged. For more details on this point, please see SRN-DDR-003 –Risk and Investability.

More than ever, companies will need the flexibility to manage their programmes effectively, being responsive to opportunities and risk, rather than to be incentivised into a straight jacket by the aspects of the Time Incentive PCD design and DDCM.

### Risk factor 3: Cash flow risk

Both the PCDs and the DDCM require funds to be returned to customers, but the funds can be reclaimed in an end of period true-up on completion of the enhancement. This leaves a potentially significant cash flow gap between the refund and the spending needed to fulfil the project. If many projects are delayed, then this situation could apply to a high proportion of our enhancement programme. Given the limits of financeability, this cash flow risk may limit our ability to deliver delayed projects, which would not be in the customers' interest.

### Risk factor 4: Penalty duplication

We recognise that Ofwat has conducted an assessment of the overlap between ODIs and PCDs and found this overlap to be limited. This would appear to be evidently true because ODIs are an incentive on companies to improve performance (i.e., a financial reward/penalty to encourage a change in behaviour), rather than a compensation for damages (in which case returning the full cost to customers would be fair). In the same way, PCDs both have an incentive component and their main effect – to return the total cost to the customer.

We maintain that PCDs should represent a fair return to customers. However, for enhancements where there is an incentive already from an ODI or a regulatory penalty (from the EA or DWI, for example), there should not be a duplicating incentive from a PCD, such as the punitive impacts of a non-delivery PCD. This does not mean that the ODI has to return the same funds as the PCD to cause the duplication. However, the incentive part of a PCD should not apply where there is already an incentive to deliver.

### Risk factor 5: Bureaucratic costs

We are concerned that Ofwat has not calculated the bureaucratic cost of creating the monitoring regime to support PCDs and that this cost for Ofwat and companies – both of which are ultimately paid by customers – will be significant (and could outstrip the benefit that the mechanisms are supposed to deliver). Further, there is unnecessary bureaucratic cost in returning funds to customers and then asking for it again, just because of a project delay. This cost is unnecessary and not in customers' interests.

### Risk factor 6: Punitive non-delivery

We are very concerned with the punitive element to the Non-delivery PCD, where funds are returned to customers for projects not delivered on time but the mechanism fails to recognise the work completed to date or the complexity of the programme as a whole. This mechanism introduces unwelcome distortions and perverse incentives. If partial benefits are not delivered on the closing day of the AMP, then the PCD is applied-regardless of the actual deadline for the project, which may be into the following AMP. We are concerned that the incentive on the company will be to complete projects that had started and not start new projects, even if the complexity of the programme could imply that the efficient course of action is to start more projects with a slightly delayed delivery.

### Risk factor 7: DDCM is a duplication and should be discontinued

This mechanism is synonymous with PCDs as it returns cash to customers that is unspent. It is therefore confusingly overlapping with non-delivery PCDs. We are not clear whether unspent funds are meant to be returned via the PCD or via DDCM, as enhancements subject to the PCD would suffer the duplications. This means that the DDCM is entirely a bureaucratic exercise which would act to raise company and Ofwat costs, for little benefit.

In addition, we are concerned that the DDCM finally ends the long standing regulatory tradition of incentives, whereby companies can retain underspending against capital projects to incentivise on-time and on-budget delivery. In principle, the DDCM would strip away the financial incentive which is in the form of a project underspend. This mechanism would mean that companies are incentivised not to underspend, with a related loss of value to the customer and to the company. Ending this positive and long standing incentive would damage customer interests in the long term, as ceteris paribus, companies would achieve less projects on time and on budget.

We believe that this is a poorly conceived mechanism that adds little to the customer benefit, adds unnecessary complexity to the framework and damages a positive incentive. We urge Ofwat to remove this mechanism.

### Risk factor 8: Designing PCDs for projects in the Delivery Mechanism and Large Scheme Gated Process

By their nature, gated processes are meant to allow for changes to projects ahead of staged delivery. Therefore, while we can agree that PCDs could ultimately be applied to enhancement projects inside both the Large Scheme Gated Process and the Delivery Mechanism, we cannot say what funding and timing would be finally approved for each project and so cannot define a PCD. More specifically, Ofwat's suggestion that PCDs be applied for projects in the Delivery Mechanism and then subsequently removed if the project is not delivered applies a new financeability risk on the company-that it may face a negative allowance for a project, it never received funds for in the first place. This could cause specific concern in the debt markets, where a previously well understood revenue figure from a price control was taken as a given. We urge Ofwat to change this position and only agree to PCDs alongside agreeing to the projects in the relevant gate.



## Proposed conditions for PCD design

PCDs can successfully fulfil their original purpose. However, the significant risks implied by the components that Ofwat added to PCDs the penultimate stage of the PR24 review add significant risk and we urge Ofwat to change these elements.

We urge Ofwat to return PCDs to their core customer protection purpose of returning funds to customers where projects are never delivered. Funds should not be returned where there is a short-term delay or where the partial benefits are not achieved by the artificial deadline of the end of the AMP; this creates bureaucracy and cash flow risk unnecessarily. Funds should be returned netted off penalties failure to deliver.

Therefore, our proposed PCDs feature the conditions below.

### Condition 1: Portfolio PCDs for larger categories of enhancement spend

The offsetting effect between out- and under-performing projects is removed by PCDs. Previously where one project is delivered on time and under budget and another project is delivered late and over budget, the financial impact would be considered on a net basis before applying sharing rates. PCDs eliminate this diversification benefit.

To mitigate this risk we remain of the view that we should have portfolio PCDs for the larger categories of enhancement spend.

We therefore continue to propose two portfolio PCD for (i) our **wastewater WINEP programme** and (ii) our **water supply and interconnectors programme**.

### Condition 2: No double counting of penalties

Where penalties arise and are paid by Southern Water for a failure to deliver (e.g., from EA fines, DWI fines, or ODI penalties), the financial impact of the PCD should net off the penalties already paid. This is a reasonable position and in customers' interests because it ensures the incentive on the company to deliver remains, but it avoids double penalty for the same fault.

We propose applying Condition 2 to **all our PCDs**.

### Condition 3: timing/scope/design change flexibility

In recognition of the complexity of the programme, should we receive confirmation from a regulator of a necessary change to the timing, scope, design or delivery model of a project, or in fact the change of scheme to address the core issue/ primary driver either results in a change in the benefit delivered or the solution being more expensive, then the PCD would be modified accordingly to account for this change. Where scope/design change leads to a material variance greater than 1% of the original enhancement investment, then the PCD would symmetrically account for this change in a reconciliation at the end of the AMP.

This is a reasonable position and in customers' interests because it allows the company to fulfil the regulators' requests, which are outside the company's control, by changing the programme, while still maintaining the PCD incentive to deliver the project as modified without undue financial exposure.

We propose applying Condition 3 to **all our PCDs**.

#### Condition 4: Assessment date in 2035

In the event of not delivering a PCD by the end of AMP8 (i.e., by 31 March 2030), but where the output is still needed, the current PCD specifications would require us to return allowances to customers and request the allowances again in the PR29 review. This would unnecessarily increase the regulatory burden. To ensure customers have full protection while providing companies with greater flexibility in delivery, the PCD delivery date will remain in place until the end of AMP9 (i.e., 31 March 2035) and the reconciliation timing would shift. Ofwat will assess the completion of the PCDs by 31 March 2035 as part of the PR34 process.

This would include, for example, where a scheme is agreed to be rephased to AMP9 but is already funded in AMP8, where the PCD would need to symmetrically account for the different delivery date.

A number of our regulatory requirements and legal obligations underlying our investment plans in AMP8 have a delivery date beyond the end of AMP8. Having this assessment date in the following price control review lowers the regulatory burden for Ofwat and gives greater flexibility in the decisions of how much allowance would be returned to customers in the event of non-delivery.

We propose applying Condition 4 to **all our PCDs**.

## PCD outputs, payment rates and time incentives

In this section we make specific representations on each PCDs with regards to Ofwat’s DD proposals regarding:

- PCD outputs;
- PCD payment rates; and
- Time incentives.

We also make representations on Ofwat’s proposal for setting PCDs for:

- WINEP carryover; and
- PR19 ODI (legacy).

We address these issues in turn for each PCD that Ofwat proposes for us at Draft Determination.

### PCDB1 – Mains Renewals

**Table 2: PCDB1 – Mains renewals**

PCDB1 – Mains renewals	Our representation
PCD output	Our output is the km of mains renewed through our leakage enhancement programme, which includes 300km of mains renewals. We exclude business as usual renewals that we found through base expenditure from the PCD. This is to retain flexibility to conduct our business as usual mains replacement activity as part of our overall capital maintenance programme.
PCD rate	Efficient delivery unit cost per metre of mains replaced
Delivery profile	We disagree with the flat delivery profile of mains replacement that Ofwat proposes at Ofwat as it implies an unrealistic 20% delivery in year 1. In practice this means that not only Southern Water, but the entire sector and its supply chain needs to gear up for a massive increase in mains replacement (more than 120% above current levels) within 9 months. Instead, we propose a gradual ramp up consistent with our WRMP24.
Time incentive	We reject the time incentive nature of this PCD. It is important that we retain flexibility of delivery throughout the delivery period to be able to benefit from synergies with our pro-active leakage find and fix programme. This will deliver greater benefits to customers in both leakage and asset health without undue financial risk exposure.

### PCDW11a – Water supply and PCDW11b – Interconnectors

In line with our Condition 1 above, we remain of the view that we should have a portfolio PCD covering our expenditure on supply-side improvements and internal interconnectors to deliver water to meet our supply-demand balance in line with our revised draft WRMP24.

**Table 3: PCDW11a – Water supply and PCDW11b – Interconnectors**

PCDW11a – Water supply and PCDW11b – Interconnectors	Our representation
PCD output	Water available for use (WAFU) benefit measured in MI/d from the supply-side improvements and interconnector schemes in CW8 in scope for the PCD. The enhancement SRN-DDR-029 - Water Resources - Supply Enhancement Cost Evidence Case details the schemes excluded from this PCD and the rationale for the exclusion.
PCD rate	We disagree with Ofwat’s approach to set separate unit rates based on the complexity of the scheme. This adds unnecessary complexity and bureaucracy. We remain of the view that a flat efficient unit rate per MI/d of WAFU benefit (after frontier shift and RPEs) is appropriate and proportionate.
Time incentive (applied to PCDW11a – Water supply)	We reject the time incentive nature of this PCD. It is important that we retain flexibility of delivery throughout the delivery period to be able to benefit from synergies with the various interconnector schemes and, indeed, with the water supply schemes more broadly. Also, the level of benefits and timing of these benefits is dependent on other companies which further reinforces the need to retain delivery flexibility.

## PCDW12 – Metering

**Table 4: PCDW12 – Metering**

PCDW12 – Metering	Our representation
PCD output	<p>We agree with Ofwat’s rationale for requiring a PCD related to the delivery of upgraded AMI meters. AMI metering is a significant area of enhancement expenditure and Ofwat need to provide consumer protection to ensure that this enhancement expenditure is being spent on smart AMIs and that consumers are receiving the AMIs and outcomes that they have paid for. We also agree that existing ODIs do not sufficiently protect consumers against the physical delivery of the unit.</p> <p>However, the scope of the PCD has been extended into two components:</p> <ol style="list-style-type: none"> <li>1) the “AMI Meter Upgrade” i.e. the successful confirmation of the upgraded meter following an install using a one month reporting period, and</li> <li>2) the “Read Performance” from that unit for completeness and connectivity on average during the control period.</li> </ol> <p>It is reasonable for the Non-Delivery element of the PCD to cover item (1) the “AMI Upgrade” to ensure funded deliverables are met. However, the PCD should measure delivered units, not enduring performance. It is unreasonable for the Non-Delivery Payment element of the PCD to cover item (2) “Read Performance” as this is governed by Performance Commitment ODIs and would not be deemed failure to deliver the funded improvements.</p>

PCDW12 – Metering	Our representation
	<p>Additionally, the enduring nature of this PCD poses risk where responsibilities are outside the control of water companies (e.g. new buildings or transient issues such as parked cars affect signal for sustained periods).</p> <p>Therefore it &lt;95% completeness and connectivity of meter read data on average across the Control Period should not be deemed failure to deliver the funded improvements.</p>
PCD rate	<p>Efficient benchmark unit cost per meter upgrade and per meter replacement, after frontier shift and RPEs.</p> <p>We remain of the view that IT infrastructure costs and boundary box costs should be excluded from the calculation of the PCD payment rate as these costs need to be incurred regardless of the number of smart meters that are installed. They also need to be incurred ahead of the rollout being completed to provide the capability and functionality needed to deliver the benefits from smart metering.</p>
Time incentive	<p>We reject the time incentive nature of this PCD. It is important that we retain flexibility of delivery throughout the AMP to take advantage of existing and planned communication infrastructure and benefit from nascent innovations in equipment and communication networks (e.g., LoRAWAN and NBIOT communication technologies which have not been given the time to prove they can achieve connectivity at scale at a competitive price).</p>

### PCDW13 & PCDW14 – Water quality (raw water deterioration and taste, odour and colour)

At business plan submission we had proposed the PCD to cover:

- 5 schemes to reduce nitrate concentrations; and
- 13 schemes to enhance disinfection at sites across our region.

At Draft Determination, Ofwat expanded the scope of this PCD by including also:

- Our lead strategy; and
- Study on emerging contaminants.

We agree to include lead strategy and emerging contaminants study in the scope of this PCD. Our updated PCD below reflects this wider scope.

**Table 5: PCDW13 & PCDW14 – Water quality**

PCDW13 & PCDW14 – Water quality	Our representation
PCD output	<p>We accept Ofwat DD proposal to expand the scope of this PCD to include also:</p> <ul style="list-style-type: none"> <li>• Our lead strategy; and</li> <li>• Study on emerging contaminants.</li> </ul> <p>We disagree with Ofwat’s proposal to combine the 13 schemes to enhance disinfection at sites into two DWI notices. This is because the completion of the DWI notice is a combination of several deliverables. We may have</p>

PCDW13 & PCDW14 – Water quality	Our representation
	delivered several but not all and be asked to return all the funds to customers, thereby creating undue financial risk exposure.
PCD rate	<p>We retain our proposal for PCD rates per scheme as follows:</p> <ul style="list-style-type: none"> <li>• Nitrate: average scheme value</li> <li>• Disinfection: average scheme value</li> <li>• Lead: average value per lead pipe replaced</li> <li>• Emerging contaminants study value.</li> </ul>

PCDW17 – SEMD and NIS

[Redacted]

- [Redacted]
  - [Redacted]
  - [Redacted]
  - [Redacted]
  - [Redacted]
- [Redacted]

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[Redacted]	[Redacted]
[Redacted]	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <ul style="list-style-type: none"> <li>■ [Redacted]</li> <li>■ [Redacted]</li> <li>■ [Redacted]</li> </ul>



[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

PCDW16b – Resilience

Table 7: PCDW16b – Resilience

PCDW16b – Resilience	Our representation
PCD output	Percentage of works completed at key milestones, as proposed at business plan and accepted by Ofwat at Draft Determination.
PCD rate	<p>We disagree with Ofwat’s proposed unit rate being equal to the total cost allowance. This would mean that if we failed to deliver just, say, 10% of the programme, we would return the full allowance to customers. We consider this to cause us undue financial risk.</p> <p>We are of the view that we should retain the unit rate per percentage point completion.</p>

PCDWW2a, PCDWW3, PCDWW9, PCDWW12, PCDWW5, PCDWW6, PCDWW5c, PCDWW5b, PCDWW10 – Wastewater WINEP

Following from our reply to your Query SRN-220, below we propose a revised PCD to provide 100% protection in the following wastewater WINEP material areas:

- WINEP Enhancing Waste treatment
- WINEP Storm overflows
- WINEP Monitoring
- WINEP Wider environmental enhancement.



Our proposed wastewater WINEP PCD includes all the schemes in our AMP8 programme, including those considered under the Delivery Mechanism and those proposed through to be delivered Direct Procurement for Customers (DPC).

The details of the PCD are subject to our AMP8 WINEP being finalised.

In line with our Condition 1 – Portfolio PCDs for larger categories of enhancement spend, we remain of the view that we should have a single PCD for the wastewater WINEP programme.

The table below makes representations on the elements of the PCDs related to wastewater WINEP that Ofwat proposed for us at DD.

**Table 8: PCDWW2a, PCDWW3, PCDWW9, PCDWW12, PCDWW5, PCDWW6, PCDWW5c, PCDWW5b, PCDWW10 – Wastewater WINEP**

PCDWW2a, PCDWW3, PCDWW9, PCDWW12, PCDWW5, PCDWW6, PCDWW5c, PCDWW5b, PCDWW10 – Wastewater WINEP	Our representation
PCD output	<p>At DD, Ofwat proposes nine PCDs covering different areas of our wastewater WINEP programme. Ofwat proposes to measure deliverables through a range of outputs, in some cases more than one output per enhancement area, as follows:</p> <ul style="list-style-type: none"> <li>• Flow monitoring: number (nr) of schemes;</li> <li>• MCERTs: nr of schemes;</li> <li>• N-removal: nr of schemes and population equivalent (PE);</li> <li>• Sanitary parameters: nr of schemes and PE;</li> <li>• Storm overflows scheme level (network Grey and network grey/hybrid): m3 equivalent storage/year;</li> <li>• P-removal: PE/year</li> <li>• Screen only: nr of screens</li> <li>• PFF: two rates: nr of schemes and l/s</li> <li>• Wetlands: nr of schemes and ha of wetland delivered</li> </ul> <p>We disagree with this level of granularity for measuring outputs of our wastewater WINEP. This adds unnecessary complexity and bureaucracy with no additional benefit to customers. It also limits delivery flexibility to adjust to changes in scope design. This approach also limits our ability to embrace innovative solutions as they became available.</p> <p>We remain of the view that the same benefit to customers is accomplished with a simpler PCD output measured as the number of WINEP actions, as reported in table ADD15 (wastewater only).</p>
PCD rate	<p>Ofwat proposes a suite of unit rates to match the range of deliverables, as follows:</p> <ul style="list-style-type: none"> <li>• Flow monitoring: £m/nr of schemes;</li> <li>• MCERTs: £m/ nr of schemes;</li> <li>• N-removal: two rates, £m/nr of schemes and £m / PE;</li> <li>• Sanitary parameters: two rates, £m/scheme and £m/PE;</li> </ul>



PCDWW2a, PCDWW3, PCDWW9, PCDWW12, PCDWW5, PCDWW6, PCDWW5c, PCDWW5b, PCDWW10 – Wastewater WINEP	Our representation
	<ul style="list-style-type: none"> <li>Storm overflows scheme level (network Grey and network grey/hybrid): £/m<sup>3</sup> equivalent storage/year;</li> <li>P-removal: £/PE/year</li> <li>Screen only: £m/nr of screens</li> <li>PFF: two rates: £m/nr of schemes and £m/l/s (value to be confirmed)</li> <li>Wetlands: two rates: £m/nr of schemes and £m/ ha of wetland delivered.</li> </ul> <p>We remain of the view that our proposed flat unit rate per action is simpler, easier to monitor, delivers the same level of protection to customers, retains delivery flexibility and incentivises the adoption of innovative solutions as they become available.</p>
Time incentive	<p>Ofwat proposes the storm overflows scheme level PCD and the P-removal PCD to be a time-incentive PCD.</p> <p>We reject the time incentive feature of PCDs. It is important that we retain flexibility of delivery throughout the delivery period to be able to benefit from innovations which may lead to best value solutions to meet the same WINEP requirements.</p>

## PCDWW27 – Growth at STWs

**Table 9: PCDWW27 – Growth at STWs**

PCDWW27 – Growth at STWs	Our representation
PCD output	We agree with Ofwat that the output of this PCD is the number of schemes delivered.
PCD rate	We agree with Ofwat PCD rates per scheme which are based on the efficient scheme cost after frontier shift and RPEs.

## PCDWW30 – Industrial Emissions Directive

**Table 10: PCDWW30 – Industrial Emissions Directive**

PCDWW30 – IED	Our representation
PCD output	<p>Ofwat has set a scheme specific PCD based on the number of sites completed, which aligns with our proposed PCD at business plan submission.</p> <p>However, we fundamentally disagree with Ofwat’s timescale proposal to get our 16 sites compliant with IED requirements by 2024/2025.</p>

PCDWW30 – IED	Our representation
	<p>With funding only made available from the beginning of AMP8 (2025/2026), the work will be completed by the end of AMP8.</p> <p>Our current understanding is that our sites will be deemed as “Compliant” by the EA if we can demonstrate best-endeavours to achieve compliance by 31st of March 2025. Improvement conditions will be attached to our permits with a clear timeline to be agreed with the EA, we anticipate for the completion deadline to be within AMP8</p>
PCD rate	<p>We remain of the view that the PCD rate should be set per percentage point of scheme completion, as opposed to a specific rate per scheme, as proposed by Ofwat at DD. This is because the scheme may be completed to a certain degree, with corresponding benefits being delivered to customers. In these cases, we should only return to customers the proportion of the scheme that is not delivered to ensure undue financial risk.</p>

### PCDWW24b – Sludge storage (cake pads)

**Table 11: PCDWW24b – Sludge storage (cake pads)**

PCDWW24b – Sludge storage (cake pads)	Our representation
PCD output	<p>Ofwat has set the total m<sup>2</sup> of sludge storage built as the output of this PCD, which aligns with our proposed PCD at business plan submission.</p>
PCD rate	<p>Ofwat has set a unit rate per m<sup>2</sup> of sludge storage delivered, which aligns with our proposal at business plan submission.</p> <p>However, Ofwat calculated the unit rate using only the business plan costs in the CWW3 table and did not take into account the costs we included in SUP12 table.</p> <p>We are proposing to include the full cost in CWW3data table and, therefore, have proposed at unit rate that includes the full cost of the scheme.</p>

### PCDWW35 – WINEP Carryover

**Table 12: PCDWW35 – WINEP Carryover**

PCDWW35 – WINEP Carryover	Our representation
PCD output	<p>We agree with Ofwat that the output of this PCD is scheme delivery as detailed in the PR24CA117 WINEP and GER Carryover PCDs.xlsx</p>
Condition on allowance	<p>Should we receive confirmation from a regulator of a necessary change to the timing or scope of a scheme, or in fact the change of scheme design to address the core issue being it, either change in the benefit delivered or the solution being more expensive, the implication of this change would be</p>

PCDWW35 – WINEP Carryover	Our representation
	reflected in the PCD. Where this change leads to a material variance greater than 1% of the original enhancement investment, then the PCD would symmetrically account for this change in a reconciliation at the end of the AMP.
Assessment of PCD	In the event of not delivering the output by the end of AMP8 (i.e., by 31 March 2030), but the need is still required, this PCD remains in place until the end of AMP9 (i.e., 31 March 2035). Ofwat will assess the completion of this PCD by 31 March 2035 as part of the PR34 process.
Time incentive (applied to PCDW11a – Water supply)	We reject the time incentive nature of this PCD. It is important that we retain flexibility of delivery throughout the delivery period to be able to benefit from synergies across the WINEP programme.
Measurement	Performance reported in APR
ODIs to be netted off in the event of non-delivery	N/A
Assurance	Third party assurer will assure conditions have been met

### PCDPR19-3 – PR19 ODI (legacy)

We are proposing not to continue this PCD. This PCD relates specifically to the PR19 Long Term Supply Demand Schemes metric PR19SRN\_WN13 performance commitment, for which we are already receiving a non-delivery penalty in AMP7. A PCD for these specific schemes means that we are potentially doubly penalised for delay or non-delivery without the benefit of additional funding for the schemes.

The output of these schemes is already included in the WAFU metric and in line with our Condition 1 above, we remain of the view that we should have a single portfolio PCD covering our expenditure on supply-side improvements and internal interconnectors to deliver water to meet our supply-demand balance in line with our revised draft WRMP24.

In addition to this, there may be potential changes to the schemes included in WRMP24 during its consultation phase, meaning that an additional PCD for these specific schemes removes flexibility from our WRMP planning and may result in the blanket prioritisation of these schemes regardless of merit, which is not in our customers interest.

In the Jacobs report shared with Ofwat as per the requirements of the PR19 Performance Commitment, the schemes at Ford and Aylesford were both shown as being delivered in line with WRMP24 in June of 2031, meaning even as planned delivery would result in a penalty. In addition, both the Aylesford and Sandown scheme require land acquisition, meaning these schemes may not be deliverable due to circumstances outside of Southern Water’s control. This also applies to the Southampton Link Main scheme, which forms the bulk of the internal interconnections volume to be delivered and where the sensitivity of the location for the works may require the scheme to be referred to the Secretary of State, meaning this could result in an 18-month delay to the programme. Both this and the Andover link main scheme, which forms the remainder of the 98Ml/d, have flagged a key risk as archaeological surveys flagging concerns with potential consequences for rerouting and subsequent further delay, again outside of Southern Waters control.

The Jacobs report also confirmed that the maximum benefit to be delivered by 31<sup>st</sup> March 2027 is 120.3MI/d in relation to these specific schemes and on the basis of this and the above we are rejecting this PCD, as it is a duplication of the PR19 metric and other PCDs in place which give better levels of customer protection.

**Table 13: PC DPR19-3 – PR19 ODI (legacy)**

PC DPR19-3 – PR19 ODI (legacy)	Our representation
PCD deliverable	<p>This price control deliverable (PCD) incentivises the company to ensure that the region has sufficient treated water supplies in the future. This PCD specifically applies to schemes named in the PR19SRN_WN13 Long-term supply demand schemes performance commitment from the 2020-25 period.</p> <p>The capacity benefit (MI/d) target represents the total of the stated average capacities for the individual schemes, both treatment and transfer, identified by the company within the business plan and the revised draft WRMP19.</p> <p>We are not continuing this PCD.</p>

## Business Plan Dependencies

This document supports the Customer Protection section of our DD representations on the following enhancement cases:

SRN-DDR-028	Supply Resilience Enhancement Programme Cost Evidence Case
SRN-DDR-029	Water Resources - Supply Enhancement Cost Evidence Case
SRN-DDR-030	Water Resources - Demand (Leakage) Enhancement Cost Evidence Case
SRN-DDR-032	Water Resources - Smart Metering Enhancement Cost Evidence Case
SRN-DDR-034	Water for life Hampshire Transition Funding Business Case for Land Purchase
SRN-DDR-035	Raw Water Deterioration Enhancement Cost Evidence Case
SRN-DDR-036	Lead Enhancement Cost Evidence Case
SRN-DDR-039	Strategic Water Resilience Enhancement Cost Evidence Case
SRN-DDR-040	Network and Information Systems (NIS) Enhancement Cost Evidence Case
SRN-DDR-041	Security and Emergency Measures Direction (SEMD) Enhancement Cost Evidence Case
SRN-DDR-042	Industrial Emissions Directive (IED) Enhancement Cost Evidence Case
SRN-DDR-043	WINEP - Nutrients Phosphorus (P) and Nitrogen (N) Schemes Enhancement Cost Evidence Case
SRN-DDR-044	WINEP - Storm Overflows Enhancement Cost Evidence Case
SRN-DDR-045	WINEP - Monitoring Enhancement Cost Evidence Case
SRN-DDR-046	WINEP - Wastewater Treatment Growth Enhancement Cost Evidence Case
SRN-DDR-050	WINEP - Bioresources Cake Storage Enhancement Cost Evidence Case