



## **OUTCOME DELIVERY INCENTIVES 2015-20**

## Background

An important development of this Price Review has been the development of Outcome Delivery Incentives (ODIs).

These have been established as a result of comprehensive research with our customers and developed with our Customer Challenge Group, which represents a number of customers, stakeholders and regulators.

Our ODIs are the measures by which we will demonstrate how we are performing to deliver the six outcomes customers expect of us as a company and our Business Plan is built upon.

Our outcomes are:-

- Delivering safe and reliable drinking water
- Less water lost through leakage
- Delivering a high quality service
- Improve our environment by supporting biodiversity initiatives
- Look after our people by installing a positive health and safety culture
- Supporting the community

In total we have 13 ODIs. There are 10 relating to the performance of our wholesale business and 3 relating to retail business.

Each ODI commitment builds on the current level of service our customers receive. There are financial incentives for 9 of our ODIs. This means that where the Company significantly either out performs or underperforms against our commitment, the Company is able to receive a reward or penalty at the start of the next review period, in 2020.

Specifically a reward will mean that customers' bills are slightly higher than otherwise they would have been because the customer has received a higher level of service over the period. Conversely, a penalty will be applied and customers will have lower bills as a result.

There are 4 ODIs where financial incentives will not apply. These are issues which reflect on our reputation as a water supplier and we believe are important components of the overall service we provide to customers.

Our performance against each of these commitments will be monitored by our Customer Challenge Group and reported to Ofwat, the industry regulator, on an annual basis.

The remainder of this document provides detail of each of our 13 ODIs.

If you wish to obtain any more detail on this issue please contact Steve Morley, Regulation Manager at the following email address:- [s.morley@portsmouthwater.co.uk](mailto:s.morley@portsmouthwater.co.uk)

# Wholesale water outcome Safe, secure and reliable drinking water

## Performance commitment A1: Bursts

**Detailed definition of performance measure:** Burst on the network are a measure of serviceability. The definition is that provided by Ofwat BP3121

**Incentive type:** Financial – reward and penalty only

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	No.	342	342	342	342	342	342
Penalty collar	No.		600	600	600	600	600
Penalty deadband	No.		435	435	435	435	435
Reward deadband	No.		250	250	250	250	250
Reward collar	No.		100	100	100	100	100

### Incentive rates

Incentive type	Incentive rate (£/burst)
Penalty	£4,457
Reward	£1,642

### Additional details

Necessary detail on measurement units	Bursts:- The definition is that provided by Ofwat BP3121
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Commitment is to achieve the PC on <b>average</b> over the period. The incentive rate in the table is applied to average performance (it is not the yea)
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	None

## Performance commitment A2: Water Quality Standards

**Detailed definition of performance measure:** Water quality standards as measured by mean zonal compliance. This is the average of the compliance rates (at a zonal level) for the 39 parameters tested and reported to the Drinking Water Inspectorate to demonstrate compliance.

**Incentive type:** Financial – penalty only

### Performance commitments

	Unit	Starting level	Committed performance levels				
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	%	99.98	99.98	99.98	100	100	100
Penalty collar			n/a	n/a	n/a	n/a	n/a
Penalty deadband	%		99.95	99.95	99.95	99.95	99.95

### Incentive rates

Incentive type	Incentive rate (£)
Penalty	£319,420

### Additional details

Necessary detail on measurement units	The unit is percentage compliance with standards on a calendar year basis.
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Penalties will apply for any year that performance drops below the penalty deadband.
Timing and frequency of rewards/penalties	Penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in AMP7
Any other information or clarifications relevant to correct application of incentive	None

## Performance commitment A3: Water Quality Contacts

**Detailed definition of performance measure:** A measure of customer contact for taste, odour, discoloration and illness calculated as the number of contacts per 1,000 population measured on a calendar year basis. This is reported annual to the Drinking Water Inspectorate.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Commitment	Nr / 1000 pop	0.434	0.429	0.425	0.421	0.417	0.413
Penalty collar	Nr / 1000 pop		0.505	0.505	0.505	0.505	0.505
Penalty deadband	Nr / 1000 pop		0.429	0.425	0.421	0.417	0.413
Reward deadband	Nr / 1000 pop		0.429	0.425	0.421	0.417	0.413
Reward cap	Nr / 1000 pop		0.337	0.337	0.337	0.337	0.337

### Incentive rates

Incentive type	Incentive rate (£ / 0.01 contacts per 1,000 population)
Penalty	£226,550
Reward	£58,855

### Additional details

Necessary detail on measurement units	The number of customers contacting the Company relating to the taste, odour discoloration and illness on a calendar year basis.
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Commitment is to achieve the PC on <b>average</b> over the period. The incentive rate in the table is applied to average performance (it is not the yea)
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other Information or clarifications relevant to correct application of incentive	None

## Performance commitment A4: Temporary Usage Bans

**Detailed definition of performance measure:** Introduction of water restrictions in the period in accordance with our approved drought plan.

**Incentive type:** Reputational.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	No. / year	0	0	0	0	0	0

### Additional details

Necessary detail on measurement units	The number of water restrictions in place on customers in the report year. 'Water restriction' refers to any application of use or availability restrictions as per the Portsmouth Water Drought Plan.
Frequency of PC measurement and any use of averaging	Performance commitment measured and reported at the end of each financial year
Any other information or clarifications relevant to correct application of incentive	None

# Wholesale water outcome: Less Water lost through leakage

## Performance commitment B1: Leakage

**Detailed definition of performance measure:** The total level of leakage, including customer supply pipe leakage, as measured on an average MI/d basis; this is as defined by Ofwat – Reference BN2345

**Incentive type:** Financial – reward and penalty.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	MI/d	30.0	30.00	29.95	29.90	29.85	29.80
Penalty collar	MI/d		33.30	33.25	33.20	33.15	33.10
Penalty deadband	MI/d		30.00	29.95	29.90	29.85	29.80
Reward deadband	MI/d		30.00	29.95	29.90	29.85	29.80
Reward cap	MI/d		17.00	17.00	17.00	17.00	17.00

### Incentive rates

Incentive type	Incentive rate (£/MI/d)
Penalty	871,210
Reward	61,060

### Additional details

Necessary detail on measurement units	Leakage as measured on an average MI/d basis; this is as defined by Ofwat – Reference BN2345
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Commitment is to achieve the PC on <b>average</b> over the period. The incentive rate in the table is applied to average performance (it is not the year)
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	None

# Wholesale water outcome: High Quality Service

## Performance commitment C1: Interruptions to supply

**Detailed definition of performance measure:** Average time of supply interruption per property within the Portsmouth supply area (includes both planned and unplanned interruptions) as defined for the Ofwat KPI in IN13/03.

**Incentive type:** Financial – reward and penalty.

### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	Min	5 min 0s	5 m 0s	5 m 0s	5 m 0s	5 m 0s	5 m 0s
Penalty collar	Min		8 m 0 s	8 m 0 s	8 m 0 s	8 m 0 s	8 m 0 s
Penalty deadband	Min		6 m 0 s	6 m 0 s	6 m 0 s	6 m 0 s	6 m 0 s
Reward deadband	Min		5 m 0 s	5 m 0 s	5 m 0 s	5 m 0 s	5 m 0 s
Reward cap	Min		n/a	n/a	n/a	n/a	n/a

### Incentive rates

Incentive type	Incentive rate (£/minute)
Penalty	£418,660
Reward	£60,435

### Additional details

Necessary detail on measurement units	Average time of supply interruption per property within the Portsmouth supply area (includes both planned and unplanned interruptions) as defined for the Ofwat KPI in IN13/03.
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Commitment is to achieve the PC on <b>average</b> over the period. The incentive rate in the table is applied to average performance (it is not the year)
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	The incentive rate is set out as £/minute. However the size of the incentive will be determined to the second and the relevant proportion of the incentive will apply.

## Wholesale water outcome: An improved Environment supporting biodiversity ...

### Performance commitment D1: Biodiversity

**Detailed definition of performance measure:** The Company will agree its Biodiversity Action Plan with the relevant stakeholders including its Customer Challenge Group (CCG) and incur a penalty if it does not complete 90% of the agreed actions.

**Incentive type:** Financial – penalty only.

#### Performance commitments

	Unit	Starting level	Committed performance levels				
			2014-15	2015-16	2016-17	2017-18	2018-19
Performance Commitment	%	n/a	0	20	50	75	90
Penalty collar							0
Penalty deadband							90

#### Incentive rates

Incentive type	Incentive rate (£ / 10%)
Penalty	£44,095

#### Additional details

Necessary detail on measurement units	The measurement is against the agreed plan.
Frequency of PC measurement and any use of averaging	Performance will be measured annually. Commitment is to achieve 90% of the agreed plan by the end of the AMP period.
Timing and frequency of rewards/penalties	Penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	None

## Wholesale water outcome: An improved Environment supporting biodiversity ...

### Performance commitment D2: Water Framework Directive

**Detailed definition of performance measure:** Obligations under Water Framework Directive are required to be complete by 2021. The Company commits to deliver by 2017/18, with a penalty for later deliver and a reward for earlier delivery.

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment					Target Date		
Penalty collar							Delivered
Penalty deadband							
Reward deadband							
Reward cap			Delivered				

#### Incentive rates

Incentive type	Incentive rate (£ / annum)
Penalty	£9,838 per year later than PC
Reward	£7,152 per year earlier than PC

#### Additional details

Necessary detail on measurement units	Completion of the programme, signed off by EA
Frequency of PC measurement and any use of averaging	At the point of project completion, or the end of the AMP period, whichever is the sooner
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	None

## Wholesale water outcome: An improved Environment supporting biodiversity ...

### Performance commitment D3: Carbon

**Detailed definition of performance measure:** The Company will increase the amount of electricity it uses from renewable sources by 10% by the end of the period

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	% increase		2	4	6	8	10

#### Additional details

Necessary detail on measurement units	The Company will report on its performance annually
Frequency of PC measurement and any use of averaging	Performance commitment measured and reported at the end of each financial year
Any other information or clarifications relevant to correct application of incentive	None
Any other information or clarifications relevant to correct application of incentive	None

## Wholesale water outcome: Health & Safety culture...

### Performance commitment E1: RoSPA

**Detailed definition of performance measure:** The Company will apply for its Health & Safety accreditation annually.

**Incentive type:** Reputational.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment		awarded	awarded	awarded	awarded	awarded	awarded

#### Additional details

Necessary detail on measurement units	Outcome of the RoSPA assessment
Frequency of PC measurement and any use of averaging	Performance commitment measured and reported at the end of each financial year
Any other information or clarifications relevant to correct application of incentive	None

## Retail outcome: High Quality Service:

### Performance commitment A1: Service Incentive Mechanism

**Detailed definition of performance measure:** SIM score as defined in Ofwat's SIM guidance and updated in IN13/03

**Incentive type:** Financial – reward and penalty.

#### Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	Industry score	Upper quartile	Upper Quartile				
Penalty collar			OFWAT Methodology				
Penalty deadband			OFWAT Methodology				
Reward deadband			OFWAT Methodology				
Reward cap			OFWAT Methodology				

#### Incentive rates

Incentive type	Performance levels		Incentive rate
	Lower	Upper	
Penalty			OFWAT Methodology
Reward			OFWAT Methodology

#### Additional details

Necessary detail on measurement units	All Companies report and Ofwat publish an annual industry SIM score
Frequency of PC measurement and any use of averaging	Performance will be measured annually through the Risk & Compliance Statement.
Timing and frequency of rewards/penalties	Rewards and penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in 2020-2025
Any other information or clarifications relevant to correct application of incentive	None

## Retail outcome: An improved Environment supporting biodiversity ...

### Performance commitment B1: Reducing per capita consumption

**Detailed definition of performance measure:** The Company will report its weighted average household per capita consumption annually. Definitions will be as per Ofwat guidance in the water balance, Table 10. Weightings will relate to the measured and unmeasured property counts

Incentive type: Financial – penalty - only applying only at year 5.

#### Performance commitments

	Unit	Starting level	Committed performance levels				
			2014-15	2015-16	2016-17	2017-18	2018-19
PC	l/h/d	147.29	146.63	145.96	145.29	144.61	143.93
Penalty collar	l/h/d						148
Penalty deadband							

#### Incentive rates

Incentive type	Incentive rate (£ / l/h/d)
Penalty	£81,244

#### Additional details

Necessary detail on measurement units	The measurement is against the agreed PC target by year 5.
Frequency of PC measurement and any use of averaging	Performance will be measured annually but the incentive will be determined based on performance in 2019/20 only
Timing and frequency of rewards/penalties	Penalties will apply at the end of the period
Form of reward/penalty	Adjustment to revenue in AMP7
Any other information or clarifications relevant to correct application of incentive	None

## Retail outcome: Supporting the Community

### Performance commitment C1: Survey of Developers

**Detailed definition of performance measure:** The Company will develop a satisfaction survey relating to the service delivered to Developers

Incentive type: Reputational.

## Performance commitments

		Starting level	Committed performance levels				
	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Performance Commitment	survey	-	70%	70%	70%	70%	70%

## Additional details

Necessary detail on measurement units	Survey to be established and agreed with stakeholders (including CCG) in Q4 2014/15
Frequency of PC measurement and any use of averaging	Performance commitment measured and reported at the end of each financial year
Any other information or clarifications relevant to correct application of incentive	None