

Introducing Effective Supervisory Regulation

Fast Track Squared for Portsmouth Water



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Foreword from Portsmouth Water

Portsmouth Water provides water supply services to more than 300,000 customers across West Sussex and Hampshire. We have a long history stretching back more than 150 years and are proud to be a company that is rooted in our local communities. We are the smallest of the major companies regulated by Ofwat but our performance across a range of measures is the best in the sector.

The current framework of economic regulation of the sector is a one-size-fits-all approach, which fails to take account of the differences between companies in the sector, in terms of size, performance and risks. This approach has resulted in sustained underperformance for some companies and a lack of investment in key areas.

It is time for a reset, and we welcome the proposals set out in the report by the Independent Water Commission and largely endorsed in the government's recent White Paper. These include proposals for a regulatory framework that better reflects the differences between companies and the risks they present. A shift in approach from a data-driven, desktop approach to an on-the-ground supervisory regulatory model is proposed as part of this. This new supervisory model will complement the existing comparative benchmarking.

We strongly support this change in approach, which has the potential to deliver a more effective regulatory model, that rewards companies that are performing well, supports companies to improve and better reflects the huge diversity between companies in the sector. There is, however, a risk that the new approach is simply bolted on to the current regime and, in the words of Dieter Helm, adds "yet another layer of regulation".

To address that risk, as a contribution to the public debate, we asked Frank Grimshaw¹ of Fast Track Squared to think about how supervisory regulation could be introduced in a way that is most effective, and how other aspects of the regulatory regime should evolve to ensure that the overall regulatory burden is not increased.

The report sets out:

- The potential benefits and risks of a shift to supervisory regulation and provides a set of criteria against which proposals can be evaluated.
- Clear recommendations on how to determine the appropriate intensity of supervision. It proposes considering separately the categories of Operational Performance, Asset Maintenance, Expenditure and Financial Resilience, across three dimensions: current performance, delivery against plans, and future plans.
- A clear set of proposals for elements of the current framework that can be simplified or removed as a result of the shift to supervisory model.

As the report shows, if implemented in the right way supervisory regulation will result in better outcomes for customers and the environment, improvements in efficiency and financial resilience and a fair return for shareholders. To secure these outcomes, and avoid the risk highlighted by Dieter Helm, it will be important that we monitor and measure the success of the supervisory model.

¹ Frank Grimshaw is a director of Fast Tracked Squared. He is an experienced regulatory economist with a proven successful track record, including defining Severn Trent Water's ODI suite for PR14 and playing a leading role in United Utilities PR19 Plan (achieved fast track status from Ofwat).

We would suggest three key measures of success:

- (i) A measurable increase in customer and stakeholder trust in the sector, and an improvement in relationships between the regulator and regulated companies. We would suggest a tracker survey is established to measure delivery against this objective.
- (ii) No increase in the overall cost of regulation for either the regulator or regulated companies - with a reduction in regulatory burden for the best performing companies, and a concomitant greater focus on those who require support to improve. This should be tracked based on the regulator budget and company regulatory costs reported in the Annual Performance Report.
- (iii) Better regulatory decision-making that reflects the diversity of company and regional circumstances, with determinations that deliver the outcomes that customers want and which represent a “fair bet” for shareholders. Fewer regulatory appeals and a narrow range of shareholder returns around the allowed cost of equity would demonstrate this.

Our aim in commissioning this report is for it to be a useful addition to the debate on regulatory reform and we very much welcome others’ thoughts on its contents, including on our proposed measures of success for the new supervisory model.

Chris Milner
Chief Financial Officer

January 2026

1 Introduction

The Independent Water Commission was established by the UK and Welsh governments in October 2024 to provide recommendations for a fundamental ‘reset’ of the water sector. As part of its proposals for regulatory reform, the final report² recommended the introduction of a company-specific supervisory function. This would be in addition to the current industry-wide, comparative benchmarking approach.

The Government’s Water White Paper, published in January 2025³, endorsed this approach, and said: “We will require and support the new regulator to adopt a supervisory approach”,

The Commission’s report recommended that the new regulator should consult publicly on its approach. Aspects to be consulted on included:

- The purpose of supervision.
- How it expects to supervise including how it uses information that it gathers.
- Its guiding principles – including principles for engaging with companies and what it expects from companies
- How its Board oversees the supervisory approach and its performance, including in relation to its efficiency and the ‘burden’ it places on companies.

The Government’s White Paper emphasised the need for the industry to work together to develop the new arrangements.

This report is a contribution to the sector debate, considering, in particular, the issues of:

- The purpose, objectives, principles and operation of a supervisory regulatory regime (Sections 3 and 4 of this report).
- How the supervisory approach should interact with the existing regulatory regime, in a way that is proportionate, risk-based, encourages efficiency and effective delivery, and does not lead to an increase in the overall regulatory burden (Sections 5 to 9 of this report).

2 The recommendations on supervisory regulation

Unlike models that rely mainly on comparing companies against each other, a supervisory approach involves a deeper understanding of each company’s specific circumstances and finances to enable early intervention and support.

Supervisory teams would engage with companies on the main aspects of their regulated business – treatment of consumers, financial and environmental performance, and infrastructure quality and delivery. Teams with appropriate skills and experience would decide what, if any, interventions are needed. For example, if there are signs of performance deterioration, the supervisory team could challenge the company to take remedial action. If the supervisor considers that a company’s financial position is too risky, it could direct the company to make its financing more sustainable.

² Independent Water Commission - Final Report, 21 July 2025

³ UK Government, “A New Vision for Water”, January 2026

3 Potential benefits of supervisory regulation

The Commission’s report concluded that “Ofwat has relied too heavily on a data-driven, econometric approach, and has not taken sufficient account of company-specific conditions and challenges” and that it “has not provided sufficient oversight of water companies’ delivery of infrastructure, management of their finances, or the health of the sector’s infrastructure”. It recommended a supervisory approach to address these shortcomings.

A more company-specific approach through a supervisory regulation approach would move away from treating all companies the same. It would enable regulatory resources to be focused on companies where the risk is greatest, in terms of costs, service delivery, or financing. For companies where there is good performance, less intense regulatory scrutiny would reduce costs.

The new approach could bring benefits in terms of:

- Removing the risk of underfunding for companies disadvantaged by the limitations of the cost modelling approach used by Ofwat at price reviews.
- Avoiding setting unachievable performance targets, which has led to poor financial performance and could cause financial distress.
- Earlier identification of operational issues, supporting companies to improve performance rather than just imposing penalties.
- Ensuring that companies maintain financial resilience.
- Moving away from a backward-looking approach to asset maintenance, to ensure that asset health reaches a sustainable level.
- Moving away from an adversarial relationship between regulator and companies to a cooperative approach to improving performance.
- Rebuilding customer trust in companies, as it will be clearer that action is being taken if companies are not delivering.

These potential benefits were identified in the Commission’s report, and Oxera’s report for Water UK⁴. We support the introduction of a supervisory regulation approach in order to deliver these benefits. There are, however, potential risks and costs associated with supervisory regulation, which we consider in the following section.

4 Risks of the supervisory regulation approach

The Commission proposed the introduction of a company-specific supervisory function to sit alongside and to inform the econometric, industry-wide benchmarking approach.

The report said:

“A supervisory approach should be used to inform Price Reviews and performance target setting, with the econometric benchmarked outputs balanced with company-specific and expert supervisory judgement. The regulator should aim to give broadly equal weight in its judgments to the evidence and information it has gained through the supervisory engagement with firms and from objective econometric modelling”.

Dieter Helm referred to this approach in a recent paper:

“What [the Commission] proposes is to layer on top of the periodic review yet another layer of

⁴ A new approach to performance and supervision in the England and Wales water sector, Report prepared for Water UK, Oxera, 23 April 2025

regulation. It wants a supervisory model borrowed from banking regulation on top of the periodic reviews. Make no mistake. The Commission wants more regulation”⁵

We do not agree that this is an inevitable result of introducing supervisory regulation. As noted in Section 5 below, it was not the Commission’s intention, and they proposed measures to avoid this consequence. It will, however, be the consequence if supervisory regulation is merely introduced as an addition to the regulatory framework rather than being part of an overall reform.

In addition to the supervisory approach, the Commission report proposes other changes which will add to regulatory requirements. This includes proposals for:

- Strengthened oversight of infrastructure and operational resilience, including a standardised asset condition survey.
- Ring-fencing base capital expenditure, base operational expenditure and enhancement capital expenditure allowances.

These new approaches have been endorsed in the Government’s White Paper. If the new supervisory approach, together with the new requirements on asset maintenance, lead to an overall increase in regulatory requirements, there are a number of implications:

- Use of company-specific supervisory teams would require employment of large numbers of skilled staff. The Commission’s report noted that “the regulator would need to develop strong, high calibre engineering and financial expertise to provide oversight of the infrastructure and funding sides of companies”. This would add significantly to regulatory costs. Oxera noted that “use of company-specific supervisory teams would be expensive given the need to employ large numbers of staff with the right skills to properly oversee and challenge 16 different companies”.
- Companies would also require extra resources to engage with supervisory staff and provide additional information.
- Supervision would be likely to divert senior management time – if a company is already efficient and delivering good service then this could be put at risk.
- As noted in the Oxera report, “Micromanagement is a particular risk of supervision given the close working between the assessor and the company. There would be a need to ensure that the assessors operated under appropriate checks and balances and individual incentives to avoid excessive scrutiny or improper interventions in company decisions”.
- There is a risk that the supervisor becomes a decision-maker, clouding accountability and blurring regulator / regulated company lines. It is important that accountability remains clear. The Commission report noted this risk and said that “The regulator should make clear that compliance with the law, and Appointment licence conditions is the responsibility of the company, not the supervisor”.
- Adding more layers of complexity would make it even more difficult for those not closely involved in the industry to understand the regulatory framework and its decisions. Investors in the industry are already baffled by the complexity, such as the different price limits for different parts of the business, each with its own differing rules, e.g. on cost sharing and setting returns. The National Audit Office referred to the price review process as being “complex and difficult for investors to understand”⁶, and referred to the thirteen different cost-sharing mechanisms.

⁵Water after the Cunliffe Commission, Dieter Helm, September 2025

⁶Regulating for investment and outcomes in the water sector, National Audit Office, April 2025

5 The Commission’s approach to ensuring proportionate supervision and burden on time

The Commission’s report noted the potential increase in regulatory costs, and put forward approaches to mitigate this.

The report stated that:

“The Commission considers there is scope for significant efficiency gains in the data requirements that Ofwat places on firms. It is expected that supervisory engagement reduces the regulator’s need for certain types of data at certain firms, if it already has a clear picture”.

The report stated that the regulator should operate efficiently and have regard to the burden on firms. It also advocated a proportionate approach:

“Where the supervisor has confidence in the company’s compliance and ability to deliver, its supervisory cadence would – again in line with its approach – shift to reflect this. The supervisory team’s view of the company would balance any econometric modelling in an integrated Price Review process, reducing the need for extensive data requests, assessment, and validation in that process”.

The report also referred to the National Audit Office having highlighted the need to simplify price review methodology. The NAO said:

“Before the development of PR29 methodology, Ofwat should consider whether it can act to simplify the price review methodology. This should include evaluating the impact of outcome incentives on company performance, the impact of cost benchmarking on company behaviours and financial resilience, and the impact of price control deliverables on performance”.

Assessment of the development of the regulatory framework should be assessed against whether it achieves the following objectives:

- Incentivising efficiency.
- Incentivising delivery of the right outcomes for customers and the environment.
- Ensuring efficient companies can achieve an adequate return.
- Ensuring assets are maintained in an appropriate state for future service delivery.
- Ensuring companies maintain financial resilience.
- Avoiding excessive regulatory costs.

The following section sets out measures to implement the Commission’s objective of ensuring proportionate regulation. We consider that these measures should be implemented at the same time as supervisory regulation, in order to avoid the potential downsides of introducing supervisory regulation.

6 Ensuring an efficient approach to supervisory regulation

Measures to deliver an efficient approach and minimise any overall increase in regulatory costs can be categorised as:

- a) Implementing supervisory regulation in an efficient and effective manner, e.g. adopting a light touch where there is no evidence of operational or financial issues (Section 7).
- b) Reducing existing regulation where introduction of supervisory regulation means that some aspects of the current framework can be scaled back (Section 8).
- c) Taking opportunities to improve other aspects of regulation, not directly related to the introduction of supervisory regulation (Section 9).

7 Implementing supervisory regulation in an efficient and effective manner

The Commission's report set out how to avoid an excessive regulatory burden:

"The supervisory approach should be forward-looking, judgement-based and proportionate, based on company circumstances and risks. The nature and volume of engagement would be flexible according to risk, such that the level of intensity of engagement and information flow with individual companies is proportionate to the risks they face and the risks they present. This should avoid adding unnecessary burden to companies".

The Government's White Paper also recognised the need to avoid unnecessary regulatory requirements:

"Supervision will operate on a 'risk ladder', backed by a clear framework, where regulatory scrutiny is proportionate to risk level, avoiding disproportionate regulatory burdens".

Similarly, the Oxera report suggested that: "Assessors would be able to scale oversight up or down according to the circumstances they observe". Frontier Economics has set out an approach with two phases of quantitative and judgement-based assessments determining the extent of supervision required⁷.

The approach to supervisory regulation of a company does not have to be uniform across all areas of the business. Aspects to be regulated can be subdivided as follows:

- Operational performance
- Asset maintenance
- Expenditure
- Financial resilience

We consider that the intensity of supervisory engagement should initially be assessed taking into account:

- Current performance
- Delivery against past plans
- Future plans

A key aspect of the assessment of whether a company needs a light touch in terms of the supervisory approach is whether a company has delivered against its plans. The previous framework has encouraged companies to put forward over-ambitious plans, which have then been used to set unrealistic targets for the rest of the industry. There are then limited consequences for failing to deliver. In proposing withdrawal of the Quality and Ambition Assessment (QAA), the Commission noted that the QAA:

⁷"A Look at Supervisory Regulation", Annabelle Ong, Frontier Economics, The UK Water Report, October 2025

“appears to have introduced perverse incentives, with companies responding by proposing expenditure plans with lower costs to attempt to align with Ofwat’s ‘ambition’ criteria on outcomes, costs and affordability – rather than (potentially) what they actually need”.

The table below sets out the proposed basis for the assessment:

| Aspect of performance | Current performance | Delivery against past plans | Future plans |
|-----------------------------|---|--|--|
| Current performance | <p>Is the company overall an above-average / below-average performer?</p> <p>Are there any specific problems with any aspects of service?</p> <p>Is the company generally delivering its enhancement programme?</p> | <p>Has the company outperformed / under-delivered?</p> <p>Was any underperformance due to over-ambitious plans or to regulatory targets?</p> | <p>Is the company proposing any significant changes in future service delivery?</p> |
| Asset maintenance | <p>Is there any evidence from service or asset condition that there is an issue with maintenance?</p> | <p>Has the company delivered more or less than put forward in its plans?</p> | <p>Is the company proposing a significant change in future activity?</p> |
| Expenditure | <p>Is the company ranked as efficient?</p> | <p>Is the company spending more or less than in the Determination?</p> <p>Does this result from a variance from its own plans or Ofwat’s assessment?</p> | <p>Is the company proposing a significant change in future spending?</p> |
| Financial resilience | <p>Is there any evidence of financial resilience problems from financial indicators, e.g. gearing, interest cover, or cash flow?</p> | <p>Are the finances in line with company plans?</p> | <p>Do company spending plans or any proposed financing changes lead to a significant change in overall financial resilience?</p> |

On each of the above questions, a company can be scored and the resulting overall score used to determine the extent of supervision for each aspect of performance. The assessment would be reviewed regularly in the light of changes to performance or plans.

The Commission’s report suggested that: “The regulator leadership should ensure best practice in supervision is shared, and a consistent view is taken. This could include establishing a supervisory ‘manual’ for staff, setting a baseline level of activity and engagement, processes and options for flexing this to reflect the risk presented by a company”.

For a company scored as low risk, then the regulatory requirements should not be more onerous than under the existing framework, although the nature of the engagement with the regulator will change. The volume of data required should be less but there will be closer engagement with the company on its own plans and issues.

The assessment of the extent of supervision required would need to be kept under review.

Companies would be expected to notify the regulator in advance of any problems, changes in performance, or changes in plans. Failure to do so would result in a significant downgrade of the assessment and strengthening of supervision.

8 Reducing existing regulation as a result of introducing supervisory regulation

Introducing supervisory regulation gives some opportunities for reducing data collection and simplifying the framework. A number of the changes proposed would be worthwhile even without the introduction of supervisory regulation. There has been a tendency for additional layers of regulation to be introduced at price reviews, but it has been very rare for any elements of the framework to be removed. As a result, the framework has become unnecessarily complex.

We are not, however, advocating a reduction on the scale of that attempted in 2009, and referred to in the Commission's report. This went much too far, and resulted in Ofwat backtracking, and requiring much more data than it had prior to the attempt at simplification.

8.1 Econometric modelling

The Commission's report suggested that Ofwat relies too heavily on econometric modelling, that the approach has been over-developed, and that "there are fundamental limits to how precise and accurate a benchmarking framework and econometric tools can be".

The introduction of supervisory regulation means that less emphasis will be placed on econometric modelling in setting cost allowances for price limits. This provides an opportunity to adopt a simpler approach to econometric modelling, focusing on data items which are clear cost drivers. This would require less data collection and testing, and make the application of modelling clearer to stakeholders.

8.2 Reducing existing regulation as a result of introducing supervisory regulation

The report states that the outcome-based incentive framework has become too complicated and attempts to do too much, including having too many ODIs. At PR24 there were 23 common ODIs, and a small number of bespoke, company-specific ODIs. The Commission's report suggested that there were too many ODIs and that there should be around 10 in total. The White Paper similarly recognised the need for simplification and said that it would "instruct the regulator to rationalise the incentive framework so that it is simpler, more predictable, and is not duplicative".

There are some clear candidates for removal, in the categories of:

- (a) ODIs no longer required because of the new approach to asset maintenance.
- (b) ODIs which overlap with other regulatory functions.
- (c) ODIs where the company has limited control over the performance measure.

(a) Asset maintenance

The report proposed a new approach to asset maintenance. This will be more forward-looking and involving asset condition surveys. It would be appropriate to remove the asset maintenance

ODIs. It is not clear that they are good measures of the state of assets, e.g. an increase in mains repairs can result from increased leakage control work rather than a deterioration in the condition of water mains. There may still be some role for these indicators but they should be discontinued as ODIs.

(b) Regulatory overlaps

The report notes that incentive framework overlaps with EA and DWI functions and that there is double jeopardy from fines and ODI penalties. To avoid this double jeopardy, serious pollution incidents and the Compliance Risk Index are clear candidates to be dropped. There are also other ODIs where there is some overlap which could be dropped.

(c) Limited control

If a company has limited control over a performance measure, then there may be windfall gains or losses from the associated ODI. This applies, for example, to the Business Demand ODI, where demand is much more affected by economic trends than by company actions. . It is important to encourage water efficiency but an ODI for Business Demand is not an appropriate way to do this.

8.3 Simplifying the analysis of ODI risk

The analysis of upside and downside risk from ODIs uses a complex statistical approach but has been based on the incorrect underlying assumption that Ofwat's determinations were central estimates. As the Commission's report noted, the approach needs recalibration to be a "fair bet". With a more company-specific approach, risk analysis could be based on judgement rather than complex statistics. This would contribute to transparency of the approach and reduce the regulatory workload.

8.4 Price Control Deliverables

At PR24 Ofwat set detailed Price Control Deliverables to track delivery of company programmes. The Commission recommended that there should continue to be a clawback mechanism to address failure to deliver plans but that:

"A review of the current PCD framework in England and Wales should be completed before the end of AMP8, to inform a more robust and flexible framework, broadly set at programme level spending".

The recommendation that the framework should be at a programme level reflects views that the Commission heard that PCDs are too prescriptive, and that they limit companies' ability to innovate and deliver new solutions. In addition, the calculation of penalties is very complex. There is considerable scope for simplification of the equations used.

The reason that PCDs were set in a very detailed way is to prevent companies implementing solutions which were cheap but delivered less benefits, e.g. replacing a "green" solution with a non-green solution. This is part of an adversarial approach between companies and regulator and a lack of trust in companies to deliver. The supervisory approach provides an opportunity to improve this. We consider that any issues can be addressed by:

- Defining appropriate outputs, which could be below programme level but less detailed than current PCDs, e.g. output in terms of volumes at Water Resource Zone level, separate total outputs for green and non-green schemes, or separate output requirements for major projects.

- Ensuring that any replacement schemes still meet environmental or water quality or quantity requirements.

The supervisory approach should allow more scope for flexibility to change outputs when circumstances change. If there is any evidence that there are issues with delivery, then the level of supervision can be strengthened. The Oxera report suggested that “there could be a tailored approach to PCDs, in which better performers might be set more outcomes-based (or programme-level) deliverables, while poor performers would have more prescriptive output-based/scheme-level PCDs as applied in PR24”.

8.5 Phasing Price Reviews

The move to supervisory regulation and away from a standardised approach to all companies could give scope for staggering price reviews. Reviewing all companies at once requires a very large increase in regulatory resources. This could be addressed by phasing price reviews, possibly by region. This would enable the regulator to have a steadier level of resources and would reduce costs.

9 Improving other aspects of regulation

9.1 Reducing the number of price controls

The number of price controls adds considerably to the complexity of price setting but yields no benefits. The framework makes it very difficult for stakeholders to understand the price-setting process. In particular, separate controls for water distribution and for resources and treatment yields no benefit in terms of encouraging water trading, because trades need to take place on the basis of marginal cost of additional water, not at the average costs on which prices are based. The different approaches to cost sharing for different price controls add to the complexity of the incentive framework, which, as noted in Section 8.2, the Government has said in the White Paper needs to be simplified.

A further reason for reducing the number of price controls is the Commission’s recommendations on ring-fencing of expenditure. The report recommends that:

“The regulator should ensure funding directed appropriately to maintain assets by clearly defining and ring-fencing base capital expenditure (capital maintenance), base operational expenditure and enhancement capital expenditure allowances”.

This ring fencing approach was endorsed in the Government’s White Paper.

Implementing this ring-fencing with the existing number of price controls would add considerably to regulatory complexity, strengthening the case for reducing the number of controls.

9.2 Standardising the approach

The different rules which apply to different price limits, e.g. the approaches to cost sharing and inflation, also add to complexity. For example, wholesale prices are indexed with inflation, but retail prices are not. The justification for the different treatment was that retail price limits should mimic a competitive market and that companies in a competitive market do not have their prices indexed. However, in a competitive market prices do rise when costs rise. For example, any

purchaser of chocolate will have noticed price rises because the cost of cocoa has gone up. In a perfectly competitive market, general rises in costs will be immediately reflected in prices.

Since the lack of indexation does not mimic a competitive market and, in any event, there is no prospect of introduction of retail competition for domestic customers, the approach to retail price-setting should be aligned with that for wholesale.

9.3 General data review

The changes proposed above associated with the introduction of supervisory regulation will lead to some reduction in data requirements. Simplification of econometric modelling, with fewer explanatory variables tested, will require less data. A reduced number of ODIs will also reduce the need for reporting. However, supervisory regulation may lead to additional data requirements and/or more frequent reporting.

In order to offset this, there needs to be a general review of requirements for annual reporting and business plans, to assess what purpose is served by the requirements and whether they can be reduced or simplified.

10 Assessment and Conclusions

The table below summarises the proposed approach to supervisory regulation and the aspects of regulation proposed for simplification which we have set out in this report.

| Supervisory approach | Reducing existing regulation | |
|---|---|-------------------------------------|
| | Scaling back existing framework due to supervisory approach | Other simplifications |
| Requirement for supervision to be assessed against the following categories - operational performance, asset maintenance, expenditure, financial resilience | Econometric modelling | Reducing the number of price limits |
| | Reducing number of ODIs | Standardising the approach |
| Assessment to be based on performance, delivery against past plans, and future plans | Simplifying analysis of ODI risk | General data review |
| | Simplifying Price Control Deliverables | |

The proposals set out above can be evaluated against the criteria set out in section 5.

| | |
|---|---|
| Incentivising efficiency | Our proposals ensures that companies which are clearly efficient will not face over-intrusive supervision. This could otherwise reduce efficiency by diverting management focus. For companies which are inefficient, or where their operating circumstances lead to higher costs, the supervisory approach will help to establish companies' true level of efficiency and companies can work with the regulator to improve efficiency. |
| Incentivising delivery of the right outcomes for customers and the environment | Focusing supervision on companies where there are delivery problems will encourage companies to improve delivery. |
| Ensuring efficient companies can achieve an adequate return | The proposed changes to ODIs will reduce the risk of efficient companies facing financial penalties. |
| Ensuring assets are maintained in an appropriate state for future service delivery | The new, more forward-looking, approach to asset health will contribute to assets being maintained for future service delivery. |
| Ensuring companies maintain financial resilience | Focusing supervision on companies where there is some uncertainty about financial resilience will ensure that companies are resilient. |
| Avoiding excessive regulatory costs | The focused approach to supervision and the changes made to the existing will avoid unnecessary increases in regulatory costs. |

We have set out above ways in which supervisory regulation can be implemented efficiently, and the existing framework can be simplified to offset the additional resources required to implement supervisory regulation. We believe that this will enable the new approach to be implemented effectively and regulation of water companies to be improved.