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PR24 cost change process – Price control deliverables appendix

Ofwat

Price control deliverables

Price control deliverables (PCDs) specify the key outcomes or outputs companies must deliver in return for expenditure allowances. PCDs increase our oversight of delivery through increased reporting and assurance requirements on what companies are delivering. They also protect customers from companies failing to deliver the expected improvements by returning funding to customers.

Where appropriate, PCDs are accompanied by time incentives. Time incentives seek to encourage companies to deliver PCD outputs in a timely manner by rewarding on time delivery and penalising late delivery.

This appendix sets out our proposed approach to setting PCDs in the 2026 cost change process. It also sets out the flexibility we are proposing to allow for any PCDs applied through this process. The appendix is structured as follows:

- Section 1 - Key principles underpinning our approach
- Section 2 - Non-delivery PCDs
- Section 3 - Time incentive PCDs
- Section 4 – Monitoring, reporting and assurance
- Section 5 - Price control deliverables for cost change process

Contents

1. Key principles underpinning our approach

In PR24 we set out the key principles underpinning our design of PCDs[1]. Our proposed approach to designing PCDs in the cost change process is to align to these principles where appropriate. These are:

- **Apply PCDs where the benefits of the investment are not linked to, or fully protected by, performance commitments**. In PR24 we concluded that the impact of enhancement expenditure on performance commitments and outcome delivery incentives (ODIs) is not significant. The exceptions being biodiversity and leakage. In PR24 we decided to not apply a PCD on leakage reduction activities, except for mains renewal related leakage enhancements, given the higher cost of this activity compared to other leakage reduction measures. For asset health and growth claims, companies have not identified any quantifiable impact of the proposed investments on performance commitment levels, at least for 2025-30 period.[2] We have not adjusted PR24 performance commitment levels to reflect additional allowances from cost change process.

- **PCDs should be used to protect customers for material investments**. In PR24 we applied PCDs to investments of at least £10 million or 0.5% of relevant wholesale totex. For cost change process, we are not applying this materiality test for non-delivery PCDs. We have previously set out in our various cost change process guidance documents the expectation that any additional allowances provided through the cost change process guidance will attract a PCD. Proposing a PCD is one of the criteria that companies need to meet when submitting a cost change process claim, save for Havant Thicket and major project development costs.

- **PCDs should track key driver(s) of cost**. In PR24 we designed PCDs to track the cost driver or drivers that we used to assess the requested expenditure. These cost drivers tend to be relatively easy to measure and verify. Using these cost drivers as the PCD deliverable has the benefit of making the deliverable cost reflective, reducing the risk of introducing perverse incentives. For the cost change process, we propose to apply a similar approach where appropriate. We have deviated from this approach where scope of work is not well defined or uncertain, in which case we have designed a PCD to track either expenditure or named schemes (eg, asset health PCDs).

- **The PCD level of aggregation could be set at a scheme, programme or benefit level**. In PR24 we aimed to set PCDs at the highest level of aggregation possible for companies to retain flexibility over the benefits to deliver the best way possible. We said that this would also help minimise the number of PCDs required and thus the administrative burden.

[1] See Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances, p. 118-119; and PR24 final determinations: Price control deliverables appendix, section 2.1.
[2] Across submissions, various companies explained that there was either no overlap, or that relevant impacts would not be quantifiable or measurable, and/or that any impacts would not show up in AMP8, or that impacts would not enhance the current performance position assumed by the PR24 final determination

However, we also said that PCDs at a scheme level may be required where there is significant unit cost variation across the outputs to be delivered within a PCD or to track the delivery of major schemes[3]. For cost change process we are mostly applying PCDs at scheme-level given the nature of the claims which are discrete and scheme specific. The exception being the 'what base buys' PCDs which we are setting at a programme/asset class level (see Section 6.1.2 of this document for further details).

[3] See Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances, p. 118-119.

2. Non-delivery PCDs

We propose to apply non-delivery PCDs to all additional expenditure that we are proposing to allow through the cost change process in the areas of asset health, growth, PFAS and large gated schemes. This is consistent with the guidance we have set out in relation to the cost change process.[4]

Companies have proposed PCDs within their cost change process submissions. In some cases we propose to accept these proposals and in others we propose to reject them where either we did not consider they would provide sufficient protection to customers or where we considered a consistent level of customer protection was needed across all companies.

Details of our proposed PCDs are set out in Section 6 of this document.

In the subsections below, we set out what additional flexibility we propose to allow in relation to cost change PCDs.

2.1 Non-delivery PCD flexibility

As part of our February 2026 PCD guidance[5] we clarified the flexibility afforded by our PR24 PCD framework. On non-delivery PCDs we indicated that where a company spends at least 60% of the allowed expenditure within the relevant PCD by end of the 2025-30 period, the PCD allowance will carry over to PR29 with no claw-back applied, but late delivery penalties will apply so companies are not better off by delivering late.

In our February 2026 PCD guidance ('the 2026 PCD guidance') we also clarified that we would exclude high-frequency activities like metering, mains renewals and lead pipe replacements from the scope of this flexibility[6]. For these areas, we stated that an automatic claw-back will apply if a company fails to deliver PCD output by the end of PR24.

We propose to extend this flexibility to cost change process PCDs, except for gravity sewer rehabilitation as explained further below. This means that we will allow PCD allowance to carry over to PR29 where the company spends at least 60% of its PCD related allowance. For gravity sewer rehabilitation, we consider this to be a high-frequency activity (similar to mains renewals) and so where a company fails to deliver the length of rehabilitated gravity sewers funded through the cost change process by the end of 2025-30 period, we will apply an automatic claw-back proportionate to the non-delivered outputs.

[4] Ofwat, Cost change process guidance note, November 2025, p.7; Ofwat, Asset health investment assessment guidance, December 2025, p.17-18; and Ofwat, Demand growth investment additional guidance, February 2026, p.20-21.
[5] Ofwat, Price control deliverables guidance, February 2026, section 2.1.4.
[6] Ofwat, Price control deliverables guidance, February 2026, p.14.

2.2 PCD change control process

In our 2026 PCD guidance we introduced a change control process for PCDs which are bespoke, scheme-specific, or where the output being tracked is not well defined. We said that PCDs designed at the programme level (e.g. mains renewals, metering, storm overflows, p-removal, growth at STW) would be excluded from the change control process, as these PCDs already have significant flexibility built-in.[7]

We propose to adopt same approach for cost change PCDs. This means that where we are proposing PCDs which are scheme specific, this will be included within the scope of the PCD change control process.

We are not proposing to include 'What base buys' (WBB) PCDs and gravity sewer PCDs in the scope of the PCD change control process. This is because we are setting these PCDs at a programme/asset class level. We set out further details on our approach to these PCDs in section 6.1 of this document.

[7] Ofwat, Price control deliverables guidance, February 2026, p.15-16.

3. Time incentives

Time incentives aim to encourage timely delivery and protect customers where funded outputs are delivered late.

In PR24 we targeted time incentives to expenditure areas which were most material, where timing of delivery was important and where there was no significant overlap with outcome delivery incentives (ODIs).[8] We applied them to water supply, supply and resilience interconnectors, metering, mains renewals, storm overflows and phosphorus renewal.

When setting time incentives, we set underperformance rates to penalise late delivery and outperformance rates to reward on time delivery. We set outperformance rates as one third of underperformance rates to provide balanced risks for companies.[9]

Our proposed approach

For the cost change process, we propose to apply a two-step test to identify when to apply time incentives.

The first step is to assess if the claim relates to an expenditure area where we applied time incentives at PR24. If it does relate to an area with time incentives, we propose to apply time incentives to the new scheme. This would ensure that the level of protection is consistent with similar schemes funded at PR24.

The second step applies where a claim does not relate to an expenditure area where we applied time incentives at PR24. This step assesses when the new scheme is due to be delivered by and the materiality of the scheme or schemes. We propose to apply time incentives where the cost request is material and the additional scheme is due to be delivered in early AMP9 (2030-33). This is so that the company is incentivised to deliver the additional scheme in a timely manner, rather than delay delivery to the end of the 2030-35 period, as we explain in further detail below.

As part of our PCD guidance,[10] we clarified that where a company spends at least 60% of the PCD allowance by the end of the 2025-30 period (AMP8), we will not apply the non-delivery PCD clawback at the end of the 2025-30 period (AMP8). The non-delivery PCD clawback will instead be applied if the company fails to deliver the PCD output by the end of the 2030-35 period (AMP9). We also clarified that late delivery penalties would still apply in both scenarios, so that companies would not benefit from delivering late.

[8] Ofwat, 'PR24 draft determinations: Expenditure Allowances', July 2024, section '4.7.2 Price control deliverables'
[9] Ofwat, 'PR24 final determinations: Price control deliverables appendix', November 2025, section '2.5 Time incentives'
[10] Ofwat, 'Price control deliverables guidance', February 2026,

The above flexibility protects customers where a scheme funded in AMP8 is delayed into AMP9. However, where a scheme is due to be delivered in early AMP9, the 60% threshold will not be triggered, and customers will not be protected by AMP9 underperformance time incentives. Time incentives would therefore be needed to encourage timely delivery for this scheme type.

Time incentives will therefore apply to schemes which are material in terms of cost and which are due to be delivered in early AMP9.

For the purpose of materiality, we would define a scheme as material where the impact on costs is greater than 0.5% of the relevant water or wastewater wholesale totex, or greater than £10 million. This is consistent with the materiality threshold we apply for the purposes of our PCD change control process and with the threshold used at PR24 final determinations to identify enhancement expenditure claims for deep dive assessment.[11][12]

Form of time incentives

Where we apply time incentives, we propose to apply underperformance only time incentives given the challenge to assess the balance of risks at a scheme level. This is because designing outperformance incentives would require a judgement on whether a delivery profile is sufficiently stretching or simply reflects a delivery date that the company was already expecting to meet, or a regulatory date which is generally set at the end of the AMP period even though investment could be delivered much sooner.

Given the scheme level nature of PCDs and to allow companies some flexibility to manage uncertainty and changes outside the company's control, we propose to allow a 12 month grace period before any underperformance payments begin to apply. This is consistent with our approach to applying time incentives at PR24 for water supply, supply interconnectors and resilience interconnectors where we recognised that companies had less room to manage delivery risks within the PCD.[13]

For example, if a scheme is due to be delivered on 13 November 2030, late delivery penalties would begin to apply only if the scheme is delivered after 13 November 2031. We consider that this proposal focuses the incentive on material delay, while avoiding penalising minor slippage that could be driven by factors outside the company's control.

[11] Ofwat, 'Price control deliverables guidance', February 2026, p.4
[12] Ofwat. 'PR24 final determinations: Expenditure allowances', February 2025, p. 102-103.
[13] Ofwat, 'PR24 final determinations: Price control deliverables appendix', November 2025, see for example section '4.6.2 Price control deliverable' for supply interconnectors.

4. Additional protection

Companies can submit investment cases relating to the defined priority assets, and access additional funding where we find that an increase in base allowances is required to improve the health of the priority assets. We are concerned however that companies requesting additional funding may underspend their base allowances by the end of the 2025-30 period, implying that the additional allowances were not needed to improve asset health.

To address this concern, we propose to apply an additional protection to all companies requesting additional asset health funding that will **claw back any underspend against total base allowances by the end of 2025-30 period**. To make sure this protection is proportionate we propose to cap any claw-back up to the level of the total additional asset health allowances provided through the cost change process. We welcome stakeholder views on this proposal.

5. Monitoring, reporting and assurance

Monitoring progress

In PR24 final determinations we required companies to report on progress against PCDs through delivery plans.[14] We propose to extend this requirement to all cost change process PCDs. This will enable us and stakeholders to track progress against the additional commitments.

We will update delivery plan tables after publication of our cost change process final determination to reflect any new PCDs. We intend to share the updated delivery plan tables with companies in Spring 2027.

Reporting requirements

We propose to require companies to report on progress against Cost Change PCD requirements through the delivery plan process. This would require companies to report against the delivery plan on a six-monthly basis in the months of October/November and April/May of each year. It would also require providing independent third-party assurance on the April/May report and publishing this assured report in July of each year alongside the Annual Performance Report.

Assurance requirements

In PR24 final determinations we required companies to provide third-party independent assurance in relation to PCD and delivery plan reporting. We set out our expectations for this third-party independent assurance in PR24 final determinations: Expenditure allowances - Assurance requirements for delivery of enhancement schemes. We propose to apply the same assurance requirements and expectations to the reporting of cost change process PCDs.

[14] 9.-PR24-final-determinations-Expenditure-allowances.pdf section 4.8.1 p.351

6. Price Control Deliverables

6.1 Asset Health PCDs

6.1.1 Asset Health – Additional Allowance PCD (save gravity sewers)

Approach to setting PCDs

We propose to apply a PCD to protect customers where companies will receive additional funding through the asset health reopener, as requested for asset health priority assets. We propose that this PCD holds companies to delivering named schemes, so that additional allowances are clearly linked to the schemes for which funding has been provided.

Companies have submitted PCD proposals for additional allowances within their asset health submissions. The approach taken in designing these PCDs has varied across companies. Many companies proposed an output-level PCD, with delivery typically reported by the number of interventions delivered during the remaining 2025-30 period. Consistent with our approach to base PCDs, we consider it important that the design of PCDs is based on a common framework, so that the level of protection for customers is consistent across the sector.

We consider that a **PCD linked to specified named schemes** is appropriate in this context because it provides a clearer link between the additional funding provided and the activities customers are being asked to fund. This approach provides stronger protection against potential perverse incentives that could arise under a broader output-based PCD. For example, where companies deliver a portfolio of similar interventions, there may be an incentive to deliver costlier interventions through base allowances and cheaper interventions through the additional allowances. By linking additional allowances to specified named schemes, we can reduce this risk and help ensure that additional funding for asset health is spent on the intended activities.

Where there have been gaps in the PCDs submitted by companies, we have highlighted this in the deep dives and applied a PCD consistent with this approach. To enable us to apply a scheme-level PCD for the requested additional allowance, we queried companies to provide named schemes where this information was not provided in the original cost change process submission.

We are proposing to also apply a **'use it or lose it' condition** by which companies will return to customers any underspend against the additional allowance (claw-back). This is to address our concern that companies may have overstated the costs to deliver the additional asset health related activity. We are still building our evidence base on costs associated with capital maintenance activities to challenge company cost claims in this area. This condition

should also mitigate the risk that companies are incentivised to deliver the minimum possible scope for every named scheme.

We propose to implement this condition by applying a two stage assessment for this PCD whereby we hold the company to:

- Delivering the named schemes in the first stage; and
- Spending the allowed expenditure in the second stage.

For the second stage, we propose to assess outturn expenditure against allowances across all named schemes, rather than for each individual scheme within an asset cohort. This is because we understand that there will always be some degree of variation between outturn and forecast expenditure. Assessing expenditure at the asset cohort level, will therefore allow a company to offset underspend in some schemes with overspend in others. Where a non-delivery payment is applied in the first stage due to a company failing to deliver a named scheme, we will adjust allowances to reflect this before we assess the second stage of PCD to avoid double counting any claw-back.

This approach applies to all requested allowances for water and wastewater priority assets, apart from gravity sewers. Our approach to setting gravity sewer PCDs is detailed below in section 6.1.3 and 6.1.4.

Description of deliverables

The company must deliver the named schemes specified in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model. If the company fails to deliver any named scheme, the funding for that scheme will be returned to customers.

The company must also spend the additional allowances provided to deliver the named schemes. If the company underspends the total additional allowance, the amount of underspend will return to customers. Where a company fails to deliver a named scheme, the allowances associated with this scheme will be deducted from the total additional allowances for the purposes of evaluating this condition.

Measuring and reporting

We will consider named schemes as delivered when a company has conducted sufficient works to achieve the asset health improvement/outcomes set out in its business case.

Common reporting requirements also apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition to these common requirements, the company is required to provide independent third-party assurance on:

- the condition of the underlying assets covered in each named scheme.
- items or activities previously deemed to be out of scope by Ofwat have not been funded by additional allowances provided through the cost change process and have been funded through the company's existing base allowances.

Payments

For the first stage, we will apply the following formula to calculate non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (1st stage)} = \textit{Payment rate} * \textit{Non-delivered named scheme}$$

Where the payment rate is the allowed cost of the scheme. When setting these rates, we have attempted to align these to the corresponding cost of the scheme. However, in some cases we have amended these slightly to

- remove any out-of-scope costs,
- adjust for conditional challenges we have applied to the 'Best option for customers' and/or the 'Robust and efficient costs' assessment gates, and/or
- ensure that non-delivery PCD payments align with the additional allowance.

For the second stage, we will apply the following formula to calculate non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (2nd stage)} = \textit{Payment rate} * \textit{Max}\,[1 - (\textit{Outturn spend}/\textit{Additional allowance}), 0]$$

Where payment rate is the total additional allowance across all named schemes divided by 100. The additional allowance will be adjusted to reflect any non-delivery PCD payments calculated in stage 1 as follows:

$$\textit{Adjusted additional allowance} = \textit{Additional allowance} - \textit{Sum of non-delivery payments applied in stage 1}$$

We set out details on payment rates for each deliverable in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

Time incentives

We have applied time incentives to schemes where the two-step check has deemed this necessary. Section 3 of this document sets out our approach to applying time incentives. Further detail on the named schemes and corresponding PCD payment rates can be found in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

6.1.2 What Base Buys PCDs

Approach to deliverable

For base expenditure ring-fenced for asset health for priority assets, we propose to apply a PCD that tracks "£ spent" and holds companies to the agreed view of 'What base buys'. We consider that this approach provides sufficient protection to customers, while providing companies with the flexibility to use the funding provided to address the intended asset health risks in the best possible way.

Companies have submitted asset health proposals that include their approaches to designing base PCDs. We note that most companies have proposed a "£ spent" PCD for base expenditure. We consider it important that the design of base PCDs is based on a common framework, so that the level of protection provided to customers is consistent across the sector.

We consider that a "£ spent" PCD is appropriate in this context and is consistent with a more supervisory approach, as it allows companies flexibility over how they deliver asset health improvements, compared to a PCD linked to specific outputs. This flexibility will enable companies to respond to emerging asset health risks and prioritise the refurbishment or replacement of assets across the asset class, while still protecting customers by holding companies to using the base allowances for the intended use.

The "£ spent" PCD will protect customers where companies do not spend the ring-fenced base allowances on these priority assets. Where companies spend less than the amount specified as “what base buys”, the PCD will return funding to customers.

We have considered whether to allow some flexibility for a company to reallocate a portion of the ring-fenced (implicit) allowance to another priority asset or to a non-priority asset. Given the importance of companies improving asset health for priority assets we consider that companies should not be reallocating implicit allowances from priority assets to non-priority assets. We also consider that given the need for companies to make progress across all priority assets, we expect companies to use the whole implicit allowance for each priority asset in the 2025-30 period, particularly if they are requesting additional funding from customers for the relevant priority asset. Therefore, we propose to not allow this flexibility for the 2026 cost change process WBB PCDs.

This approach applies to all requested allowances for water and wastewater priority assets, apart from gravity sewers inspections. We are not proposing to apply a 'what base buys' PCD for gravity sewer inspections (see section 6.1.3 for further details).

Description of deliverable

The company must spend the implicit allowance for the relevant asset priority areas as specified in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model. If the company fails to spend this implicit allowance, the amount of underspend will return to customers.

Measuring and reporting

Common reporting requirements apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$\textit{Non-delivery PCD payment} = \textit{Payment rate} * \textit{Max}\,[1 - (\textit{Outturn spend}/\textit{Implicit allowance}), 0]$$

Where the payment rate is calculated as the Implicit allowance divided by 100.

We set out details on payment rates for each deliverable in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

6.1.3 Gravity sewers inspections

Approach to PCD

We propose a bespoke PCD approach for **gravity sewer inspections.** We welcome views from companies on our proposed approach so that customers do not pay twice.

We are not proposing to apply a 'what base buys' PCD for gravity sewer inspections. We consider that the representative sample of inspections we are proposing to fund through the

cost change process are additional to existing business-as-usual inspection activities. This is because existing inspections are driven by failures or performance issues, as opposed to the representative sample approach required for the Gravity sewers assessment, which aims to collect data regardless of previous failures/issues, in order to give an improved understanding of the condition of the underlying asset base. Where companies have proposed a what base buys estimation above zero, we have added this to their final allowance and therefore into the scope of the PCD.

To protect customers from the company not delivering the additional inspections, and/or overstating the costs of delivering those inspections, we propose to apply a two stage PCD whereby we will hold companies to:

- Surveying the specified distances in the first stage; and
- Spending the allowed expenditure in the second stage.

For the first stage, we propose to hold companies to surveying the funded length of gravity sewers. For us to deem this length as delivered, the company will have to demonstrate that this is a representative sample of its gravity sewer network.

For the second stage, we will assess outturn expenditure against allowances across all gravity sewer diameters, rather than for each individually specified diameter to be inspected. Where a claw-back is applied in the first stage due to non-delivery of gravity sewer inspections we will adjust allowances to reflect this before we assess the second stage of PCD.

We queried companies to provide us with additional information on sewer cohort unit costs where this was not submitted as part of their cost change submission.

Some companies have proposed to survey beyond the representative 0.5% of the gravity sewer asset base. Where we have provisionally allowed this, we have applied the PCD to the entire proposed sample, including any surveying above the 0.5% minimum sample.

We have not applied **time incentives** for gravity sewer inspections as none of the proposed investments have met our criteria to do so. Further information on our approach to applying time incentives can be found in section 3 of this document.

Description of deliverable

The company must survey the sewer distances specified in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model. If the company fails to survey the agreed distance, the funding associated with the non-surveyed distance will return to customers.

If the company underspends the total additional allowance provided to survey the proposed sample of gravity sewers, the amount underspent will return to customers. Where a company

fails to survey the full length of gravity sewers, any non-delivery PCD payment will be deducted from the total allowance to be evaluated under this condition.

Measuring and reporting

Common reporting requirements apply as per section 5 of this document.

In addition to the above common requirements, the company should report the total length of survey undertaken. Companies should report progress at programme level.

Other conditions

Other company-specific conditions, if applicable, are specified in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition to the above requirements, we require independent third party assurance on whether the length of gravity sewers inspected is representative of the company's gravity sewer network.

Payments

For the first stage, we will apply the following formula to calculate the non-delivery PCD payment:

$$Non-delivery\ PCD\ payment\ (1st\ stage) = Payment\ rate * Non-delivered\ length\ of\ gravity\ sewers$$

Where the payment rate is the unit cost of surveying the specified sewer length.

For the second stage, we will apply the following formula to calculate non-delivery PCD payment:

$$Non-delivery\ PCD\ payment\ (2nd\ stage) = Payment\ rate * Max\ [1 - (Outturn\ spend/Additional\ allowance), 0]$$

Where payment rate is the total additional allowance across all gravity sewer inspections divided by 100. The additional allowance will be adjusted to reflect any non-delivery PCD payments calculated in stage 1 as follows:

$$Adjusted\ additional\ allowance = Additional\ allowance - Sum\ of\ non\text{-}delivery\ payments\ applied\ in\ stage\ 1$$

We set out details on payment rates for each deliverable in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

6.1.4 Gravity sewers rehabilitation

Similar to gravity sewer inspections, for **gravity sewer rehabilitation** we propose to apply a bespoke PCD approach. We welcome views from companies on our proposed approach so that customers do not pay twice.

To protect customers from the company not rehabilitating the funded length of gravity sewers, and/or overstating the costs of doing so, we propose to apply a two-stage PCD, whereby we hold the company to:

- Rehabilitating the specified distances of gravity sewer for each agreed intervention type and pipe diameter cohort; and
- Spending the additional allowed expenditure in the second stage.

For the first stage, the PCD will track the number of kilometres rehabilitated. We propose to split this kilometre length by intervention type and pipe diameter cohort, consistent with our cost assessment detailed in the Cost Change Draft Determinations 2026 – Asset Health cross cutting issues appendix, section 5. Given the wider customer protection from applying the 'use it or lose it' condition, we propose to allow companies to swap length rehabilitated between diameter cohorts. However, we propose to continue to track lengths delivered against the cohorts for transparency purposes.

For the second stage, we will assess outturn expenditure against allowances across all gravity sewer rehabilitations, rather than for each individually specified intervention type and diameter to be delivered. Where a claw-back is applied in the first stage due to non-delivery of gravity sewer rehabilitation, we will adjust allowances to reflect this before we assess the second stage.

We also propose to apply a 'what base buys' PCD to the implicit allowance for gravity sewer rehabilitations. Our approach to this PCD aligns with the approach provided in section 6.1.2 of this document which applies to all requested allowances for water and wastewater priority assets, apart from gravity sewers inspections.

We have not applied **time incentives** for gravity sewer rehabilitations as none of the proposed investments have met our criteria to do so. Further information on our approach to applying time incentives can be found in section 3 of this document.

To support future cost change processes, we propose to require companies receiving additional funding for gravity sewer rehabilitation through cost change process to provide us

with ex post information on the "location" of their interventions, i.e. in road, footpath/pavement, or in verge, including fields, farmland, woods or grassland.[15]

Description of deliverable

The company must rehabilitate the agreed distances of gravity sewer specified in the Cost Change Draft Determinations 2026 - Asset Health PCD model. The company can swap distance delivered between diameter cohorts. This means that if the total distance delivered is less than the total distance funded, the allowances associated with the shortfall will return to customers.

If the company underspends the total additional allowance provided to rehabilitate their proposed length of gravity sewers, the amount underspent will return to customers. Where a company fails to rehabilitate the total length of gravity sewers funded, any non-delivery PCD payments resulting from this will be deducted from the total allowance to be evaluated under this condition.

Measuring and reporting

Common reporting requirements apply as per section 5 of this document.

Companies should report on length of sewer rehabilitated through relining, trenchless and excavation, for pipe diameter cohorts <= 165mm; >165mm and <=320mm; >320mm and <=625mm; >625mm and <=1500mm.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

Payments

For the first stage, we will apply the following formula to calculate the non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (1st stage)} = \textit{Payment rate} * \textit{Non-delivered length of gravity sewer rehabilitation}$$

[15] This applies to Anglian Water, Northumbrian Water, Severn Trent Water, South West Water, United Utilities, and Wessex Water

Where the payment rate is the unit rate of rehabilitating the gravity sewer. When setting these rates, we have attempted to align these to the corresponding cost of the scheme. However, in some cases we have amended these slightly to remove any out-of-scope costs or to adjust for conditional challenges we have applied to the 'Best option for customers' and/or the 'Robust and efficient costs' assessment gates.

For the second stage, we will apply the following formula to calculate non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (2nd stage)} = \textit{Payment rate} * \textit{Max}\,[1 - (\textit{Outturn spend}/\textit{Additional allowance}), 0]$$

Where payment rate is the total additional allowance across all gravity sewer rehabilitation cohorts divided by 100. The additional allowance will be adjusted to reflect any non-delivery PCD payments calculated in stage 1 as follows:

$$\textit{Adjusted additional allowance} = \textit{Additional allowance} - \textit{Sum of non-delivery payments applied in stage 1}$$

We set out details on payment rates for each deliverable in the PR24CCP12 Cost Change Draft Determinations 2026 - Asset Health PCD model.

Growth PCDs

6.1.5 United Utilities – Data Centres

Approach to deliverable

We propose to apply a two-stage PCD to the strategic source elements of United Utilities' Data Centre submission. Stage one of the PCD proposes to hold United Utilities to the water available for use (WAFU) benefit to be delivered by the strategic source elements of the programme of work. The second-stage of the PCD proposes to hold United Utilities to the revenue, equal to the expenditure covered by the PCD, it estimates it will recover from the relevant third parties. United Utilities should provide the expected revenue profile in their response to the draft determination. We consider defining the deliverable by WAFU benefit and revenues recovered from third parties protects customers from both under-delivery risk and financing risk.

Tracking delivery of WAFU benefits will make sure that customers receive the supply resilience benefit, through enhancement, to the supply demand balance. We will not track specific schemes as part of the PCD, but expect United Utilities to report the WAFU delivered by the programme of work. Tracking revenues recovered from the relevant third parties will make sure customers are protected from financing risk if United Utilities fails to recover costs from the relevant third parties or if the proposed data centres do not progress.

We propose to allow United Utilities the flexibility to identify more efficient ways of delivering the WAFU benefit than the schemes proposed in their submission. However, any efficiency in delivery will need to be reflected in the revenue profile tracked in the PCD so that any revenue shortfall is returned to customers.

To identify the profile of WAFU benefit delivered we have used the delivery year (in use) date provided in United Utilities' cost change process data tables submission. This should align with the first year that the WAFU benefit is added to the supply demand balance. United Utilities should provide the expected revenue profile in their response to the draft determination.

Description of deliverable

The company is to deliver the WAFU benefits to the supply demand balance and collect revenues from the relevant third parties as set out in the PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model.

The company can substitute supply schemes where necessary. Any overspend will be recovered by the company directly from the relevant third-party and no adjustments will be made to the revenue recovery profile tracked in the PCD.

If the company fails to deliver the defined WAFU benefit, the associated allowances will return to customers. If the company under-recovers revenues from the relevant third-parties, the difference between actual revenue recovered and the revenue profile outlined in the PCD will return to customers.

Where a claw-back is applied in the first stage due to non-delivery of WAFU benefit, we will adjust the revenue profile recovered from third-parties to reflect this before we assess the second stage of PCD.

Measuring and reporting

We propose the WAFU benefit to the supply demand balance is measured in megalitres per day (Ml/d). However, we welcome further suggestions from United Utilities about whether specific conditions are required to evidence that benefit has been delivered to the supply demand balance, due to the resilience-nature of the benefit.

WAFU benefit should be reported as the benefit to zonal supply-demand balance under the planning conditions and assumptions as determined by the company's latest water resources management plan (WRMP24). WAFU benefit will be determined as the net change in supply-demand balance as a result of delivering the programme of work as calculated under Dry Year Annual Average or Dry Year Critical Period conditions (depending on the planning condition for the relevant water resource zone). The impacts of using Temporary Use Ban, Non-Essential Use Ban and Emergency Drought Order should be fixed at the frequencies as defined by the latest WRMP with regulatory approval.

The benefit should align to that presented by the company in the relevant WRMP annual review and we expect the company to clearly incorporate the stated benefits into its WRMP29 supply-demand balances in the year of reported delivery.

United Utilities is required to report the revenue collected from third-parties in its annual performance report (APR). We require United Utilities to report revenue collected from third-parties associated with this PCD in a separate line-item in the APR.

We also expect United Utilities to provide an annual update on the collection of revenue from the relevant third-parties. This should be in line with the revenue profile detailed in the PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model. In the event of reprofiling of any revenue forecast to be received, we ask United Utilities to provide a summary and explanation of this across the forecast period. In addition, United Utilities should provide explanation for any over or underspend against the forecast revenue profile.

The company should report progress against deliverables as per the common reporting requirements set out in section 5 of this document.

Other conditions

We consider additional conditions are required to protect customers from potential bill impacts in the eventuality that the special agreement with data centre developers fails to recover costs or the data centre developments do not progress. We therefore propose a condition on the PCD that United Utilities have agreements with the relevant third parties to recoup the costs covered by the PCD. We welcome further suggestions from United Utilities on any additional customer protection mechanisms it considers appropriate.

Assurance

Common assurance requirements apply as per section 5 of this document.

Independent third-party assurance should also be provided on United Utilities' receipt of revenues received from the relevant third-parties.

Payments

For the first stage, we will apply the following formula to calculate non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (1st stage)} = \textit{Payment rate} * \textit{non-delivered WAFU benefit (Ml/d)}$$

Where the payment rate is the allowed revenue to be recovered from the third-parties per unit of WAFU benefit delivered (Ml/d).

For the second stage, we will apply the following formula to calculate non-delivery PCD payment:

$$\textit{Non-delivery PCD payment (2nd stage)} = \textit{Payment rate} * \textit{Max [1 - (Outturn revenue recovered/Adjusted revenue), 0]}$$

Where the payment rate is the adjusted revenue divided by 100. The adjusted revenue is the value of revenues allowed on the Regulatory Capital Value (RCV) less any adjustments for non-delivery payments calculated in stage 1 as follows:

$$\textit{Adjusted revenue} = \textit{Revenue allowed on RCV} - \textit{Non-delivery payments applied in stage 1}$$

We set out details on payment rates for each deliverable in the PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model.

6.1.6 South East Water – Water Resources Growth

Approach to deliverable

We have set draft allowances based on the complexity of the proposed schemes. We therefore propose to hold South East Water to the water available for use (WAFU) benefit to be delivered by each scheme. We consider defining the deliverable by WAFU benefit provides appropriate incentives for South East Water and protection for customers based on how the allowance has been set.

Tracking delivery of WAFU benefit will protect customers from the company not delivering the funded supply and demand balance benefit. We recognise that there is uncertainty around the supply, feasibility and deliverability of the individual schemes proposed in South East Water's submission, and that South East Water may identify more efficient ways of delivering the WAFU benefit than the schemes proposed in their submission. We therefore propose to allow South East Water during the 2025-30 period to substitute schemes. We will not track specific schemes as part of the PCD, but expect South East Water to report the WAFU delivered by the programme of work. We consider this flexibility ensures that the supply demand balance benefit of the programme of works is delivered, whilst recognising that how the benefit is delivered across individual schemes may evolve as the programme matures.

Due to the potential risks and uncertainties in scope and cost of funded schemes, we propose to apply enhanced engagement to the programme of work funded through the cost change process.

Consistent with our approach to PCD design for water enhancement – supply and demand balance at PR24, we propose to apply time incentives on the profile of ML/d benefit for the programme of work. We consider this avoids unnecessary complexity. In addition, the primary benefit customers are funding is the amount of Ml/d benefit regardless of the solution type used to deliver it. Further detail on time incentives are in section 3 of this document.

To identify the profile of delivery we have used the delivery year (in use) date provided in South East Water's submission.[16] This should align with the first year that the WAFU benefit is added to the supply demand balance.

Description of deliverable

The company is to deliver the WAFU benefit to the supply demand balance set out in PR24CCP14 Cost Change Draft Determinations 2026 Growth PCD model.

[16] South East Water, *Cost Change Submission 2026 Growth in Water Resources- Demand Growth investment submission to Ofwat*, May 2026, Table 5.

The company can substitute schemes where necessary. Where the company substitutes for schemes of a lower complexity category, 75% of the cost difference between the allowance and outturn spend will return to customers.

Measuring and reporting

The WAFU benefit to the supply demand balance is measured in megalitres per day (Ml/d).

WAFU benefit should be reported as the benefit to zonal supply-demand balance under the planning conditions and assumptions as determined by the company's latest WRMP24. WAFU benefit will be determined as the net change in supply-demand balance as a result of delivering the programme of work as calculated under Dry Year Annual Average or Dry Year Critical Period conditions (depending on the planning condition for the relevant water resource zone). The impacts of using Temporary Use Ban, Non-Essential Use Ban and Emergency Drought Order should be fixed at the frequencies as defined by the latest WRMP with regulatory approval.

The benefit should align to that presented by the company in the relevant WRMP annual review and we expect the company to clearly incorporate the stated benefits into its WRMP29 supply-demand balances in the year of reported delivery.

The company should report progress against deliverables as per the common reporting requirements set out in section 5 of this document.

In line with enhanced engagement, the company is required to report quarterly on scheme progress, scope and costing and the associated change to WAFU benefit being delivered. This additional reporting is for our contextual understanding of the change, and transparency for customers, and is not a justification for non-delivery and non-application of the PCD clawback.

Other conditions

There is a general expectation that all PR24 funded benefits, to balance supply and demand, will be delivered on time. The company should remain on track to deliver its PR24 water enhancement programme in full.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition to these requirements, independent third-party assurance should be provided on:

- The total amount of WAFU benefits reported as delivered to the supply demand balance in each year of the regulatory period.

- The reason for schemes being delayed or substituted.

Payments

Non-delivery is determined as WAFU delivered less the WAFU profile set out in the PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model. Non-delivery PCD payments will apply as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * Units\ of\ non-delivered\ PCD\ outputs$$

Where the company does deliver WAFU benefit, but through a lower complexity category, the non-delivery formula will not apply. Instead, we will calculate the non-delivery payment as 75% of the differential between programme allowance and spend. We set out details on payment rates for each deliverable in the PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model.

Time incentive underperformance payments will apply for any given year in accordance with the payment rates for each deliverable in PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model and will apply as per the approach detailed in section 3 of this document.

6.1.7 Growth at Sewage Treatment Works

Approach to deliverable

We will treat the Cost Change Process Growth at Sewage Treatment Works (STW) PCD using the same methodology that we applied at PR24 Final Determination for similar schemes. However, we will treat the PCD as separate to the existing PR24 Growth at STW PCD. For schemes delivered in the 2030-35 period, the requirements outlined below will apply in the 2030-35 period.

The proposed PCD will track the delivery of the schemes and accompanying cost drivers we used to calculate scheme level allowances for growth at STWs. The cost drivers we used to calculate these allowances are:

- process capacity added over the 2025-30 period to meet current and expected quality permits, measured in population equivalent (PE);
- expected change in Dry Weather Flow (DWF) permit levels over the 2025-30 period, measured in m3 per day; and
- ammonia permit dummy, indicating if the ammonia permit level falls and the new level is below 3mg/l.

We consider that a scheme level PCD is the best way to protect customers. Our assessment of historical delivery suggests that the inherent uncertainty of growth requirements usually leads to non-delivery of funded growth schemes or delivery of schemes at different sites. Our scheme level PCD protects customers from these changes and can more effectively track the delivery of additional capacity over time. We will cap the aggregate PCD adjustment at zero.

Description of Deliverable

The company is to deliver the named schemes and cost drivers as specified in PR24CCP14 Cost Change Draft Determinations 2026 - Growth PCD model.

Growth at STWs schemes funded through the cost change process cannot be substituted. We expect the named schemes to be sufficiently certain so that scheme flexibility is not required.

Where investment at a specific site is still required due to PE growth, but the scope is changed, for example as the process capacity added is lower, or the flow or quality permit changes are not as stretching as forecast, then we will adjust the PCD payment by recalculating allowances using the ratio of updated modelled cost and FD modelled cost to amend the scheme allowance. Total allowance will be capped at the Cost Change Process Growth at STW allowance.

Measuring and reporting

The company should report progress against deliverables as per the common reporting requirements set out in section 5.

In addition to the above common requirements, the company should for each growth at STWs scheme, report on the:

- Process capacity added over the 2025-30 period to meet current and expected quality permits, measured in population equivalent.
- Change in Dry Weather Flow (DWF) permit level over the 2025-30 period, measured in m3 per day. The historical and enhanced DWF permit should be provided.
- Change in the ammonia permit level as a result of the change in the DWF permit level, measured in mg/l.

The historical and enhanced ammonia permit level should be provided. The companies should report progress at the scheme level.

Other conditions

We expect the company to secure confirmation from the Environment Agency / Natural Resources Wales as appropriate the change in DWF is permit enforceable (i.e. the method by which the Environment Agency monitors compliance). We also expect the company to

provide third party assurance that, the new DWF is being met through permanent capital investment, is not base funded capital maintenance and will deliver a step change in capacity.

Any changes to permit levels must be agreed with the Environment Agency or Natural Resources Wales.

If the predicted growth for a site with an allowance is not likely to occur in the 2025-30 period as expected, and therefore any associated flow and / or quality permit changes are delayed, we would expect companies to assess if the growth (and associated permit changes) will materialise in the 2030-35 the period. If this is the case, we will not apply the PCD clawback in the PR24 end-of-period reconciliation as the investment should still continue. We will reassess delivery of the scheme in the PR29 end-of-period reconciliation. If this is not the case and growth is only predicted beyond 2035, we would clawback funding in the PR24 end-of period reconciliation for that site, and the company could reapply for funding at a later price review.

Where the company spends at least 60% of the allowed expenditure for schemes to be delivered in the 2025-30 period, the PCD allowance will carry over to PR29 with no claw-back applied but late delivery penalties will apply. The non-delivery PCD clawback will be applied if the company fails to deliver the PCD output by the end of the 2030-35 period.

Assurance

Common assurance requirements apply as per section 5.

In addition to the common requirements, the independent third-party assurer shall provide annual assurance of the date that the scheme was fully commissioned, operational and in permanent use. The solution delivered must be permanent and not temporary.

Independent third-party assurance should be provided for each scheme on:

- Process capacity added over the 2025-30 period to meet current and expected quality permits, measured in population equivalent.
- Change in Dry Weather Flow (DWF) permit level over the 2025-30 period, measured in m3 per day, including the historical and enhanced DWF permit level for each scheme.
- Change in the ammonia permit level as a result of the change in the DWF permit, measured in mg/l, including the historical and enhanced ammonia permit level for each scheme.

Payments

The non-delivery PCD payments will be calculated as per the approach for PCDWW27 as set out in section 4.4.2 of the PR24 final determinations: Price control deliverables appendix. We

set out details on payment rates for each deliverable in the PR24CCP14 Cost Change Draft Determinations 2026 Growth PCD model.

Time incentive underperformance payments will apply at a scheme-level for schemes to be delivered early in the 2030-35 period (AM9). The payments will apply for any given year in accordance with the payment rates for each deliverable in PR24CCP14 Cost Change Draft Determinations 2026 Growth PCD model.

6.2 PFAS

Approach to deliverable

We propose to amend the existing water quality PR24 PCD to reflect the additional expenditure we are allowing Wessex Water and South East Water through the PFAS reopener. We set out the proposed amended PCD in the PR24CCP11 Cost Change Draft Determinations 2026 - PFAS PCD model.

6.3 Large Gated Schemes PCDs

6.3.1 United Utilities - Windermere Waste – WINEP Package 1

Approach to deliverable

We propose to apply PCDs that will hold United Utilities to account to deliver the six phosphorous and sanitary parameters schemes included in this scheme.

The proposed phosphorous removal and sanitary parameters PCDs include separate non-delivery payment rates. If the company fails to deliver any specified item, the allowed expenditure for the item will return to customers.

The proposed P-removal PCD also includes an underperformance only time incentive as per our approach set out in Section 3 of this document, with underperformance rates applied to delivery later than the WINEP obligation date of 31/03/2030.

Description of deliverable

United Utilities must deliver the following deliverables:

- Troutbeck WwTW – phosphorous removal and treatment for tightening of sanitary parameters;

- Outgate WwTW – phosphorous removal and treatment for tightening of sanitary parameters;
- Near Sawrey WwTW – phosphorous removal and treatment for tightening of sanitary parameters;
- Far Sawrey WwTW – phosphorous removal and treatment for tightening of sanitary parameters;
- Grasmere WwTW - phosphorous removal; and
- Ambleside WwTW – phosphorous removal.

The units of output to be delivered for each scope item are specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Common reporting requirements apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, the company is required to provide independent third-party assurance on the completion of each of the listed deliverables.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * Units\ of\ non-delivered\ PCD\ outputs$$

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

We do not expect significant changes to the enhanced consents for P-Removal or Sanitary parameters values. Any substantial changes to cost drivers must be submitted and approved through the PCD change control process.

6.3.2 United Utilities - Windermere Waste – WINEP Package 2

Approach to deliverable

We propose to apply PCDs that will hold United Utilities to deliver the two phosphorous removal and sanitary parameters schemes and two storm overflow schemes included in the Windermere package 2.

The proposed storm overflow, flow to full treatment, phosphorous removal and sanitary parameters PCDs include separate non-delivery payment rates. If the company fails to deliver any specified item, the allowed expenditure for the item will return to customers.

The proposed P-removal, storm overflow and FFT PCDs also include an underperformance only time incentive as per our approach set out in Section 3 of this document, with underperformance rates applied to delivery later than the scheme specific WINEP obligation date listed in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Description of deliverable

United Utilities must deliver the following deliverables:

- Langdale WwTW – phosphorous removal and treatment for tightening of sanitary parameters;
- Hawkshead WwTW - phosphorous removal and treatment for tightening of sanitary parameters;
- Hawkshead PS – storm overflow spill reduction improvements to meet no adverse ecological harm through additional equivalent storage and an increase of flow to full treatment; and
- Glebe Road PS - storm overflow spill reduction improvements to meet no adverse ecological harm through additional equivalent storage

The units of output to be delivered for each scope item are specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the Large Gated Scheme PCD file.

Common reporting requirements apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, the company is required to provide independent third-party assurance on the completion of each of the listed deliverables.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * Units\ of\ non-delivered\ PCD\ outputs$$

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Where investment at a specific site is still required but the scope is changed, for example as less storage is required, or the assurance indicates that some of the equivalent storage is associated with regaining compliance and needs to be allocated to base, then we will adjust the PCD payment by recalculating allowances using the ratio of updated modelled cost and CCP modelled cost using the PR24 storm overflows model, to amend the scheme allowance. Total allowance will be capped at the cost change process allowance

We do not expect significant changes to the enhanced consents for P-Removal or Sanitary parameters values. Any substantial changes to cost drivers must be submitted and approved through the PCD change control process.

6.3.3 Northumbrian Water – Bran Sands Waste – Nitrogen Removal

Approach to deliverable

We propose to apply a PCD that will hold Northumbrian Water to deliver a long sea outfall at Bran Sands to meet nutrient neutrality nitrogen limits at Seal Sands.

If the company fails to deliver the specified output, the allowed expenditure for the item will return to customers.

Description of deliverable

Northumbrian Water must deliver a long sea outfall with a capacity of 6,179l/s at Bran Sands to meet the required nitrogen limits set in the WINEP by 31/03/2030.

The PCD units of the output are specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Common reporting requirements apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, the company is required to provide independent third-party assurance on the completion of each of the listed deliverables.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$\textit{Non-delivery PCD payment} = \textit{Payment rate} * \textit{Units of non-delivered PCD outputs}$$

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

6.3.4 Southern Water – [WTW 1]

Approach to deliverable

We propose to apply a non-delivery PCD that tracks the delivery of the different scope items of the investment, including the core items and the allowed additional scope items.

We propose to apply a different approach depending on whether the item is capacity related . For items which are capacity related, we propose to hold the company to delivering the item to support additional treatment capacity of 11 Ml/d. If the company delivers these items to support a lower treatment capacity, the PCD will apply a claw-back proportionate to the lower capacity supported.

For items which are not capacity related, we propose for the PCD to track the percentage of scope completed in value terms.

Description of deliverable

Southern Water must deliver the following capacity related scope items as defined in [WTW 1] Annex 5B_11A - LSG Costc Ofwat Template – Final:

- Ceramic Membrane Plant;
- Granular Activated Carbon Plant;
- Pre-Strainer; and
- Raw Water Balancing Tank.

The delivery of these scope items should support additional treatment capacity of 11 Ml/d.

The company must also deliver the following non-capacity related scope items as defined in [WTW 1] Annex 5B_11A - LSG Costc Ofwat Template – Final:

- Chemical Dosing System (pH Correction);
- Wastewater Recovery System;
- Ancillary Systems – including control room relocation;
- Additional Scope – which is comprised of additional generator (£7.00m), additional chlorine bulk storage (£3.57m), Additional Contact Vessel(s) (£2.40m) and Clancy Access Road (£1.21m); and
- Biodiversity net gain.

The units of output to be delivered for each scope item are specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model. These units must be delivered by 2033-34.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the Large Gated Scheme PCD file. For capacity related scope items, the unit of measurement is mega litres per day (Ml/d) of additional treatment capacity. For non-capacity related items, the unit of measurement is percentage of scope of work completed in value terms, except for biodiversity net gain (BNG) which tracks percentage of allowance spent.

Common reporting requirements apply as per section 5 of this document.

Other conditions

We expect Southern Water to secure confirmation from the Drinking Water Inspectorate that notices and Final Enforcement Orders linked to this investment have been completed to the satisfaction of the Drinking Water Inspectorate.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, the company is required to provide independent third-party assurance on the completion of each of the listed deliverables by 2034-35.

Payments

For capacity related scope items, non-delivery PCD payments will be calculated as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * units\ of\ non-delivered\ PCD\ output$$

where payment rate is the allowed expenditure for each scope item divided by 11 Ml/d.

The allowed expenditure includes an allocation of corporate overheads and risk exposure.

For non-capacity related scope items, non-delivery PCD payments will be calculated as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * units\ of\ non-delivered\ PCD\ output$$

where the payment rate is the allowed expenditure for each scope item divided by 100.

The allowed expenditure includes an allocation of corporate overheads and risk exposure.

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

6.3.5 Southern Water – Sandown

Approach to deliverable

We propose to apply a non-delivery PCD that tracks the delivery of 8.5 megalitres per day (Ml/d) of additional water available for use (WAFU) from the Sandown Isle of Wight Water Recycling Plant.

We also propose to apply an under-performance only time incentive PCD (£m per Ml/d per year) as per our approach set out in section 3 of this document. This is on the basis that we applied time incentives to similar schemes funded at PR24. We will allow a one year grace period, meaning that any underperformance payments will apply from 01/09/2031, one year after the current completion date.

Description of deliverable

Southern Water must deliver the following deliverables as specified deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model:

- Isle of Wight Water Recycling Plant – Providing 8.5 Ml/d additional WAFU to the low water resource zone (WRZ) with a constant minimum flow to meet the requirements of their most recently proposed draft WRMP24.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model. For supply and demand related scope items, the unit of measurement is mega litres per day (Ml/d) of additional WAFU.

Common reporting requirements apply as per section 5 of this document.

Other conditions

No further conditions apply.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, to these requirements, independent third-party assurance should be provided on:

- The total amount of WAFU benefit reported as delivered to the supply demand balance in each year of the regulatory period;
- The reason for schemes being delayed or cancelled.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$Non-delivery\ PCD\ payment = Payment\ rate * Units\ of\ non-delivered\ PCD\ outputs$$

where the payment rate is the total allowed expenditure divided by 8.5 Ml/d.

The allowed expenditure includes an allocation of corporate overheads.

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

6.3.6 Southern Water – Hastings

Approach to deliverable

We propose to apply a PCD to hold Southern Water to delivery of the Darwell to Beauport raw water main (length and capacity of additional raw water main), the Darwell-related enabling works, and the biodiversity net gain, easement and land-related requirements included in the allowance.

The proposed PCD includes separate non-delivery payment rates for the Darwell to Beauport raw water main project (excluding biodiversity net gain), the Darwell-related enabling works, and the biodiversity net gain provision. For raw water main element we propose for the PCD to track length of raw water main delivered. For the enabling works we propose to track the scope of work delivered, by tracking the percentage of scope completed in value terms.

For the biodiversity net gain, given that the scope of work is still uncertain, we propose to apply a 'use it or lose it' condition which tracks the percentage of allowance spent.

Southern Water's query response provides delivery dates for the Darwell to Beauport raw water main and Darwell-related enabling works. However, Southern Water's proposed customer protection milestone is 30 November 2033, aligned to the final IM6 date for the wider Hastings package. Because our draft determination funds the Darwell-focused scope only, the relevant delivery milestone should be linked to delivery and commissioning, or beneficial use, of the Darwell to Beauport raw water main. Southern Water should confirm the appropriate Darwell-specific delivery milestone and date as part of its representations.

Description of deliverable

Southern Water must deliver the following deliverables as defined:

- Total length of raw water main - 12.9 kilometres of DN700 ductile iron raw water main between Darwell Reservoir and Beauport Water Supply Works
- Biodiversity net gain - £17.354 million worth of biodiversity related improvements.
- Darwell to Beauport enabling works – which include access and intervention works on the existing Darwell to Beauport raw water main, including works to identify or restore damaged assets such as air valves, fittings and chambers.

The units of output to be delivered for each scope item are specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Measuring and reporting

The scope items must be measured in the units of measurement specified in the PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Common reporting requirements apply as per section 5 of this document.

Other conditions

We expect Southern Water to secure confirmation from the Drinking Water Inspectorate that any notices and Final Enforcement Orders linked to this investment have been completed to the satisfaction of the Drinking Water Inspectorate.

Assurance

Common assurance requirements apply as per section 5 of this document.

In addition, the company is required to provide independent third-party assurance on the completion of each of the listed deliverables.

Payments

Non-delivery PCD payments will apply as per the formula below:

$$\textit{Non-delivery PCD payment} = \textit{Payment rate} * \textit{Units of non-delivered PCD outputs}$$

We set out details on payment rates for each deliverable in PR24CCP13 Cost Change Draft Determinations 2026 - Large Gated Schemes PCD model.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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