

September 2021

Draft determination of South Staffs Water's in-period outcome delivery incentives for 2020-21

About this document

This document provides our draft decision on the extent to which the price controls set by our [PR19 final determinations](#) need to be adjusted to reflect South Staffs Water's performance for the 2020-21 Charging Year, under [Part 3A of Condition B](#) of the company's licence. The specific changes, and our reasons for these, are set out in this document and in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#), which concerns the impact of our draft determinations across the companies.

We also publish models related to our draft determinations on our [website](#).

Executive summary

This section sets out the results of our 2020-21 in-period outcome delivery incentives (ODI) assessment for South Staffs Water. ODIs are the financial or reputational consequences for companies of outperformance or underperformance against its performance commitments. Performance commitments are the pledges companies made to their customers and stakeholders at the 2019 price review (PR19) about service levels to make progress towards their outcomes.

'In-period' ODIs bring ODI payments closer in time to when customers experience a given level of performance. We do this through an annual reconciliation process between July and November following the relevant reporting year, in this case 2020-21. The results of our assessment for 2020-21 will affect South Staffs Water's bills in the 2022-23 charging year.

For 2020-21 South Staffs Water reported net underperformance payments of £0.423m against its performance commitments with in-period outcome delivery incentives, excluding C-MeX and D-MeX. We have assessed the company's performance against its performance commitments. In our draft determination, we are intervening on the following performance commitments:

- Education activities – we are intervening to change the company's outperformance of £0.008m to an underperformance of £0.086m, to ensure performance payments align with the requirements of the performance commitment definition.
- Leakage – we are deferring the company's outperformance of £0.258m due to concerns around the potential materiality of non-compliant components of the company's leakage methodology.
- Per capita consumption (PCC) – in line with our July consultation proposals, we are changing the timing of payments for this performance commitment to end of period.
- C-MeX and D-MeX – we are including a C-MeX underperformance payment of £0.080m and a D-MeX underperformance payment of £0.073m, based on assessment of 2020-21 company performance in our draft determinations.

The company also receives additional funding of £0.538m arising from our decisions on the green recovery. This is through a revenue adjustment related to a new performance commitment with in-period ODI payments introduced for South Staffs Water as part of our green recovery decisions. We explain this further in section 2.4.

See sections 2.2, 2.3 and 3.1 for details of our interventions.

In our draft determination we propose that the amount of revenue the company can recover from its customers in 2022-23, as a result of its performance against its performance commitments with in-period ODIs in 2020-21, is increased by £1.105m. This figure includes C-MeX and D-MeX payments as well as deferrals and green recovery funding but is before adjustments for inflation, tax and other relevant factors.

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1. Introduction

1.1 Background

South Staffs Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: South Staffs Water - Outcomes performance commitment appendix](#).¹ Most of the company's performance commitments have financial incentives which are paid 'in-period'. This brings ODI payments closer in time to when customers experience a given level of performance. The remaining financial incentives are end of period.

South Staffs Water supplies water to customers in the South Staffordshire region and Cambridge Water region, both of which are covered by this document.

South Staffs Water reported its performance against these performance commitments in its annual performance report (APR) in July 2021. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with [Part 3A of Condition B](#) of its licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations). Our determination, when final, will affect South Staffs Water's customers' bills from the 2022-23 charging year.

As set out in the PR19 final determinations, outperformance payments above 3% of a company's wastewater or water regulatory equity for that year are shared with customers. This means companies receive 50% of outperformance performance payments above this aggregate threshold. This sharing mechanism automatically applies to all ODI payments except to the customer measure of experience (C-MeX), developer measure of experience (D-MeX) and those allocated to retail price controls.

1.2 Purpose of this document

This document provides detailed information relating to the extent to which the price controls for the 2020-25 period need to be adjusted to reflect South Staffs Water's performance for the 2020-21 Charging Year. These changes are the result of the company's performance against its in-period ODIs as set out in the PR19 final determinations. This is our

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, by the annex 2 process. Annex 2 of the company's performance commitment appendix provides for changes and corrections to be made to its performance commitment definitions during the 2020-25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

draft decision for consultation. We welcome your views by 21 October 2021 as set out in section 4. We will make our final determinations by 15 November 2021.

2. Results of our assessment

2.1 Reported performance

South Staffs Water's reported performance for 2020-21 against its performance commitments with in-period ODIs is set out in table 3.1. The company's largest individual underperformance payment was £1.352m for its per capita consumption performance commitment in its South Staffordshire region. The company's largest individual outperformance payment was £0.383m for its water supply interruptions performance commitment.

2.2 Key interventions

Education activity

South Staffs Water requested that we abate its reported outperformance of £0.008m on its education activity performance commitment. In its "Supplementary information to the APR for sections 3 4A 5A and 6" the company states that "We have made every effort to continue to provide schools with education material (including virtual delivery), guidance and support. Overall, this has led to a far greater count of engagement than originally proposed in our PR19 target of 6,000 pupils however the activity has not always met the original requirement for a minimum duration and class size which is to be expected under these circumstances. To reflect this deviation from original scope we propose to fully abate the ODI reward of £0.008m shown in table 3A for our education activity ODI in 2020/21."

We set out our approach to assessing company requests for abatements and deferrals due to the impact of Covid-19 in our [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#). We understand that South Staffs Water's ability to carry out education activities has been affected by the Covid-19 lockdown, and we note that the company has adapted by including a range of quizzes and videos, teaching support and learning resources in its reported performance.

The specific performance commitment sets out "the number of people who have received the company's education services each year. The focus of the education activities provided by the company will be related to increasing awareness of the value of water as well as water efficiency and demand reduction. Education services will be delivered through a variety of routes including assemblies and more detailed workshops. Education services will be cross-curricular and targeted to the specific age group and ability concerned. In order to ensure quality of engagement, the company will only claim a maximum of 30 individuals per session. Each individual will receive a minimum of 60 minutes receiving education in sessions. Each assembly and workshop will include a range of introductory and follow up activities so that teachers can choose the work that best suits their class. The company will also provide

facilitation handbooks and a 'how to' delivery guide to enable future delivery by staff and teachers."

In arriving at our decision, we have considered the extent to which the delivery methods used by the company provide the intended quality of engagement. The requirements of this performance commitment limit the number of people engaged to 30 per session. The purpose of a session of this size is to ensure interactivity with participants, which has greater success of increasing awareness of the value of water as well as water efficiency and demand reduction. We also considered the nature of assemblies and detailed workshops, which make it clear that the purpose of the performance commitment is to provide an interactive, face to face, experience to meet the intended quality of education.

In our query, we asked the company to confirm "the total number of people – in groups of a maximum of 30 individuals – to whom the company delivered education services face-to-face or via webinar (I.e. live virtual teaching) for at least 60 minutes during 2020-21". The company confirmed in its response to our query that the total number of people who met this definition is 297 against the performance commitment level of 6,000 for 2020-21. We consider that 297 is the actual performance against this performance commitment because the live, interactive experience of sessions run by company representatives is fundamental to delivering the company's intended quality of education. As a result, we are not accepting the company's request to abate its outperformance payment of £0.008m but are instead intervening to impose an underperformance payment of £0.086m on the company for this performance commitment. In arriving at this decision, we have also considered whether the performance commitment could still be met under Covid-19 conditions and consider that moving to online delivery would have still allowed the scope to deliver educational activities to groups of no greater than 30 for a minimum of 60 minutes.

2.3 Payment deferrals and abatements

As set out in our [PR19 final determinations](#) and the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments on individual performance commitments. A deferral results in us delaying when the adjustment will be made to companies' revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment in the subsequent charging year.

Per capita consumption

South Staffs Water requested to defer underperformance payments for its per capita consumption performance commitment for 2020-21. In our [July 2021 consultation](#) on changing the timing of our determination of the value of ODI payments for per capita consumption performance commitments, we proposed that this should be end of period for all companies. Prior to our July 2021 consultation, we had asked relevant companies to

include ODI payments arising from their per capita consumption performance commitments in the deferrals function of the in-period adjustments model. We consider it would be more appropriate to reflect this proposed treatment through the ODI performance model, ensuring consistency with our policy proposals and ensuring that all ODI payments accrued during the 2020-25 period are applied at PR24, when we will make our final decisions.

Leakage

The use of common, converged methods for reporting data increases transparency for all stakeholders and makes comparisons across the sector more meaningful. As stated in our overview document, we had expected that all companies would have been compliant with our [PR19 common performance commitment definitions](#) when reporting 2020-21 leakage performance. In IN21/01 we said that "If the data submitted is not based on a fully converged methodology then companies should clearly state this and demonstrate that not being fully compliant does not have a material impact on the reported performance. If the move to convergence affects baselines for any performance commitments then companies should also show this clearly." However, we note that for leakage and per capita consumption reporting South Staffs Water has not achieved full compliance with this methodology.

South Staffs Water's response to our query confirmed that the impact of not achieving full compliance could be material in both of its operating areas. The company had reported an outperformance payment of £0.042m for its Cambridge region and an outperformance payment of £0.216m for its South Staffs region for 2020-21. The company proposed to defer the outperformance payment for its Cambridge region, but not for its South Staffs region. Given that there could be a material impact in the South Staffordshire region as well, we are intervening to defer our decisions on the payments for both regions to 2022. This will enable us to make a decision based on more robust data for both of its regions.

It is our expectation that there should not be any components of the company's leakage and per capita consumption methodology that are not fully compliant when reporting 2021-22 performance. We will closely assess any non-compliant elements in the 2021-22 APR submissions and will consider what interventions might be appropriate in light of our findings. Should any leakage information be revised or restated, we will take account of adjustments we have made to the relevant price control in relation to the leakage performance commitment in making future in-period determinations.

2.4 Green recovery

As part of our final decisions on the [green recovery](#), published in July 2021, we agreed to allow South Staffs Water additional funding during the current (2020-25) price control period. South Staffs Water receives this additional funding through a new performance commitment with in-period ODI payments (PR19SSC_GR), introduced through a licence modification that came into effect on 1 September 2021.

The company has met the requirement for a revenue adjustment for the 2022-23 charging year by accepting our green recovery final decision by 8 August 2021 and we therefore include a positive revenue adjustment of £0.538m. We apply this through the in-period adjustments model, with relevant adjustments as set out in the overview document.

3. Impact of 2020-21 in-period ODI assessment on price controls

3.1 Our draft determination

In this section we outline the financial impacts of our draft decisions. First, we set out our view compared to the company's requested ODI payments in table 3.1.

Table 3.2 sets out the C-MeX and D-MeX payments included in our draft determination.

Table 3.3 summarises the overall ODI payments, after other payments and relevant adjustments, that the company is due based on its performance in 2020-21.

Table 3.4 sets out our draft decisions on deferrals and abatements and how we propose that these payments should be applied in 2022-23.

Table 3.5 sets out the impact of our draft decisions on the company's relevant price controls.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 3.1: In-period ODI payments for 2020-21 by price control (excluding C-MeX and D-MeX)

This table sets out the in-period ODI payments requested by South Staffs Water for 2020-21, by price control, and our draft determination on these payments after any interventions.

Further detail on how these overall numbers have been derived is set out in the ODI performance model, which we have published on our website as part of the draft determinations. Where we have applied interventions, this is set out in "Ofwat_PC_Interventions" in the ODI performance model for this company.

Price control	Company's reported payments (£m)	Our draft decisions after interventions (£m)	Difference (£m)
Water resources	0.052	0.044	-0.008
Water network plus	-0.474	0.934	1.408
Residential retail	0.000	0.000	0.000
Total payments	-0.423	0.978	1.401

Table 3.2: C-MeX and D-MeX payments

Our draft determinations include the following C-MeX and D-MeX payments for this company:

Price control	C-MeX payments (£m)	D-MeX payments (£m)
Residential retail	-0.080	n/a
Water network plus	n/a	-0.073
Total payments	-0.080	-0.073

We have taken the data from the company's APR submissions and compared this against the recorded data from our survey agent, Accent.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

Table 3.3: ODI payments including C-MeX, D-MeX, bespoke adjustments and deferrals from 2019-20 (before 2020-21 deferrals and abatements)

This table sets out the composition of total ODI payments, including C-MeX and D-MeX, brought forward deferrals and bespoke adjustments where relevant, but before our draft decisions on 2020-21 deferrals and abatements.

Price control	Ofwat view of in-period ODI payments (£m)	C-MeX and D-MeX payments (£m)	ODI payments deferred from 2019-20 (£m)	Bespoke adjustments (£m)	Total ODI payments (£m, before 2020-21 abatements and deferrals)
Water resources	0.044	0.000	0.000	0.000	0.044
Water network plus	0.934	-0.073	0.000	0.538	1.399
Residential retail	0.000	-0.080	0.000	0.000	-0.080
Total	0.978	-0.153	0.000	0.538	1.363

Table 3.4: 2020-21 ODI payments after deferrals and abatements

This table sets out our draft decisions on the ODI payments to be applied, after deferrals and abatements, as set out in the in-period adjustments model published on our website for this company.

Price control	Total ODI payments (£m, before 2020-21 deferrals and abatements)	Ofwat proposed deferrals (£m)	Ofwat proposed abatements (£m)	Total ODI payments to be applied in 2022-23 (£m)
Water resources	0.044	0.000	0.000	0.044
Water network plus	1.399	0.258	0.000	1.141
Residential retail	-0.080	0.000	0.000	-0.080
Total	1.363	0.258	0.000	1.105

Table 3.5: Changes to price controls (draft determinations)

This table sets out the impact of our draft decision on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#) for how we propose to apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Previous determination	1.56	3.94	2.25	-2.01
	Revised	1.56	4.55	1.68	-2.01
Water network plus (K factors)	Previous determination	-0.61	-1.25	-6.11	-1.23
	Revised	-0.61	0.15	-7.38	-1.23
Residential retail (total revenue, TR _t – £m, nominal prices)	Previous determination	13.998	14.155	14.321	14.484
	Revised	13.998	14.045	14.321	14.484

We have based South Staffs Water's draft determination on the data and commentary provided to us by South Staffs Water. Should any of this information be revised or restated in future years, we will take account of adjustments we have made to the relevant price control in relation to the performance commitment(s) in question in making future in-period determinations.

4. Next steps

We welcome any written comments or representations on our draft determinations by **21 October 2021**. Representations can be made by all stakeholders. Representations can be sent to our inbox OfwatPandO@ofwat.gov.uk.

To ensure transparency, we expect companies to publish their representations in full. We also intend to publish all the written representations we receive on our website once we set out our final decisions.

In view of this, if respondents consider that some of the information in their representations should not be disclosed (for example, because they consider it is commercially sensitive information) they should identify that information and explain why. We would expect strong, robust reasons that are specific to the information concerned. We will take such explanations into account, but we cannot give an assurance that information included in representations will not be disclosed.

Information provided in response to this document, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

Where companies are making representations, they should consider what further evidence may be necessary to submit with their representations.

We will publish our final decisions by 15 November 2021, after considering representations from all stakeholders.

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