

November 2021

# **Final determination of SES Water's in-period outcome delivery incentives for 2020-21**

## About this document

This document provides our final decision on adjustments to SES Water's price controls for the company's performance for the 2020-21 Charging Year under Part 3A of Condition B of the company's licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations). The specific changes, and our reasons for these, are set out in this document and ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

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

## Executive summary

This section sets out the results of our 2020-21 in-period outcome delivery incentive (ODI) assessment for SES Water. ODIs are the financial or reputational consequences for companies of outperformance or underperformance against their 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 SES Water's customers' bills in the 2022-23 Charging Year.

For 2020-21 SES Water reported net underperformance payments of £1.107m against its performance commitments with in-period outcome delivery incentives, excluding C-MeX and D-MeX. We assessed the company's performance against its performance commitments and, in October 2021, consulted on our [draft determinations](#) for companies' in-period ODIs for 2020-21.

Having considered the responses to our draft determination, in our final determination we are intervening on the following performance commitments:

- Per capita consumption (PCC) – in line with the conclusions of our PCC consultation, we are deferring our determination of payments for performance against this performance commitment for the 2020-21 Charging Year.
- C-MeX and D-MeX – we are including a C-MeX underperformance payment of £0.226m and a D-MeX underperformance payment of £0.344m, based on assessment of 2020-21 company performance.

Our final determination is 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 reduced by £1.113m. This figure includes C-MeX and D-MeX payments as well as bespoke adjustments but is before adjustments for inflation, tax and other relevant factors.

Further details regarding the responses we received, our final decisions and the adjustments that we have made are presented in sections 2 and 3, and ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

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# 1. Introduction

## 1.1 Background

SES Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: SES – Outcomes performance commitment appendix](#).<sup>1</sup> 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 incentives are end of period.

SES Water reported its performance against these performance commitments in its annual performance report (APR) in July 2021. We considered this information and, where relevant, further information from companies' answers to our queries. In October 2021, we consulted on our draft determination for SES Water's in-period ODIs for 2020-21. We have considered the responses we have received relating to our draft determination.

Our final determination sets out the adjustments to the company's price controls and will affect SES Water's customers' bills from the 2022-23 Charging Year.

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<sup>1</sup> 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](#).

## **2. Results of our assessment**

### **2.1 Reported performance**

SES Water's reported performance for 2020-21 against its performance commitments with financial in-period ODIs is set out in table 3.1 below. The company's largest individual underperformance payment is £0.616m for its per capita consumption performance commitment. There are no outperformance payments for 2020-21.

### **2.2 Key interventions**

In our draft determinations we intervened in relation to C-MeX and D-MeX and per capita consumption, as set out in sections 2.3 and 3.1.

#### **2.2.1 Water supply interruptions**

##### **Our draft decision**

We made our draft decisions on the information supplied to us by SES Water at that stage. We did not intervene nor comment on this topic in our draft decisions.

##### **Stakeholders' responses**

SES Water's response to our consultation provided an update to the connected property data used to calculate the 2020-21 ODI for this performance commitment. The property number (which is used as a denominator) changed from 303,260 to 285,480.

##### **Consideration of responses and final decision**

On the basis of this revised information, our final determination uses the updated property numbers and, as a result, the underperformance payment for water supply interruptions increases from £0.053m to £0.106m.

#### **2.2.2 Other issues raised in stakeholders' responses**

In SES Water's response to our consultation, it also commented on challenges it is experiencing relating to water softening, customer concerns about water, power usage and the longer-term impacts of Covid-19. It wanted to engage with us on these issues.

## Consideration of responses and final decision

We understand from discussions with SES Water that the wider issues it raised in its response do not affect our final determination of the company's 2020-21 ODI payments. As a result, we have not included any adjustments to our final decision in relation to these matters. On the topic of Covid-19 we set out our position on this in the Information Notice [IN21/01](#).

### 2.2.3 C-MeX and D-MeX

#### Our draft decision

Our draft determination included a C-MeX underperformance payment of £0.226m and a D-MeX underperformance payment of £0.344m, based on assessment of 2020-21 company performance in our draft determinations.

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.

#### Stakeholders' responses

We did not receive any specific comments on this issue.

#### Consideration of responses and final decision

Our final decision is unchanged from our draft determination, as stated above.

## 2.3 Payment deferrals and abatements

As set out in our [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.

The company did not request any payment abatements. Based on our assessment of the company's performance, we do not consider any are required. As such, we do not apply any payment abatements in our final determination.

## 2.3.1 Per capita consumption (PCC)

### Our draft decision

In line with our July consultation proposals, we proposed changing the timing of payments for this performance commitment to end of period.

SES Water did not request 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 now 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 can be applied at PR24, when we will make our final decisions.

### Stakeholders' responses

We did not receive any specific comments on this issue.

### Consideration of responses and final decision

Our consultation on moving the timing of the per capita consumption performance commitment to the end of the 2020-25 period has [concluded](#). After carefully considering the responses to that consultation, we have confirmed that ODI payments for per capita consumption performance commitments will be determined at the end of the period for all years within the 2020-25 price control period. Consequently, we have not included any adjustment in relation to this performance commitment in our final determination.



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

#### 3.1 Our final determination

In this section we outline the financial impacts of our final 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 final 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 final decisions on deferrals and abatements and how we propose that these payments should be applied in 2022-23.

Table 3.5 sets out the changes that we are determining to the company's relevant price controls because of those decisions.

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 SES Water for 2020-21, by price control, and our final 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 final 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)	Our final decisions after interventions (£m)
Water resources	0.000	0.000	0.000
Water network plus	-0.972	-0.356	-0.409
Residential retail	-0.135	-0.135	-0.135
<b>Total payments</b>	<b>-1.107</b>	<b>-0.491</b>	<b>-0.544</b>

See section 2 for details of our interventions on the company's performance commitments.

**Table 3.2: C-MeX and D-MeX payments**

Our final 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	-0.226	n/a
Water network plus	n/a	-0.344
<b>Total payments</b>	<b>-0.226</b>	<b>-0.344</b>

See section 2.2.3 for further details on C-MeX and D-MeX.

**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 final 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	0.000	0.000	0.000	0.000	<b>0.000</b>
Water network plus	-0.409	-0.344	0.000	0.000	<b>-0.752</b>
Residential retail	-0.135	-0.226	0.000	0.000	<b>-0.361</b>
<b>Total</b>	<b>-0.544</b>	<b>-0.570</b>	<b>0.000</b>	<b>0.000</b>	<b>-1.113</b>

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

This table sets out our final 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 final deferrals (£m)	Ofwat final abatements (£m)	Total ODI payments to be applied in 2022-23 (£m)
Water resources	0.000	0.000	0.000	<b>0.000</b>
Water network plus	-0.752	0.000	0.000	<b>-0.752</b>
Residential retail	-0.361	0.000	0.000	<b>-0.361</b>
<b>Total</b>	<b>-1.113</b>	<b>0.000</b>	<b>0.000</b>	<b>-1.113</b>

See section 2.3 for our decisions relating to deferrals and abatements for this company.

**Table 3.5: Changes to price controls (final determinations)**

This table sets out the changes to the level of the company's price controls that we are determining for the Charging Years beginning on 1 April 2022 and 1 April 2023. The details for other charging years are included for completeness and ease of reference. The in-period adjustments model published on our website shows how these changes reflect the impact of our final decisions. See '[Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21](#)' for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
<b>Water resources (K factors)</b>	Last determination	-2.89	-2.69	-3.95	-2.13
	Final determination	-2.89	-2.69	-3.95	-2.13
<b>Water network plus (K factors)</b>	Last determination	-0.60	0.00	-0.45	-0.53
	Final determination	-0.60	-1.93	1.45	-0.53
<b>Residential retail (total revenue, TR<sub>t</sub> – £m, nominal prices)</b>	Last determination	5.422	5.588	5.756	5.910
	Final determination	5.422	5.095	5.756	5.910

We have based SES Water's final determination on the data and commentary provided to us by SES Water (and, where relevant, other water companies). 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.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
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Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA  
Phone: 0121 644 7500

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