

November 2021

Final determination of South East Water's in-period outcome delivery incentives for 2020-21

About this document

This document provides our final decision on adjustments to South East 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 South East 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 South East Water's customers' bills in the 2022-23 Charging Year.

For 2020-21 South East Water reported net underperformance payments of £5.818m 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 and conducted further analysis, in our final determination, we are intervening on the following performance commitments:

- Mains repairs – we are intervening to include an underperformance of £1.029m for this performance commitment. This is a larger underperformance than the £0.798m the company originally submitted but has reduced by £0.077m since our draft decisions. It now correctly includes 'repairs on repairs' to the main, in line with the performance commitment definition.

- Per capita consumption (PCC) – in line with our decision following of our per capita consumption consultation, we are deferring our determination of payments for performance against this performance commitment for the 2020-21 Charging Year.
- Business void properties - 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 £0.401m and a D-MeX underperformance payment of £0.239m, based on assessment of 2020-21 company performance in our draft determinations.

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 £4.627m. 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

South East Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: South East 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 incentives are end of period.

South East 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 South East 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 South East Water's customers' bills from the 2022-23 Charging Year.

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](#).

2. Results of our assessment

2.1 Reported performance

South East 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 £3.088m for its water supply interruptions performance commitment. The company's largest individual outperformance payment is £0.303m for its leakage performance commitment.

2.2 Key interventions

2.2.1 Mains repairs

Our draft decision

In our draft determination we intervened to increase South East Water's underperformance payments in relation to its mains repairs performance commitment by £0.308m. This was because the company confirmed, in response to our query, that it has not included all of its repairs on repairs to the main within its reported performance in its APR. South East Water's reported performance was based on a misinterpretation of its mains repairs (PR19SEW_B.2) performance commitment definition. The definition incorporates our [reporting guidance](#) on mains repairs, which is clear that repairs on repairs to the main should be included in the reported performance. Our intervention increased the company's underperformance payment for this performance commitment from £0.798m to £1.106m.

Stakeholders' responses

In its response, South East Water did not agree with our draft decision as it does not deem repairs on repairs an indication of asset health. The company requested that we revisit our position and the definition of this measure.

South East Water also provided a revised set of exclusions for repairs on repairs and revised underperformance levels. In response to our query before draft determination, 64 repairs on repairs were identified. South East Water has now reduced this to 48 and has provided sufficient detailed reasoning for excluding 16 events. South East Water states that this changes its underperformance payment from £1.106m to £1.029m.

Consideration of responses and final decision

On the basis of the all the information reviewed our decision to intervene for mains repairs remains unchanged from our draft decision.

However, we are adjusting our final determination to account for information included in South East Water's consultation response, explaining that the correct number of exclusions is 48, not the initial 64 at draft proposal. In line with the PR19 definition for this performance commitment, the company has now correctly excluded 16 events (which were associated with ancillaries, third party damage, no leak found or a duplicate record). Therefore, we are reducing South East Water's underperformance payment by £0.077m from £1.106m to £1.029m.

We also consider that the current mains repairs reporting guidance provides sufficient clarification on this issue. The definitions for all common PCs will be consulted upon as part of the 2024 price review (PR24) process, providing the companies and other stakeholders with an opportunity to input into performance commitment development

This decision has been considered alongside other company mains repairs performance commitments, as set out in the ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#). This includes responses to common issues such as asset health of water mains.

2.2.2 Business void properties

Our draft decision

South East Water has a bespoke performance commitment relating to the number of non-household properties classified as void as a percentage of the total number of non-household properties served by the company. The company aims to maintain the percentage of void properties below the performance commitment level of 8.1%. Its reported performance for 2020-21 is 10.6%, which results in an underperformance payment of £0.838m. South East Water asked that we treat this performance commitment in the same way that we propose to treat per capita consumption, by making our determination of the value of ODI payments for this performance commitment at the end of the 2020-25 period.

South East Water submitted a study which it commissioned from a third party which estimated that the pandemic may have materially increased the company's percentage of void properties in 2020-21. South East Water explained that it had been working closely with retailers to ensure that the data on the Central Market Operating System (CMOS) had been updated to accurately reflect the number of void properties and that there had been some delays to this process. We noted that data in CMOS can be updated retrospectively and the figure reported this year may be revised. In addition, we considered that there was

uncertainty about the ongoing impact of Covid-19 on local businesses and the extent to which these impacts might be permanent.

Based on the evidence provided we intervened in our draft determination to defer decisions on the value of ODI payments for this performance commitment until the end of the 2020-25 period. We said that we would consider information about the impact of Covid-19 on this, and the wider impact of the pandemic at that time. South East Water will continue to report against the performance commitment levels set for each year of the 2020-25 price control period. In considering whether any intervention is necessary, at the end of period, we would take account of the company's efforts to drive down the number of non-household void properties.

Further details on our approach to Covid-19 related impacts are set out in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#)

Stakeholders' responses

In its response regarding business void properties, South East Water supported our draft determination proposal. They have commented that "we welcome Ofwat's agreement with our proposal for handling our bespoke ODI on business voids in the same way that the PCC ODI will be handled."

Consideration of responses and final decision

Based on all the information reviewed, our final decision remains unchanged from our draft determination. We will consider the case for amending ODI payments and make appropriate payments in our 2024 Price Review (PR24).

2.2.3 C-MeX and D-MeX

Our draft decision

Our draft determination included a C-MeX underperformance payment of £0.401m and a D-MeX underperformance payment of £0.239m, 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 comments on this issue.

Consideration of responses and final decision

Our final decision is unchanged from our draft determination.

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. South East Water also asked us 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 South East 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	-0.138	-0.138	-0.138
Water network plus	-4.566	-3.731	-3.654
Residential retail	-1.114	-0.196	-0.196
Total payments	-5.818	-4.064	-3.987

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	-0.401	n/a
Water network plus	n/a	-0.239
Total payments	-0.401	-0.239

See section 2 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	-0.138	0.000	0.000	0.000	-0.138
Water network plus	-3.654	-0.239	0.000	0.000	-3.892
Residential retail	-0.196	-0.401	0.000	0.000	-0.597
Total	-3.987	-0.640	0.000	0.000	-4.627

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	-0.138	0.000	0.000	-0.138
Water network plus	-3.892	0.000	0.000	-3.892

Residential retail	-0.597	0.000	0.000	-0.597
Total	-4.627	0.000	0.000	-4.627

See section 2 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 how we have applied adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Last determination	3.37	3.25	2.65	1.60
	Final determination	3.37	2.35	3.53	1.60
Water network plus (K factors)	Last determination	-0.03	-0.52	-0.36	-0.23
	Final determination	-0.03	-3.01	2.12	-0.23
Residential retail (total revenue, TR_t – £m, nominal prices)	Last determination	19.331	19.573	19.788	19.997
	Final determination	19.331	18.758	19.788	19.997

We have based South East Water's final determination on the data and commentary provided to us by South East 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.

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