

November 2021

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

## About this document

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

For 2020-21 South West Water reported net underperformance payments of £14.900m 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, we are intervening on the following performance commitments:

- Bathing waters – we are intervening to set the company's 2020-21 performance as "n/a" to align with the Environment Agency's classification for 2020-21.
- Mains repairs – we are intervening to adjust the company's 2020-21 performance so that the outperformance payment reduces to £0.003m from £0.011m.
- C-MeX and D-MeX – we are including a C-MeX underperformance payment of £0.536m, based on the 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 £15.444m. 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'](#)

## Contents

1. Introduction	4
1.1 Background	4
2. Results of our assessment	5
2.1 Reported performance	5
2.2 Key interventions	5
2.2.1 Bathing Waters	5
2.2.2 Mains repairs	6
2.2.3 C-MeX and D-MeX	7
2.3 Payment deferrals and abatements	7
3. Impact of 2020-21 in-period ODI assessment on price controls	9
3.1 Our final determination	9

# 1. Introduction

## 1.1 Background

South West Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: South West Water – 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.

South West 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 West 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 West 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

South West 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 £13.776m for its pollution incidents performance commitment. The company's largest individual outperformance payment is £1.197m for its internal sewer flooding performance commitment.

### 2.2 Key interventions

#### 2.2.1 Bathing Waters

##### Our draft decision

A number of companies highlighted that Covid-19 affected performance commitments relating to the Environment Agency's assessment of bathing water quality. Because of the pandemic restrictions, the Environment Agency did not collect sufficient samples during 2020 to make a classification. In the absence of any classification by the Environment Agency, four companies (Anglian Water, Northumbrian Water, Southern Water and Yorkshire Water) reported 'n/a' for their 2020-21 performance. South West Water was the only other company with a similar form of bathing water performance commitment that uses this data. Some PR19 performance commitment definitions stated what should happen if beaches are closed for sampling but none of the definitions set out what action should be taken where no classification was recorded by the Environment Agency. South West Water was the only company that reported using the previous year's classification as a proxy for 2020-21 performance.

We accepted the approach of Anglian Water, Northumbrian Water, Southern Water and Yorkshire Water. We intervened to set South West Water's 2020-21 performance as n/a to reflect the approach taken by the Environment Agency.

##### Stakeholders' responses

South West Water says that its bathing water commitment is intrinsically linked to delivering eight Water Industry National Environment Programme (WINEP) capital schemes, all of which had been agreed with the Environment Agency (EA) to tackle its impact on bathing waters. The company states that it has completed four schemes, which it says means it is ahead of its performance commitment level for 2020-21 of zero schemes. The company says these four

have been assessed by the EA and says that, whilst a formal categorisation has not been made due to the lack of sampling during 2020, it considers that completion of the approved schemes is sufficient to make a positive assessment of the ODI delivery. The company also says that the draft 2021 bathing water data shows improvement because of its investment. Therefore, it expects the ODI outperformance payment indicated in its original submission to be applied at PR24.

We did not receive any specific comments on this performance commitment from other stakeholders.

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

Having considered stakeholder responses, our final decision is to retain the 'n/a' categorisation. We recognise that bathing water classification is one of a number of factors that South West Water must meet within its performance commitment. So while we note the company's stated progress on its WINEP schemes, this is not the sole determinant of the company's score against this performance commitment. Because the company's score for this performance commitment requires Environment Agency annual classification data it is unclear how we can be sure that this has been met without an EA classification for the reporting year 2020-21.

However, we note that ODI payments for this performance commitment are made at the end of the 2020-25 period and the company can set out its case as part of PR24 in light of its performance across the whole period, drawing on the principles set out above for Covid-19 related interventions.

### **2.2.2 Mains repairs**

#### **Our draft decision**

Based on a misinterpretation of the reporting guidance linked to its mains repairs performance commitment definition, the company had not included all its repairs on repairs to the main in its APR submission.

In our draft determination, we said that we expected South West Water to confirm the number of repairs on repairs to the main excluded from its reported mains repairs performance, the revised performance and any revised payments, so that we could make the appropriate intervention in our final determination.

#### **Stakeholders' responses**

In its response regarding mains repairs, South West Water identified 26 repairs on repairs which were not included in its original APR submission. The company states the revised total

(2,798) mains repairs normalised by the length of 18,432.71 km of water mains gives a new normalised score of 151.8 to 1dp (compared to 150.4) reducing the outperformance to £0.003m from £0.011m.

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

Having considered the company's response, we have recalculated South West Water's outperformance payment, which we reduce to £0.003m, using its revised performance data.

## **2.2.3 C-MeX and D-MeX**

### **Our draft decision**

Our draft determination included a C-MeX underperformance payment of £0.536m but no D-MeX payment (because South West Water is the median performing company), 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, 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 deferrals or 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 deferrals or abatements 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 West 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	-0.150	-0.150	-0.150
Water network plus	-3.706	-3.706	-3.714
Wastewater network plus	-10.920	-10.920	-10.920
Bioresources	-0.124	-0.124	-0.124
Residential retail	0.000	0.000	0.000
<b>Total payments</b>	<b>-14.900</b>	<b>-14.900</b>	<b>-14.908</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	-0.536	n/a
Water network plus	n/a	0.000
Wastewater network plus	n/a	0.000
<b>Total payments</b>	<b>-0.536</b>	<b>0.000</b>

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	-0.150	0.000	0.000	0.000	-0.150
Water network plus	-3.714	0.000	0.000	0.000	-3.714
Wastewater network plus	-10.920	0.000	0.000	0.000	-10.920
Bioresources	-0.124	0.000	0.000	0.000	-0.124
Residential retail	0.000	-0.536	0.000	0.000	-0.536
<b>Total</b>	<b>-14.908</b>	<b>-0.536</b>	<b>0.000</b>	<b>0.000</b>	<b>-15.444</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	-0.150	0.000	0.000	-0.150
Water network plus	-3.714	0.000	0.000	-3.714
Wastewater network plus	-10.920	0.000	0.000	-10.920
Bioresources	-0.124	0.000	0.000	-0.124
Residential retail	-0.536	0.000	0.000	-0.536
<b>Total</b>	<b>-15.444</b>	<b>0.000</b>	<b>0.000</b>	<b>-15.444</b>

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
<b>Water resources (K factors)</b>	Last determination	-2.54	2.67	-1.54	-0.23
	Final determination	-2.54	1.65	-0.57	-0.23
<b>Water network plus (K factors)</b>	Last determination	0.58	0.49	-1.59	-0.18
	Final determination	0.58	-1.75	0.60	-0.18
<b>Wastewater network plus (K factors)</b>	Last determination	-0.82	-0.13	-0.48	-1.75
	Final determination	-0.82	-6.35	5.92	-1.75
<b>Bioresources (unadjusted revenue, <math>UR_t</math> – £m, 2017-18 Nov CPIH prices)</b>	Last determination	23.360	23.525	23.691	23.911
	Final determination	23.360	23.372	23.691	23.911
<b>Residential retail (total revenue, <math>TR_t</math> – £m, nominal prices)</b>	Last determination	30.516	30.504	30.516	30.477
	Final determination	30.516	29.772	30.516	30.477

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