

November 2021

Final determination of United Utilities' in-period outcome delivery incentives for 2020-21

Ofwat

About this document

This document provides our final decision on adjustments to United Utilities' 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 United Utilities. 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 United Utilities' customers' bills in the 2022-23 Charging Year.

For 2020-21 United Utilities reported net outperformance payments of £15.486m 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:

- Per capita consumption (PCC) – in line with our decision following our per capita consumption consultation, we are deferring our determination of payments for performance against this performance commitment for the 2020-21 Charging Year.
- Water supply interruptions – we are increasing the outperformance payment by £0.031m as a result of a correction of an error in the property numbers denominator.

- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £2.076m and a D-MeX outperformance payment of £1.053m, based on assessment of 2020-21 company performance in our draft determinations.
- Mains repairs – we are increasing the outperformance payment by £0.146m as a result of further performance information being provided by United Utilities.
- Sewer blockages – we are not intervening for this performance commitment as a result of further performance information from United Utilities. The reported underperformance payment of £2.363m will be applied.

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 increased by £20.533m. 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

United Utilities' performance commitments for the 2020-25 period are set out in [PR19 final determinations: United Utilities – 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.

United Utilities 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 United Utilities' 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 United Utilities' 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

United Utilities' 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 £7.224m for its internal sewer flooding performance commitment. The company's largest individual outperformance payment is £7.553m for its hydraulic internal flood risk resilience performance commitment.

2.2 Key interventions

2.2.1 Water supply interruptions

Our draft decision

In our draft determination, we intervened to increase the company's outperformance for this performance commitment by £0.031m from £1.591m to £1.622m. This was to correct an error in the total number of properties supplied which was used as a denominator for this performance commitment. The performance commitment definition requires that the total number of properties supplied at year end is used as the denominator. The company had confirmed that it had incorrectly used the total number of properties supplied at the beginning of the year (3,379,000) as the denominator for this performance commitment. The company also confirmed the correct denominator for this performance commitment is 3,405,592.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final decision

In light of there being no responses specific to this performance commitment after our draft determination, our final decision on the company's performance payment for this performance commitment is as stated in our draft determination, above.

2.2.2 Mains repairs

Our draft decision

Based on a misinterpretation of the reporting guidance linked to its mains repairs performance commitment definition, we noted that United Utilities had not included all its repairs on repairs to the main in its APR.

In our draft determination, we said that we expected United Utilities 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, United Utilities states that it has done additional work to examine repair job records and has identified various repair work which it believes should be added to or removed from its reported performance as follows:

- 223 repairs which it had not included in its APR21 submission and which it believes should continue to be excluded (35 prior to reinstatement, 9 on fittings, and 179 on collars or clamps without taking the main out of service).
- 281 repairs to ferrules which it had included in its APR21 submission, but states should have been excluded from its reported performance.
- 56 repairs which it had not included in its APR21 submission and which it states should have been included (tightening, replacing or resetting collars and couplings where the main had to be depressurised or where asset deterioration is implicated).

The result of the adjustments above is that United Utilities proposes a net reduction to its APR21 reported performance of 225 repairs, resulting in reported performance changing from 4,582 repairs to 4,357 repairs and increasing the outperformance payment for this performance commitment from £1.610m to £2.310m.

Consideration of responses and final decision

We have reviewed United Utilities' response and have not allowed for all the changes proposed by the company.

The company correctly includes repairs on clamps (bolt tightening) but it has incorrectly limited this to incidents when the main is discharged. When the work is conducted on a live or pressurised main it has excluded these repairs. The mains repairs guidance clearly states that a 'clamp on the main should be included' and that 'Once the main is recharged, and customers are back in supply, then if there is a new incident it is counted as a separate repair'.

Therefore, once the original repair has happened, any subsequent bursts or leaks that are detected that require any type of repair work to take place on the main to restore its full functionality should be counted as a new repair, regardless of the cause. This includes any repairs to clamps fitted to a main to ensure its functionality, as the clamp is considered to be part of the main once fitted. Without the clamp the integrity of the main would be compromised and water would continue to be lost.

We therefore consider that the 179 clamp repairs on live mains should be included. This results in a total of 4,536 repairs, a net improvement of 46 (not 225 as proposed by the company) and increases the outperformance payment by £0.146m from £1.610m to £1.756m.

This decision has been made 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'](#).

2.2.3 Sewer blockages

Our draft decision

In our draft determination we stated that United Utilities' sewer blockages performance commitment appeared not to include third party incidents. We noted that the PR19 definition for this performance commitment says "the company will include blockages that are as a result of third party interference". We required United Utilities to provide reported 2020-21 performance for this performance commitment including those blockages relating to third party interference as part of their response to this consultation (or earlier if possible). We said this would allow us to intervene in our final determinations if this is required.

Stakeholders' responses

In its response regarding sewer blockages, United Utilities clarified that its annual performance report commentary contained an unintentional wording error. The company has confirmed that blockages from third party interference are included in the actual reported performance for 2020-21 and provided evidence to support this.

Consideration of responses and final decision

Based on the response we have received from United Utilities, we consider we no longer need to intervene for this performance commitment.

United Utilities has provided sufficient and high-quality evidence that it has included blockages from third party interference in its reported performance as required by this performance commitment. We therefore consider the company's actual reported

performance to be 22,352 blockages for 2020-21, resulting in an underperformance payment of £2.363m.

2.2.4 C-MeX and D-MeX

Our draft decision

Our draft determination included a C-MeX outperformance payment of £2.076m and a D-MeX outperformance payment of £1.053m, 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. United Utilities 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 United Utilities 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 | 0.185 | 0.185 | 0.185 |
| Water network plus | 1.738 | 3.512 | 3.657 |
| Wastewater network plus | 6.807 | 6.807 | 6.807 |
| Bioresources | 0.302 | 0.302 | 0.302 |
| Residential retail | 6.453 | 6.453 | 6.453 |
| Total payments | 15.486 | 17.259 | 17.404 |

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 | 2.076 | n/a |
| Water network plus | n/a | 0.725 |
| Wastewater network plus | n/a | 0.328 |
| Total payments | 2.076 | 1.053 |

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 | 0.185 | 0.000 | 0.000 | 0.000 | 0.185 |
| Water network plus | 3.657 | 0.725 | 0.000 | 0.000 | 4.381 |
| Wastewater network plus | 6.807 | 0.328 | 0.000 | 0.000 | 7.136 |
| Bioresources | 0.302 | 0.000 | 0.000 | 0.000 | 0.302 |
| Residential retail | 6.453 | 2.076 | 0.000 | 0.000 | 8.529 |
| Total | 17.404 | 3.129 | 0.000 | 0.000 | 20.533 |

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 | 0.185 | 0.000 | 0.000 | 0.185 |
| Water network plus | 4.381 | 0.000 | 0.000 | 4.381 |
| Wastewater network plus | 7.136 | 0.000 | 0.000 | 7.136 |
| Bioresources | 0.302 | 0.000 | 0.000 | 0.302 |
| Residential retail | 8.529 | 0.000 | 0.000 | 8.529 |
| Total | 20.533 | 0.000 | 0.000 | 20.533 |

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 | -0.06 | 0.13 | 1.90 | 4.73 |
| | Final determination | -0.06 | 0.37 | 1.68 | 4.73 |
| Water network plus (K factors) | Last determination | 0.29 | -1.96 | -1.09 | -3.06 |
| | Final determination | 0.29 | -1.03 | -1.98 | -3.06 |
| Wastewater network plus (K factors) | Last determination | -2.87 | -1.58 | -2.12 | -1.23 |
| | Final determination | -2.87 | -0.38 | -3.25 | -1.23 |
| Bioresources (unadjusted revenue, UR_t – £m, 2017-18 Nov CPIH prices) | Last determination | 93.310 | 94.172 | 95.368 | 96.943 |
| | Final determination | 93.310 | 94.545 | 95.368 | 96.943 |
| Residential retail (total revenue, TR_t – £m, nominal prices) | Last determination | 108.375 | 109.105 | 109.980 | 111.236 |
| | Final determination | 108.375 | 120.752 | 109.980 | 111.236 |

We have based United Utilities' final determination on the data and commentary provided to us by United Utilities (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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