

November 2021

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

**Ofwat**

## About this document

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

For 2020-21 Yorkshire Water reported net underperformance payments of £1.018m 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 increasing the company's underperformance payment by £0.134m to include 'repairs on repairs' to the main, in line with the performance commitment definition.
- Operational carbon – we are reducing the company's outperformance payment by £0.331m to ensure the performance commitment is calculated using version 13 of the UKWIR Carbon Accounting Workbook, in line with the performance commitment definition.

- Education – we are increasing the company's underperformance payment by £0.004m to ensure that only hours for which individual feedback has been obtained count towards this performance commitment in line with the performance commitment definition.
- 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.
- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £0.466m and a D-MeX underperformance payment of £2.884m, based on assessment of 2020-21 company performance in our final 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 £2.262m. 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

Yorkshire Water's performance commitments for the 2020-25 period are set out [PR19 final determinations: Yorkshire Water - Outcomes performance commitments appendix](#) subject to any changes made by the Competition and Markets Authority (CMA).<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.

Yorkshire 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 Yorkshire 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 Yorkshire 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

Yorkshire 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 £9.025m for its internal sewer flooding performance commitment. The company's largest individual outperformance payment is £16.985m for its external sewer flooding performance commitment.

### 2.2 Key interventions

#### 2.2.1 Operational carbon

##### Our draft decision

In our draft determination we intervened to reduce Yorkshire Water's outperformance payment in relation to its operational carbon performance commitment by £0.331m. This is because the performance commitment definition requires reporting of annual emissions to use version 13 of the UK Water Industry Research Carbon Accounting Workbook, and the company used version 14 for this performance commitment. Using the same version of the workbook across all companies helps to improve transparency and understand companies' relative performance.

In their annual performance report submissions, some companies suggested that a later version of the workbook would be a more appropriate basis for the calculation of these performance commitments.

##### Stakeholders' responses

In its response, Yorkshire Water states that there are several errors in version 13 of the Carbon Accounting Workbook that do not follow global reporting best practice. The company states that it had sought to follow global standards to report the most accurate and fair baseline by using the latest version of the guidance that related directly to the first year of the 2020-25 period and applied this to the baseline year. It notes that this updated version of the workbook (version 14) also addresses the issues and errors identified in version 13. Other stakeholders also commented on this topic and we cover this topic in the ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

The company states that it understands the action taken by Ofwat to ensure consistency of reporting in line with the PR19 final determination and across the industry. It notes, however, that it would welcome a consultation to ensure alignment with its PR19 final determination obligations while maintaining wider carbon reporting best practice.

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

Having considered the stakeholder responses, our final decision is as set out in our draft determination. We are intervening to reduce Yorkshire Water's outperformance payment in relation to its operational carbon performance commitment by £0.331m. This is because until such time as the performance commitment definition is changed, it requires reporting of annual emissions to use version 13 of the UK Water Industry Research Carbon Accounting Workbook.

As set out in our [Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21](#), we intend to consult on amending these performance commitments to use a different version of the workbook for reporting in future years.

## **2.2.2 Mains repairs**

### **Our draft decision**

In our draft determination, we intervened to increase Yorkshire Water's underperformance payment in relation to its mains repairs performance commitment by £0.134m. This is because, based on a misinterpretation of its mains repairs performance commitment definition, the company had not included all of its repairs on repairs to the main in its APR. Our intervention increased the company's underperformance payment for this performance commitment from £3.156m to £3.290m.

### **Stakeholders' responses**

In its response regarding mains repairs, Yorkshire Water notes our draft determination intervention and states it will include repairs on repairs in future reporting.

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

Having considered stakeholder responses, our final decision on this performance commitment is as stated in our draft decision above.

## 2.2.3 Education

### Our draft decision

In its annual performance report, the company requested that we intervene to remove its underperformance payment of £0.026m for this performance commitment, due to the impact of Covid-19. We set out our approach to assessing company requests for interventions, abatements and deferrals due to the impact of Covid-19 in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#). In our draft determination we said we understood that Yorkshire Water's ability to carry out education activities had been affected by the Covid-19 lockdown, and we noted that the company had adapted its approach and activities in light of Covid-19 to respond to the new circumstances.

In arriving at our draft decision, we considered the requirement of this [performance commitment](#) that, "in order to count towards learning hours achieved, each individual will provide feedback to the company where they are encouraged to provide information on how useful the session was and how likely they are to change their behaviour as a result". We stated that the purpose of obtaining feedback is to understand whether the activity undertaken will encourage behaviour change which will lead to a decrease in the amount of sewer misuse and an increase in the amount of potable water saved.

We also considered the extent to which the delivery methods used by the company replicated face to face educational visits and programmes. In [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#), we said that we considered engagement through live, interactive online sessions run by real people sufficiently replicated face to face interactive engagement and the intended quality of education, but that website materials or other self-guided activities fall short of this requirement. We noted that other companies facing similar circumstances had been able to adapt their delivery to meet the targets of the education performance commitments by engaging with their customers using live, interactive online sessions.

We asked the company to confirm "the total number of hours of education activity delivered face to face or through virtual teaching for 2020-21 for which the company received feedback". The company confirmed in its response to our query that it received feedback for 5,590 of the 7,076 hours that it delivered face to face or through virtual teaching. This was against the performance commitment level of 20,000. We therefore considered that 5,590 was the actual performance against this performance commitment as this accurately reflects the purpose of the performance commitment, which is to incentivise the company to raise understanding of the value of water and proper use of the wastewater system. We stated that without feedback it is difficult to assess whether that purpose has been met. As a result, in our draft determination we did not intervene to remove the company's underperformance payment of £0.026m and instead increased the company's underperformance payment by £0.004m to £0.030m for this performance commitment.

## Stakeholders' responses

In its response, Yorkshire Water states that it believes it has delivered over 30,000 hours of education and is disappointed that its evidence for intervention on this performance commitment as a result of the Covid-19 pandemic was not accepted.

Yorkshire Water states that it chose not to include all of the hours where it delivered educational resources as it knew some of this would not meet the definition within the PR19 final determination. Yorkshire Water highlights the definition within the PR19 final determination, which states: "In order to count towards learning hours achieved, each individual will provide feedback to the company where they are encouraged to provide information on how useful the session was and how likely they are to change their behaviour as a result".

Yorkshire Water believes the fact that some participants chose not to provide any feedback, is feedback in itself and is what it would call a 'nil return' but that it should still constitute a 'return'. The company states it is disappointed that several of its delivered training hours do not now count because of differing interpretations over this part of the definition within the PR19 final determination.

Yorkshire Water states that its external assurance provider has confirmed that it is satisfied that these 'nil returns' should count in the reported number as both the spirit and focus of the performance commitment is about delivering a target number of hours, not about proving that it will change behaviour, even though this is a potential benefit of the measure.

## Consideration of responses and final decision

Having considered stakeholder responses, our final decision is as stated in our draft determination. We do not consider it to be in customers' interests to allow a nil return or the complete absence of a response to constitute feedback, as this reduces the incentive on the company to obtain information on how useful the session was for participants and how likely they are to change their behaviour as a result. Nor do nil returns provide the level of insight that we are expecting in relation to the company's fulfilment of its reporting and assurance requirements for this performance commitment. Should Yorkshire Water want to request a change to this performance commitment (for example to make this an end of period ODI), it will need to meet the requirements set out in annex 2 of [PR19-final-determinations-Yorkshire-Water---Outcomes-performance-commitment-appendix.pdf \(ofwat.gov.uk\)](#).

## 2.2.4 C-MeX and D-MeX

### Our draft decision

Our draft determination included a C-MeX outperformance payment of £0.466m and a D-MeX underperformance payment of £2.884m, 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

In their response regarding C-MeX, Northumbrian Water and Anglian Water state that the calculation for the outperformance payment proposed used the allowed residential retail revenue from the December 2019 PR19 final determinations, rather than the value as determined by the Competition and Markets Authority. They propose that the updated figures determined by the Competition and Markets Authority should be used. We note that this also affects Bristol Water and Yorkshire Water.

### Consideration of responses and final decision

In our final determination, we have updated the C-MeX model to reflect the Competition and Markets Authority's redetermination.

Whilst the allowed retail revenue has changed this has not had an impact on the C-MeX payments for Yorkshire Water to three decimal places, which are as per our draft determination. Payments for D-MeX are unchanged.

## 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

### 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. Yorkshire 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 Yorkshire 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	0.046	0.015	0.015
Water network plus	-7.767	-6.298	-6.298
Wastewater network plus	8.323	8.243	8.243
Bioresources	0.334	0.151	0.151
Residential retail	-1.954	-1.954	-1.954
<b>Total payments</b>	<b>-1.018</b>	<b>0.156</b>	<b>0.156</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	0.466	n/a
Water network plus	n/a	-1.324
Wastewater network plus	n/a	-1.560
<b>Total payments</b>	<b>0.466</b>	<b>-2.884</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	0.015	0.000	0.000	0.000	<b>0.015</b>
Water network plus	-6.298	-1.324	0.000	0.000	<b>-7.623</b>
Wastewater network plus	8.243	-1.560	0.000	0.000	<b>6.683</b>
Bioresources	0.151	0.000	0.000	0.000	<b>0.151</b>
Residential retail	-1.954	0.466	0.000	0.000	<b>-1.488</b>
<b>Total</b>	<b>0.156</b>	<b>-2.418</b>	<b>0.000</b>	<b>0.000</b>	<b>-2.262</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	0.015	0.000	0.000	<b>0.015</b>
Water network plus	-7.623	0.000	0.000	<b>-7.623</b>
Wastewater network plus	6.683	0.000	0.000	<b>6.683</b>
Bioresources	0.151	0.000	0.000	<b>0.151</b>
Residential retail	-1.488	0.000	0.000	<b>-1.488</b>
<b>Total</b>	<b>-2.262</b>	<b>0.000</b>	<b>0.000</b>	<b>-2.262</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	-1.94	1.82	1.75	1.83
	Final determination	-1.94	1.85	1.73	1.83
<b>Water network plus (K factors)</b>	Last determination	2.50	4.58	4.25	4.97
	Final determination	2.50	1.99	6.82	4.97
<b>Wastewater network plus (K factors)</b>	Last determination	-3.94	-0.62	-0.69	-0.70
	Final determination	-3.94	1.25	-2.46	-0.70
<b>Bioresources (unadjusted revenue, <math>UR_t</math> – £m, 2017-18 Nov CPIH prices)</b>	Last determination	73.037	73.453	73.880	74.308
	Final determination	73.037	73.640	73.880	74.308
<b>Residential retail (total revenue, <math>TR_t</math> – £m, nominal prices)</b>	Last determination	69.842	71.034	72.235	73.455
	Final determination	69.842	69.002	72.235	73.455

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