

October 2021

# **Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21**

## About this document

This document provides an overview of our draft decisions on the extent to which the price controls included in our [PR19 final determinations](#), or set by the Competition and Markets Authority (CMA), need to be adjusted to reflect the sector's performance for the 2020–21 charging year, under Part 3A of Condition B of companies' licences. The specific changes, and our reasons for these, are set out in this document and the individual draft decision documents for each company.

We have published company-specific draft decision documents and associated models related to our draft determinations on our [website](#).

## Executive summary

This section sets out the results of our 2020–21 in-period outcome delivery incentives (ODI) assessment for the 17 regional incumbent water and wastewater companies in England and Wales. 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 water companies' bills in England and Wales during the 2022–23 charging year.

For 2020–21, having assessed companies' performance against their performance commitments, the total ODI payments for each company that we propose to apply in 2022–23 are shown in table 1.1. This includes payments for the customer measure of experience (C-MeX) and developer services measure of experience (D-MeX), as well as any deferrals, abatements or bespoke adjustments. We set out the financial impacts of our draft decisions for all companies in section 3 of this document.

**Table 1.1: Total ODI payments to be applied in 2022–23 (£m, 2017–18 FYA CPIH prices)**

Company	Total ODI payments to be applied in 2022–23 (£m, 2017–18 FYA CPIH prices)
Affinity Water	-5.887
Anglian Water	11.682
Bristol Water	-1.582
Dŵr Cymru	-4.524
Hafren Dyfrdwy	-0.750
Northumbrian Water	6.507
Portsmouth Water	0.796
SES Water	-1.061
Severn Trent Water	25.276
South East Water	-4.704
South Staffs Water	1.105
South West Water	-15.436
Southern Water	-45.995
Thames Water	-53.110
United Utilities	20.388
Wessex Water	2.523
Yorkshire Water	-2.262
<b>Industry totals</b>	<b>-67.036</b>

Our draft decisions include a number of interventions which mean that the overall payments set out for each company may differ from the payments companies reported in their annual performance report. In some cases, we intervened because not all companies appeared to have followed the reporting guidelines for a performance commitment (such as mains repairs, greenhouse gas emissions and leakage performance commitments).

For all companies we applied outperformance or underperformance payments which reflected their relative performance on the C-MeX and D-MeX performance commitments.

We also considered companies' requests for interventions due to the impact of Covid-19 on performance. We considered such requests in light of our previously set out expectations on Covid-19 related impacts. Further details of our interventions are set out in section 2.1 and in the relevant company-specific documents published alongside this document.

Severn Trent Water asked us to defer its outperformance payments to reduce the impact on customer bills in 2022–23. In our draft determination, we agree with this proposal in principle, reflecting our interventions on the company's individual performance commitments and subject to further information. We set out further details in Severn Trent Water's company specific in-period ODI draft determination document.

We welcome any written comments or representations on our draft determinations by **21 October 2021**. Representations can be made by all stakeholders. Representations can be sent to our inbox [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk).

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# 1. Introduction

## 1.1 Background

The performance commitments for the 17 regional incumbent water and wastewater companies for the 2020–25 period are set out in each company's PR19 Outcomes performance commitment appendix.<sup>1</sup> The majority of performance commitments have financial incentives which are paid 'in-period'. This brings ODI payments closer in time to when customers experience the relevant level of performance. The remaining financial incentives are end of period.

The companies reported performance against their performance commitments in their annual performance reports (APRs) in July 2021. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft determinations we set out relevant adjustments to each company's price controls, for one or more future years, in accordance with Part 3A of Condition B of each company's licence. Our determinations, when finalised, will affect each company's bills from the 2022–23 charging year.

As set out in the PR19 final determinations, outperformance payments above 3% of a company's wastewater or water regulatory equity for that year are shared with customers. This means companies receive 50% of outperformance payments above this threshold. This aggregate sharing mechanism automatically applies to all ODI payments except to the customer measure of experience (C-MeX), developer measure of experience (D-MeX) and those allocated to retail price controls.

## 1.2 Purpose of this document

This document provides an overview of our draft adjustments to price controls to reflect the sector's performance against PR19 in-period ODIs for the 2020–21 charging year. Further specific detail is set out in each company's draft decision document.

We are consulting on these draft decisions and welcome your views by 21 October 2021 as set out in section 4. We will make our final in-period determinations by 15 November 2021.

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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 Key interventions and policy decisions

#### 2.1.1 Policy decisions and interventions related to Covid-19

During 2020–21, the water companies, like other sectors of the economy and customers, have had to deal with the impact of the Covid-19 pandemic and the restrictions and changes that have evolved to tackle the virus.

We have previously explained that we would consider the need for any adjustments to our regime in the round as part of our normal reconciliation processes. In letters in [March](#) and [July](#) 2020, and in the [Annual reporting Information Notice \(IN21/01\)](#), we set out our expectations of companies, including the need to work flexibly and innovatively to deliver the best possible outcomes for their customers. And we emphasised that we did not want the operation of the ODIs regime or other incentive mechanisms in the wider regulatory regime to be a barrier to doing the right thing for their customers.

In this in-period ODI process for 2020–21 performance, we have considered companies' requests for interventions in relation to specific ODIs, but it is still too early for us to be able to make a rounded and balanced assessment across all of the issues. How well companies have been able to deliver against particular performance commitments is only part of the picture, and we need also to consider for example, the potential impact on costs avoided or what any long-term shifts in behaviours might mean for performance. The overall impact of Covid-19 in the water sector is still evolving across a range of issues including, for example, the effects of the removal of furlough schemes on bad debt. In the round, the net impact at a sector and company level may not, over time, be of high materiality, especially in light of the reconciliation mechanisms in place to deal with variation in costs and revenues.

We need to consider overall whether interventions beyond those already built into the price control are necessary to ensure that companies bear the appropriate level of risk and remain incentivised to deliver for customers. Clearly, it should not be our goal to insulate water companies from the effects of a pandemic that has had such wide-reaching consequences, including for those companies' customers. The level of return set at a final determination is not guaranteed for the five-year period. Within the regulatory framework, performance will vary depending on circumstances and how effectively companies respond to them. We see examples of companies going further for customers and not seeking to recover any associated additional costs. And it is important to note the great public service spirit that companies and their employees have shown to overcome many obstacles to deliver services in the face of challenging and unexpected circumstances.

We will consider the impacts of Covid-19 again when we conduct further reconciliations during this period and in our end of period deliberations. Exceptionally, we may also deal with issues at other times if that is necessary to ensure that incentives on companies continue to be aligned with customers' interests – as we have already done to test whether we need to change the timing of our determination of the value of ODI payments for per capita consumption (PCC) performance commitments from in-period to end of period for all companies. We have consulted separately on our approach to PCC (see below for further details).

In relation to in-period outcome delivery incentives for 2020–21, we received a number of requests for interventions due to Covid-19 on specific performance commitments. With the exception of PCC, these relate to bespoke, rather than common, performance commitments. We reviewed company submissions, considering the issues raised, issues we identified and supporting evidence provided including query responses.<sup>2</sup> As we have said previously, for performance commitments and ODIs, there is a high bar for any such interventions.

Given the wider considerations set out above, we have considered whether we need to intervene on in-period ODIs for 2020–21 to ensure that incentives on companies continue to be aligned with the interests of customers. For example, it may be appropriate to delay a decision on the value of the ODI payment that a company should receive if the position is likely to become clearer in the future.

We have considered each issue on its individual merits. We have set out our reasons for each draft decision here and in the relevant company specific documents.

### **Education performance commitments**

Three companies (Dŵr Cymru, South Staffs Water and Yorkshire Water) asked us to intervene in relation to the impact of Covid-19 on their education performance commitments. We recognise that Covid-related measures affected how companies could deliver against these education performance commitments, which focus on face-to-face interaction. The companies explained how they responded to the new circumstances by adapting their approach and activities in light of Covid-19. For example:

- Dŵr Cymru used a range of virtual and digital delivery methods. These have included the delivery of live video conferenced sessions into school classrooms, the development of a bespoke 360° learning platform and the use of home-learning provision.
- South Staffs Water developed a range of online quizzes and videos, teaching support and learning resources.
- Wessex Water sought feedback from teachers to confirm the quality of the virtual sessions it ran.

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<sup>2</sup> We set out the supporting information companies needed to submit alongside their APR if they were requesting a Covid-19 related intervention on an in-period ODI in our [Annual reporting Information Notice \(IN21/01\)](#)

- Yorkshire Water attempted to get feedback from teachers after it conducted online sessions.

We accept that some types of digital offerings can meet the requirements of companies' educational/engagement related performance commitments. Offerings that are live, run by real people, and interactive with easily accessible two-way communication, can provide the intended quality of education, but website materials or other self-guided activities do not. A video would not qualify as we do not consider it would provide the same impact and level of experience. Neither would live broadcasts that did not have effective, responsive interactions with participants. We note that some companies in the circumstances have been able to adapt their delivery to meet the performance commitment levels of their education performance commitments by engaging with their customers using live, fully interactive sessions.

Linked to this, we note that some companies' educational performance commitments include certain specific conditions. These requirements are intended to ensure the quality of the engagement that counts towards performance on these performance commitments and are unaffected by digital delivery. Consequently, we consider they should continue to apply.

Based on the evidence provided, the wider considerations above about the potential impacts of Covid-19 and specific consideration of the operation of these performance commitments, we are intervening in relation to the ODI payments for the education performance commitments of South Staffs Water, Yorkshire Water and Wessex Water to reflect payments due for reported performance, including to better align with the specific conditions that relate to each of their specific performance commitment definitions. For each of these interventions we provide further description in the company-specific in-period ODI draft determination documents.

### **Visitors to recreation sites performance commitment (Dŵr Cymru)**

Dŵr Cymru has a bespoke performance commitment to increase the number of visitors to its recreation sites. It said that Covid-19 measures meant that people were not able to visit its sites and/ or it could not open its sites to normal capacity. It suggested to us that an underperformance payment for 2020–21 of £0.530m was not appropriate and asked us to intervene.

We recognise that Covid-19 affected the company's ability to perform against this performance commitment during 2020–21. And we note that Dŵr Cymru took steps to adapt and respond to the new circumstances, such as making facilities Covid-19 safe, installing sanitising equipment and requiring visitors to pre-book. However, we are concerned that customers should not fund an amenity that was not available.

We have considered if and how intervention would be in customers' interests and retain incentives on the company to deliver the relevant outcome. Going forward, the ODIs attached

to this performance commitments continue to incentivise the company to increase visitor numbers. Should Dŵr Cymru exceed its annual performance commitment levels for visitor numbers, it can earn outperformance in future years. And we note that the situation might turn around significantly, particularly if the popularity of domestic holidays and day excursions remains high. In requesting that we intervene, the company has not sought to quantify these potential benefits. We also note that opening of a refurbished visitor centre at one site in June 2021, which had been closed for two years, is also likely to increase visitor numbers going forwards.

Based on the evidence provided, the wider considerations set out above about the potential impacts of Covid-19 and the specific operation of this performance commitment, which is to provide benefits to customers through access to company facilities, we consider that intervening now to adjust the company's underperformance payment is not consistent with the allocation of risk assumed within the regulatory framework.

### **Business void properties performance commitment (South East Water)**

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) is updated to accurately reflect the number of void properties and that there are some delays to this process. We note that data in CMOS can be updated retrospectively and the figure reported this year may be revised. In addition, we consider that there is 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, the wider considerations above about the potential impacts of Covid-19, and our specific consideration of the operation of this performance commitment we are intervening, in line with the company's request, to make our determination of the value of ODI payments for this performance commitment at the period end of the 2020–25 period. We will consider the issues in light of further information about the impact of Covid-19 on this performance commitment, and the wider impact of the pandemic. South East Water should continue to report against the performance commitment levels set for each year of the 2020–25 price control period, and in considering whether any intervention in

relation to underperformance payments is necessary, at the end of period, we will take account of the company's efforts to drive down the number of non-household void properties.

### **Renewable energy produced performance commitment (Thames Water)**

Thames Water has a bespoke performance commitment to generate 493 Gigawatt hours (GWh) of renewable energy in 2020–21. It has reported generating 476 GWh of renewable energy which results in an underperformance payment of £1.370m. The company requested that we defer the ODI payment due to Covid-19 impacts. It also requested that we reprofile the remaining years' performance commitment levels (PCLs).

Thames Water said that this underperformance was due to lower flows of wastewater to its Beckton wastewater treatment works, which has capacity to generate renewable energy. It linked the lower flow to changes of consumption patterns during the pandemic.

We recognise that Covid-19 has affected consumption patterns which could have impacted this performance commitment during 2020–21. However, Thames Water has not provided sufficient evidence to demonstrate that deferring the underperformance payment or reprofiling its performance commitment levels for this performance commitment would be appropriate. The in-period process is designed to deliver payments closer in time to when customers experience a given level of performance and the circumstances in this case do not persuade us that there is reason to diverge from that principle. Delivery against this performance commitment is not limited to generation at Beckton, and we are encouraged that Thames Water is now working to increase its energy generation capacity at other sites. We note that its suggested reprofiled performance commitment levels imply that it may be able to improve its performance over the period and this might result in net outperformance payments overall. It is still incentivised to do this. We also note that the longer-term impact and trend in wastewater flows is uncertain but as the economy continues to reopen and recover the flows could re-establish quickly, which may support delivering against this commitment.

Based on the evidence provided, the wider considerations above about the potential impacts of Covid-19, and specific consideration of the operation of this performance commitment, we consider that neither intervening to defer the underperformance payment nor reprofiling the performance commitment levels is appropriate.

### **Bathing Water performance commitments**

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 is the only other

company with a similar form of bathing water performance commitment that uses this data. It used the previous year's classification as a proxy for 2020–21 performance, but we note that its PR19 performance commitment definition did not set out what action should be taken where no classification was recorded by the Environment Agency.

We accept the approach of Anglian Water, Northumbrian Water, Southern Water and Yorkshire Water. And we intervene to set South West Water's 2020–21 performance as n/a to reflect the approach taken by the Environment Agency. This intervention has no financial impact.

### **Per capita consumption (PCC) performance commitment**

Earlier this year, drawing on our joint work with the sector on the impact of Covid-19 on the 17 largest companies, we identified the potential impact and uncertainty of Covid-19 on the PCC performance commitment. Consequently, our [July 2021 consultation](#) proposed changing the timing of our determination of the value of ODI payments for PCC performance commitments from in-period to end of period for all companies. South West Water's PCC commitment is already end of period.

In line with our July 2021 consultation, we are proposing to defer our determination of the value of ODI payments for the 2020–21 charging year to the end of the 2020–25 period. We discuss how we are modelling this proposed approach for the 16 affected companies' PCC ODIs in section 3.2.

In IN 21/01, we stated that water efficiency and the associated incentives remain a high priority. Using water efficiently helps to relieve pressures on water supply and contributes to climate change adaptation and mitigation by increasing resilience to extreme drought. Helping customers manage water use and reduce demand can also benefit affordability issues.

We recognise that impacts from the Covid-19 pandemic have posed challenges for managing household demand. But we also recognise the importance of continuing to promote water efficiency and driving down consumption and so we do not want to weaken the incentives we set at PR19 with this performance commitment.

IN21/01 stated that each year companies should continue to report against the PCC performance commitment level set out in the final determination, and to report what the expected financial payments associated with this would be. We note that in 2020–21, no company met its performance commitment level for per capita consumption. While some companies provided some information on this, many provided little insight – particularly into the steps they have taken to manage demand. We expect to hear how companies are redoubling their efforts to meet their performance commitments on PCC. As we set out previously, our decision on whether or not to intervene will take account of how well companies have stepped up efforts to drive water efficiency and reduce consumption and to

understand potential implications for longer term water resource needs and solutions in the face of the challenges presented by Covid-19.

## 2.1.2 Policy decisions and interventions not related to Covid-19

### Leakage

The use of common, converged methods for reporting data increases transparency for all stakeholders and makes comparisons across the sector more meaningful. We had expected that all companies would have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2020-21 data. In IN21/01 we said that "If the data submitted is not based on a fully converged methodology then companies should clearly state this and demonstrate that not being fully compliant does not have a material impact on the reported performance. If the move to convergence affects baselines for any performance commitments then companies should also show this clearly."

Our review of company submissions identified that, for the leakage and PCC performance commitment reporting, the majority of companies had not achieved full compliance and they had not followed some elements of our guidance. As a result, we queried all of the affected companies, asking them to demonstrate whether the impact of not being fully compliant with the methodology was material.

Whilst most companies were able to demonstrate that the impact of not being fully compliant with the methodology for leakage data was not material, there were three exceptions:

- South Staffs Water's response confirmed that the impact could be material in both of its operating areas. The company had already proposed a deferral for the outperformance payment calculated linked to its Cambridge region. But given that there could be a material impact in the Staffordshire region as well, we are intervening to defer our decisions on the payments for both regions to 2022. This will enable us to make a decision based on more robust data for both of its regions.
- Hafren Dyfrdwy and Northumbrian Water did not quantify the impact of non-compliant components on their reported performance. As part of their responses to these draft determinations, we expect both companies to quantify the impact of non-compliant components of their leakage performance commitment on their reported performance. Should the impact of the non-compliant components be material, in our final determinations we may defer our decisions on these performance commitments to 2022.

For all companies it is our expectation that there should not be any components of the company's leakage and PCC methodology that are not fully compliant when reporting 2021–22 performance. We will closely assess any non-compliant elements in APR22 submissions and will consider what interventions might be appropriate in light of our findings. Should any company's leakage information be revised or restated, we will take account of adjustments

we have made to the relevant price control in relation to the leakage performance commitment in making future in-period determinations. We would expect to make a similar assessment for non-compliance of elements of PCC reporting when we assess performance against this performance commitment at PR24 and would make any required adjustments at that time.

For Southern Water, we propose deferring the reported £0.398m underperformance payment for its leakage performance commitment until 2022. The company updated elements of its leakage data this year. We want to ensure we have a clear understanding of what the updates mean for its reported leakage and leakage performance commitment levels before reaching a decision.

## **Mains repairs**

In our draft determinations, we are intervening to increase underperformance payments in relation to the mains repairs performance commitment for four companies (Affinity Water, Bristol Water, South East Water and Yorkshire Water). This is because these companies confirmed, in response to our queries, that they had not included repairs on repairs to the main within their reported performance for 2020–21. The definition for the mains repairs performance commitments incorporates our [reporting guidance](#), which is clear that repairs on repairs to the main should be included in the reported performance.

For two other companies (United Utilities and South West Water) it remains unclear whether their reported performance for 2020–21 aligns with the guidance. As part of their responses to these draft determinations, we expect both companies to quantify the impact of repairs on repairs to the main on their reported performance. Should there be an impact on their reported performance and the associated ODI payments then, in our final determinations, we will intervene to reflect performance which aligns with the guidance as set out above.

## **Persistent low pressure (Severn Trent Water)**

We have engaged with Severn Trent Water in relation to its persistent low pressure performance commitment, for which the company reported an outperformance payment of £5.143m. We identified that, while the performance commitment definition required the company to report the number of residential properties only, the associated performance commitment level was set with reference to numbers for both residential and non-residential properties. There is, therefore, an inconsistency between the performance commitment levels and the scope of the performance commitment definition. Through our engagement with the company, Severn Trent Water indicated that it is open to amending the definition to ensure that the inconsistency is addressed for the remaining years of the control period and we expect this change to be taken forward.

For 2020–21, the company provided additional evidence that allows us to understand the allocation of performance between residential and non-residential properties. This suggests

that if the performance commitment level and reported performance were on a consistent basis, then the outperformance payment would be £2.828m rather than £5.143m.

Consequently, in our draft decision, we are intervening to adjust the outperformance payment to £2.828m. We are expecting further information from the company on this issue, and we will engage with the company to ensure we have a full understanding of the issue ahead of our final decisions in November.

## **Greenhouse gas emissions performance commitments**

Eleven companies have financial ODIs for their performance commitments to reduce greenhouse gas emissions. In the PR19 performance commitments definitions we required reporting of annual emissions to use version 13 of the UK Water Industry Research Carbon Accounting Workbook. The PR19 definitions are clear that companies should report performance against these performance commitments consistent with version 13. Using the same version of the workbook across all companies helps to improve transparency and understand companies' relative performance. Some companies used versions 14 or 15 of the Carbon Accounting Workbook, contrary to the PR19 definition. In these cases, we required companies to resubmit the data using version 13 and, in the case of Yorkshire Water, we intervened on this performance commitment because it reported using version 14 instead of 13. This reduced the outperformance payment from £0.614m to £0.283m.

Some companies have suggested that a later version of the workbook would be a more appropriate basis for the calculation of these performance commitments. We are considering whether to consult on amending these performance commitments to use a different version of the workbook for reporting in future years.

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

In each of the company-specific in-period ODI draft determination documents we set out what the ODI payments for both C-MeX and D-MeX are. We have taken the data from the 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.

## **Thames Water's PR14 asset health performance commitment**

In our draft determination we are intervening to include an underperformance payment of £5.365m<sup>3</sup> in relation to the company's mains rehabilitation element of its asset health performance commitment from the 2014 price review (PR14). This intervention is required because Thames Water informed us that, in calculating its performance for this performance commitment during the 2015–20 period, it had overstated the length of decommissioned mains. This means that the company's underperformance payment on this performance

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<sup>3</sup> Converted to 2017–18 FYA CPIH prices from the 2012–13 FYA RPI price base used at PR14.

commitment in the 2015–20 period was too low, so the company recovered more revenue than it should have from customers.

We are intervening to correct this by applying an underperformance payment of £5.365m in our draft determination. We discuss this further in Thames Water's in-period ODI draft determination document.

### **2.1.3 High-quality data and high-quality assurance**

As set out in IN21/01 we expect companies to provide a proportionate level of evidence and reasoning in their commentaries that allows us to understand clearly their performance and associated ODI payments.

Our assessment of this year's APR submissions identified a number of instances where companies did not follow reporting guidance or the performance commitment definitions. We also found instances where companies did not provide sufficient explanation of the drivers of performance, or there was not sufficiently high-quality assurance and data. Where appropriate we have taken this into account in our draft decisions.

More generally, we emphasise the need for all data submitted to have been subject to rigorous and high-quality assurance. This is critical to provide confidence for us, customers and other stakeholders that the information reported is accurate and reliable. Where we have concerns with the quality of the assurance or the data underpinning reported performance or payments we may choose to intervene to protect customers.

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

#### 3.1 Our draft determinations

In this section we outline the financial impacts of our draft decisions. Unless otherwise stated all values are £m in 2017–18 FYA CPIH prices.

**Table 3.1: In-period ODI payments for 2020–21 (excluding C-MeX and D-MeX)**

This table sets out the in-period ODI payments for each company based on their performance in 2020–21 and our draft determination on these payments after any interventions.

Company	Company's reported ODI payments (£m)	Our draft decisions after interventions (£m)
Affinity Water	-5.052	-2.714
Anglian Water	7.479	9.379
Bristol Water	-1.812	-1.799
Dŵr Cymru	-7.494	-6.184
Hafren Dyfrdwy	-0.532	-0.432
Northumbrian Water	1.862	3.228
Portsmouth Water	0.090	0.414
SES Water	-1.107	-0.491
Severn Trent Water	59.716	59.066
South East Water	-5.818	-4.064
South Staffs Water	-0.423	0.978
South West Water	-14.900	-14.900
Southern Water	-41.305	-40.453
Thames Water	-31.870	-29.226
United Utilities	15.486	17.259
Wessex Water	-0.896	-0.197
Yorkshire Water	-1.018	0.156
Industry total	<b>-27.595</b>	<b>-9.982</b>

#### C-MeX and D-MeX payments

We include payments relating to C-MeX and D-MeX in our draft determinations. We do not compare these payments to companies' July submissions because they did not know other companies' scores at the time.

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.

### Table 3.2A: C-MeX scores and payments

Our draft determinations include the following C-MeX payments:

Rank	Company	C-MeX scores	Payments (£m)
1	Portsmouth Water	86.22	0.283
2	Wessex Water	86.09	2.022
3	Northumbrian Water	85.76	2.925
4	Dŵr Cymru	85.15	2.014
5	United Utilities	83.59	2.076
6	Bristol Water	83.31	0.162
7	Anglian Water	83.05	1.127
8	Yorkshire Water	82.78	0.466
9	Severn Trent Water	82.35	0.000
10	South Staffs Water	81.89	-0.080
11	Hafren Dyfrdwy	81.38	-0.035
12	South West Water	80.96	-0.536
13	South East Water	80.70	-0.401
14	SES Water	78.97	-0.226
15	Affinity Water	77.88	-1.545
16	Southern Water	74.64	-4.906
17	Thames Water	72.92	-16.659

### Table 3.2B: D-MeX scores and payments

Our draft determinations include the following D-MeX payments:

Rank	Company	D-MeX scores	Payments (£m)
1	Severn Trent Water	89.70	3.881
2	Wessex Water	89.47	0.698
3	Portsmouth Water	89.20	0.099
4	Hafren Dyfrdwy	89.01	0.035
5	United Utilities	88.44	1.053
6	Anglian Water	87.72	1.175
7	Northumbrian Water	86.94	0.354
8	Bristol Water	86.81	0.055
9	South West Water	85.88	0.000
10	Affinity Water	84.39	-0.094

<b>11</b>	South Staffs Water	83.59	-0.073
<b>12</b>	Dŵr Cymru	82.69	-0.354
<b>13</b>	South East Water	79.85	-0.239
<b>14</b>	Thames Water	77.56	-1.861
<b>15</b>	Southern Water	73.77	-1.033
<b>16</b>	Yorkshire Water	62.25	-2.884
<b>17</b>	SES Water	60.20	-0.344

**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 for each company, including for C-MeX and D-MeX, brought forward deferrals and bespoke adjustments where relevant, before our draft decisions on 2020–21 deferrals and abatements.

Company	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)
Affinity Water	-2.714	-1.639	-1.534	0.000	<b>-5.887</b>
Anglian Water	9.379	2.303	0.000	0.000	<b>11.682</b>
Bristol Water	-1.799	0.217	0.000	0.000	<b>-1.582</b>
Dŵr Cymru	-6.184	1.660	0.000	0.000	<b>-4.524</b>
Hafren Dyfrdwy	-0.432	0.000	-0.327	0.008	<b>-0.750</b>
Northumbrian Water	3.228	3.279	0.000	0.000	<b>6.507</b>
Portsmouth Water	0.414	0.382	0.000	0.000	<b>0.796</b>
SES Water	-0.491	-0.570	0.000	0.000	<b>-1.061</b>
Severn Trent Water	59.066	3.881	-18.180	25.257	<b>70.024</b>
South East Water	-4.064	-0.640	0.000	0.000	<b>-4.704</b>
South Staffs Water	0.978	-0.153	0.000	0.538	<b>1.363</b>
South West Water	-14.900	-0.536	0.000	0.000	<b>-15.436</b>
Southern Water	-40.453	-5.939	0.000	0.000	<b>-46.393</b>
Thames Water	-29.226	-18.520	0.000	-5.365	<b>-53.110</b>
United Utilities	17.259	3.129	0.000	0.000	<b>20.388</b>

<b>Wessex Water</b>	-0.197	2.720	0.000	0.000	<b>2.523</b>
<b>Yorkshire Water</b>	0.156	-2.418	0.000	0.000	<b>-2.262</b>
<b>Industry totals</b>	<b>-9.982</b>	<b>-12.843</b>	<b>-20.041</b>	<b>20.438</b>	<b>-22.427</b>

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

This table sets out our draft 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 each company.

Company	Total ODI payments (£m, before 2020–21 deferrals and abatements)	Ofwat proposed deferrals (£m)	Ofwat proposed abatements (£m)	Total ODI payments to be applied in 2022–23 (£m) <sup>4</sup>
Affinity Water	-5.887	0.000	0.000	<b>-5.887</b>
Anglian Water	11.682	0.000	0.000	<b>11.682</b>
Bristol Water	-1.582	0.000	0.000	<b>-1.582</b>
Dŵr Cymru	-4.524	0.000	0.000	<b>-4.524</b>
Hafren Dyfrdwy	-0.750	0.000	0.000	<b>-0.750</b>
Northumbrian Water	6.507	0.000	0.000	<b>6.507</b>
Portsmouth Water	0.796	0.000	0.000	<b>0.796</b>
SES Water	-1.061	0.000	0.000	<b>-1.061</b>
Severn Trent Water	70.024	44.749	0.000	<b>25.276</b>
South East Water	-4.704	0.000	0.000	<b>-4.704</b>
South Staffs Water	1.363	0.258	0.000	<b>1.105</b>
South West Water	-15.436	0.000	0.000	<b>-15.436</b>
Southern Water	-46.393	-0.398	0.000	<b>-45.995</b>
Thames Water	-53.110	0.000	0.000	<b>-53.110</b>
United Utilities	20.388	0.000	0.000	<b>20.388</b>
Wessex Water	2.523	0.000	0.000	<b>2.523</b>
Yorkshire Water	-2.262	0.000	0.000	<b>-2.262</b>
<b>Industry totals</b>	<b>-22.427</b>	<b>44.609</b>	<b>0.000</b>	<b>-67.036</b>

<sup>4</sup> This column shows total ODI payments from table 3.3 minus Ofwat's proposed deferrals and abatements. Deferrals are expressed as either outperformance payments (positive) or underperformance payments (negative). The industry totals row is the sum of all other rows – therefore at an industry level, net underperformance payments are increased from £22.427m to £67.036m after we apply a net deferral of £44.811m in outperformance payments (primarily driven by the proposed deferral for Severn Trent Water).

## 3.2 Our modelling approach

We set out how we would apply in-period ODI payments in our PR19 final determinations and the [PR19 reconciliation rulebook](#). In the rulebook we set out where we would make decisions on specific inputs to our published models during the in-period determinations process.

In this section we set out our proposed approach and invite comments from stakeholders.

### Deferrals and abatements

Companies can ask us to defer outperformance or underperformance payments until the following year. They can also ask to abate outperformance payments on individual performance commitments.

We have set out our draft decisions relating to deferrals and abatements in the company-specific documents.

### Inflation

In the PR19 final determinations all ODI rates were specified in 2017–18 financial year average (FYA) prices. This means that ODI payments for in-period ODIs need to be translated into future year price bases.

For this year's in-period determinations, the relevant price base is the consumer prices index including owner occupiers' housing costs (CPIH) in November 2021. As set out in the reconciliation rulebook, we have used companies' submissions and publicly available short-term inflation forecasts to estimate this index.

We estimate this to be 2.93% and have applied this in the published in-period adjustments models for each company. This is based on the approach we used for the PR19 final determinations in December 2019. We will revise this estimate in our final in-period determinations informed by latest forecasts and stakeholders' responses.

### Tax

We adjust the size of companies' net ODI payments to reflect the marginal rate of tax to ensure companies receive the level of ODI payments as envisaged in the PR19 final determinations and to maintain an appropriate strength of incentives.

We said companies should set out their expected marginal tax rate for the following charging year in their requests for an in-period determination with appropriate evidence. We said we would take this into account, as well as upcoming changes to tax policies and any other relevant factors, when making our determinations.

Not all companies provided this information in their annual submissions. We have applied a uniform marginal tax rate of 19% in each company's in-period adjustments model to reflect the headline rate of corporation tax. This is consistent with the government's [proposals relating to corporation tax](#) for the 2022–23 charging year, when in-period ODI payments will apply.

We may revise this estimate in our final in-period determinations informed by stakeholders' responses, upcoming changes to tax policies and other relevant factors. Responses should include sufficient evidence for us to be confident that the marginal tax rate that companies are likely to face in 2022–23 will differ from the assumptions in our draft decisions.

## **Bespoke adjustments**

Other adjustments may affect our in-period determinations beyond those envisioned when we published the reconciliation rulebook in December 2020. This includes our [July 2021 policy decisions relating the green recovery](#), which included in-period funding for two companies (Severn Trent Water and South Staffs Water). Both companies accepted our green recovery final decisions by 8 August 2021.

We may also adjust price controls when a company has subsequently restated its performance for previous reporting years. This is the case for Thames Water in relation to its mains repairs performance commitment as determined through the blind year determination of 2019–20 ODIs (for more information, see its company-specific document).

In addition, we apply Hafren Dyfrdwy's bespoke aggregate underperformance sharing mechanism (see the company's draft decision document for more detail).

To account for these matters, we have added functionality for bespoke adjustments to the in-period adjustments model which will enable us to apply positive or negative revenue adjustments for each company as required.

## **Modelling treatment of per capita consumption**

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. We have applied this change in the published models and documentation relating to our draft determinations.

## 4. Responding to this document

We welcome any written comments or representations on our draft determinations by **21 October 2021**. Representations can be made by all stakeholders. Representations can be sent to our inbox [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk).

To ensure transparency, we expect companies to publish their representations in full. We also intend to publish all the written representations we receive on our website once we set out our final decisions.

In view of this, if respondents consider that some of the information in their representations should not be disclosed (for example, because they consider it is commercially sensitive information) they should identify that information and explain why. We would expect strong, robust reasons that are specific to the information concerned. We will take such explanations into account, but we cannot give an assurance that information included in representations will not be disclosed.

Information provided in response to this document, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

Where companies are making representations, they should consider what further evidence may be necessary to submit with their representations.

We will publish our final decisions by 15 November 2021, after considering representations from all stakeholders.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
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