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

Ofwat

About this document

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

For 2020-21 Anglian Water reported net outperformance payments of £7.479m against its performance commitments with in-period outcome delivery incentives, excluding C-MeX and D-MeX. We assessed the company's performance against its performance commitments and, in October 2021, consulted on our [draft determinations](#) for companies' in-period ODIs for 2020-21.

Having considered the responses to our draft determination, in our final determination we are intervening on the following performance commitments:

- Water supply interruptions – we are reducing the outperformance payment by £0.008m to correct a decimal place error in the modelling.
- Per capita consumption (PCC) – in line with our decision following our PCC 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 £1.127m and a D-MeX outperformance payment of by £1.175m, based on assessment of 2020-21 company performance in our draft determinations.

We also make minor adjustments to the revenue assumptions within the models for this company compared to our draft determination. These account for the impact of the [August 2021 interim determination](#) relating to a direct procurement for customers project, which affects adjustments to the company's water network plus control, and the March 2021 redetermination by the Competition and Markets Authority, which affects adjustments to the company's residential retail control.

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 £11.681m. 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

Anglian Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Anglian Water – Outcomes performance commitment appendix](#). (subject to any changes made by the CMA).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.

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

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, by the annex 2 process. Annex 2 of the company's performance commitment appendix provides for changes and corrections to be made to its performance commitment definitions during the 2020-25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

2. Results of our assessment

2.1 Reported performance

Anglian 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 £1.907m for its per capita consumption performance commitment. The company's largest individual outperformance payment is £3.628m for internal sewer flooding performance commitment.

2.2 Key interventions

2.2.1 Water supply interruptions

Our draft decision

In our draft determination we intervened on Anglian Water's water supply interruptions performance commitment to correct a decimal place error in the ODI model. This error caused the standard outperformance cap to be 05:36.600 instead of 05:37.000. This reduced the company's outperformance payment by £0.008m (or £7,640).

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final decision

Having received no stakeholder responses on this matter, our final decision on the company's performance payment for this performance commitment is as stated in our draft decision, above.

2.2.2 Mains Repairs

Our draft decision

In its response to query ANH-APR-IP-005 Anglian Water indicated that it “always excluded repairs on repairs, where this is merely the re-tightening of bolts. This is on the basis that they are reflective of poor workmanship rather than a reflection of underlying asset health”. It identified an additional 54 repairs and provided a revised table 3F in its response,

increasing the total number of mains repairs from 5,007 to 5,061. The revised performance does not impact the outcome delivery incentive payments, as this is an underperformance only performance commitment.

The response to this query was received too late for consideration at the draft determination.

Stakeholders' responses

We did not receive any further comments on this issue.

Consideration of responses and final decision

Having received no further stakeholder responses on this matter, our final decision on the company's performance is to accept the revised performance as provided by the company in its response to query ANH-APR-IP-005. We expect future reporting of mains repairs to be on the same basis as the revised submission, which aligns with the reporting guidance.

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

2.2.3 Price control values

Our draft decision

We based Anglian Water's draft determination on price control values from the [price determination](#) by the Competition and Markets Authority.

Stakeholders' responses

Anglian Water states that we should have used the [August 2021 interim determination](#) relating to a direct procurement for customers project, which superseded the March 2021 redetermination by the Competition and Markets Authority, as the starting point for our draft determination.

Consideration of responses and final decision

We agree that the August 2021 interim determination is the correct starting point for changes to Anglian Water's price control for Network Plus Water Activities and correct this in the modelling for this company's final determination. The March 2021 redetermination by the Competition and Markets Authority remains the starting point for changes to Anglian Water's other price controls, which were not changed by the August 2021 interim determination.

2.2.4 C-MeX and D-MeX

Our draft decision

Our draft determination included a C-MeX outperformance payment of £1.127m and a D-MeX outperformance payment of £1.175m, 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

Anglian Water states that the calculation for the outperformance payment used the allowed retail revenue from the December 2019 PR19 final determinations rather than the allowed retail revenue as determined by the Competition and Markets Authority. The company requests that we use the revenue as determined by the Competition and Markets Authority instead.

Consideration of responses and final decision

Having considered the company's response, we have updated the C-MeX model to reflect the CMA final determination figures. This does not have an impact on the resulting performance payments to three decimal places, so this remains as stated in our draft determination, above. The updated figure is stated to full accuracy in the published C-MeX model. 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 (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.

Anglian 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 said we now considered 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 PCC 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 PCC 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 Anglian 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	0.443	0.443	0.443
Water network plus	-0.310	1.589	1.589
Wastewater network plus	5.979	5.979	5.979
Bioresources	0.000	0.000	0.000
Residential retail	1.368	1.368	1.368
Total payments	7.479	9.379	9.379

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	1.127	n/a
Water network plus	n/a	0.725
Wastewater network plus	n/a	0.450
Total payments	1.127	1.175

See section 2.2.3 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	0.443	0.000	0.000	0.000	0.443
Water network plus	1.589	0.725	0.000	0.000	2.314
Wastewater network plus	5.979	0.450	0.000	0.000	6.429
Bioresources	0.000	0.000	0.000	0.000	0.000
Residential retail	1.368	1.127	0.000	0.000	2.495
Total	9.379	2.303	0.000	0.000	11.681

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	0.443	0.000	0.000	0.443
Water network plus	2.314	0.000	0.000	2.314
Wastewater network plus	6.429	0.000	0.000	6.429
Bioresources	0.000	0.000	0.000	0.000
Residential retail	2.495	0.000	0.000	2.495
Total	11.681	0.000	0.000	11.681

See section 2.3 for our decisions relating to deferrals 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	-1.56	2.61	2.28	3.07
	Final determination	-1.56	3.72	1.23	3.07
Water network plus (K factors)	Last determination	3.22	5.16	4.88	4.70
	Final determination	3.22	5.87	4.21	4.70
Wastewater network plus (K factors)	Last determination	0.12	3.38	6.00	6.84
	Final determination	0.12	4.86	4.56	6.84
Bioresources (unadjusted revenue, UR_t – £m, 2017-18 Nov CPIH prices)	Last determination	93.953	96.661	97.503	100.793
	Final determination	93.953	96.661	97.503	100.793
Residential retail (total revenue, TR_t – £m, nominal prices)	Last determination	89.437	91.404	93.421	95.257
	Final determination	89.437	94.811	93.421	95.257

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