

November 2021

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

Ofwat

About this document

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

For 2020-21 Bristol Water reported net underperformance payments of £1.812m 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 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 PCC consultation, we are deferring our determination of payments for performance against this performance commitment for the 2020-21 Charging Year.
- Mains repairs - we are increasing the company's underperformance payment by £0.164m to include repairs on repairs to the main, in line with the performance commitment definition.

- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £0.162m and a D-MeX outperformance payment of £0.055m, based on assessment of 2020-21 company performance in our draft determinations.

Our final determination is that the amount of revenue the company can recover from its customers in 2022-23, as a result of its performance against its performance commitments with in-period ODIs in 2020-21, is reduced by £1.582m. This figure includes C-MeX and D-MeX payments as well as bespoke adjustments but is before adjustments for inflation, tax and other relevant factors.

Further details regarding the responses we received, our final decisions and the adjustments that we have made are presented in sections 2 and 3, and ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

Contents

1.	Introduction	4
1.1	Background	4
2.	Results of our assessment	5
2.1	Reported performance	5
2.2	Key interventions	5
2.2.1	Mains repairs performance commitment	5
2.2.2	Inflation	6
2.2.3	C-MeX and D-MeX	7
2.3	Payment deferrals and abatements	8
2.3.1	Per capita consumption (PCC)	8
3.	Impact of 2020-21 in-period ODI assessment on price controls	10
3.1	Our final determination	10

1. Introduction

1.1 Background

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

Bristol 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 Bristol 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 Bristol 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

Bristol 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 £1.544m for its water supply interruptions performance commitment. The company's largest individual outperformance payment is £0.067m for its local community satisfaction performance commitment.

2.2 Key interventions

2.2.1 Mains repairs performance commitment

Our draft decision

In our draft determination we intervened to increase Bristol Water's underperformance payments in relation to its mains repairs performance commitment by £0.164m. This is because, based on a misinterpretation of the reporting guidance linked to its mains repairs performance commitment definition, the company had not included its repairs on repairs to the main in its APR. Our intervention increased the company's underperformance payment for this performance commitment from £0.068m to £0.232m.

Stakeholders' responses

Although, on reflection, the company recognises that it could be open to interpretation, it retains the view that it was correct to exclude the 28 repairs that were adjustments to the fitting of the 'ancillary clamp' that had previously been used to repair the main. Consequently, the company has asked us to reconsider our intervention.

The company considers that the inclusion of 'repairs on repairs' does not reflect the wording and intention of the rest of the definition – the condition of the main is not being repaired, and there is not a secondary burst, where the repair activity is tightening bolts on a clamp. It states that a repair on a repair is not indication of mains asset health. It cites an example that in some cases a crew are working under extreme conditions and under positive pressure to repair a leaking main with a clamp and that occasionally retightening of bolts is required at a later stage.

Consideration of responses and final decision

On the basis of Bristol Water's mains repairs underperformance as set out in our draft determination, and our consideration of the responses we have received, our final decision on the company's performance payment for this performance commitment is as stated in our draft decision, above.

Bristol Water's interpretation of the mains repairs guidance is that a clamp on the main is an ancillary and therefore any additional work on the clamp at a later stage (for example tightening of bolts) should be excluded. However, our mains repairs reporting 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, we consider that 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 and not an ancillary as Bristol Water suggests. Without the clamp the integrity of the main would be compromised and water would continue to be lost. The clamp is therefore also integral to the asset health of the main.

We consider that the current mains repairs reporting guidance is sufficiently clear on this issue. The definitions for all common PCs will be consulted upon as part of the 2024 price review (PR24) process, providing the companies and other stakeholders with an opportunity to input into performance commitment, development.

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

2.2.2 Inflation

Our draft decision

In our draft determination, we applied an inflation rate of 2.93% for all companies. We said we would revise this estimate in our final in-period determinations informed by latest forecasts and stakeholders' responses.

Stakeholders' responses

Bristol Water suggests that we use a higher rate of inflation in our final determinations.

The company also requests that we clarify how any difference with the inflation assumption that we use in the final determinations is adjusted.

Consideration of responses and final decision

We have updated our inflation assumption based on the latest available data, as set out in section 3.2 of '[Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21](#)'.

As set out in the [PR19 reconciliation rulebook](#) (page 57), we will not reconcile any differences between the forecast and actual rate of November CPIH (consumer prices index including owner occupiers' housing costs) because we consider the likely impacts will not be material. We note this applies to the calculation of ODI payments only.

2.2.3 C-MeX and D-MeX

Our draft decision

Our draft determination included a C-MeX outperformance payment of £0.162m and a D-MeX outperformance payment of £0.055m, based on assessment of 2020-21 company performance in our draft determinations.

We have taken the data from the company's APR submissions and compared this against the recorded data from our survey agent, Accent.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

Stakeholders' responses

We did not receive any comments on this issue.

Consideration of responses and final decision

Although we did not receive any specific comments, we have updated the C-MeX model to reflect the CMA final determination figures. Whilst the allowed retail revenue has changed this has not had an impact on C-MeX payments for Bristol Water to three decimal places, which are as per our draft determination. D-MeX payments are also unchanged from our draft determination.

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.

Bristol 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 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 PPC 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 Bristol 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	0.022	0.022	0.022
Water network plus	-1.787	-1.863	-1.863
Residential retail	-0.047	0.041	0.041
Total payments	-1.812	-1.799	-1.799

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	0.162	n/a
Water network plus	n/a	0.055
Total payments	0.162	0.055

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	0.022	0.000	0.000	0.000	0.022
Water network plus	-1.863	0.055	0.000	0.000	-1.808
Residential retail	0.041	0.162	0.000	0.000	0.204
Total	-1.799	0.217	0.000	0.000	-1.582

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	0.022	0.000	0.000	0.022
Water network plus	-1.808	0.000	0.000	-1.808
Residential retail	0.204	0.000	0.000	0.204
Total	-1.582	0.000	0.000	-1.582

See section 2.3 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	0.57	10.61	9.56	9.87
	Final determination	0.57	10.77	9.41	9.87
Water network plus (K factors)	Last determination	2.24	4.00	4.03	3.66
	Final determination	2.24	1.31	6.72	3.66
Residential retail (total revenue, TR _t – £m, nominal prices)	Last determination	11.122	11.339	11.567	11.790
	Final determination	11.122	11.618	11.567	11.790

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