

November 2021

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

## About this document

This document provides an overview of our final 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 (Performance Measure Adjustments) of Condition B of companies' licences, referred to in this document as 'in-period' determinations. The specific changes, and our reasons for these, are set out in this document and the individual final decision documents for each company.

We have published company-specific final decision documents and associated 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 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 customers' water bills in England and Wales in the 2022-23 charging year.

We assessed each 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 that consultation we have made our final determinations of the total ODI payments for each company that will change allowed revenue in 2022-23. These 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 final 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	11.681
Bristol Water	-1.582
Dŵr Cymru	-4.524
Hafren Dyfrdwy	-0.750
Northumbrian Water	6.509
Portsmouth Water	0.473
SES Water	-1.113
Severn Trent Water	25.276
South East Water	-4.627
South Staffs Water	1.321
South West Water	-15.444
Southern Water	-45.995
Thames Water	-53.205
United Utilities	20.533
Wessex Water	2.523
Yorkshire Water	-2.262
<b>Industry totals</b>	<b>-67.074</b>

Our final 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 reports. In some cases, we intervened because not all companies appeared to have followed the reporting guidelines for a performance commitment (such as mains repairs and greenhouse gas emissions).

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

We have considered companies' commentary on the impact of Covid-19 for their performance 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 and Portsmouth Water asked us to defer some of their outperformance payments to reduce the impact on customer bills in 2022–23. In our final determination, we defer outperformance payments in line with their requests. We set out further details in the final determination documents for Severn Trent Water and Portsmouth Water.

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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> Most of the companies' 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.

The companies reported performance against their performance commitments in their 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 determinations for in-period ODIs for 2020-21. We have considered the responses we have received relating to our draft determinations.

Our final determinations set out the adjustments to the companies' price controls and will affect customers' 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 the customer measure of experience (C-MeX), the developer measure of experience (D-MeX) and those allocated to retail price controls.

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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 each 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 needed 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 and concluded to change the timing of payments for this performance commitment to end of period.

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 final decision here and in the relevant company specific documents.

## **Education performance commitments**

### **Our draft decision**

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. In our draft decisions we recognised that Covid-related measures affected how companies could deliver against these education performance commitments, which focus on face-to-face interaction.

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 intervened in relation to the ODI payments for the education performance commitments of South Staffs Water, Yorkshire Water and Wessex Water. We intervened to ensure the ODI payments for reported performance in 2020-21, correctly reflected the definitions of each company's specific bespoke performance commitments. For each of these interventions we

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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 \(IN21/01\)](#)

provide further description in the company-specific in-period ODI final determination documents.

## Stakeholders' responses

Dŵr Cymru disagreed with our draft decisions to apply underperformance payments for this performance commitment. Instead, it has proposed that we review the measure at the end of the 2020-25 period to consider the impact of Covid-19 on performance in the round.

South Staffs Water disagreed with our draft decisions to apply underperformance payments for this performance commitment. It provided a detailed response explaining further the challenges that Covid-19 presented in relation to its ability to deliver this performance commitment and asked that we reconsider our decision due to the exceptional extenuating circumstances presented by Covid-19 (such as school closures and the subsequent challenges of virtual delivery). Its response suggests that it would like us to amend its PR19 performance commitment definition to remove the restriction on the maximum number of students in a class and the minimum time for a session to count towards this measure.

Yorkshire Water stated that it was disappointed that we applied underperformance payments for this performance commitment. The company proposed that we should intervene based on its evidence. Its performance commitment requires it to collect feedback from participants. It argued a 'nil return' constitutes feedback and that educational sessions with a nil return should count towards this measure. It told us that its external assurance provider confirmed that it was satisfied that 'nil returns' should count in the reported number.

We did not receive any specific comments on our draft decisions on educational performance commitments from other stakeholders.

## Consideration of responses and final decision

Having considered these stakeholder responses and the additional evidence provided, our final decision on these companies' performance commitments is as stated in our draft decision, above. We do not consider that the changes proposed by the companies would be consistent with the allocation of risk assumed within the regulatory framework. We provide more details on our reasoning in each of the company specific final determinations documents but, in summary:

- The definition of Yorkshire Water's performance commitment states that, "in order to count towards learning hours achieved, each individual will provide feedback to the company.".. 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. We continue to exclude sessions without feedback when calculating the ODI payment in our final determination

- Our final decisions consider the 2020–21 performance of Dŵr Cymru and South Staffs Water against their PR19 final determination performance commitment definitions. Whilst we understand the restrictions caused by Covid-19, it is not uncommon for exogenous factors to affect company performance. It should not be our goal to insulate water companies from the effects of a pandemic that has such wide-reaching consequences, including for those companies' customers. In such cases we consider whether, in the circumstances, intervening would be in customers' interests and would retain incentives to deliver the relevant commitments. We do not consider this is the case here and retain our draft decisions to apply the underperformance payments in our final determinations.

Companies may submit proposals to amend their performance commitment definitions by following the process set out in Annex 2 of their PR19 performance commitment appendices. Annex 2 sets out the scope of the process and the basis on which we will consider changes to definitions. We set a high evidential bar to making changes.

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

### **Our draft decision**

Dŵr Cymru asked us to intervene on its bespoke performance commitment related to 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 did not think the underperformance payment for 2020–21 of £0.530m should be applied.

In our draft decision, we did not intervene on this performance commitment and retained the underperformance payment. We considered that intervening would not be consistent with the allocation of risk assumed within the regulatory framework.

### **Stakeholders' responses**

In its response to our consultation Dŵr Cymru suggested that we should review this measure at the end of the 2020–25 period. The company's view was that this would allow us to make a decision "in the round" and wouldn't penalise it for something outside of management control. We did not receive any specific comments on this issue from other stakeholders.

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

Our final decision remains unchanged from our draft determination as we do not consider that the changes proposed by the company would be consistent with the allocation of risk assumed within the regulatory framework. Whilst we understand the company's argument on restrictions caused by Covid-19, it is not uncommon for exogenous factors to affect company performance. In such cases we consider whether the evidence provided demonstrates that intervening would be in customers' interests. We do not consider this is

the case here and retain our draft decisions to apply the underperformance payments in our final determinations.

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

### **Our draft decision**

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. 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) had been updated to accurately reflect the number of void properties and that there had been some delays to this process. We noted that data in CMOS can be updated retrospectively and the figure reported this year may be revised. In addition, we considered that there was 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 we intervened in our draft determination to defer decisions on the value of ODI payments for this performance commitment until the end of the 2020-25 period. We said that we would consider information about the impact of Covid-19 on this, and the wider impact of the pandemic at that time. South East Water would 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 would take account of the company's efforts to drive down the number of non-household void properties.

### **Stakeholders' responses**

South East Water's response supported our proposal. We did not receive any specific comments on this issue from other stakeholders.

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

Based on all the information reviewed, our final decision remains unchanged from our draft determination. We will consider the case for amending ODI payments and make appropriate payments in our 2024 Price Review (PR24).

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

### **Our draft decision**

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. In its submission the company told us that this underperformance was driven by reduced wastewater flows to treatment works (such as Beckton) which then lowered the amount of renewable energy produced. 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). 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 decided that it was not appropriate to intervene to defer the underperformance payment or to reprofile the performance commitment levels.

### **Stakeholders' responses**

In its response regarding renewable energy production, Thames Water expressed regret that we had not accepted its proposal to reprofile this performance commitment. It considered its proposal would have set a more stretching target at no cost to customers. We did not receive any specific comments on this issue from other stakeholders.

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

We considered stakeholder responses, but were not persuaded that we should change our position. Consequently, our final decision on the company's performance payment for this performance commitment is as stated in our draft decision, above. While we understand the company's argument, its proposal would mean that the company is incentivised to seek to generate less renewable energy than the current performance commitment levels (PCLs) in the first few years of the 2020–25 period and more than the PCLs would be produced in the latter part of the 2020–25 period. This would delay when customers and the environment receive the full expected benefits, so we have not changed the position we set out in our draft determinations.

## **Bathing Water performance commitments**

### **Our draft decision**

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 was the only other company with a similar form of bathing water performance commitment that uses this data. Some PR19 performance commitment definitions stated what should happen if beaches are closed for sampling but none of the definitions set out what action should be taken where no classification was recorded by the Environment Agency. South West Water was the only company that reported using the previous year's classification as a proxy for 2020–21 performance.

We accepted the approach of Anglian Water, Northumbrian Water, Southern Water and Yorkshire Water. We intervened to set South West Water's 2020–21 performance as n/a to reflect the approach taken by the Environment Agency.

### **Stakeholders' responses**

South West Water says that its bathing water commitment is intrinsically linked to delivering eight Water Industry National Environment Programme (WINEP) capital schemes, all of which had been agreed with the Environment Agency (EA) to tackle its impact on bathing waters. The company states that it has completed four schemes, which it says means it is ahead of its PCL for 2020–21 of zero schemes. The company says these four have been assessed by the EA and says that, whilst a formal categorisation has not been made due to the lack of sampling during 2020, it considers that completion of the approved schemes is sufficient to make a positive assessment of the ODI delivery. The company also says that the draft 2021 bathing water data shows improvement because of its investment. Therefore, it expects the ODI outperformance payment indicated in its original submission to be applied at PR24.

We did not receive any specific comments on these particular performance commitments from other stakeholders.

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

Having considered stakeholder responses, our final decision is to retain the 'n/a' categorisation. We recognise that bathing water classification is one of a number of factors that the company must meet within South West water's performance commitment. So while we note the company's stated progress on its WINEP schemes, this is not the sole determinant of the company's score against this performance commitment. Because the company's score for this performance commitment requires Environment Agency annual classification data it is unclear how we can be sure that this has been met without an EA classification for the reporting year 2020–21.

However, we note that ODI payments for this performance commitment are made at the end of the 2020–25 period and the company can set out its case as part of PR24 in light of its performance across the whole period, drawing on the principles set out above for Covid-19 related interventions.

## Per capita consumption (PCC) performance commitment

### Our draft decision

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. 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. 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 performance commitment was already end of period.

In line with our July 2021 consultation, we proposed 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 intervened at the draft determinations stage for the 16<sup>3</sup> affected companies' PCC ODIs by setting each to be 'end of period' in the Ofwat interventions worksheet of the ODI models.

### Stakeholders' responses

No stakeholders disagreed with the proposed approach we set out in our draft decisions, or our July 2021 consultation, nor did any response provide additional information that affects our final decision on this topic.

### Consideration of responses and final decision

We have decided to defer our determination of the value of ODI payments for the 2020–21 charging year to the end of the 2020–25 period and so our final determination is unchanged from our draft determination in this regard. We have set out this decision and the reasons for it in this [decision document](#) which we published after having considered stakeholder responses to our July 2021 consultation. We have also published performance commitment appendix change logs on our [PR19 outcomes performance commitments changes and corrections webpage](#). We discuss how we have modelled this in section 3.2.5.

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<sup>3</sup> This affects 16 companies because South West Water's PCC performance commitment was already end of period.

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

### Leakage

#### Our draft decision

We had expected that all companies would have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2020–21 leakage and PCC data. The guidance sets out that where a company is not able to meet any part of the guidance then it is required to explain any shortfalls, its materiality, and plans to address this. Our review of company submissions identified that the majority<sup>4</sup> of companies had not achieved full compliance. 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, Hafren Dyfrdwy and Northumbrian Water.

For South Staffs Water, our draft decision was to defer £0.258m of outperformance. Because Hafren Dyfrdwy and Northumbrian Water had not confirmed the materiality, in our draft determinations, we asked both companies to quantify the impact of the non-compliance.

For Southern Water, we proposed 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 wanted 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.

#### Stakeholders' responses

South Staffs Water disagrees with our draft decision to defer its ODI payment for the South Staffs region because of the materiality of non-compliance of one component of the leakage calculation. It did not consider that the issue is material and restated and clarified its previous explanation and provided evidence to demonstrate that its non-compliance with the common methodology does not have a material impact on its reported leakage for 2020–21.

Hafren Dyfrdwy and Northumbrian Water also provide evidence to demonstrate that their non-compliance with the common methodology does not have a material impact on their reported leakage for 2020–21.

Southern Water agrees with our intervention to defer our determination of the value of the company's ODI payments to 2022.

We did not receive any specific comments on this issue from other stakeholders.

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<sup>4</sup> All of the 17 companies except for Wessex Water.

## Consideration of responses and final decision

We reviewed the additional information and quantified impact assessments of non-compliance provided by South Staffs Water, Hafren Dyfrdwy and Northumbrian Water. We consider that the responses sufficiently demonstrate that the areas of non-compliance have no material impact on reported performance for this PC.

We retain Hafren Dyfrdwy and Northumbrian Water's reported performance and associated ODI payments for 2020–21.

We accept South Staffs Water's reported performance for 2020–21 for its South Staffs region and do not defer the outperformance payment for this region in our final determination. We retain our draft determination decision to accept South Staffs Water's proposal to defer the outperformance payment for its Cambridge region.

For Southern Water our final position remains unchanged from our draft decisions given that no stakeholders have provided new information nor disagreed with our draft decision.

We expect all companies to be reporting full compliance with the leakage and PCC methodology in APR22 and to explain concisely any reasons for non-compliance at the component level and any assumptions made, particularly focussing on those components that are considered to have a material impact on leakage values. We will closely assess any non-compliant elements in APR22 submissions and will consider what interventions might be appropriate in light of our findings. 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.

Should any company's leakage information be revised or restated, we expect the companies to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported leakage and on the leakage baseline if applicable. 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.

## Mains repairs

### Our draft decision

In our draft determinations, we intervened 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 was 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 remained unclear whether their reported performance for 2020–21 aligned with the guidance. We said that we expected both companies to quantify the impact of repairs on repairs to the main on their reported performance in their consultation responses. We said that should there be an impact on their reported performance and the associated ODI payments, then we would intervene in our final determinations, to ensure performance was reported in line with the guidance.

## Stakeholders' responses

Yorkshire Water notes our draft determination and indicates it will include repairs on repairs in future reporting. South West Water provided the requested data and calculated a reduced outperformance payment.

Bristol Water, South East Water and Affinity Water do not agree with our draft determination interventions. Bristol Water considers that the inclusion of 'repairs on repairs' does not reflect the wording and intention 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 an indicator 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.

Affinity Water considers that the inclusion of 'repairs on repairs' moves this metric further from its intended position as an asset health measure because the efficacy and durability of repairs is not the same thing as the condition and performance of water mains. It states that the inclusion provides more of an indication of customer impact through road disruption which is incentivised through C-Mex, so could be double counting. The company also suggests that including repairs on repairs may provide a perverse incentive to focus on the repair rather than a return to service (for example to provide a more permanent solution immediately rather than a temporary fix). It goes on to state that the mains repairs guidance is not clear, and it requests a consultation with the sector to clarify the guidance going forward, in order to avoid inconsistent reporting between companies.

South East Water requested that we revisit our position and definition of the mains repair measure, but also provided revised data for its mains repairs with some additional exclusions.

United Utilities agrees that repairs on repairs should be included in the mains repairs reporting, but not when these are associated with tightening of bolts on live mains (where the main was not shut off). The company considers these should be excluded as they are a proactive intervention it carries out to maintain water pipes and associated fittings to mitigate the effect of natural expansion and contraction of materials over time reducing the risk of the main requiring future physical repair.

We did not receive any specific comments on this issue from other stakeholders.

## Consideration of responses and final decision

We note that 11 companies had previously confirmed, through query responses, that their reported performance for mains repairs aligns with the reporting guidance to include repairs on repairs. Yorkshire Water and South West Water responses to the draft decisions also adjust their reporting to align with the reporting guidance.

The reporting guidance states that all repairs to mains should be reported and exclusions are limited to works not on the main (e.g., solely on a ferrule, hydrant or valve and clamps associated with these ancillaries). It also clearly states that clamps used to repair the main should be included. The guidance goes on to state ‘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, it is clear that once the original repair has happened, any subsequent bursts/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 should include any repairs to clamps fitted to a main to ensure its functionality, as the clamp is considered to be part of the main once fitted. Without the clamp the integrity of the main would be compromised and water would continue to be lost. The clamp is therefore also integral to the asset health of the main.

We consider that together, the mains repairs and supply interruptions performance commitments provide a strong incentive to return customer supplies back to normal as quickly as possible and to implement the right solution first time when repairing a main, so further repairs and interruptions at later date are less likely. For the same reason we do not consider including 'repairs on repairs' shifts the focus of the measure to a customer service measure and there has been no change in this measure since the PR19 final determinations.

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.

## Persistent low pressure (Severn Trent Water)

### Our draft decision

Ahead of our draft decisions, we 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 was, 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 was open to amending the definition to ensure that the inconsistency was 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 allowed us to understand the allocation of performance between residential and non-residential properties. This suggested 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 intervened to adjust the outperformance payment to £2.828m.

### **Stakeholders' responses**

The company accepts that there is a difference between the original design of the performance commitment levels and the scope of the PR19 final determination. The company agrees with changing the definition going forward, but states that a retrospective adjustment for 2020/21 runs counter to the interventions made at PR19.

We did not receive any specific comments on this issue from other stakeholders.

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

Having considered Severn Trent Water's response, our final decision on the company's performance payment for this performance commitment is unchanged from our draft determination intervention. We intervene because we consider that there was an unambiguous error in relation to the setting of this performance commitment because the performance commitment definition required the company to report the number of residential properties only, while the associated performance commitment was set with reference to numbers for both residential and non-residential properties. The company identified this inconsistency in its response to our PR19 draft determination, but the error was unfortunately not corrected in our PR19 final determination. We therefore consider that our intervention is to correct an error rather than to make a retrospective adjustment.

We intend to use the Annex 2 process to set out a formal change to the definition for the 2020-25 period.

## Greenhouse gas emissions performance commitments

### Our draft decision

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 suggested that a later version of the workbook would be a more appropriate basis for the calculation of these performance commitments. We said at draft decisions that we would consider whether to consult on amending these performance commitments to use a different version of the workbook for reporting in future years.

### Stakeholders' responses

We received specific responses on this topic from Yorkshire Water and Northumbrian Water.

In its response, Yorkshire Water states that there are several errors in the Carbon Accounting Workbook (CAW) version 13 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 14 workbook also addresses the issues and errors identified in CAW version 13.

Yorkshire Water 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 PR19 Final Determination obligations while maintaining wider carbon reporting best practice.

Northumbrian Water had reported in line with the PC definition by using version 13 of the CAW. However, in its consultation response Northumbrian Water expressed a wish to align the definition of its performance commitment with the latest guidance on GHG reporting rather than the previous guidance, and for this change to apply in relation to this year's in-period determination.

## Consideration of responses and final decision

Having considered stakeholder responses, our final decisions are set out in our draft determinations, including an intervention for Yorkshire Water to reduce its 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.

We consider using the same version of the workbook across all companies helps to improve transparency and understand companies' relative performance. It is also important that companies have certainty of the basis upon which their ODIs are being assessed and so we do not consider it appropriate to make the retrospective change proposed by Northumbrian Water in relation to 2020–21 performance. However, we intend to consult all affected companies on whether to amend their operational carbon performance commitments to use a different version of the workbook for reporting in future years.

## C-MeX and D-MeX

### Our draft decision

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.

### Stakeholders' responses

In its response Thames Water proposes that the price base for ODI payments for C-MeX and D-MeX should be adjusted. The company says payments for C-MeX are calculated using the 2020–21 residential retail revenue allowance from the PR19 final determination in nominal prices, but the results are treated as being in 2017–18 prices without any price base conversion. It states that in the D-MeX model, ODI payments are calculated using 2020–21 actual developer services revenues in nominal prices, but the results are treated as being in 2017–18 prices without any price base conversion. Thames Water says it considers this to be a technical error that needs to be corrected. Thames Water acknowledges that it is stated in the PR19 reconciliation rulebook that no inflation adjustment is necessary.

Thames Water also states that the 2020–21 residential retail revenue allowance from the PR19 final determination is based on forecast numbers of customers, and that it expects the residential retail revenue allowance to be adjusted to use actual customer numbers.

Thames Water also highlights that the value for residential retail revenue allowance from the PR19 financial model is from the item labelled "Residential retail service revenue (sum of

margin, CTS and revenue adjustment) – nominal" (£138.8m in 2022-23 ) and proposes it should instead use the item labelled "Residential retail service revenue (sum of margin, margin on DPC, CTS and revenue adjustment) – nominal" (£139.6m in 2022-23 ).

Both Anglian Water and Northumbrian Water stated in their responses that the calculation for the reward proposed in our draft determinations used the allowed retail revenue from the PR19 FD, rather than the CMA Final Determination.

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

We acknowledge that for the companies with CMA determinations, the C-MeX model allowed retail revenue figures required adjusting and we have done so in line with the CMA's Final Determination.

We have also adjusted the residential retail revenue figure used as the input for Thames Water in the C-MeX model.

The values stated in our draft and final determinations are calculated in accordance with methodology set out in the December 2019 PR19 final determinations and as stated in the reconciliation rulebook therefore no price base conversion is required in calculating the appropriate level of ODI payments for C-MeX and D-MeX. The revenue allowance that is used for this reflects the forecast customer numbers in the December 2019 PR19 final determinations and any variance in customer numbers does not affect the retail revenue allowance for the purposes of determining payments for C-MeX in the 2020-25 period.

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

### **Our draft decision**

In our draft determination we intervened to include an underperformance payment of £5.365m<sup>5</sup> in relation to its PR1 performance commitment WB1 Asset Health Water Infrastructure. This intervention was required because Thames Water informed us that in calculating its performance for the 2015-20 period, it had overstated the length of decommissioned mains. This meant that the company's underperformance payment on this performance commitment in relation to the 2015-20 period was too low, so the company recovered more revenue from its customers than it should have done.

Thames Water confirmed the amount of underperformance payment due, and that its preference was for the underperformance payment to be reconciled at the 2024 price review (PR24). However, we consider that it is in the best interests of customers to include this underperformance as soon as possible, as part of the in-period ODI determination process rather than at the 2024 price review (PR24).

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<sup>5</sup> Converted to 2017-18 FYA CPIH prices from the 2012-13 FYA RPI price base used at PR14.

## Stakeholders' responses

In its response regarding its PR14 asset health performance commitment Thames Water agrees that the underperformance payment of £5.365m is correct.

### Consideration of responses and final decision

Having considered the company's responses, our final decision on the company's performance payment for this performance commitment is as stated in our draft decision, above.

### 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 their performance and where there were significant associated out or underperformance payments, or there was not sufficiently high-quality assurance and data. In some cases where data hasn't been sufficient or of high quality we have taken this in account in our final 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 intervene to protect customers.

## 2.2 Other consultation responses

### 2.2.1 Consumer Council for Water (CCW) response:

In its response, CCW covered a number of points. Key points it raises include that:

- some outperformance payments appear to be larger than the incremental benefit to customers;
- it supports our interventions on Covid-19 and per capita consumption;
- it supports our interventions where companies have not followed reporting guidance; and

- it is concerned about bill volatility and mechanisms for multiple deferrals, but it does support the intention to defer payments for Severn Trent Water.

CCW also suggests that PR24 returns to end-of-period payments to avoid year-on-year customer bill volatility.

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

We thank CCW for its response and welcome its support for the interventions we have made on Covid-19, per capita consumption and where companies have not followed reporting guidance. The interests of customers are central to our determinations. We consider that in-period ODI payments can deliver significant benefits to customers, the service they receive and the environment. This is because companies feel the financial impact closer in time to the performance that generated it. This focuses each company's management on delivering better services year after year and improves companies' accountability to their customers.

We also note that companies have a number of tools available to them to manage bill volatility and the in-period ODI process specifically allows them to ask us to defer payments to manage bill volatility from year to year. We will continue to consider the potential impact of multiple deferrals on the bills that customers pay.

### **2.2.2 Environmental impact of pollutions**

Ten Southern Water customers responded to our consultation, providing various comments regarding Southern Water's performance in relation to pollution incidents and specifically a spill of sewage that occurred in July 2021. They also raised several questions on broader topics, for example, the use of sewer overflows, executive pay and privatisation of the water sector.

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

We thank each of these customers for contacting us. For our final determinations, we have considered the comments as they apply to in-period ODI performance in 2020–21 because the final determinations we are making relate to the performance of Southern Water from 1 April 2020 to 31 March 2021. This means that pollution incidents in July 2021 will be covered in the 2021–22 reporting year. We will make our in-period ODI determinations on that reporting year by 15 November 2022.

However, for context, the company's poor performance in 2020–21 has resulted in underperformance payments of £7.7m for pollution incidents and £19.4m for treatment works compliance.

Because some of the broader issues and questions raised do not directly relate to in-period ODIs in 2020–21 we will respond separately to each customer so we can answer the questions individually. We expect to send these individual replies after we have published our ODI final determinations.

### **2.2.3 Aligning customer and shareholder interests**

In responding to its draft determination, Northumbrian Water raises a wider issue on aligning the interests of customers and shareholders. Northumbrian Water states that where companies either incur underperformance payments despite having comparatively strong performance relative to peers or gain outperformance payments despite having comparatively weak performance relative to peers, this damages the credibility of the regime and can be difficult to explain to customers impacts upon their levels of trust. The company considers that there are examples of this in the draft determinations for other companies and provides an example comparing companies with sewer blockages performance commitments, suggesting a poor correlation between performance and ODI payments. As noted in section 2.2.1, CCW raises a similar point in its response about payments appearing to be larger than the incremental benefit to customers.

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

The in-period ODI determination process adjusts allowed revenue to reflect out and underperformance payments due in light of reported company performance in relation to its PR19 final determination package of performance commitments and ODIs<sup>6</sup>. The issue raised relates to the price control framework rather than the specific decisions we make in this process, but will be fed into our ongoing work to develop our 2024 price review methodology.

### **2.2.4 Taxation**

#### **Our draft decision**

In our draft determinations we applied a uniform marginal tax rate of 19% in each company's in-period adjustments model to reflect the headline rate of corporation tax.

#### **Stakeholders' responses**

Affinity Water, Dŵr Cymru and Southern Water request that we adjust the marginal tax rate in our in-period determinations to 0% to align with their specific circumstances.

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<sup>6</sup> Or as amended through relevant corrigenda, annex 2 related changes or determinations by the Competition and Markets Authority.

## Consideration of responses and final decision

We describe at a high level how we apply adjustments for tax in section 3.2 of this document.

We address the comments raised by Affinity Water, Dŵr Cymru and Southern Water in their respective final determination documents. At a sector level, we want to maintain a targeted and proportionate assessment to tax during the in-period determinations process. We also note that if a company is not liable to pay corporation tax in 2022–23 as it has no taxable profits, it can carry forward taxable losses to offset corporation tax liabilities in future years. As such, provided the company generates taxable profits in the coming years, we do not consider there is a strong case to change our assumption.

We therefore maintain the 19% assumption in our final determinations for all companies. We also note that, as set out in the [PR19 reconciliation rulebook](#) (p58), if there is a material impact on customers or companies as a result of a difference between the marginal rate of tax that a company pays in the following charging year and our assumption, we may consider reconciling this at PR24.

### 2.2.5 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 and Thames Water suggest we use a higher rate of inflation in our final determinations.

#### 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 this document.

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

#### 3.1 Our final determinations

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. Our view includes the deferral of the value of ODI payments for the 2020–21 charging year to the end of the 2020–25 period, as set out in section 2.1.1

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.

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 final determination on these payments after any interventions.

Company	Company's reported ODI payments (£m)	Our final 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	-0.544
Severn Trent Water	59.716	59.220
South East Water	-5.818	-3.987
South Staffs Water	-0.423	0.978
South West Water	-14.900	-14.908
Southern Water	-41.305	-40.453
Thames Water	-31.870	-29.226

<b>United Utilities</b>	15.486	17.404
<b>Wessex Water</b>	-0.896	-0.197
<b>Yorkshire Water</b>	-1.018	0.156
<b>Industry total</b>	<b>-27.595</b>	<b>-9.666</b>

### C-MeX and D-MeX payments

We include payments relating to C-MeX and D-MeX in our final determinations.

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 final 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	2.927
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	-16.753

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

Our final 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

Rank	Company	D-MeX scores	Payments (£m)
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
11	South Staffs Water	83.59	-0.073
12	Dŵr Cymru	82.69	-0.354
13	South East Water	79.85	-0.239
14	Thames Water	77.56	-1.861
15	Southern Water	73.77	-1.033
16	Yorkshire Water	62.25	-2.884
17	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 final decisions on 2020–21 deferrals and abatements.

Company	Ofwat FD 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>11.681</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	3.281	0.000	0.000	<b>6.509</b>
Portsmouth Water	0.414	0.382	0.000	0.000	<b>0.796</b>
SES Water	-0.544	-0.570	0.000	0.000	<b>-1.113</b>
Severn Trent Water	59.220	3.881	-18.180	25.257	<b>70.178</b>

Company	Ofwat FD 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)
South East Water	-3.987	-0.640	0.000	0.000	-4.627
South Staffs Water	0.978	-0.153	0.000	0.538	1.363
South West Water	-14.908	-0.536	0.000	0.000	-15.444
Southern Water	-40.453	-5.939	0.000	0.000	-46.393
Thames Water	-29.226	-18.614	0.000	-5.365	-53.205
United Utilities	17.404	3.129	0.000	0.000	20.533
Wessex Water	-0.197	2.720	0.000	0.000	2.523
Yorkshire Water	0.156	-2.418	0.000	0.000	-2.262
Industry totals	-9.666	-12.936	-20.041	20.438	-22.204

**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 each company.

Company	Total ODI payments (£m, before 2020–21 deferrals and abatements)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Total ODI payments to be applied in 2022–23 (£m) <sup>7</sup>
Affinity Water	-5.887	0.000	0.000	-5.887
Anglian Water	11.681	0.000	0.000	11.681
Bristol Water	-1.582	0.000	0.000	-1.582
Dŵr Cymru	-4.524	0.000	0.000	-4.524
Hafren Dyfrdwy	-0.750	0.000	0.000	-0.750
Northumbrian Water	6.509	0.000	0.000	6.509
Portsmouth Water	0.796	0.323	0.000	0.473

<sup>7</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 £22.204m to £67.074m after we apply a net deferral of £44.870m in outperformance payments (primarily driven by the proposed deferral for Severn Trent Water).

Company	Total ODI payments (£m, before 2020–21 deferrals and abatements)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Total ODI payments to be applied in 2022–23 (£m) <sup>7</sup>
SES Water	-1.113	0.000	0.000	-1.113
Severn Trent Water	70.178	44.903	0.000	25.276
South East Water	-4.627	0.000	0.000	-4.627
South Staffs Water	1.363	0.042	0.000	1.321
South West Water	-15.444	0.000	0.000	-15.444
Southern Water	-46.393	-0.398	0.000	-45.995
Thames Water	-53.205	0.000	0.000	-53.205
United Utilities	20.533	0.000	0.000	20.533
Wessex Water	2.523	0.000	0.000	2.523
Yorkshire Water	-2.262	0.000	0.000	-2.262
<b>Industry totals</b>	<b>-22.204</b>	<b>44.870</b>	<b>0.000</b>	<b>-67.074</b>

## 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.

### 3.2.1 Deferrals and abatements

As set out in the PR19 reconciliation rulebook, companies can ask us to defer outperformance or underperformance payments, or to abate outperformance payments on individual performance commitments. A deferral results in us delaying when the adjustment will be made to a company's revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment.

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

We note that when deferring payments to the following year, we apply a time value of money adjustment. As set out in the PR19 reconciliation rulebook, we use the wholesale allowed return for payments relating to wholesale controls or the appointed allowed return for payments relating to retail controls. For the avoidance of doubt, we will use the allowed return that applies to the relevant company, such as those determined by the Competition and Markets Authority for the four appellant companies (Anglian Water, Bristol Water,

Northumbrian Water and Yorkshire Water) for the purpose of applying this adjustment during the in-period ODI process. For all other companies we will use the allowed return as set in our December 2019 PR19 final determinations.

### 3.2.2 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 the relevant price base for this year's in-period determinations.

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 use published inflation data, companies' submissions and publicly available short-term inflation forecasts to estimate this index.

In our draft determinations we estimated this to be 2.93% and said we will revise this estimate in our final in-period determinations informed by latest published inflation data, forecasts and stakeholders' responses.

For our final determinations we have updated the inflation estimate to be 3.21% and have applied this in the published in-period adjustments models for each company.

### 3.2.3 Taxation

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.

In our draft determinations, 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.

In our draft determinations we 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 was consistent with the government's [proposals relating to corporation tax](#) for the 2022–23 charging year, when in-period ODI payments will apply. We said we may revise this in our final in-period determinations informed by stakeholders' responses, upcoming changes to tax policies and other relevant factors.

For our final determinations we maintain a uniform marginal tax rate of 19% for all companies. We also note that, as set out in the [PR19 reconciliation rulebook](#) (p58), if there is

a material impact on customers or companies as a result of a difference between the marginal rate of tax that a company pays in the following charging year and our assumption, we may consider reconciling this at PR24.

### 3.2.4 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 final 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.

### 3.2.5 Modelling treatment of per capita consumption (PCC)

We describe our policy on making PCC an end of period performance commitment in section 2. Consistent with our approach at draft determinations we have reflected this through the ODI performance model, ensuring consistency with our policy 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 final determinations.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.**

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