

October 2022

Draft determination of Portsmouth Water's in-period outcome delivery incentives for 2021-22

About this document

This document provides our draft determination on the extent to which the price controls included in our [PR19 final determinations](#) need to be adjusted to reflect Portsmouth Water's performance for the 2021-22 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 adjustments, and our reasons for these, are set out in this document and in our [Sector overview: Draft determinations of in-period outcome delivery incentives for 2021-22](#).

We also publish models related to our draft determinations on our [website](#).

We welcome your views by 21 October 2022. We will make our final determinations by 15 November 2022.

Background

At the 2019 price review (PR19), companies made performance commitments, or pledges, to their customers and stakeholders about the service levels they would meet to make progress towards their outcomes. Portsmouth Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Portsmouth Water - Outcomes performance commitment appendix](#).¹

Each performance commitment has an outcome delivery incentive (ODI) that provides either financial or reputational consequences for companies of outperforming or underperforming their performance commitments. Many of the financial ODIs are paid during the 2020-25 price control-period. The reason for this is to bring payments closer in time to when customers experience a given level of performance. The remaining incentives are paid at the end of the period.

ODIs act as an incentive for companies to deliver their committed levels of performance, returning funding to customers for foregone benefits if they deliver less than is expected. Companies that go beyond and deliver greater benefits than expected to customers and the environment can receive outperformance payments.

Portsmouth Water reported its performance against these performance commitments in its annual performance report (APR) in July 2022. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, in accordance with Annex 2 of the company's performance commitment appendix. Annex 2 provides for changes and corrections to be made to 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](#).

determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with Part 3A of Condition B of each company's licence.

We will make our final determination by 15 November 2022. This will affect Portsmouth Water's customers' bills from the 2023-24 charging year.

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' Per Capita Consumption (PCC) ODI payments for the 2020-21 to 2023-24 charging years to the end of the 2020-25 period. We 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.

Executive summary

Having assessed Portsmouth Water's performance against its performance commitments in 2021-22, the ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £0.203m and a D-MeX outperformance payment of £0.101m, based on the assessment of 2021-22 company performance; and
- Water Industry National Environment Programme (WINEP) performance commitment (PC) – we are intervening to increase Portsmouth Water's underperformance payment by £0.067m. We have done this to ensure that the ODI payment reflects the performance commitment levels set at PR19.

See section 1 for details of our interventions and policy decisions.

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1. Results of our assessment

1.1 Interventions and policy decisions

Table 1.1 below sets out our view of the payments due for performance commitments on which we have intervened compared to the values reported by Portsmouth Water.

Table 1.1: Summary of interventions

Performance commitment	Company's reported payments 2021-22 (£m)	Our draft determinations after interventions 2021-22 (£m)	Difference (£m)
Water Industry National Environment Programme	-0.022	-0.089	-0.067

In our draft determination we are intervening on the following performance commitments:

Water Industry National Environment Programme (WINEP)

We are intervening to increase Portsmouth Water's underperformance payments in relation to its WINEP performance commitment by £0.067m. This is because Portsmouth Water changed the performance commitment level for 2021-22 from seven schemes to four schemes. The company presented evidence that it has received extensions to three WINEP schemes from Natural England and the Environment Agency, which it states have made the original deadlines either unachievable or unjustified.

Whilst the in-period delivery of WINEP is a matter for the company to agree with the environmental regulators, the definition of the company's WINEP PC, PR19PRT_NEPO2, states that it is "limited to the 18 schemes that were confirmed on 1 April 2019 within the Water Industry National Environment Programme." As we reiterated in section 1.5 of IN22/01 our policy is that we would not expect to make changes to financial PCs simply because of WINEP changes.

WINEP schemes hold significant benefits for the environment that customers value and these improvements should be implemented in accordance with the performance commitment levels set out in the PR19 final determination. The company's NEPO1 performance commitment is non-financial and, in tracking the latest WINEP programme published by Defra, indicates clearly to customers the company is on track with the revised delivery schedule it has agreed with Natural England and the Environment Agency. Separately, the company's PRR19PRT_NEPO2 performance commitment is to incentivise the delivery of schemes in a timely manner and is based on the actual benefits accruing to customers and the environment in each year of the 2020-25 period.

As set out in our 'PR19 final determinations: Delivering outcomes for customers policy appendix' we do not consider it appropriate to make specific provision for the WINEP performance commitments to be amended during the period. This remains our view. We were clear that changes will only be made in exceptional circumstances through a formal process of consultation.

Biodiversity reward

We are making an amendment to Portsmouth Water's ODI performance model in the Ofwat interventions worksheet to make a correction for the Biodiversity reward performance commitment (PR19PRT_PRT-Water Resources-01). The company selected 'true' in row 36 of the PC_Company_input worksheet when it should have been false because the ODI for this PC only applies in 2024-25. The impact of this correction is not material (£0.000186m) and makes no financial difference to our in-period ODI draft determinations.

1.2 C-MeX and D-MeX

On 21 September we published the relative performance of all companies. Our draft determination includes a C-MeX outperformance payment of £0.203m and a D-MeX outperformance payment of £0.101m, based on our assessment of 2021-22 company performance.

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.

1.3 Payment deferrals and abatements

As set out in our [PR19 final determinations](#) and the [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.

In our Final Determination of Portsmouth Water's in-period outcome delivery incentives for 2020-21, we deferred £0.323m of the company's outperformance payment, as requested by the company to reduce the impact on customer bills. This outperformance payment will be applied to customer bills in 2023-24.

2. Impact of 2020-21 in-period ODI assessment on price controls

2.1 Our draft determination

In this section we outline the financial impacts of our draft determinations.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 2.1: Draft determination on adjustment to 2023-24 price controls as a result of performance against ODIs

This table sets out our draft determinations on the ODI payments to be applied to price controls in the 2023-24 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2021-22;
- brought forward deferrals;
- our draft determination on these payments after any interventions;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details on the interventions, deferrals, abatements and bespoke adjustments, see section 1.

This draft determination on the ODI payments to be applied for Portsmouth Water is also set out in the in-period adjustments model published on our website.

Price control	Company's reported ODI payments (£m)	Interventions (£m)	ODI payments deferred from 2020-21 (£m)	Ofwat DD deferrals (£m)	Ofwat DD abatements (£m)	Bespoke adjustments (£m)	C-MeX payments (£m)	D-MeX payments (£m)	Total ODI payments to be applied to customer bills in 2023-24 (£m)
Water resources	-0.022	-0.067	0.000	0.000	0.000	0.000	0.000	0.000	-0.089
Water network plus	0.271	0.000	0.333	0.000	0.000	-0.006	0.000	0.101	0.699
Residential retail	-0.039	0.000	0.000	0.000	0.000	-0.018	0.203	0.000	0.146
Total	0.209	-0.067	0.333	0.000	0.000	-0.024	0.203	0.101	0.755

Table 2.2: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations.

Price control	Prior year restatements (£m)	Prior year C-Mex indexation (£m)	Prior year D-Mex indexation (£m)	Prior year total (£m)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2023-24 (£m)
Water resources	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Water network plus	0.000	0.000	-0.006	-0.006	0.000	0.000	-0.006
Residential retail	0.000	-0.017	0.000	-0.017	-0.001	0.000	-0.018
Total	0.000	-0.017	-0.006	-0.024	-0.001	0.000	-0.024

The prior year C-Mex and prior year D-Mex values correct an error in how the C-Mex and D-Mex models applied indexation in 2020-21. Where applicable we adjust for the time value of money.

Table 2.3: Changes to price controls (draft determinations)

This table sets out the impact of our draft determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft determinations of in-period outcome delivery incentives for 2021-22](#) for how we apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Previous determination	0.08	0.52	2.04	0.53
	Revised	0.08	0.52	-0.13	2.54
Water network plus (K factors)	Previous determination	0.87	1.63	-0.50	1.09
	Revised	0.87	1.63	2.78	-1.87
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	4.790	5.182	4.940	5.023
	Revised	4.790	5.182	5.160	5.023

We have based Portsmouth Water's draft determination on the data and commentary provided to us by Portsmouth Water. 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.

3. Responding to this consultation

We would welcome any comments on this document. Please email them to in-periodODIs@ofwat.gov.uk or post them to:

IPD2022 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Or Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD if that is more appropriate.

The closing date for this consultation is **21 October 2022**. If you wish to discuss any aspect of this consultation, please contact the In-period ODI team by post or by email at in-periodODIs@ofwat.gov.uk

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this draft determination, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for

disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

We will publish our final decisions by **15 November 2022**, after considering representations from all stakeholders.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
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Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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