

October 2022

# **Draft determination of SES Water's in-period outcome delivery incentives for 2021-22**

**Ofwat**

## 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 SES 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. SES Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: SES Water - Outcomes performance commitment appendix](#).<sup>1</sup>

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.

SES 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

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<sup>1</sup> 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 SES 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 SES 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 underperformance payment of £0.214m and a D-MeX underperformance payment of £0.074m, based on the assessment of 2021-22 company performance;
- Leakage - we are deferring our decision on the outperformance payment of £0.277m as the company's reporting does not comply with the common performance commitment (PC) methodology.

We are including an adjustment of £0.066m to correct for an understatement of the underperformance on the company's mains repairs PC for 2020-21. This is because the company had incorrectly excluded repairs to tighten bolts on repair clamps and fittings from its 2020-21 reported performance.

We are also including an adjustment of £0.006m to correct for an overstatement of underperformance on the company's mains risk of supply failures PC for 2020-21. This is because the company had incorrectly excluded a water supply zone with 3071 properties from its 2020-21 reported performance.

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 SES Water.

**Table 1.1: Summary of interventions**

Performance commitment	Company's reported payments 2021-22 (£m)	Our draft determination after interventions 2021-22 (£m)	Difference (£m)
Leakage	0.277	0	-0.277

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

### Leakage and Per capita consumption (PCC)

Based on our assessment of the company's performance, we are intervening to defer the company's outperformance payment of £0.277m on its leakage performance commitment. This is because the company's reported data for these PCs does not comply with the common PC methodology that applies for the 2020-25 period and we consider this non-compliance to be material. Our intervention means that there will be no change applied to customer bills in 2023-24 in relation to the company's leakage performance for 2021-22.

We had expected SES Water to have been compliant with the [PR19 common performance commitment definitions](#) when reporting data in the 2020-25 period. The [Reporting Guidance - Leakage](#) 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 SES Water's submission identified that one of the areas in which it has not achieved compliance, an imbalance of 4.8% in its water balance, has a material impact on the accuracy of the reported data.

Because an imbalance of the water balance of this size indicates a high degree of uncertainty over the accuracy of the data, we have not included this outperformance ODI payment in our draft determinations. Should SES Water be able to demonstrate compliance, or that non-compliance is not material, in future APRs we will consider whether any retrospective adjustments to leakage and PCC ODI payments are appropriate.

Should any leakage or per capita consumption information be revised or restated in future, our subsequent in-period determinations will take account of the company's relevant performance and the adjustments we have made to the relevant price control in relation to the leakage performance commitment.

In addition to intervening on leakage and PCC, we are applying the following amendments to the company's in-period adjustments model:

### **Mains repairs**

We are making an adjustment, in line with the company's request, to include an underperformance payment of £0.066m to correct for an understatement of the underperformance on the company's mains repairs PC for 2020-21. This is because the company had incorrectly excluded repairs to tighten bolts on repair clamps and fittings from its 2020-21 reported performance. We have accounted for this correction as bespoke adjustment within the in-period adjustments model.

### **Risk of supply failures**

We are making an adjustment, in line with the company's request, to include an outperformance payment of £0.006m to correct for an overstatement of underperformance on the company's mains risk of supply failures PC for 2020-21. This is because the company had incorrectly excluded a water supply zone with 3071 properties from its 2020-21 reported performance. We have accounted for this correction as bespoke adjustment within the in-period adjustments model.

## **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 underperformance payment of £0.214m and a D-MeX underperformance payment of £0.074m, 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.

SES Water did not request any payment deferrals. As set out in section 1.1, we are intervening to defer the company's outperformance payment of £0.277m on its leakage performance commitment.

## 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 determination.

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 determination 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;
- our draft determination on 2022-23 deferrals and abatements;
- 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 SES 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	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001
Water network plus	0.486	-0.277	0.000	0.000	0.000	-0.039	0.000	-0.074	0.095
Residential retail	-0.164	0.000	0.000	0.000	0.000	0.014	-0.214	0.000	-0.364
<b>Total</b>	<b>0.321</b>	<b>-0.277</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.025</b>	<b>-0.214</b>	<b>-0.074</b>	<b>-0.270</b>

**Table 2.2: Breakdown of bespoke adjustments**

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

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)
<b>Water resources</b>	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
<b>Water network plus</b>	-0.060	0.000	0.021	-0.038	-0.001	0.000	<b>-0.039</b>
<b>Residential retail</b>	0.000	0.014	0.000	0.014	0.000	0.000	<b>0.014</b>
<b>Total</b>	<b>-0.060</b>	<b>0.014</b>	<b>0.021</b>	<b>-0.024</b>	<b>-0.001</b>	<b>0.000</b>	<b>-0.025</b>

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
<b>Water resources (K factors)</b>	Previous determination	-2.89	-2.69	-3.95	-2.13
	Revised	-2.89	-2.69	-3.98	-2.09
<b>Water network plus (K factors)</b>	Previous determination	-0.60	-1.93	1.45	-0.53
	Revised	-0.60	-1.93	1.72	-0.76
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	5.422	5.095	5.756	5.910
	Revised	5.422	5.095	5.208	5.910

We have based SES Water's draft determination on the data and commentary provided to us by SES 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](mailto: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](mailto:in-periodODIs@ofwat.gov.uk)

We intend to publish responses to this consultation on our website at [www.ofwat.gov.uk](http://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 determinations 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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