

October 2022

# **Draft determination of South Staffs 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 South Staffs 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. South Staffs Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: South Staffs 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.

South Staffs Water reported its 2021-22 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

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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](#).

queries. In our draft 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 South Staffs 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 South Staffs 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 £0.525m and a D-MeX underperformance payment of £0.028m, based on the assessment of 2021-22 company performance; and
- Water quality compliance (CRI, or the Compliance Risk Index) – we are intervening to change the company's CRI score to reflect the latest data from the Drinking Water Inspectorate (DWI). This intervention does not change the company's performance payment.

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

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

### Water quality compliance

We are intervening to change the company's CRI score to reflect the latest data from the Drinking Water Inspectorate (DWI), which was not available at the time South Staffs Water submitted its APR data. The company reported a CRI score of 0.90 but the latest DWI data shows that South Staffs Water's CRI score was 1.14. This intervention does not change the company's performance payment.

We have the following comments relating to South Staffs Water's leakage and PCC performance commitments.

### Leakage (South Staffs region), Leakage (Cambridge region), and Per capita consumption (South Staffs region), Per capita consumption (Cambridge region)

In our in-period determination for 2020-21 we deferred £0.042m outperformance for South Staffs Water's leakage (Cambridge region) (PR19SSC\_C2) performance commitment and the company received £0.258m outperformance for South Staffs Water's leakage (South Staffs region) (PR19SSC\_C1) performance commitment.

As part of its 2021-22 APR submission South Staffs Water told us that during 2021-22 it had taken steps to move to be fully convergent with the sector common leakage and PCC performance commitment methodologies. The company identifies that whilst it is fully convergent in terms of process against the methodology, in 2021-22 it has a water balance gap above the 2% threshold in its South Staffs region. The company stated that the water balance process is designed to accommodate a gap by spreading it over all water balance components, therefore it will not need to restate any values in future as a result of this issue.

South Staffs Water told us it is providing restated values for leakage and PCC from 2017-18 onwards and included the numerical data relating to pre and post back-casted methodologies for both performance commitments. This data included annual average and three-year average baseline values and performance for 2020-21 and 2021-22 in MI/d unit for leakage and litres/person/day unit for PCC, and in % change from baseline for both performance commitments.

The company quantified the impact of the restated values on its ODI payments and told us that for its South Staffs region it requires a negative adjustment of £0.040m for 2020-21 and for its Cambridge region it requires a positive adjustment of £0.021m.

The company's submitted model for 2021-22 reflects reported performance calculated using its revised methodology. This performance attracts outperformance payments of £0.235m and £0.190m for South Staffs region and Cambridge region respectively.

Companies are expected to commit that their performance payments relate only to real performance changes and not definitional, methodological or data changes.<sup>2</sup> In taking steps to be fully convergent with the sector common leakage and PCC performance commitment methodologies, the company's revised approach should bring it in line with other companies, which have been reporting their leakage and PCC performance using the PR19 methodology since 2020-21, allowing direct comparison with the rest of the industry. The company considers that its restated values represent a more accurate record of its performance and it has said it will provide us with additional information and assurance to provide further insight into the impact of its change in approach. We will consider this information ahead of our final determinations. The changes implemented by South Staffs Water result in the company earning lower outperformance for leakage in aggregate for 2020-21 and 2021-22.

## 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 £0.525m and a D-MeX underperformance payment of £0.028m, 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.

South Staffs Water did not request any payment deferrals or abatements. Based on our assessment of the company's performance, we do not consider any are required. As such, we do not apply any payment deferrals or abatements in our draft determination.

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<sup>2</sup> PR19 final determinations: South Staffs Water - Outcomes performance commitment appendix, page 2.

In our [Final Determination of South Staffs Water's in-period outcome delivery incentives for 2020-21](#), we deferred £0.042m of the company's outperformance payment in relation to its leakage (Cambridge region) (PR19SSC\_C2) performance commitment.

As stated in section 1.1, the company has implemented what it considers to be a more compliant approach for its 2021-22 leakage and PCC reporting. The company has restated its 2020-21 performance based on this revised approach and has applied a negative adjustment of £0.040m for the South Staffs region and a positive adjustment of £0.021m for the Cambridge region to reflect this in its 2021-22 APR. Therefore, there is no deferral to carry forward to future years.

## 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 its performance in 2021-22;
- our draft determination on these payments after any interventions;
- brought forward deferrals;
- 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.

The ODI payments to be applied for South Staffs Water are 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	0.043	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.043</b>
Water network plus	1.767	0.000	0.043	0.000	0.000	0.662	0.000	-0.028	<b>2.444</b>
Residential retail	0.000	0.000	0.000	0.000	0.000	0.005	0.525	0.000	<b>0.531</b>
<b>Total</b>	<b>1.810</b>	<b>0.000</b>	<b>0.043</b>	<b>0.000</b>	<b>0.000</b>	<b>0.667</b>	<b>0.525</b>	<b>-0.028</b>	<b>3.018</b>

**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)
<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>	-0.018	0.000	0.005	-0.014	0.000	0.676	<b>0.662</b>
<b>Residential retail</b>	0.000	0.005	0.000	0.005	0.000	0.000	<b>0.005</b>
<b>Total</b>	<b>-0.018</b>	<b>0.005</b>	<b>0.005</b>	<b>-0.009</b>	<b>0.000</b>	<b>0.676</b>	<b>0.667</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 are applying adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
<b>Water resources (K factors)</b>	Previous determination	1.56	4.55	1.68	-2.01
	Revised	1.56	4.55	2.28	-2.53
<b>Water network plus (K factors)</b>	Previous determination	-0.61	0.42	-7.61	-1.23
	Revised	-0.61	0.42	-4.46	-4.20
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	13.998	14.045	14.321	14.484
	Revised	13.998	14.045	15.121	14.484

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