

October 2022

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

Thames 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. These will affect Thames 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 the company'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 £16.032m and a D-MeX underperformance payment of £1.125m based on the assessment of 2021-22 company 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

We are not intervening on Thames Water's reported performance for 2021-22 in our draft determination. However, we have the following comments relating to the leakage and per capita consumption (PCC) performance commitments.

Leakage and per capita consumption (PCC)

We had expected Thames Water to have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2020-25 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.

This year, Thames Water used an updated methodology to move closer to compliance with the leakage and PCC definitions. It identified that, using this methodology meant that £0.307m should be repaid to customers in respect of this year and last year. Our review of Thames Water's submission confirmed that, whilst it has not achieved full compliance, its restated data is more compliant than it was in 2020-21.

We are using the leakage and PCC data that the company has submitted for the baseline period (2017-2020), for 2020-21 and 2021-22 reporting years to calculate the company's ODI payments. This means that there are no interventions required for 2021-22 performance or ODI payments. However, we do account for the restated 2020-21 leakage and PCC data within our modelling. In the Thames Water in-period adjustment model we include a bespoke adjustment relating to the restated 2020-21 leakage. This reduces the outperformance earned for 2020-21 performance from £2.671m to £2.364m and means that £0.307m will be repaid to customers. We also make an adjustment to account for the time value of money. Because PCC is an end of period performance commitment, we will account for the data restatement when we calculate the ODI payments due for this, and other end of period PCs, at PR24.

We expect all companies to be fully compliant with the leakage and PCC methodology as soon as possible. The company stated that it plans further improvements to its leakage and PCC methodology for 2022-23 reporting. However, we are concerned that this will reduce transparency and make it difficult for stakeholders to understand Thames Water's performance over time. We would not expect its methodology to materially change each year nor should a company benefit from changes to methodology, so we require that the company is able to report on a consistent basis with the methodology it has used this year for the remainder of the 2020-25 period.

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 £16.032m and a D-MeX underperformance payment of £1.125m 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.

Thames 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.

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 2023-24 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2021-22;
- 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 Thames Water is also set out in the in-period adjustments model published on our website.

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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	-0.096	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.096
Water network plus	1.182	0.000	0.000	0.000	0.000	-0.238	0.000	-0.754	0.191
Wastewater network plus (WaSCs only)	-36.889	0.000	0.000	0.000	0.000	0.040	0.000	-0.371	-37.220
Bioresources (WaSCs only)	0.653	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.653
Residential retail	0.406	0.000	0.000	0.000	0.000	1.065	-16.032	0.000	-14.561
Thames Tideway Tunnel (TMS only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	-34.744	0.000	0.000	0.000	0.000	0.867	-16.032	-1.125	-51.033

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)
Water resources	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Water network plus	-0.307	0.000	0.076	-0.231	-0.007	0.000	-0.238
Wastewater network plus (WaSCs only)	0.000	0.000	0.039	0.039	0.001	0.000	0.040
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.000	1.035	0.000	1.035	0.031	0.000	1.065
Thames Tideway Tunnel (TMS only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	-0.307	1.035	0.115	0.842	0.025	0.000	0.867

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 2020-21](#) 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	3.90	-1.02	0.70	3.51
	Revised	3.90	-1.02	0.56	3.65
Water network plus (K factors)	Previous determination	7.44	-2.34	3.70	0.22
	Revised	7.44	-2.34	3.74	0.20
Wastewater network plus (WaSCs only)	Previous determination	-0.81	-4.61	2.66	-0.16
	Revised	-0.81	-4.61	-3.89	6.07
Bioresources (WaSCs only)	Previous determination	160.767	160.099	162.479	163.333
	Revised	160.767	160.099	163.285	163.333
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	143.177	122.550	148.468	150.721
	Revised	143.177	122.550	126.507	150.721
Thames Tideway Tunnel (TMS only)	Previous determination	4.64	2.78	-11.51	-10.68
	Revised	4.64	2.78	-11.51	-10.68

We have based Thames Water's draft determination on the data and commentary provided to us by Thames 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 determinations by **15 November 2022**, after considering representations from all stakeholders.

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