

September 2022

Sector overview: Draft determinations of in-period outcome delivery incentives for 2021-22

About this document

This document provides an overview of our draft determinations on the extent to which the price controls included in our [PR19 final determinations](#)¹ need to be adjusted to reflect the sector's performance for the 2021-22 charging year. These adjustments are made under Part 3A (Performance Measure Adjustments) of Condition B of companies' licences and are referred to in this document as 'in-period' outcome delivery incentives (ODI) determinations. The specific changes, and our reasons for these, are set out in this document and the individual draft determinations documents for each company².

We have published company specific draft determinations documents and associated models related to our draft determinations on our [website](#).

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. The performance commitments for the 2020-25 period are set out in each company's PR19 Outcomes performance commitment appendix.³

Each performance commitment (PC) 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.

¹ or set by the Competition and Markets Authority (CMA), and as adjusted by any subsequent interim determination of K (IDoK).

² On 3 June 2021, Pennon Group plc (the parent undertaking of South West Water Limited) acquired 100% of the share capital of Bristol Water Holdings UK Limited BWHUK (the parent undertaking of Bristol Water Limited). Paragraph 2.3 of the undertakings made by Pennon to the CMA and accepted by the CMA on 7 March 2022 states that South West Water and Bristol Water will continue to report their performance commitments and ODIs separately for the remainder of the 2020-25 price control period. Therefore, our draft determinations state separately the extent to which the PR19 price controls need to be adjusted to reflect Bristol Water's performance and South West Water's performance for the 2021-22 charging year.

³ 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.

Companies that go beyond and deliver greater benefits than expected to customers and the environment can receive outperformance payments.

The companies reported performance against their PCs in their annual performance reports (APRs) in July 2022. We have conscientiously considered this information and, where necessary, further information received from companies in response to our queries. In our draft determinations we set out relevant adjustments to each 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 determinations by 15 November 2022. These will affect customers' bills from the 2023-24 charging year.

As set out in the PR19 final determinations, if a company's outperformance is more than 3% of its wastewater or water regulatory equity for that year, it will receive only 50% of outperformance payments above this threshold, to protect customers against excessive costs. This applies to all ODI payments except to the customer measure of experience (C-MeX), developer measure of experience (D-MeX) and those allocated to retail price controls.

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](#).

Executive summary

This section sets out the draft determinations of 2021-22 in-period ODI payments for the regional incumbent water and wastewater companies in England and Wales which were subject to the PR19 price review.

Table 1.1 summarises the total draft determinations adjustments we are making for each company, having assessed companies' performance against their 2021-22 PCs. For each company, this includes the net impact of total ODI payments, the payments for the customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) performance commitments, as well as any deferrals, abatements or bespoke adjustments. We set out the financial impacts of our draft determinations for all companies in section 2 of this document.

Table 1.1: Total draft determinations adjustments to price controls (£m, 2017-18 FYA CPIH prices)

Company	Total draft determinations adjustments to price controls (£m, 2017-18 FYA CPIH prices)
Affinity Water	-0.770
Anglian Water	-8.509
Bristol Water	0.630
Dŵr Cymru	-8.000
Hafren Dyfrdwy	-0.378
Northumbrian Water	-20.282
Portsmouth Water	0.755
SES Water	-0.270
Severn Trent Water	62.860
South East Water	-3.152
South Staffs Water	3.018
South West Water	-13.336
Southern Water	-28.297
Thames Water	-51.033
United Utilities	24.146
Wessex Water	4.445
Yorkshire Water	-15.227
Industry total	-53.398

Our draft determinations 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. These interventions are set out in each company's draft determination on our [website](#).

Severn Trent Water has asked us to defer £69.804m of their outperformance payments to reduce the impact on customer bills in 2023-24. No other company has asked us to defer any payments. In our draft determination, we defer outperformance payments in line with Severn Trent Water's request. We set out further details in the draft determination documents for Severn Trent Water.

Contents

1.	Key interventions and policy decisions	5
1.1	Storms and third-party interruptions	5
1.2	Leakage and per capita consumption (PCC)	5
1.3	High-quality data and high-quality assurance	7
1.4	C-MeX and D-MeX	8
2.	Impact of 2021-22 in-period ODI assessment on companies' price controls	9
2.1	Our draft determinations	9
2.2	Our modelling approach	11
2.3	Deferrals and abatements	11
2.4	Inflation	11
2.5	Taxation	12
2.6	Bespoke adjustments	12
3.	Responding to this consultation	14

1. Key interventions and policy decisions

1.1 Storms and third-party interruptions

This year, **Northumbrian Water, South East Water and Yorkshire Water** requested that we exclude the impact on water supply related PCs (including common PC Water supply interruptions >3 hours) due to the various storms which hit England and Wales in late 2021 and early 2022. In addition, **South West Water** requested that we exclude the impact of a supply interruption event involving damage by a third party to its mains. In each case, the impact on some of each company's customers was severe with significant numbers of customers without water for more than 12 hours and some for more than 3 days. Intervening would reduce the underperformance payments to customers for 2021-22 performance.

We considered the evidence provided by each company alongside the regulatory framework applicable to it. For the reasons set out in the individual draft determination documents for each company, we consider it is not necessary to intervene to exclude the impacts of these events. Our decision ensures that the company bears the appropriate level of risk and remains incentivised to deliver for customers and the environment.

For **South West Water**, this also means that we intervene to include the impact of the third party event, which the company had excluded, in the reported performance and ODI payments for its water supply interruptions and resilience in the round PCs. Our intervention increases the company's underperformance payments on these PCs by £3.173m and £4.889m respectively.

For **Yorkshire Water**, this also means that we intervene to include two events, which the company had excluded, in the reported performance and ODI payments its significant water supply events PC. Our intervention increases the company's underperformance on this PC by £0.530m.

We explain the process we followed and our reasons for making these decisions in each of the company specific draft determination documents.

1.2 Leakage and per capita consumption (PCC)

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we said we expected all companies to be reporting full compliance with the common leakage and PCC methodologies in their 2022 APR and we are disappointed that some companies have not yet adopted fully compliant approaches. We also said that should any company's leakage information be revised or restated, we expected 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.

It is disappointing that our review of this year's company submissions identified several companies that did not achieve full compliance. Most companies that were not fully compliant were able to demonstrate that the impact was not material. For Affinity Water, Hafren Dyfrdwy and SES Water we consider their non-compliance to be material and for these three companies our draft decisions are:

- Affinity Water – to include the reported underperformance ODI payment of £0.176m for leakage;
- Hafren Dyfrdwy – to defer, to one or more future in-period determinations, a decision on the reported ODI payment (of zero) for leakage; and
- SES Water – to defer to one or more future in-period determinations, a decision on the reported an outperformance ODI payment of £0.277m for leakage.

Severn Trent Water, South Staffs Water, Southern Water and Thames Water had restated 2020-21 leakage and PCC data and/ or their leakage and PCC baseline data. The baseline data covers the years 2017-18, 2018-19 and 2019-20. The companies said the restatements result from improving compliance with the common methodology, improving the accuracy of the reported data. For these four companies our draft decisions are:

- Severn Trent Water restated the last four years of leakage and PCC data and we make an adjustment that returns £1.040m to customers to account for this change to reported 2020-21 leakage;
- South Staffs Water restated the last four years of leakage and PCC data and we make an adjustment that returns £0.019m to customers to account for this change to reported 2020-21 leakage;
- Southern Water restated its 2020-21 leakage and PCC data and we make an adjustment of £0.014m to account for this change to reported 2020-21 leakage; and
- Thames Water restated the last four years of leakage and PCC data and we make an adjustment that returns £0.307m to customers to account for this change to reported 2020-21 leakage,

Finally, we also identified some unresolved issues for reported leakage and PCC for Dŵr Cymru and South West Water. Both companies reported zero ODI payments for 2021-22 leakage. We have not intervened to alter these payments, but we continue to work with both companies to better understand the underlying water balance data.

Because PCC is now an end of period PC, we will make any appropriate adjustments to PCC ODI payments during the 2024 price review (PR24). During PR24 we may revisit leakage or PCC ODI payments to account for methodology changes, restatements or if new information becomes available.

Details of our draft decisions for these, and all other, companies are set out in the company specific documents on our website.

1.3 High-quality data and high-quality assurance

High quality assurance

Data submitted should be subject to rigorous and high-quality assurance. This is critical to provide confidence to us, customers and other stakeholders that the information reported is accurate and reliable.

We are concerned that some companies only provided the specific third-party assurance required for their PCs in response to queries from us and not with their APR submission. We require companies to be transparent with their stakeholders in providing all the specified assurance in or alongside their published APR. Where we have concerns with the quality of the assurance underpinning reported performance or payments, we may choose to intervene to protect customers.

High quality data

Our assessment of this year's APRs identified instances where companies did not follow reporting guidance or the PC definitions⁴. We are concerned that for some companies, there was no improvement in the quality of information and evidence provided to support their reported performance compared to the 2021 APR⁵. For example, we are concerned that some companies only provided the RAG checklists required for their common PCs (or a statement that they are fully compliant where this was the case) in response to queries from us and not with their APR submissions.

We reiterate the importance of high quality data and complying with the PC information requirements in providing confidence to us, customers and other stakeholders that the information reported is accurate and reliable. Where we have concerns with the quality of data and evidence underpinning reported performance or payments we may choose to intervene to protect customers.

Other concerns

Where companies submit requests for interventions to exclude the impact of a particular issue or event, for the avoidance of doubt, companies must include the impact of any such issue or event in the data submitted in Tables 3A-H and the in-period ODI models. This ensures all stakeholders have a clear and transparent view of each company's performance

⁴ Some company PCs require specific information to support reporting of performance, as set out in company specific PR19 final determination – Outcomes performance commitment appendix (PR19 FD). This includes RAG checklists for common performance commitments and additional third-party assurance requirements, where specified.

⁵ IN22/01 said we expect companies to provide a proportionate level of evidence and reasoning in their commentaries that allows us to understand clearly both their performance and the associated ODI payments. This provides transparency for all stakeholders, including customers.

when the APRs are published. Until we agree, after consultation, to intervene there is no basis to exclude these impacts from reported performance (beyond those clearly stated within the definitions and reporting guidelines).

We also found instances where companies did not provide sufficient explanation of the drivers of performance. For mains repairs for example, our review of the data suggests that activities other than proactive mains repairs are reducing leakage but companies are not explaining these drivers.

With respect to internal sewer flooding incidents identified proactively and reactively (provided in table 3G of the APR data tables), we note that the reducing total number of incidents is partly a result of a reduction in incidents identified by proactively identifying neighbouring properties that have also been flooded⁶ (around a 37% year on year change). We would expect all companies to be following good practice in this area, assuring the data robustly and actively identifying (and reporting) all neighbouring properties that have also been flooded following a customer reported incident.

It is important that companies are doing everything they can to capture an accurate picture of their pollution incidents, and we have asked companies for assurance on their figures. We will consider any next steps in light of the companies' responses.

1.4 C-MeX and D-MeX

C-MeX (the customer measure of experience) is designed to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. D-MeX (the developer services measure of experience) is designed to incentivise water companies to provide an excellent customer experience to developer services customers, including small and large property developers, self-lay providers and those with new appointments and variations (NAVs). The ODI payments for both C-MeX and D-MeX for each company are set out in table 2.1 and in each company-specific in-period ODI draft determination document. We have taken the data from the APR submissions and compared this against the recorded data from our survey agent, Accent. The C-MeX and D-MeX scores for 2021-22 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.

⁶ RAG4.10 reference 3G.2 'internal sewer flooding – company reactively identified (ie neighbouring properties)'

2. Impact of 2021–22 in-period ODI assessment on companies' price controls

2.1 Our draft determinations

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

Unless otherwise stated all values are £m in 2017–18 financial year average (FYA) Consumer Prices Index including owner occupiers' housing costs (CPIH) prices.

Table 2.1: Draft determinations 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;
- our draft determinations on these payments after any interventions;
- brought forward deferrals;
- our draft determinations on 2022–23 deferrals and abatements;
- 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 the company specific draft determinations.

These draft determinations on the ODI payments to be applied for each company are also set out in the in-period adjustments model published on our website for each company.

Sector overview - draft determinations of in-period outcome delivery incentives for 2021-22

Company	Company's reported ODI payments (£m)	Interventions (£m)	ODI payments deferred from 2021-22 (£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)
Affinity Water	0.133	0.000	0.000	0.000	0.000	0.104	-1.041	0.034	-0.770
Anglian Water	-9.434	-0.008	0.000	0.000	0.000	-0.147	0.000	1.079	-8.509
Bristol Water	0.307	0.000	0.000	0.000	-0.008	-0.014	0.344	0.000	0.630
Dŵr Cymru	-10.397	0.048	0.000	0.000	0.000	0.986	1.492	-0.129	-8.000
Hafren Dyfrdwy	-0.403	0.039	0.000	0.000	0.000	0.000	-0.046	0.032	-0.378
Northumbrian Water	-19.878	-3.773	0.000	0.000	0.000	-0.209	2.877	0.700	-20.282
Portsmouth Water	0.209	-0.067	0.333	0.000	0.000	-0.024	0.203	0.101	0.755
SES Water	0.321	-0.277	0.000	0.000	0.000	-0.025	-0.214	-0.074	-0.270
Severn Trent Water	54.708	0.230	46.214	-69.804	0.000	27.832	0.234	3.446	62.860
South East Water	-2.279	0.000	0.000	0.000	0.000	0.041	-0.718	-0.196	-3.152
South Staffs Water	1.810	0.000	0.043	0.000	0.000	0.667	0.525	-0.028	3.018
South West Water	-4.617	-8.159	0.000	0.000	0.000	0.034	-0.576	-0.019	-13.336
Southern Water	-34.700	0.000	-0.409	0.000	0.000	11.905	-4.157	-0.936	-28.297
Thames Water	-34.744	0.000	0.000	0.000	0.000	0.867	-16.032	-1.125	-51.033
United Utilities	22.226	-0.461	0.000	0.000	0.000	-0.612	2.176	0.817	24.146
Wessex Water	2.306	0.000	0.000	0.000	0.000	-0.173	1.786	0.526	4.445
Yorkshire Water	-11.525	-0.444	0.000	0.000	0.000	0.154	-0.014	-3.398	-15.227
Industry total	-45.955	-12.871	46.181	-69.804	-0.008	41.387	-13.159	0.830	-53.398

2.2 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. In each of the 17 ODI performance models we have included a worksheet called 'Ofwat_IPD22_actions' to record changes we have made to the models. These range from data cleansing changes with no financial impact to interventions or corrections which can affect ODI payments. For details on these changes refer to the company specific models published on our website.

2.3 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. When deferring payments to the following year, we apply a time value of money adjustment, as set out in the PR19 reconciliation rulebook.

There was only one company to request a deferral, Severn Trent Water. It requested a voluntary deferral totalling £69.804m of its ODI outperformance payments. Of which £20.759m is for water resources, £11.213m is for water network plus and £37.832m is for the wastewater network plus price control. For draft determinations, we allow for the amount of deferred revenue Severn Trent Water has proposed. However, the company only provided limited information to explain its plan for managing this deferred revenue. Given the significant size of the deferral and the potential for further outperformance in future years, we expect the company to provide additional supporting evidence on its approach to managing the impact on customers ahead of our final determination. This should be in the context of potential risks and its wider performance and investment requirements.

An abatement results in a reduction to an adjustment to the company's revenues in relation to the relevant performance commitment. There was one small voluntary abatement of £8,000 for Bristol Water. We have set out our draft determinations relating to deferrals and abatements in the company-specific documents.

2.4 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 2022. 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.

We estimate this to be 9% and have applied this in the published in-period adjustments models for each company. This is based on the approach we used for the PR19 final determinations in December 2019. We will revise this estimate in our final in-period determinations informed by latest forecasts and stakeholders' responses.

2.5 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.

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.

We have 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 is consistent with the government's recently announced decision [not to increase corporation tax from April 2023, the rate will remain at 19%](#). 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 draft determinations we maintain a uniform marginal tax rate of 19% for most companies. There are two exceptions to this. For Dŵr Cymru and Southern Water, we have included 0% marginal tax rate, consistent with the allowances made at PR19. Both companies set out a case to demonstrate that they do not expect to incur tax during the 2020-25 period.⁷ We provide more details on these decisions in the company specific draft determinations documents.

2.6 Bespoke adjustments

In some instances, we may need to make bespoke adjustments to account for matters that have arisen after our PR19 determinations and publication of the reconciliation rulebook in

⁷ In the [PR19 reconciliation rulebook](#) (p58), we said "companies should set out their expected marginal tax rate for the following charging year in their requests for an in-period determination, including whether they expect to pay corporation tax and any capital allowances, with appropriate evidence. We will take this information into account when making our determination."

December 2020. For example, in July 2021 our [green recovery funding](#) decisions included additional in-period funding for two companies (Severn Trent Water and South Staffs Water).

Table 2.2: Breakdown of bespoke adjustments

Company	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)
Affinity Water	0.000	0.095	0.006	0.101	0.003	0.000	0.104
Anglian Water	0.000	-0.070	-0.073	-0.142	-0.004	0.000	-0.147
Bristol Water	0.000	-0.010	-0.003	-0.013	0.000	0.000	-0.014
Dŵr Cymru	1.061	-0.124	0.022	0.959	0.028	0.000	0.986
Hafren Dyfrdwy	0.000	0.002	-0.002	0.000	0.000	0.000	0.000
Northumbrian Water	0.000	-0.181	-0.022	-0.203	-0.006	0.000	-0.209
Portsmouth Water	0.000	-0.017	-0.006	-0.024	-0.001	0.000	-0.024
SES Water	-0.060	0.014	0.021	-0.024	-0.001	0.000	-0.025
Severn Trent Water	-1.328	0.000	-0.240	-1.568	-0.046	29.446	27.832
South East Water	0.000	0.025	0.015	0.040	0.001	0.000	0.041
South Staffs Water	-0.018	0.005	0.005	-0.009	0.000	0.676	0.667
South West Water	0.000	0.033	0.000	0.033	0.001	0.000	0.034
Southern Water	11.200	0.303	0.064	11.567	0.338	0.000	11.905
Thames Water	-0.307	1.035	0.115	0.842	0.025	0.000	0.867
United Utilities	-0.402	-0.128	-0.065	-0.595	-0.017	0.000	-0.612
Wessex Water	0.000	-0.125	-0.043	-0.168	-0.005	0.000	-0.173
Yorkshire Water	0.000	-0.029	0.178	0.149	0.005	0.000	0.154
Industry total	10.147	0.828	-0.029	10.945	0.320	30.122	41.387

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 IPD2022 Consultation response Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD.

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 draft determination 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 overview document, 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.