

15 November 2022

Final determination of Anglian Water's in-period outcome delivery incentives for 2021-22

Ofwat

About this document

This document provides notice of our final determination on the extent to which the price controls set by the Competition and Markets Authority (CMA) redetermination, as adjusted by any subsequent interim determination of K (IDoK)], are to be adjusted to reflect Anglian 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: Final determinations of in-period outcome delivery incentives for 2021-22](#).

We also publish models related to our final 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. Anglian Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Anglian 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.

Anglian Water reported its performance against these performance commitments in its annual performance report (APR) in July 2022. We assessed the company's performance against its performance commitments and, in October 2022, consulted on our [draft determinations](#) for companies' in-period ODIs for 2021-22.

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](#).

In our final 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 the company's licence. The results of our assessment for 2021-22 will affect Anglian Water's customers' bills in the 2023-24 Charging Year.

Further details regarding the responses we received, our final determinations and the adjustments that we have made are presented in sections 1 and 2, and in [Sector overview: Final determinations of in-period outcome delivery incentives for 2021-22](#).

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 the [Consultation on changes to per capita consumption performance commitments – our decision on reporting performance and ODI timing](#) which we published after having considered stakeholder responses to our July 2021 consultation.

Executive summary

Having assessed Anglian 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 no C-MeX payment (as Anglian Water is the median performing company) and a D-MeX outperformance payment of £1.079m based on the assessment of 2021-22 company performance; and
- Water quality compliance (CRI, or the compliance risk index) - we are increasing the company's underperformance payment by £0.008m to align with the latest data from the Drinking Water Inspectorate.

We have also made the following corrections in relation to Anglian Water's performance commitments for 2021/22:

- Per capita consumption - correction made in the ODI model to ensure its ODI underperformance payment of £2.730m is included in the end of period total as it is for other companies.

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 Anglian Water.

Table 1.1: Summary of interventions

| Performance commitment | Company's reported payments 2021-22 (£m) | Our draft determination after interventions 2021-22 (£m) | Our final determination after interventions 2021-22 (£m) | Difference between company view and our final determination (£m) |
|--------------------------------|--|--|--|--|
| Water quality compliance (CRI) | -1.608 | -1.615 | -1.615 | -0.008 |

In our final determination we are intervening on the following performance commitment(s):

Water quality compliance (CRI)

In our draft determination, we intervened to increase Anglian Water's underperformance payment in relation to its water quality compliance performance commitment by £0.008m to align with the latest Drinking Water Inspectorate (DWI) data, which was not available at the time Anglian Water submitted its data. Anglian Water reported a CRI of 4.04 but the latest DWI data showed that Anglian Water's CRI was 4.05.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

We also commented on our policy decision for the following performance commitment:

Per capita consumption (PCC)

We made a correction in the company's ODI model to change the flag "Financial incentives apply or accrue this year?" to TRUE. This caused the ODI underperformance payment of £2.730m to be included in the end of period total as it is for other companies.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

Northumbrian Water's request for water supply interruption exclusions

Stakeholders' responses

As well as sending a response to our consultation that related to our draft determinations on Anglian Water's performance it also sent a separate response relating to our draft determinations on Northumbrian Water's performance. We publish both responses on our [website](#).

Consideration of responses and final determination

We consider the comments Anglian Water made in relation to draft determinations of Northumbrian Water's 2021-22 ODI performance in our final determinations for Northumbrian Water.

1.2 C-Mex and D-Mex

Our draft determination

On 21 September we published the relative performance of all companies. Our draft determination included no C-MeX payment (as Anglian Water is the median performing company) and a D-MeX outperformance payment of £1.079m, 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.

Stakeholders' responses

Anglian Water did not comment on this issue. However, another company identified a minor technical inconsistency between the reporting of C-MeX scores in the reconciliation model and the expectation in the [RAG 4.10 guidance](#), which states that scores should be rounded to 2 decimal places.

Consideration of responses and final determination

To ensure the C-MeX reconciliation model operates consistently with RAG 4.10 and the [PR19 Reconciliation rulebook](#) guidance, we have updated the model to round the input scores to 2 decimal places. This has no impact on the payment values calculated by the model for Anglian Water and our draft determination remains unchanged for this performance commitment.

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.

Anglian 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 final determinations.

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

2.1 Our final determination

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

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

Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2023-24 (£m)

This table sets out the change between our draft and final determinations.

| Price control | Draft determination on total ODI payments to be applied to customer bills in 2023-24 (£m) | Change between draft and final determination (£m) | Final determination on total ODI payments to be applied to customer bills in 2023-24 (£m) |
|--------------------------------------|---|---|---|
| Water resources | 0.176 | 0.000 | 0.176 |
| Water network plus | -4.845 | 0.000 | -4.845 |
| Wastewater network plus (WaSCs only) | -5.088 | 0.000 | -5.088 |
| Bioresources (WaSCs only) | 0.000 | 0.000 | 0.000 |
| Residential retail | 1.249 | 0.000 | 1.249 |
| Total | -8.509 | 0.000 | -8.509 |

Table 2.2: Final determination on adjustment to 2023-24 price controls as a result of performance against ODIs

This table sets out our final 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 final determination on these payments after any interventions; and
- our final determination on C-MeX and D-MeX payments.

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

This final determination on the ODI payments to be applied for Anglian 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) | Ofwat FD interventions (£m) | ODI payments deferred from 2020-21 (£m) | Ofwat FD deferrals (£m) | Ofwat FD abatements (£m) | Bespoke FD adjustments (£m) | C-MeX FD payments (£m) | D-MeX FD payments (£m) | Final determination on total ODI payments to be applied to customer bills in 2023-24 (£m) |
|--------------------------------------|--------------------------------------|-----------------------------|---|-------------------------|--------------------------|-----------------------------|------------------------|------------------------|---|
| Water resources | 0.176 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.176 |
| Water network plus | -5.484 | -0.008 | 0.000 | 0.000 | 0.000 | -0.046 | 0.000 | 0.693 | -4.845 |
| Wastewater network plus (WaSCs only) | -5.446 | 0.000 | 0.000 | 0.000 | 0.000 | -0.029 | 0.000 | 0.386 | -5.088 |
| Bioresources (WaSCs only) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Residential retail | 1.320 | 0.000 | 0.000 | 0.000 | 0.000 | -0.072 | 0.000 | 0.000 | 1.249 |
| Total | -9.434 | -0.008 | 0.000 | 0.000 | 0.000 | -0.147 | 0.000 | 1.079 | -8.509 |

Table 2.3: Breakdown of bespoke adjustments

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

| Price control | Prior year restatements (£m) | Prior year C-Mex indexation (£m) | Prior year D-Mex indexation (£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 |
| Water network plus | 0.000 | 0.000 | -0.045 | -0.001 | 0.000 | -0.046 |
| Wastewater network plus (WaSCs only) | 0.000 | 0.000 | -0.028 | -0.001 | 0.000 | -0.029 |
| Bioresources (WaSCs only) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Residential retail | 0.000 | -0.070 | 0.000 | -0.002 | 0.000 | -0.072 |
| Total | 0.000 | -0.070 | -0.073 | -0.004 | 0.000 | -0.147 |

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 2.4: Changes to price controls (final determinations)

This table sets out the impact of our final determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Final 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 | -1.56 | 3.72 | 1.23 | 3.07 |
| | Revised | -1.56 | 3.72 | 1.72 | 2.63 |
| Water network plus (K factors) | Previous determination | 3.22 | 5.87 | 4.21 | 4.70 |
| | Revised | 3.22 | 5.87 | 2.62 | 6.20 |
| Wastewater network plus (WaSCs only) | Previous determination | 0.12 | 4.86 | 4.56 | 6.84 |
| | Revised | 0.12 | 4.86 | 3.29 | 8.06 |
| Bioresources (WaSCs only) | Previous determination | 93.953 | 96.661 | 97.503 | 100.793 |
| | Revised | 93.953 | 96.661 | 97.503 | 100.793 |
| Residential retail (total revenue, TRt – £m, nominal prices) | Previous determination | 89.437 | 94.811 | 93.421 | 95.257 |
| | Revised | 89.437 | 94.811 | 95.455 | 95.257 |

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

**Ofwat (The Water Services Regulation Authority)
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