

15 November 2022

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

About this document

This document provides notice of our final determination on the extent to which the price controls set by the [PR19 final determination](#) are to be adjusted to reflect Portsmouth 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. Portsmouth Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Portsmouth 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.

Portsmouth 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 Portsmouth 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 Portsmouth 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 £0.203m and a D-MeX outperformance payment of £0.101m;
- Water Industry National Environment Programme (WINEP) performance commitment (PC) – we are intervening to increase Portsmouth Water's underperformance payment by £0.067m. We have done this to ensure that the ODI payment reflects the performance commitment levels set at PR19.

We have included a deferral of £0.333m of outperformance at the company's request. This is a change to our draft determinations.

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

- Biodiversity reward – We are making an amendment to Portsmouth Water's ODI performance model in the Ofwat interventions worksheet to make a correction for the Biodiversity reward performance commitment.

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 Portsmouth 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 Industry National Environment Programme	-0.022	-0.089	-0.089	-0.067

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

Water Industry National Environment Programme (WINEP)

In our draft determination, we intervened to increase Portsmouth Water's underperformance payments in relation to its WINEP performance commitment by £0.067m. This was because Portsmouth Water changed the performance commitment level for 2021-22 from seven schemes to four schemes. The company presented evidence that it had received extensions to three WINEP schemes from Natural England and the Environment Agency, which it stated had made the original deadlines either unachievable or unjustified.

Whilst the in-period delivery of WINEP is a matter for the company to agree with the environmental regulators, the definition of the company's WINEP PC, PR19PRT_NEP02, states that it is "limited to the 18 schemes that were confirmed on 1 April 2019 within the Water Industry National Environment Programme." As we reiterated in section 1.5 of IN22/01 our policy is that we would not expect to make changes to financial PCs simply because of WINEP changes.

WINEP schemes hold significant benefits for the environment that customers value and these improvements should be implemented in accordance with the performance commitment levels set out in the PR19 final determination. The company's NEP01 performance commitment is non-financial and, in tracking the latest WINEP programme published by Defra, indicates clearly to customers the company is on track with the revised delivery schedule it has agreed with Natural England and the Environment Agency. Separately, the company's PRR19PRT_NEP02 performance commitment is to incentivise the delivery of schemes in a timely manner and is based on the actual benefits accruing to customers and the environment in each year of the 2020-25 period.

As set out in our 'PR19 final determinations: Delivering outcomes for customers policy appendix' we did not consider it appropriate to make specific provision for the WINEP performance commitments to be amended during the period. This remained our view. We were clear that changes will only be made in exceptional circumstances through a formal process of consultation.

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.

Biodiversity reward

In our draft determination, we made an amendment to Portsmouth Water's ODI performance model in the Ofwat interventions worksheet to make a correction for the Biodiversity reward performance commitment (PR19PRT_PRT-Water Resources-01). The company selected 'true' in row 36 of the PC_Company_input worksheet when it should have been false because the ODI for this PC only applies in 2024-25. The impact of this correction is not material (£0.000186m) and makes no financial difference to our in-period ODI draft determinations.

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.

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 a C-MeX outperformance payment of £0.203m and a D-MeX outperformance payment of £0.101m, 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

In its response, which is available on our [website](#), Portsmouth 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 Portsmouth Water and our draft determination remains unchanged for this PC.

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.

Having considered the information provided to us by Portsmouth Water, we are including the company's requested deferral of £0.333m to lessen the increase in bills for customers in 2023-24. The company explained that it has considered the impact of this deferral over future years and that it has considered other factors affecting bills such as inflation. This means the company will collect £0.333m less from customers in 2023-24 than would otherwise have been the case. Instead, it will recover this revenue over one or more future years.

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	-0.089	0.000	-0.089
Water network plus	0.699	-0.333	0.366
Residential retail	0.146	0.000	0.146
Total	0.755	-0.333	0.423

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;
- brought forward deferrals;
- our final determination on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; 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 Portsmouth Water is also set out in the in-period adjustments model published on our website.

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

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	-0.022	-0.067	0.000	0.000	0.000	0.000	0.000	0.000	-0.089
Water network plus	0.271	0.000	0.333	-0.333	0.000	-0.006	0.000	0.101	0.366
Residential retail	-0.039	0.000	0.000	0.000	0.000	-0.018	0.203	0.000	0.146
Total	0.209	-0.067	0.333	-0.333	0.000	-0.024	0.203	0.101	0.423

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	-0.006	0.000	0.000	-0.006
Residential retail	0.000	-0.017	0.000	-0.001	0.000	-0.018
Total	0.000	-0.017	-0.006	-0.001	0.000	-0.024

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	0.08	0.52	2.04	0.53
	Revised	0.08	0.52	-0.30	2.70
Water network plus (K factors)	Previous determination	0.87	1.63	-0.50	1.09
	Revised	0.87	1.63	1.36	-0.60
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	4.790	5.182	4.940	5.023
	Revised	4.790	5.182	5.178	5.023

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

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