

15 November 2022

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

SES 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 SES 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 SES 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 underperformance payment of £0.214m and a D-MeX underperformance payment of £0.074m;
- Leakage - we are deferring our decision on the outperformance payment of £0.277m because of its non-compliance with the checklist in our reporting guidance.
- We are including an adjustment of £0.066m to correct for an understatement of the underperformance on the company's mains repairs PC for 2020-21. This is because the company had incorrectly excluded repairs to tighten bolts on repair clamps and fittings from its 2020-21 reported performance.
- We are also including an adjustment of £0.006m to correct for an overstatement of underperformance on the company's mains risk of supply failures PC for 2020-21. This is because the company had incorrectly excluded a water supply zone with 3,071 properties from its 2020-21 reported 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

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 SES 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)
Leakage	0.277	0.000	0.000	-0.277

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

Leakage and Per capita consumption (PCC)

Based on our assessment of the company's performance at draft determination, we intervened to defer the company's outperformance payment of £0.277m on its leakage performance commitment. This was because the company's reported data for these PCs did not comply with the common PC methodology that applies for the 2020-25 period, and we considered this non-compliance to be material. Our intervention meant that there will be no change applied to customer bills in 2023-24 in relation to the company's leakage performance for 2021-22.

We had expected SES Water to have been compliant with the PR19 common performance commitment definitions when reporting data in the 2020-25 period. The Reporting Guidance - Leakage 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. Our review of SES Water's submission identified that one of the areas in which it has not achieved compliance, an imbalance of 4.8% in its water balance, had a material impact on the accuracy of the reported data.

Because an imbalance of the water balance of this size indicates a high degree of uncertainty over the accuracy of the data, we did not include this outperformance ODI payment in our draft determinations. We said that should SES Water be able to demonstrate compliance, or that noncompliance is not material, in future APRs we will consider whether any retrospective adjustments to leakage and PCC ODI payments are appropriate.

Should any leakage or per capita consumption information be revised or restated in future, our subsequent in-period determinations will take account of the company's relevant

performance and the adjustments we have made to the relevant price control in relation to the leakage performance commitment.

Stakeholders' responses

SES Water's response, which is available on our [website](#), expressed concern about our proposed intervention to not include its reported ODI outperformance payment for leakage in 2021–22 (£0.277m). The company said it considered its July 2022 APR to be fully compliant with Ofwat's leakage reporting guidance and the performance commitment (PC) methodology for the PR19 leakage ODI. The company noted that it had also reported an imbalance of more than 3% in previous years, providing the data shown in the table below:

Reporting year	MLE water balance gap
2017–18	5.4%
2018–19	4.5%
2019–20	4.5%
2020–21	3.7%
2021–22	4.9%

The company provided evidence of assurance and it said that it considered the reported payment for leakage outperformance to be justified. In addition, SES Water said that we provided limited indication in our draft determination of the process that it should follow to have the 2021–22 ODI outperformance payment reinstated. The company requested that we engage with them on this topic.

Consideration of responses and final determination

The company is not correct to say that it is fully compliant with our reporting [guidance](#) because it has an imbalance in its water balance that is greater than 3%. As the compliance checklist set out in Annex A of this guidance states an imbalance of this size is red, which we understand that the company agrees with. Annex A of the guidance defines elements in this checklist that are red as "Not compliant with the guidance and having a material impact on annual average leakage." The key principles of our reporting guidance state that "where a company is not able to meet any part of the good practice methods then it is required to explain any shortfalls and its plans to address this."

In response to the company's request to engage on this topic in its consultation response we met SES Water on 8 November 2022. The company was able to demonstrate that the materiality of this non-compliance was not sufficient to alter the fact that the company had exceeded its 2021–22 leakage PCL. However, we remain unclear what plans the company has to address this non-compliance given that:

- SES Water's water imbalance for 2021-22 is the highest in the sector;
- It is very close to the 5% level, above which the MLE adjustment section of the reporting guidance states is indicative of a significant inconsistency in one or more of the major components;
- The company has had a high imbalance since at least 2017/18 and there is no obvious trend to suggest that this element of the compliance checklist will not continue to remain non-compliant.

We expected that companies would have been fully compliant by 2020-21 and it is concerning that this non-compliant component 'water balance and MLE' has become less compliant in 2021-22 than in the previous year. Whilst the imbalance was over 3% for 2020-21 performance, it was lower than it was for 2021-22 and the company was not claiming outperformance so we did not consider an intervention or deferral was required.

Having considered stakeholders' responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged but we undertake to engage with the company further before the start of the next reporting year on this topic. One key part of this work will be for the company to demonstrate a plan to address this non-compliance.

In addition to intervening on leakage and PCC, we applied the following amendments to the company's in-period adjustments model:

Mains repairs

We made an adjustment, in line with the company's request, to include an underperformance payment of £0.066m to correct for an understatement of the underperformance on the company's mains repairs PC for 2020-21. This was because the company had incorrectly excluded repairs to tighten bolts on repair clamps and fittings from its 2020-21 reported performance. We accounted for this correction as bespoke adjustment within the in-period adjustments model.

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.

Risk of supply failures

We made an adjustment, in line with the company's request, to include an outperformance payment of £0.006m to correct for an overstatement of underperformance on the company's mains risk of supply failures PC for 2020-21. This was because the company had incorrectly excluded a water supply zone with 3,071 properties from its 2020-21 reported performance. We accounted for this correction as bespoke adjustment within the in-period adjustments model.

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 underperformance payment of £0.214m and a D-MeX underperformance payment of £0.074m, 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

SES 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 SES 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.

SES 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	-0.001	0.000	-0.001
Water network plus	0.095	0.000	0.095
Residential retail	-0.364	0.000	-0.363
Total	-0.270	0.000	-0.269

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;
- 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 SES Water is also set out in the in-period adjustments model published on our website.

Final determination of SES 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	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001
Water network plus	0.486	-0.277	0.000	0.000	0.000	-0.039	0.000	-0.074	0.095
Residential retail	-0.164	0.000	0.000	0.000	0.000	0.014	-0.214	0.000	-0.363
Total	0.321	-0.277	0.000	0.000	0.000	-0.025	-0.214	-0.074	-0.269

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	-0.060	0.000	0.021	-0.001	0.000	-0.039
Residential retail	0.000	0.014	0.000	0.000	0.000	0.014
Total	-0.060	0.014	0.021	-0.001	0.000	-0.025

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	-2.89	-2.69	-3.95	-2.13
	Revised	-2.89	-2.69	-3.99	-2.09
Water network plus (K factors)	Previous determination	-0.60	-1.93	1.45	-0.53
	Revised	-0.60	-1.93	1.74	-0.78
	Revised	0.000	0.000	0.000	0.000
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	5.422	5.095	5.756	5.910
	Revised	5.422	5.095	5.164	5.910

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