

15 November 2022

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

Severn Trent 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 Severn Trent 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 Severn Trent 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 have included a C-MeX outperformance payment of £0.241m and a D-MeX outperformance payment of £3.446m, based on the assessment of 2021-22 company performance;
- Reducing residential void properties – we are including a voluntary abatement of the outperformance payment of £0.230m. This is a change from our draft determinations.
- At Severn Trent Water's request, we have deferred £30.698m of ODI outperformance payments. This is a smaller deferral compared to the draft determination, which included a deferral of £69.804m.

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 Severn Trent 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)
Reducing residential void properties	0.000	0.230	0.230	0.230

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

Reducing residential void properties

Our draft determination

In our draft determination, we intervened to ensure Severn Trent Water reported in line with its PR19 performance commitment definition for void supply points performance, to ensure consistent reporting against the PR19 performance commitment levels (PCLs). As a result, we included an outperformance payment of £0.230m in the draft determination.

Stakeholders' responses

In its response, which is available on our [website](#), Severn Trent Water said it would choose not to claim the ODI outperformance payment of £0.230m included in the draft determination.

Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination retains the intervention, but at the company's request we include the £0.230m as a voluntary abatement. We also mention this in the deferrals and abatement section.

Leakage and Per Capita Consumptions (PCC)

Our draft determination

In our final in-period determination for 2020-21 we allowed £1.170m outperformance for Severn Trent Water's leakage performance commitment.

We have included an adjustment to reduce Severn Trent Water's outperformance payment in relation to its leakage performance commitment by £1.040m for 2020-21.

Severn Trent Water told us in its 2021-22 APR submission that during the 2020-25 period it continued to work towards full compliance with the standard reporting methodology and was updating its methodology. The company provided its numerical data relating to pre and post methodologies for leakage and per capita consumption. This data included annual average and three-year average baseline values and performance commitment levels for each year in the 2020-25 period in Ml/d unit for leakage and litres/person/day unit for PCC, based on the company's PR19 performance commitment levels expressed in % change from baseline.

Severn Trent Water has reported that all components of its leakage methodology are fully compliant with the exception of the water balance residual gap. For PCC the company confirmed that all components are compliant with the common methodology.

In its APR submission the company reported that, based on its restated leakage value for 2020-21, it will be returning c.£1m to customers through the in-period determination.

We consider that the company's revised methodology brings the company in line with other companies, which have been reporting their leakage and PCC performance using the PR19 methodology since 2020-21. Based on the information provided to us, the revised methodology represents a more accurate method and allows a direct comparison with the rest of the industry.

At PR19 we made it clear that companies should commit that their outcome delivery incentive payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment. The changes implemented by Severn Trent Water result in the company earning lower outperformance for leakage and lower underperformance for PCC, with an overall financial benefit for its customers in the aggregate for 2020-21 and 2021-22.

Based on the company's restated values we have revised its baseline for the remainder of the 2020-25 period.

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.

Sewer Blockages

Our draft determination

We engaged with the company on this performance commitment to better understand the drivers of outperformance, how they relate to improvements in service to customers and the assurance associated with this. The company had provided further information to support its submission. Given the potential for future outperformance payments for this performance commitment, we said we expected the company to provide additional supporting evidence on its approach to managing the impact on customers ahead of the final determination (see section 1.3).

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having assessed the company response on this matter (see section 1.3), our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

Water supply interruptions

Our draft determination

Severn Trent Water told us it identified an error in the calculation for supply interruptions related to the analysis of property heights. It has applied a retrospective correction to reported performance and ODI payment for 2020/21. This change results in 16 seconds being added to the reported performance, taking it from 11 minutes and 21 seconds to 11 minutes and 37 seconds and increasing underperformance by £0.288m. In its response to query SVEAPR-IP-011 the company confirmed that this change is related to correction of a calculation error and not associated with definitional, methodological or data changes. Based on the information provided to us, we have made this change to the 2020/21 reported performance and associated ODI payment.

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.

Aggregate sharing mechanism

Our draft determination

At PR19 we introduced a mechanism that means that a company shares 50% of its outperformance payments with customers once the outperformance payments in any year reach 3% of its wastewater or water return on regulatory equity (RoRE) for that year. Severn Trent Water's 2021-22 outperformance on wastewater has reached this 3% threshold so £0.602m of the outperformance above this threshold is returned to customers because of the sharing mechanism.

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 final determination

On 21 September we published the relative performance of all companies. Our draft determination included a C-MeX outperformance payment of £0.234m and a D-MeX outperformance payment of £3.446m, 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

Severn Trent 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 a minor impact on the payment values calculated by the model. For Severn Trent Water, this increases its C-MeX outperformance payment by £0.007m to £0.241m, whereas D-MeX payment remains unchanged from the draft determination.

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.

As described earlier in section 1.1 on reducing residential void properties, having considered the information provided to us in the company's response, we are including a voluntary abatement of £0.230m in line with the company's request. In our draft determinations we included a deferral of £69.804m of its ODI outperformance payments as proposed by Severn Trent Water. This included the deferral of £46.214m from 2020-21. In our draft determinations, we said that the company had 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 expected the company to provide additional supporting evidence on its approach to managing the impact on customers ahead of the final determination. We said that this should be in the context of potential risks and its wider performance and investment requirements.

In its consultation response, the company provided details on how it expected its revenue to change over future years and what the impact of this would be on customers' bills. As a result of this analysis and in order to reduce the volatility of customers' bills over this period the company proposed a reduced deferral of £30.698m.

Having considered the evidence the company submitted we include a deferral of £30.698m 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	8.000	20.759	28.759
Water network plus	9.509	11.213	20.723
Wastewater network plus (WaSCs only)	44.866	7.134	52.000
Bioresources (WaSCs only)	0.000	0.000	0.000
Residential retail	0.485	-0.223	0.262
Total	62.860	38.883	101.743

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

Final determination of Severn Trent 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	16.707	0.000	10.367	0.000	0.000	1.684	0.000	0.000	28.759
Water network plus	6.263	0.000	2.692	0.000	0.000	9.383	0.000	2.384	20.723
Wastewater network plus (WaSCs only)	31.717	0.000	33.155	-30.698	0.000	16.765	0.000	1.061	52.000
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.021	0.230	0.000	0.000	-0.230	0.000	0.241	0.000	0.262
Total	54.708	0.230	46.214	-30.698	-0.230	27.832	0.241	3.446	101.743

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	1.684	1.684
Water network plus	-1.328	0.000	-0.183	-0.044	10.939	9.383
Wastewater network plus (WaSCs only)	0.000	0.000	-0.056	-0.002	16.822	16.765
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000	0.000	0.000
Total	-1.328	0.000	-0.240	-0.046	29.446	27.832

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	3.45	8.31	3.79	-7.80
	Revised	3.45	8.31	51.80	-35.32
Water network plus (K factors)	Previous determination	-0.50	0.29	-3.52	0.28
	Revised	-0.50	0.29	1.30	-4.10
Wastewater network plus (WaSCs only)	Previous determination	-1.85	1.41	-3.53	1.02
	Revised	-1.85	1.41	7.43	-8.48
Bioresources (WaSCs only)	Previous determination	76.857	77.205	77.395	77.743
	Revised	76.857	77.205	77.395	77.743
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	105.067	106.087	107.008	107.922
	Revised	105.067	106.087	107.434	107.922

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