

15 November 2022

Final determination of Thames 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 [PR19 final determination](#) are to be adjusted to reflect Thames 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. Thames Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Thames Water - Outcomes performance commitment appendix](#).¹

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

Thames 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 Thames 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 Thames 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 £16.032m and a D-MeX underperformance payment of £1.125m based on the assessment of 2021-22 company performance.

See section 1 for details of our interventions and policy decisions.

Contents

1. Results of our assessment	4
1.1 Interventions and policy decisions	4
1.2 C-Mex and D-Mex	6
1.3 Payment deferrals and abatements	7
2. Impact of 2021-22 in-period ODI assessment on price controls	8
2.1 Our final determination	8

1. Results of our assessment

1.1 Interventions and policy decisions

We are not intervening on Thames Water's reported performance and ODI payments for 2021-22 in our final determination. The company has not requested any interventions. However, we have the following comments relating to the leakage and per capita consumption (PCC) performance commitments.

Leakage and per capita consumption (PCC)

Our draft determination

We had expected Thames Water to have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2020-25 leakage and PCC data. The [guidance](#) 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.

This year, Thames Water used an updated methodology to move closer to compliance with the leakage and PCC definitions. It identified that, using this methodology meant that £0.307m should be repaid to customers in respect of this year and last year. Our review of Thames Water's submission confirmed that, whilst it has not achieved full compliance, its restated data is more compliant than it was in 2020-21.

We are using the leakage and PCC data that the company has submitted for the baseline period (2017-2020), for 2020-21 and 2021-22 reporting years to calculate the company's ODI payments. This means that there are no interventions required for 2021-22 performance or ODI payments. However, we accounted for the restated 2020-21 leakage and PCC data within our modelling. In the Thames Water in-period adjustment model we included a bespoke adjustment relating to the restated 2020-21 leakage. This reduced the outperformance earned for 2020-21 performance from £2.671m to £2.364m and meant that £0.307m will be repaid to customers. We also made an adjustment to account for the time value of money. Because PCC is an end of period performance commitment, we will account for the data restatement when we calculate the ODI payments due for this, and other end of period PCs, at PR24.

We expect all companies to be fully compliant with the leakage and PCC methodology as soon as possible. The company stated that it plans further improvements to its leakage and PCC methodology for 2022-23 reporting. However, we expressed concern that this will reduce transparency and make it difficult for stakeholders to understand Thames Water's performance over time. We said we would not expect its methodology to materially change each year nor should a company benefit from changes to methodology, so we required that

the company is able to report on a consistent basis with the methodology it has used this year for the remainder of the 2020-25 period.

Stakeholders' responses

The Thames Water response is available on our [website](#) but in summary, in its response Thames Water recognised that it is not yet fully compliant with the PR19 common performance commitment definitions. The company also provided further details of its Leakage Reporting and Insight Improvement Programme (LRIIP) which aims to improve confidence in data quality and processes relating to leakage and PCC.

Thames Water's response confirms that it understands the need for Ofwat to have consistent data over time so we can monitor performance on a like for like basis. As per the requirement set out within our draft determination, the company said it will maintain the ability to report on a consistent basis with the methodology used in calculating our 2021/22 outturn for the remainder of the 2020-25 period. The company also refers to quarterly meetings between Thames Water and Ofwat colleagues to keep us updated on the delivery of the LRIIP.

Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above. This is because there is no evidence or new information from the consultation response(s) that warrants a change to our draft determinations.

Other stakeholder responses

A Thames Water customer responded to our consultation. The full customer response, with personal details redacted, is available on our [website](#) but in summary, they:

- object strongly to Thames Water being allowed to increase their charges in line with inflation for the coming year and suggested that inflation linked increases shouldn't be a right but something companies earn for satisfactory performance;
- do not think the company's performance in Oxford is satisfactory;
- question whether Thames Water's chief executive should have received a bonus;
- state that the company is not controlling or monitoring sewage outflows adequately;
- suggest there has been inadequate maintenance of the water supply network which has lead to leaks, traffic disruption and associated customer impacts; and
- urge us to deal robustly with the company's performance.

Consideration of responses and final determination

We have written to this customer separately addressing the points they raised. In summary, the in-period ODI determination process is focused on determining the under and overperformance payments due, based on each company's 2021-22 performance against its

performance commitments. Some of the points raised relate to other aspects of company performance and the regulatory framework.

The basis on which companies can raise revenue is set out in each company's conditions of appointment (licence). Allowed revenues are set at each price review and the licence allows companies to adjust this for inflation (determined as November CPIH). However, we recently [wrote](#) to companies jointly with CCW to encourage companies to consider how they could support customers given the ongoing cost of living challenge. We consider company performance against key metrics each year in the service delivery report. We engage directly with individual companies on specific aspects of performance, working with colleagues from the DWI and the Environment Agency as appropriate. This may include enforcement action where necessary, including specific cases related to Thames Water's performance.

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 £16.032m and a D-MeX underperformance payment of £1.125m 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 Thames Water acknowledged the inclusion of C-MeX and D-MeX underperformance payments. 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 Thames 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.

Thames 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 draft determination. However, we acknowledge that in the company's response it refers to discussion we have had about the possibility and practicalities of accelerating the payment of ODI penalties as a potential way to reduce the impact of customer bill increases. Thames Water decided, after further reflection, not to accelerate the payment of any ODI penalties at this time. As a result, our final determination on the company's deferrals and abatements remains unchanged from our draft determination.

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	-0.096	0.000	-0.096
Water network plus	0.191	0.000	0.191
Wastewater network plus (WaSCs only)	-37.220	0.000	-37.220
Bioresources (WaSCs only)	0.653	0.000	0.653
Residential retail	-14.561	0.000	-14.561
Thames Tideway	0.000	0.000	0.000
Total	-51.033	0.000	-51.033

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

Final determination of Thames 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	-0.096	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.096
Water network plus	1.182	0.000	0.000	0.000	0.000	-0.238	0.000	-0.754	0.191
Wastewater network plus (WaSCs only)	-36.889	0.000	0.000	0.000	0.000	0.040	0.000	-0.371	-37.220
Bioresources (WaSCs only)	0.653	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.653
Residential retail	0.406	0.000	0.000	0.000	0.000	1.065	-16.032	0.000	-14.561
Thames Tideway	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	-34.744	0.000	0.000	0.000	0.000	0.867	-16.032	-1.125	-51.033

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	-0.307	0.000	0.076	-0.007	0.000	-0.238
Wastewater network plus (WaSCs only)	0.000	0.000	0.039	0.001	0.000	0.040
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.000	1.035	0.000	0.031	0.000	1.065
Thames Tideway	0.000	0.000	0.000	0.000	0.000	0.000
Total	-0.307	1.035	0.115	0.025	0.000	0.867

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	3.90	-1.02	0.70	3.51
	Revised	3.90	-1.02	0.55	3.66
Water network plus (K factors)	Previous determination	7.44	-2.34	3.70	0.22
	Revised	7.44	-2.34	3.74	0.19
Wastewater network plus (WaSCs only)	Previous determination	-0.81	-4.61	2.66	-0.16
	Revised	-0.81	-4.61	-4.42	6.60
Bioresources (WaSCs only)	Previous determination	160.767	160.099	162.479	163.333
	Revised	160.767	160.099	163.349	163.333
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	143.177	122.550	148.468	150.721
	Revised	143.177	122.550	124.750	150.721
Thames Tideway	Previous determination	4.64	2.78	-11.51	-10.68
	Revised	4.64	2.78	-11.51	-10.68

We have based Thames Water's final determination on the data and commentary provided to us by Thames 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)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

© Crown copyright 2022

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL