

15 November 2022

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

United Utilities 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 United Utilities' 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 United Utilities' 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 £2.184m and a D-MeX outperformance payment of £0.817m, based on the assessment of 2021-22 company performance; and
- Sewer Blockages – we are increasing United Utilities' underperformance payment for 2021-22 performance by £0.461m. This is because the company had excluded 329 blockages from its reported performance, which were not allowable exclusions under the performance commitment definition.

We are also including an adjustment of £0.402m to correct for an understatement of the underperformance on the company's sewer blockages performance commitment for 2020-21. This is because the company had incorrectly included 287 blockages from its reported performance in 2020-21.

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	5
1.3 Payment deferrals and abatements	6
2. Impact of 2021-22 in-period ODI assessment on price controls	7
2.1 Our final determination	7

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 United Utilities.

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)
Sewer blockages	-0.056	-0.517	-0.517	-0.461

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

Sewer blockages

Our draft determination

We intervened to increase United Utilities' underperformance payment for 2021-22 from £0.056m to £0.517m. This increase of £0.461m was because the company had incorrectly excluded 329 blockages from the reported performance of 20,368. The company stated in its response to query U UW-APR-IP-004 that this was because for some customers there is clear evidence of repeated and deliberate abuse of the sewers which causes restrictions in its use, e.g. multiple incidents at the same address. However, this type of exclusion is not provided for in the performance commitment definition, nor do we consider that it should be, because this does not incentivise the company to be proactive and innovative in resolving problematic customer behaviours. Therefore, we considered that these incidents should be included in the reported performance. The performance commitment requires that all contacts that result in a confirmed blockage are reported, including repeat blockages and those caused by third party interference. Only blockages that are proactively found by the company can be excluded.

We also made an adjustment to include an underperformance payment of £0.402m to correct for an understatement of the company's underperformance on its sewer blockages PC in 2020-21. This is because, United Utilities clarified in our query U UW-APR-IP-005 that there were 287 blockages excluded from its reported performance in 2020-21 due to repeated and deliberate abuse of the sewers, changing the performance for 2020-21 from 22,352 to 22,639. As stated above, these blockages should be included in the company's reported performance.

Stakeholders' responses

In its representation to our draft determination, which is available on our [website](#), United Utilities has reiterated that it had excluded the sewer blockages caused by repeated and conscious abuse of the network by customers who continue to discharge inappropriate materials as these customers were contravening section 111 of the Water Industry Act 1991 (WIA91) which makes provision for protecting sewerage systems by enforcing restrictions on use of public sewers.

Nevertheless, in its response, the company accepts our decision in respect of including such repeat blockages and agrees with our calculation of the performance and payment adjustments for both 2020-21 and 2021-22. It also confirms that it will adjust reporting in future periods to take account of these repeat blockages.

Consideration of responses and final determination

We do not consider that there is a specific link to Section 111 of the WIA91 and reporting under the PC definition and associated reporting guidance set at PR19. We also note that, as identified in our draft determination, the performance commitment does not allow companies to exclude repeat blockages from reported performance.

Taking this into account and the fact that the company accepts our draft determination, our decision on the company's performance payment for this performance commitment remains unchanged for the final determination.

Other stakeholders' responses

A United Utilities' customer responded to our consultation. The full customer response, with personal details redacted, is available on our [website](#) but in summary, they highlighted concerns relating to ongoing flooding in their area. Whilst the customer did not suggest that this was entirely related to United Utilities they felt that the company should engage with the issues more.

Consideration of responses and final determination

Surface water flooding falls outside of our legislative role. It is often a multi-agency issue working with the council and local lead flood authority. However, we have written to the customer separately, outside of the in-period process, to set out our expectations of United Utilities and are contacting the company to ask for further information.

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 £2.176m and a D-MeX outperformance payment of £0.817m, 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 representation, United Utilities concurs with our view of the company's C-MeX and D-MeX calculation as published in our draft determination.

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 United Utilities, this increases its C-MeX outperformance payment by £0.008m to £2.184m and its D-MeX payment remains unchanged at £0.817m.

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.

United Utilities 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 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	-0.029	0.000	-0.029
Water network plus	3.598	0.000	3.598
Wastewater network plus (WaSCs only)	9.131	0.000	9.131
Bioresources (WaSCs only)	0.638	0.000	0.638
Residential retail	10.808	0.008	10.816
Total	24.146	0.008	24.154

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 United Utilities is also set out in the in-period adjustments model published on our website.

Final determination of United Utilities' 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	-0.029	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.029
Water network plus	3.068	0.000	0.000	0.000	0.000	-0.046	0.000	0.576	3.598
Wastewater network plus (WaSCs only)	9.785	-0.461	0.000	0.000	0.000	-0.434	0.000	0.241	9.131
Bioresources (WaSCs only)	0.638	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.638
Residential retail	8.764	0.000	0.000	0.000	0.000	-0.132	2.184	0.000	10.816
Total	22.226	-0.461	0.000	0.000	0.000	-0.612	2.184	0.817	24.154

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)	-0.402	0.000	-0.020	-0.012	0.000	-0.434
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.000	-0.128	0.000	-0.004	0.000	-0.132
Total	-0.402	-0.128	-0.065	-0.017	0.000	-0.612

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	-0.06	0.37	1.68	4.73
	Revised	-0.06	0.37	1.64	4.77
Water network plus (K factors)	Previous determination	0.29	-1.03	-1.98	-3.06
	Revised	0.29	-1.03	-1.10	-3.84
Wastewater network plus (WaSCs only)	Previous determination	-2.87	-0.38	-3.25	-1.23
	Revised	-2.87	-0.38	-1.50	-2.83
Bioresources (WaSCs only)	Previous determination	93.310	94.545	95.368	96.943
	Revised	93.310	94.545	96.218	96.943
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	108.375	120.752	109.980	111.236
	Revised	108.375	120.752	127.598	111.236

We have based United Utilities' final determination on the data and commentary provided to us by United Utilities. 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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