

September 2023

Draft determination of Severn Trent Water's in-period outcome delivery incentives for 2022-23

About this document

This document provides our draft determination on the extent to which the price controls included in our PR19 final determinations, need to be adjusted to reflect Severn Trent Water's performance for the 2022-23 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: Draft determinations of in-period outcome delivery incentives for 2022-23](#).

We also publish models related to our draft determinations on our [website](#).

We welcome your views by 18 October 2023. We will make our final determinations by 15 November 2023.

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, which is available on our [website](#).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 2023. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

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](#).

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 each company's licence.

We will make our final determination by 15 November 2023. This will affect Severn Trent Water's customers' bills from the 2024-25 charging year.

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 this [decision document](#) 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 2022-23, the ODI payments and performance are as reported by the company with the following exceptions:

- there is no C-MeX payment, as Severn Trent Water is the median performing company; and a D-MeX outperformance payment of £2.669m, based on our assessment of 2022-23 company performance; and
- interventions on the following performance commitments:
 - Water supply interruptions - £0.615m increase in underperformance payments due to the company changing the way it reports its performance commitment.
 - Water supply interruptions - £0.008m total increase in underperformance payments for 2020-21 and 2021-22 to exclude cattle troughs from connected properties used to calculate this performance commitment, in line with the requirements of this PC.

See section 1 for the results of our assessments.

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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 interventions²

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Difference (£m)
Water supply interruptions	-3.694	-4.306	-0.615

In our draft determination we are intervening on the following performance commitments:

Water supply interruptions – depth of main

We are intervening to increase Severn Trent Water's under performance payment in relation to its water supply interruptions performance commitment by £0.615m. This is because the company has changed the way it is reporting for 2022-23 and is therefore not consistent with its reporting in the previous two years.

In its APR, the company states that it refined its reporting process to include an assessment of the depth of main to more accurately estimate when customers are off supply. The company states that this refinement ensures that it identifies more quickly when the network has reached an appropriate level of pressure to ensure customers are back on supply. In its response to our query (SVE-APR-IP-001) the company also states that:

- better measurement of when a customer is on / off supply doesn't change the validity of the performance commitment level (PCL), but simply ensures they are being assessed on a fair basis with other companies, who also calculate the mains height in this way;
- the approach this year is not a methodology change, but better aligns with the specific element in reporting methodology (related to calculation of stop and start times) and drives towards consistency of reporting across the industry; and
- the approach ensures wider benefits to customers - better estimation leads to operational efficiency and better deployment of contingency measures during an incident.

² interventions in relation to restatements of prior years are modelled as bespoke adjustments and included in table 2.2

In the query response the company also restated the value of the revised reporting on its water supply interruptions performance because of an error in the impact of this reporting change. The company's assurer had highlighted in its report that the revised interpretation of the guidelines represents an elevated reporting risk. It recommended that the company clearly set out its rationale and impacts in its APR, which it has done in its APR and query responses.

In response to the company's points, we consider that:

- the company was not able to provide evidence to validate the statement that others in the sector adjust their performance for mains depth in this way;
- the performance commitment definition³ specifies that the 'start' time of an event should take into account the depth of the main or property height, but this is absent from the 'stop' time. In all its correspondence, the company states the adjustment is made to the 'stop' time but quotes the 'start' time guidance. However, logically the same methodology would be applied to both the start and stop times, therefore for the purposes of this determination we assume the company applies the depth of main adjustment to both start and stop times; and
- there may be some benefits to customers with the revised interpretation of the guidelines the company has implemented, but those benefits have not been quantified. There is however a benefit to the company in being able to declare that customers are back in supply sooner than under the previous method.

We note that, for each of the previous years, the company has reported that it is complying with the reporting requirements. If the revised approach provides a refinement to that process and potentially improves reporting it is not clear why the company was not already reporting in this way, as it suggests others already are. We recognise that improvements in data can bring benefits to customers and help to achieve compliance with the guidance. But we also said at PR19 that companies should commit that their outcome delivery incentive payments will only be in relation to real performance changes and not definitional, methodological or data changes in the performance commitment.

In conclusion, we consider that the company is not reporting on a consistent basis compared to the previous two years, because it has not adequately demonstrated that the improved performance it reports is due to real improvements in performance rather than a consequence of the data revisions it has made.

We are intervening to add back in 34 seconds to its water supply interruptions performance, which increases its underperformance payment by £0.615m. We require the company to continue to report its water supply interruptions measure using its previous reporting approach for the remainder of the 2020-2025 period.

³ [Reporting-guidance-supply-interruptions.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/reporting-guidance-supply-interruptions.pdf)

Water supply interruptions – cattle troughs

We are intervening to increase Severn Trent Water's underperformance payments in relation to its water supply interruptions performance commitment by £0.008m in total for 2020-21 and 2021-22. This is because the company's reported performance was not consistent with the definition for this performance commitment.

In [IN 23/03 Expectations for monopoly company annual performance reporting 2022-23](#), we clarified that the total number of connected properties used to calculate performance for this PC should exclude cattle troughs. The company stated it had included 1,185⁴ cattle troughs within the number of connected properties used to calculate this PC for 2020-21 and 2021-22 APR reporting, but that it was of low materiality, and it did not change historical performance or ODI payments.

Removing cattle troughs from the 2020-21 connected properties results in no change to the reported performance, but results in an £0.004m increase in the underperformance payment. For 2021-22 this change results in an increase of 1 second in the reported performance, and an £0.004m increase in the underperformance payment.

We also comment on policy decisions for the following performance commitments.

Leakage

Severn Trent Water reported a 9.3% reduction against its leakage performance commitment level of 5.7% for 2022-23. We are applying the reported outperformance payment of £5.168m in line with the operation of this performance commitment.

In its 2022-23 APR submission, the company stated that it has been working to improve its leakage reporting and alignment with the common reporting methodology. Severn Trent Water explained that the improvements identified were changes to process, aligned with good practice, to ensure that its baseline is set on a like for like basis. The company confirmed that it is compliant with all the components of the 2020-25 common methodology checklists for leakage and per capita consumption.

It has back cast the impacts on its historic performance to ensure its baseline is set on a like-for-like basis. Severn Trent Water also restated its leakage values in its 2021-22 APR. We queried the company (SVE-APR-IP-008) with regards to the restatement in 2022-23. In response to our query, Severn Trent Water stated that its reported performance and any associated outcome delivery incentive payments were related to real performance changes. Severn Trent Water also restated its targets as part of 2021-22 APR and 2022-23 APR due to process improvements that were required to improve the accuracy of its reporting or assist with achieving compliance with the 2020-25 reporting requirements.

⁴ Exact number clarified in a query response. The APR stated 1000 cattle troughs had been included

The company added that, where it was not possible to restate targets, it will not seek to claim ODI outperformance payments. In response to our query, Severn Trent Water also provided us with further third party assurance confirming that no material issues were identified with the changes to process, or the corrections included in the back cast and restatement of leakage and PCC data for both 2021-22 APR and 2022-23 APR submissions.

In conclusion, we consider that the company has revised its historical baseline and performance for 2020-21 and 2021-22 to improve compliance with the reporting requirements. It has provided us with third party assurance of this and the restated data. Severn Trent Water has also confirmed that its reported performance in 2022-23 is as a result of real performance improvement and not as a result of methodological change. Again, it has sought and provided us with third party assurance to support its reported performance.

Therefore, because of the confirmation provided by the company's assurer that there were no material issues with the changes to process or the corrections included in the back cast and restatement of data, we consider that the company's performance in 2022-23 is reported on a consistent basis in relation to the previous years and the baseline. As Severn Trent Water now states that it is compliant with the consistent reported methodology, we do not expect it to make any further changes to its reporting approach which would result in it needing to restate leakage performance again within the 2020-25 period.

Should any leakage information be revised or restated in future, our subsequent 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.

Green Economic Recovery

Upon reviewing the company's reported progress, we find it generally satisfactory, and we are proceeding with its requested approval of allowances as noted in table 2.2. A comprehensive assessment of the company's progress will occur during the price review 2024. Should the company fail to meet the requirements as outlined in the green economic recovery [final decisions 2021](#) or it forecasts that it will not fully deliver a scheme by the time of the PR24 final determination, an amount of in-period funding will be returned to customers, proportional to the amount of the scheme which has not been delivered. We will account for this using an approach set out in the green economic recovery [final decisions 2021](#) document.

1.2 C-MeX and D-MeX

On 26 September 2023 we published the relative performance of all companies. Our draft determination has no C-MeX payment as Severn Trent Water is the median performing company, and a D-MeX outperformance payment of £2.669m, based on our assessment of 2022-23 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.

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.

Severn Trent 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.

In our [Final Determination of Severn Trent Water's in-period outcome delivery incentives for 2021-22](#), we deferred £30.698m of the company's outperformance payments in line with the company's request. After adjusting for the time value of money, the value of the deferral increased to £31.593m. In its in-period adjustment model for 2022-23, the company applied deferred outperformance payments of £31.593m to customers' bills for 2024-25. This means there is no deferral to carry forward to future years.

2. Impact of 2022-23 in-period ODI assessment on price controls

2.1 Our draft determination

In this section we outline the financial impacts of our draft determinations.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 2.1: Draft determination on adjustment to 2024-25 price controls as a result of performance against ODIs

This table sets out our draft determinations on the ODI payments to be applied to price controls in the 2024-25 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2022-23;
- our draft determination on these payments after any interventions;
- our draft determination on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details, see section 1.

This draft 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.

Price control	Company's reported ODI payments (£m)	Ofwat DD ODI payments (£m)	ODI payments deferred from 2021-22 (£m)	Ofwat DD deferrals (£m)	Ofwat DD abatements (£m)	Bespoke adjustments (£m)	C-MeX payments (£m)	D-MeX payments (£m)	Total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	18.962	18.962	0.000	0.000	0.000	1.723	0.000	0.000	20.686
Water network plus	4.617	4.003	0.000	0.000	0.000	11.184	0.000	1.940	17.126
Wastewater network plus (WaSCs only)	-4.516	-4.516	31.594	0.000	0.000	17.213	0.000	0.729	45.019
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	5.251	5.251	0.000	0.000	0.000	0.000	0.000	0.000	5.251
Total	24.315	23.700	31.594	0.000	0.000	30.120	0.000	2.669	88.083

Table 2.2: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations.

Price control	Prior year restatements (£m)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2024-25 (£m)
Water resources	0.000	0.000	1.723	1.723
Water network plus	-0.008	0.000	11.193	11.184
Wastewater network plus (WaSCs only)	0.000	0.000	17.213	17.213
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
Total	-0.008	0.000	30.129	30.120

Table 2.3: Changes to price controls (draft determinations)

This table sets out the impact of our draft determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft determinations of in-period outcome delivery incentives for 2022-23](#) 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	51.80	-35.32
	Revised	3.45	8.31	51.80	-12.89
Water network plus (K factors)	Previous determination	-0.50	0.29	1.30	-4.10
	Revised	-0.50	0.29	1.30	-0.33
Wastewater network plus (K factors)	Previous determination	-1.85	1.41	7.43	-8.48
	Revised	-1.85	1.41	7.43	0.02
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	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	107.434	107.922
	Revised	105.067	106.087	107.434	116.875

We have based Severn Trent Water's draft 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 determinations.

3. Responding to this consultation

We would welcome any comments on this document. Please email them to in-periodODIs@ofwat.gov.uk or post them to:

IPD2023 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Or IPD2023 Consultation response Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD.

The closing date for this consultation is **18 October 2023**. If you wish to discuss any aspect of this consultation, please contact the In-period ODI team by post or by email at in-periodODIs@ofwat.gov.uk.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this draft determination you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this overview document, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for

disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

We will publish our final determinations by **15 November 2023**, after considering representations from all stakeholders.

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

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