

November 2023

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

About this document

This document provides our final determination on the extent to which the price controls included in our PR19 final determinations, are 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: Final determinations of in-period outcome delivery incentives for 2022-23](#).

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

Background

At the 2019 price review (PR19), companies made pledges to their customers and stakeholders about the service levels they would meet to make progress towards stated outcomes (performance commitments). Companies' performance commitments form a key part of the service package that they are expected to deliver. 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 to incentivise them to keep up this outperformance.

Severn Trent Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We assessed the company's performance against its performance commitments and, in September 2023, consulted on our [draft](#)

¹ We take account of performance commitments as set out in this appendix, adjusted, if relevant, in accordance with Annex 2 of the 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](#).

[determinations](#) for companies' in-period ODIs for 2022-23. We have carefully considered the [responses](#) we received relating to our draft determinations.

Our final determination sets out relevant adjustments to the company's price controls, for one or more future years. The results of our assessment for 2022-23 will affect Severn Trent Water's customers' bills in the 2024-25 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 2022-23](#).

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' ODI payments for usage of water per person (known as Per Capita Consumption) 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:

- C-MeX and D-MeX – we are including 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 - £0.008m 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 performance commitment (PC).
 - Water supply interruptions - having considered consultation responses, we now accept the company's reported performance in its 2022-23 APR. This means we are no longer intervening on this PC. This is because in its response to our draft determination the company provided clarification of the change in its approach and corrected some inconsistencies in the information previously provided. This represents a change of £0.615m to our draft determination.

See section 1 for the results of our assessment.

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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 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Our final determination after interventions 2022-23 (£m)	Difference between company view and our final determination (£m)
Water supply interruptions	-3.691	-4.306	-3.691	0.000

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

1.1.1 Water supply interruptions – depth of main

Our draft determination

We intervened to increase Severn Trent Water's underperformance payment in relation to its water supply interruptions performance commitment by £0.615m. This was because we considered it had changed the way it reported for 2022-23 which was therefore not consistent with its reporting in the previous two years.

In its 2022-23 APR, the company stated 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 stated 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 stated that:

- better measurement of when a customer is on / off supply doesn't change the validity of the performance commitment level (PCL), but simply ensured they were being assessed on a fair basis with other companies, who also calculate the mains height in this way;
- the approach this year was not a methodology change, but better aligned 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 ensured wider benefits to customers – the company said that better estimation leads to operational efficiency and better deployment of contingency measures during an incident.

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 did in its APR and query responses.

In response to the company's points, we considered 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 definition 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 stated the adjustment is made to the 'stop' time but quoted the 'start' time guidance. However, logically the same methodology would be applied to both the start and stop times, therefore for the purposes of our draft determination we assumed that 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 had not been quantified. There was however a benefit to the company in being able to declare that customers are back in supply sooner than under the previous method.

We noted that, for each of the previous years, the company reported that it is complying with the reporting requirements. We said that 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 recognised 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 considered that the company was 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.

In our draft determination, we intervened to add back in 34 seconds to its water supply interruptions performance, which increased its underperformance payment by £0.615m. We stated that the company should continue to report its water supply interruptions measure using its previous reporting approach for the remainder of the 2020-2025 period.

Stakeholders' responses

In its [consultation response](#), the company stated that it does not agree with the intervention on supply interruptions.

The company provided limited new evidence but does provide more detail and clarifies previous inconsistencies in its commentary of the changed approach to demonstrate that the reported performance more accurately reflects the company's real performance.

The company also suggested it could restate the previous two years so that "the movement represented a real change in performance, but there would be limited value in doing so". If the company was to restate previous years performance and reported using the new method going forward, then it would have consistency of reporting.

Consideration of responses and final determination

We agree with the company and consider that there is little benefit to reviewing 2020-22 data as the financial returns for individual customers would likely be negligible and the inconsistency in reporting for 2020-22 does not have a substantive impact on determining future performance during the 2020-25 period or for PR24.

Having considered consultation responses, we now accept the company's reported performance in its 2022-23 APR. This means we are no longer intervening (decreasing the company's underperformance payment by £0.615m compared to the draft determination). Our final determination for this PC now aligns with the company's original 2022-23 APR submission. This is because we now consider the company has provided sufficient evidence that the change in approach: i) aligns with the PC definition; ii) reflects more accurately the company's real performance; and iii) the small inconsistency in historical reporting will not adversely impact customers. In addition, we have also corrected the draft determination company's reported underperformance payment in table 1.1 from £3.694m to £3.691m to align with the company's APR submission.

1.1.2 Water supply interruptions – cattle troughs

Our draft determination

In our draft determination, we intervened 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 was 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.

We said that removing cattle troughs from the 2020-21 connected properties resulted in no change to the reported performance but resulted in an £0.004m increase in the underperformance payment. For 2021-22 this change resulted in an increase of 1 second in the reported performance, and an £0.004m increase in the underperformance 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 is as stated in our draft determination, above. This intervention applies to 2020-21 and 2021-22 only and not in 2022-23. Therefore, the change to the 2022-23 performance commitment payment in the final determination is a result of depth of main intervention (described above) and not cattle troughs.

We have the following comments relating to the leakage, unplanned outage performance commitments and Green Economic Recovery:

1.1.3 Leakage

Our draft determination

Severn Trent Water reported a 9.3% reduction against its leakage performance commitment level of 5.7% for 2022-23. We applied 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 was compliant with all the components of the 2020-25 common methodology checklists for leakage and per capita consumption.

It back cast the impacts on its historic performance to ensure its baseline was 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.

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

In conclusion, in our draft determination, we considered that the company had revised its historical baseline and performance for 2020-21 and 2021-22 to improve compliance with the reporting requirements. We said that it had provided us with third party assurance of this and the restated data. Severn Trent Water had also confirmed that its reported performance in 2022-23 was a result of real performance improvement and not a result of methodological change. Again, it had 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 considered that the company's performance in 2022-23 was reported on a consistent basis in relation to the previous years and the baseline. As Severn Trent Water stated that it was compliant with the consistent reported methodology, we said that 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.

We said that 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.

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 is as stated in our draft determination, above.

1.1.4 Green economic recovery

Our draft determination

Upon reviewing the company's reported progress, we found it generally satisfactory, and we proceeded with its requested approval of allowances as noted in table 2.2 of our draft determination. 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.

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 requested green economic recovery allowance is as stated in our draft determination, above.

1.1.5 Unplanned outage

Our draft determination

We did not intervene or comment on this matter in our draft determination; nor did we receive any stakeholder comments on it.

Our final determination

In our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#), we highlight matters identified by our review of company submissions for the unplanned outage performance commitment. In light of these matters, companies should review their approach to peak week production capacity (PWPC) against the common methodology in the PR19 reporting guidance to ensure that they are acting in compliance. Should Severn Trent Water's unplanned outage performance information be revised or restated in future, we expect the company to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported unplanned outage. We will take account of adjustments we have made to the relevant price control relating to the company's unplanned outage performance in making future determinations.

1.2 C-Mex and D-Mex

Our draft determination

On 26 September 2023, we published the relative performance of all companies. Our final determination includes 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.

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 payments for these performance commitments is as stated in our draft determination, above.

1.3 Payment deferrals and abatements

As set out in the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments. 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 final 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 £31.594m. In its in-period adjustment model for 2022-23, the company applied deferred outperformance payments of £31.594m 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 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 below sets out the change between our draft and final determinations.

Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25

Price control	Draft determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	20.686	0.000	20.686
Water network plus	17.126	0.615	17.741
Wastewater network plus (WaSCs only)	45.019	0.000	45.019
Bioresources (WaSCs only)	0.000	0.000	0.000
Residential retail	5.251	0.000	5.251
Total	88.083	0.615	88.698

Table 2.2: Final determination on adjustment to 2024-25 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 2024-25 charging year after accounting for:

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

For further details, 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 2022-23

Price control	Company's reported ODI payments (£m)	Ofwat FD ODI payments (£m)	ODI payments deferred from 2021-22 (£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 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	4.617	0.000	0.000	0.000	11.184	0.000	1.940	17.741
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	24.315	31.594	0.000	0.000	30.120	0.000	2.669	88.698

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)	Time value of money adjustment on prior year total (£m)	Green economic 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 2.4: 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 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	-12.85
Water network plus (K factors)	Previous determination	-0.50	0.29	1.30	-4.10
	Revised	-0.50	0.29	1.30	-0.19
Wastewater network plus (K factors)	Previous determination	-1.85	1.41	7.43	-8.48
	Revised	-1.85	1.41	7.43	0.04
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	116.892

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,

we may take account of this, and previous price control adjustments relating to company performance, when making future determinations.

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