

November 2023

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

South Staffs 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 South Staffs 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 South Staffs 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 a C-MeX outperformance payment of £0.127m and a D-MeX outperformance payment of £0.044m, based on our assessment of 2022-23 company performance.

See section 1 for the results of our assessment.

Contents

1. Results of our assessment	4
1.1 Interventions and policy decisions	4
1.2 C-Mex and D-Mex	7
1.3 Payment deferrals and abatements	7
2. Impact of 2022-23 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 South Staffs Water's reported performance and ODI payments for 2022-23 in our final determination. The company has not requested any interventions. Based on our assessment of the company's performance, we do not consider any are required.

In our draft determination we had the following comments relating to the leakage performance commitment:

1.1.1 Leakage (South Staffs region)

Our draft determination

For its South Staffs region, South Staffs Water reported achieving a 9.4% reduction against a performance commitment level of 7.8% in relation to its leakage performance commitment for 2022-23. In line with the operation of this performance commitment, the company could claim £0.216m in outperformance.

South Staffs Water stated that it was compliant in all components of the PR19 common methodology for leakage. However, for the second year running, the company told us it was providing restated values for leakage and per capita consumption (PCC) from 2017-18 onwards, and the PR19 baseline, and in its submission provided numerical data relating to pre and post back-casted methodologies. The restated data included annual average leakage values (megalitres/day) and PCC (litres/person/day) for each year from 2017-18. The company stated this was due to a methodology update and improving household night use models to control for seasonality across the reporting year. The company explained that it had incorporated an element within its household night use model which accounts for seasonal variations. South Staffs Water further told us that it was not claiming the outperformance payment for South Staffs region leakage because it considered that the change was material and it “feels it is appropriate to abate the additional ODI reward that results from this change”.

In addition, we noted that the company had an unexplained significant increase in the number of void household properties year-on-year without a justification. As stated in the [PR19 definition for the leakage performance commitment](#) it incorporates the [PR19 reporting guidance](#) which requires companies to justify the number of void properties each year and how this is derived. We therefore asked South Staffs Water to provide us with further evidence justifying its sustained increasing trend in its void household properties number, and an explanation of its voids property process and its interaction with its reported leakage and PCC data.

As a result, we deferred our decision and payments on South Staffs Water's reported leakage for its South Staffs region. We said we would continue to engage with the company to have a clearer understanding of the datasets and methodologies for all components of the water balance, to ensure that the restated leakage and PCC performance represents the most accurate record for 2017-18 through to 2022-23. We made no changes to the company's submitted ODI model, as the company requested a voluntary abatement of £0.216m for this performance commitment in its in-period adjustments model. Should any leakage information be revised or restated in future, we said 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

The company's consultation response did not directly cover this issue. It provided further information separately to us in a response to a query we sent to it. In its query response South Staffs Water stated that our specific questions appeared to be under three themes: voids process, how data is used in the assessment of leakage/PCC in the water balance, and business voids.

The company provided an explanation of its voids process, including how this is used in its annual reporting. It explained that the increasing trend in voids is due to it becoming more difficult to trace a subset of customers, particularly those in debt. The company stated that when it configured the voids performance commitment for PR19, it had not anticipated that carrying out more voids checks would lead to an initial increase in voids. It explained that it has to identify the voids first, then find the occupier, and it is this sequence that is causing the short term increase in numbers. It stated that it expects its validation activity will succeed in reducing voids over time. South Staffs Water also cite Covid effects, a change of customer billing systems and their increased caution after a cyber attack leading them to "take a very restrictive stance on customer data and communications".

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 is as stated in our draft determination, above. This is because South Staffs Water's response does not sufficiently answer our specific questions or provide evidence to support its increasing trend in void properties. We will continue to engage with the company to gain a clearer understanding of the datasets and methodologies used for all components of the water balance, to ensure that the restated leakage and PCC performance represents the most accurate record for 2017-18 through to 2022-23.

1.1.2 Green economic recovery

Our draft determination

Upon reviewing the company's reported progress, we found it generally satisfactory. 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.

We have the following comments relating to the unplanned outage performance commitment:

1.1.3 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 South Staffs 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 draft determination included a C-MeX outperformance payment of £0.127m and a D-MeX outperformance payment of £0.044m, 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.

South Staffs Water did not request any payment deferrals but, due to its methodology change, it chose to abate its resulting outperformance payment of £0.216m on its leakage performance commitment for its South Staffs region.

Based on our assessment of the company's leakage performance as described in section 1.1, we are deferring our determination on its leakage performance and payments for the company's South Staffs region. As such, we accept the company's decision to abate its reported outperformance this year and, in our final determination, are applying an abatement of £0.216m in line with the company's request.

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	0.026	0.000	0.026
Water network plus	0.725	0.000	0.725
Residential retail	0.118	0.000	0.118
Total	0.869	0.000	0.869

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;
- our final determinations on 2022-23 abatements;
- 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 South Staffs Water is also set out in the in-period adjustments model published on our website.

Final determination of South Staffs 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	0.026	0.026	0.000	0.000	0.000	0.000	0.000	0.000	0.026
Water network plus	0.141	0.141	0.000	0.000	-0.216	0.756	0.000	0.044	0.725
Residential retail	-0.010	-0.010	0.000	0.000	0.000	0.000	0.127	0.000	0.118
Total	0.157	0.157	0.000	0.000	-0.216	0.756	0.127	0.044	0.869

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	0.000	0.000
Water network plus	0.000	0.000	0.756	0.756
Residential retail	0.000	0.000	0.000	0.000
Total	0.000	0.000	0.756	0.756

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	1.56	4.55	2.33	-2.57
	Revised	1.56	4.55	2.33	-2.20
Water network plus (K factors)	Previous determination	-0.61	0.42	-4.21	-4.43
	Revised	-0.61	0.42	-4.21	-3.38
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	13.998	14.045	15.187	14.484
	Revised	13.998	14.045	15.187	14.685

We have based South Staffs Water's final determination on the data and commentary provided to us by South Staffs 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.

**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 2023

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