

November 2023

# **Final determination of United Utilities' in-period outcome delivery incentives for 2022-23**

**Ofwat**

## 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 United Utilities' 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. United Utilities' performance commitments for the 2020-25 period are set out in [PR19 final determinations: United Utilities - Outcomes performance commitment appendix](#).<sup>1</sup>

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.

United Utilities 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](#)

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<sup>1</sup> 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 United Utilities' 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 United Utilities' 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 £3.024m and a D-MeX outperformance payment of £0.046m, based on our assessment of 2022-23 company performance; and
- intervention on the following previously reported performance commitment:
  - Water supply interruptions – accept company restatement of its 2021-22 performance and intervene to increase the underperformance payment by £0.053m.

See section 1 for the results of our assessment.

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# 1. Results of our assessment

## 1.1 Interventions and policy decisions

We are not intervening on United Utilities reported performance and ODI payments for 2022-23 in our final determination. The company has not requested any interventions.

We are, however, making a bespoke adjustment with respect to the company's performance and ODI payments for its water supply interruptions PC for 2021-22.

### 1.1.1 Water supply interruptions

#### Our draft determination

We intervened to increase United Utilities' under performance payments in relation to its water supply interruption performance commitment by £0.053m. This is because United Utilities requested to restate the company's 2021-22 performance.

During 2021-22, the company recorded an interruption to a single supply point as a private incident but subsequently identified that the supply point should have been recorded as being its responsibility. We accepted the company's revised performance, including the supply lost from this incident, of 8 minutes and 1 second for 2021-22. As a result, we applied a bespoke adjustment to increase its underperformance payment by £0.053m<sup>2</sup>.

#### Stakeholders' responses

In its [consultation response](#), United Utilities stated that it accepts our bespoke adjustment.

#### Consideration of responses and final determination

Having received no other stakeholder responses on this matter and given 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.

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

### 1.1.2 Unplanned outage

#### Our draft determination

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<sup>2</sup> interventions in relation to restatements of prior years are modelled as bespoke adjustments and included in table 2.2.

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 United Utilities 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 £3.024m and a D-MeX outperformance payment of £0.046m, 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

In its [consultation response](#) United Utilities stated that it concurs with our calculation of its C-Mex and D-Mex outperformance payments.

### Consideration of responses and final determination

Having received no other stakeholder responses on this matter and given that the company accepts our draft determination, our final determination on the company's performance payment 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.

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 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	-0.188	0.000	-0.188
Water network plus	-4.094	0.000	-4.094
Wastewater network plus (WaSCs only)	14.487	0.000	14.487
Bioresources (WaSCs only)	0.942	0.000	0.942
Residential retail	14.083	0.000	14.083
<b>Total</b>	<b>25.229</b>	<b>0.000</b>	<b>25.229</b>

**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;
- 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 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 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	-0.188	-0.188	0.000	0.000	0.000	0.000	0.000	0.000	-0.188
Water network plus	-4.072	-4.072	0.000	0.000	0.000	-0.055	0.000	0.033	-4.094
Wastewater network plus (WaSCs only)	14.474	14.474	0.000	0.000	0.000	0.000	0.000	0.013	14.487
Bioresources (WaSCs only)	0.942	0.942	0.000	0.000	0.000	0.000	0.000	0.000	0.942
Residential retail	11.059	11.059	0.000	0.000	0.000	0.000	3.024	0.000	14.083
<b>Total</b>	<b>22.214</b>	<b>22.214</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.055</b>	<b>3.024</b>	<b>0.046</b>	<b>25.229</b>

**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	-0.053	-0.002	0.000	-0.055
Wastewater network plus (WaSCs only)	0.000	0.000	0.000	0.000
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
<b>Total</b>	<b>-0.053</b>	<b>-0.002</b>	<b>0.000</b>	<b>-0.055</b>

**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	-0.06	0.37	1.64	4.77
	Revised	-0.06	0.37	1.64	4.52
Water network plus (K factors)	Previous determination	0.29	-1.03	-1.10	-3.84
	Revised	0.29	-1.03	-1.10	-4.80
Wastewater network plus (K factors)	Previous determination	-2.87	-0.38	-1.50	-2.83
	Revised	-2.87	-0.38	-1.50	-0.13
Bioresources (unadjusted revenue, Urt - £m, 2017-18 FYA CPIH prices)	Previous determination	93.310	94.545	96.218	96.943
	Revised	93.310	94.545	96.218	98.199
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	108.375	120.752	127.598	111.236
	Revised	108.375	120.752	127.598	135.291

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, 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)  
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