

November 2023

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

Wessex 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 Wessex 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 Wessex 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 £1.610m and a D-MeX outperformance payment of £0.237m based on our assessment of 2022-23 company performance; and

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 Wessex Water's reported performance and ODI payments for 2022-23 in our final determination.

The company has not requested any interventions to its reported performance and ODI payments. Based on our assessment of the company's performance, we do not consider any are required.

We make comments with respect to the following performance commitment:

1.1.1 Km of river improved (non-WINEP)

Our draft determination

We noted that all of the company's £0.853m outperformance payment reported on this performance commitment (PC) for the first three years of the 2020-25 period had been delivered through agreements with farmers to reduce their nutrient input into catchments. We said that whilst this approach is one of the ways the company can deliver the PC, we noted that the PC definition requires that "The measure will mainly be achieved through outperformance of 21 of its Sewage Treatment Works (STWs) nutrient discharges against their existing discharge performance".

We said we expected that for the remainder of the 2020-25 period, in line with the PC definition, any outperformance will mainly be achieved through outperformance of your Sewage Treatment Works (STWs) nutrient discharges against their existing discharge performance.

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.

1.2 C-Mex and D-Mex

Our draft determination

On 26 September 2023, we published the relative performance of all companies. Our final determination includes a C-MeX outperformance payment of £1.610m and a D-MeX outperformance payment of £0.237m 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 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.

Wessex 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 in our final determination.

In our [Final Determination of Wessex Water's in-period outcome delivery incentives for 2021-22](#), we deferred £7.035m 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 £7.242m. In its in-period adjustments model for 2022-23, the company applied deferred outperformance payments of £7.035m to customers' bills for 2024-25. As agreed with the company, in our final determination we are applying the deferred value, including the time value of money, of £7.242m 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 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	0.005	0.000	0.005
Water network plus	2.548	0.000	2.548
Wastewater network plus (WaSCs only)	0.861	0.000	0.861
Bioresources (WaSCs only)	-0.015	0.000	-0.015
Residential retail	4.562	0.000	4.562
Total	7.960	0.000	7.960

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; 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 Wessex Water is also set out in the in-period adjustments model published on our website.

Final determination of Wessex 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	-0.006	-0.006	0.010	0.000	0.000	0.000	0.000	0.000	0.005
Water network plus	0.220	0.220	2.187	0.000	0.000	0.000	0.000	0.141	2.548
Wastewater network plus (WaSCs only)	-1.844	-1.844	2.609	0.000	0.000	0.000	0.000	0.096	0.861
Bioresources (WaSCs only)	-0.015	-0.015	0.000	0.000	0.000	0.000	0.000	0.000	-0.015
Residential retail	0.517	0.517	2.436	0.000	0.000	0.000	1.610	0.000	4.562
Total	-1.128	-1.128	7.242	0.000	0.000	0.000	1.610	0.237	7.960

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	0.000	0.000
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
Total	0.000	0.000	0.000	0.000

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	3.95	0.29	0.47	0.58
	Revised	3.95	0.29	0.47	0.62
Water network plus (K factors)	Previous determination	1.11	0.27	-0.13	0.22
	Revised	1.11	0.27	-0.13	2.65
Wastewater network plus (K factors)	Previous determination	0.49	0.56	-1.16	1.36
	Revised	0.49	0.56	-1.16	1.84
Bioresources (unadjusted revenue, Urt - £m, 2017-18 FYA CPIH prices)	Previous determination	30.982	31.103	31.533	32.145
	Revised	30.982	31.103	31.533	32.124
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	31.903	35.834	33.088	34.196
	Revised	31.903	35.834	33.088	41.988

We have based Wessex Water's final determination on the data and commentary provided to us by Wessex 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)
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