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

Yorkshire 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](#)

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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 Yorkshire 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 Yorkshire 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 underperformance payment of £0.510m and a D-MeX underperformance payment of £2.857m, 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	8
1.3 Payment deferrals and abatements	8
2. Impact of 2022-23 in-period ODI assessment on price controls	10
2.1 Our final determination	10

# 1. Results of our assessment

## 1.1 Interventions and policy decisions

We are not intervening on Yorkshire 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.

The company applied the following adjustments in its in-period adjustments model, which we consider are appropriate:

### 1.1.1 Surface water management

#### Our draft determination

In our draft determination, we said that Yorkshire Water had reported performance of four hectares against a performance commitment level of five hectares in relation to its surface water management performance commitment for 2022-23, claiming an underperformance payment of £0.005m.

We noted that in its 2022-23 APR Yorkshire Water had also stated that its 2021-22 performance was reported as an annual figure of two hectares, rather than the cumulative value required for this performance commitment. We said that this had led to under-reporting of performance, and to an additional underperformance payment that should not have been paid. We said the company had therefore restated its reported value for 2021-22 as three hectares and that this was supported by the company's third party assurance statement.

In line with the company's request, in our draft determination we applied a bespoke adjustment to decrease Yorkshire Water's underperformance payments by £0.005m in relation to its surface water management performance commitment to account for its erroneous reporting for 2021-22.

#### 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.

We make comments with respect to the following areas:

### **1.1.2 Low pressure**

#### **Our draft determination**

We noted that the company's third party assurer had identified 'amber' reporting risks in relation to the company's low pressure performance commitment in their assurance report indicating significant issues relating to both the methodology and data. The assurer concluded that further effort is needed to ensure the robustness of reporting and that the company's approach creates uncertainty in the reported figure.

Yorkshire Water stated on page 105 of its Annual Performance Report 2022-23 that "A comprehensive review is underway to pull all the information and ensure that loggers are being assessed from the time installed, and not just when enabled within the software package. Further information will be provided to our auditors and Ofwat as we progress this review." We noted that the company stated in a query response that it was working towards having this review fully completed by the end of this calendar year.

In our draft determination, we said we expected the company's comprehensive review to be concluded in advance of it reporting its performance in its 2023-24 APR. We said we required the company to provide us with commentary clearly explaining any impacts on historical, current and future reporting. We said that the company must restate any changed performance and ODI payment values, if impacted, for previous reporting years. We said we expected all revisions or restatements to be audited by the company's external assurer ahead of submission and a report provided alongside the company submission. We said we may make adjustments to allowed revenue if we find current or previous years' reported performance to be incorrect once the company's comprehensive review is complete.

#### **Stakeholders' responses**

In its consultation response, which is published on our [website](#), the company stated that it notes and agrees with the comments we made and the actions we proposed on low pressure in our draft determination. We did not receive any other 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.

### 1.1.3 Sewer collapses

#### Our draft determination

In its 2022-23 APR submission, Yorkshire Water's external assurer identified significant issues and reporting risks in relation to the company's sewer collapses performance commitment. The assurers noted that "Material issues were identified regarding the analysis that produced the reported number for Table 3B Line 3 and 3I Line 4; this was subsequently re-assessed. While the highest priority incidents originally classified as non-reportable have been reassessed, there remains a risk that there are misclassifications for other incidents where the original classification was not undertaken by the auditee and an internal review was not subsequently undertaken."

In response to our queries YKY-APR-IP-005 and YKY-APR-IP-008, Yorkshire Water confirmed that it has undertaken measures to address misclassifications and also stated that these issues have only impacted its performance this year.

However, we noted that similar methodological issues related to sewer collapses incidents were identified in 2020-21 and 2021-22 third party assurance findings. In our draft determination, we said that we expected these issues to be fully resolved ahead of 2023-24 APR. The persistence of these issues raises concerns regarding the company's existing processes and controls. We said that we expected to see greater robustness in the company's internal data processing and reporting mechanisms, with controls in place to identify and rectify errors prior to third party assurance.

#### Stakeholders' responses

In its consultation response, which is published on our [website](#), the company stated that it notes and agrees with the comments we made and the actions we proposed on sewer collapses in our draft determination. We did not receive any other 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 D-MeX

#### Our draft determination

Yorkshire Water stated in its 2022-23 APR submission that it would like to retrospectively make a correction for 2020-21 and that it intends to republish its 2020-21 APR to this effect. In its 2022-23 submission the company stated this correction impacts on a number of APR

tables and provided a list of all tables and the original and corrected values against each table. The company stated it would result in an increase of its 2022-23 revenue allowance of £5.8m and that it has requested an adjustment to the D-MeX payment for 2020-21.

We received a similar request from the company in its 2021-22 APR and wrote to Yorkshire Water stating that we did not consider it appropriate to adjust revenue in-period. We also said that we may consider a case for an adjustment at PR24 but, to do so, the company would need to be able to set out the full impact of the adjustment, considering interactions with funding provided at PR19. It would also need to demonstrate why it would be in customers' interests to make an adjustment and provide us with confidence that its assurance process is sufficiently robust.

In our draft determination, we said that we continue to consider that the company has not provided the information we had requested, including the full impact of the adjustment considering interactions with funding provided at PR19, or demonstrated that it would be in customers' interests to make an adjustment. We said that, in the absence of any new evidence, we are retaining our decision not to apply a bespoke adjustment in the in-period determination in respect of 2020-21 to the D-MeX performance commitment but that we may consider making an adjustment as part of PR24.

## **Stakeholders' responses**

In its response, which is published on our [website](#), the company stated that it maintained its position on requesting a correction to the D-MeX penalty payment for 2020-21. It also said that it is currently evaluating any additional evidence it can submit to support this position and would welcome a discussion on how it can meet our requirements.

## **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 the company has not provided us with any new evidence in its consultation response. However, we remain open to making an adjustment as part of PR24 if the company provides sufficient and convincing evidence.

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

### **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 Yorkshire 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 a C-MeX underperformance payment of £0.510m and a D-MeX underperformance payment of £2.857m, 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.

Yorkshire 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.

## 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	0.079	0.000	0.079
Water network plus	-17.714	0.000	-17.714
Wastewater network plus (WaSCs only)	-4.149	0.000	-4.149
Bioresources (WaSCs only)	0.480	0.000	0.480
Residential retail	1.479	0.000	1.479
<b>Total</b>	<b>-19.825</b>	<b>0.000</b>	<b>-19.825</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 Yorkshire Water is also set out in the in-period adjustments model published on our website.

Final determination of Yorkshire 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	0.079	0.079	0.000	0.000	0.000	0.000	0.000	0.000	0.079
Water network plus	-16.102	-16.102	0.000	0.000	0.000	0.001	0.000	-1.612	-17.714
Wastewater network plus (WaSCs only)	-2.908	-2.908	0.000	0.000	0.000	0.004	0.000	-1.245	-4.149
Bioresources (WaSCs only)	0.480	0.480	0.000	0.000	0.000	0.000	0.000	0.000	0.480
Residential retail	1.989	1.989	0.000	0.000	0.000	0.000	-0.510	0.000	1.479
<b>Total</b>	<b>-16.463</b>	<b>-16.463</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.005</b>	<b>-0.510</b>	<b>-2.857</b>	<b>-19.825</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	0.001	0.000	0.000	0.001
Wastewater network plus (WaSCs only)	0.004	0.000	0.000	0.004
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>0.005</b>	<b>0.000</b>	<b>0.000</b>	<b>0.005</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	-1.94	1.85	1.83	1.75
	Revised	-1.94	1.85	1.83	1.92
Water network plus (K factors)	Previous determination	2.50	1.99	-0.36	11.92
	Revised	2.50	1.99	-0.36	5.44
Wastewater network plus (K factors)	Previous determination	-3.94	1.25	-2.01	-1.11
	Revised	-3.94	1.25	-2.01	-2.38
Bioresources (unadjusted revenue, Urt - £m, 2017-18 FYA CPIH prices)	Previous determination	73.037	73.640	74.226	74.308
	Revised	73.037	73.640	74.226	74.948
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	69.842	69.002	75.404	73.455
	Revised	69.842	69.002	75.404	75.981

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