

September 2023

Draft determination of Affinity Water's in-period outcome delivery incentives for 2022-23

About this document

This document provides our draft determination on the extent to which the price controls included in our PR19 final determinations, need to be adjusted to reflect Affinity 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: Draft determinations of in-period outcome delivery incentives for 2022-23](#).

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

We welcome your views by 18 October 2023. We will make our final determinations by 15 November 2023.

Background

At the 2019 price review (PR19), companies made performance commitments, or pledges, to their customers and stakeholders about the service levels they would meet to make progress towards their outcomes. Affinity Water's performance commitments for the 2020-25 period are set out in PR19 final determinations: Affinity Water - Outcomes performance commitment appendix, which is available on our [website](#).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.

Affinity Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We have considered this information and,

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, in accordance with Annex 2 of the company's performance commitment 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](#).

where necessary, further information from companies' answers to our queries. In our draft determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with Part 3A of Condition B of each company's licence.

We will make our final determination by 15 November 2023. This will affect Affinity Water's customers' bills from the 2024-25 charging year.

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' Per Capita Consumption (PCC) ODI payments 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 Affinity 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 include a C-MeX underperformance payment of £1.060m and a D-MeX underperformance payment of £0.202m, based on the assessment of 2022-23 company performance; and
- interventions on the following performance commitments:
 - Leakage – we are intervening to set outperformance payments to nil for 2022-23 and to reverse the adjustment applied by the company in respect of 2020-21 and 2021-22.

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 Affinity Water.

Table 1.1: Summary of interventions

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Difference (£m)
Leakage	0.439	0.000	-0.439

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

Leakage

In its 2022-23 annual performance report, Affinity Water reported a reduction of 15.8% against the performance commitment level of 14.0% and an outperformance payment of £0.439m. Additionally, the company restated its 2020-21 and 2021-22 reported performance and its 2019-20 baseline position as it continues to improve its compliance with the leakage and PCC methodologies.

Affinity Water identified that it has not achieved full compliance with the [PR19 common performance commitment definitions](#) and the [leakage reporting guidance](#). The company reported six main components as non-compliant (coverage, non-household night use, distribution input, measured consumption, unmeasured consumption, and water balance and MLE), as well as the water balance discrepancy assessed as 'Red' at 3.56%.

In the '[Expectations for monopoly company annual reporting](#)' (March 2023), we stated that we do not expect companies to include outperformance payments for PCs (such as leakage) where there are issues of material non-compliance. As a result, we are deferring our decision and the outperformance payment of £0.439m in relation to 2022-23 leakage performance because the company is materially non-compliant with the PC definition. We are also reversing the adjustment applied by the company in respect of 2020-21 and 2021-22 restatements. However, our view of the value of the adjustment of £0.112m (not adjusted for the time value of money) differs from the company's view of £0.128m.

We expect all companies to be reporting full compliance with the leakage and PCC methodology. Should any leakage or per capita consumption information be revised or restated in future, we will take account of adjustments we have made to the relevant price control in relation to the leakage performance commitment in making future determinations.

We also make comments with respect to the following performance commitment:

Properties at risk of receiving low pressure

In its annual performance report, Affinity Water requested that we correct the company's 2021-22 performance for its properties at risk of receiving low pressure performance commitment from 48.204 to 155.466 properties per 10,000 connections. The company states this is to align with current methodologies. We have accepted the company's proposal because it better aligns 2021-22 performance with performance reported in 2020-21 and 2022-23, the previous reported value was markedly different. This correction does not affect the company's reported performance or ODI payments as the company's restated 2021-22 performance remains beyond the standard underperformance collar and so payments are limited to the level of the collar. It should be noted that Affinity Water's performance for this measure is significantly different to the other companies that report this measure. This may be because of the company's interpretation of the guidance. Whilst its performance is out of step with the sector, it should continue to report on a consistent basis for the remainder of the 2020-25 reporting period.

1.2 C-MeX and D-MeX

On 26 September 2023 we published the relative performance of all companies. Our draft determination includes a C-MeX underperformance payment of £1.060m and a D-MeX underperformance payment of £0.202m, 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.

1.3 Payment deferrals and abatements

As set out in our [PR19 final determinations](#) and the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments on individual performance commitments. 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.

Affinity Water did not request any payment deferrals. Based on our assessment of the company's performance, we are intervening to defer our decision on its leakage performance commitment. We have accounted for this in the way described in section 1.1.

In our [Final Determination of Affinity Water's in-period outcome delivery incentives for 2021-22](#), we did not include any payment deferrals. However, Affinity Water included a £0.133m

deferred payment (including adjustment for the time value of money) from the previous reconciliation year in their in-period adjustments model. The company stated this was to correct for previously overpaid penalties for its leakage performance in 2020-21 and 2021-22 as a result of it now restating its performance for these years. For modelling purposes, this should have been submitted as a bespoke adjustment not a deferral from previous years.

Based on our assessment of the company's leakage performance as described in section 1.1, which identifies that Affinity Water has not achieved full compliance with PR19 methodology, we do not consider that a bespoke adjustment is required. We are therefore intervening to remove the £0.133m outperformance payment that Affinity Water included. Our intervention means that this payment will not be applied to customer bills in 2024-25.

Affinity Water did not request any payment 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 abatements in our draft determination.

2. Impact of 2022-23 in-period ODI assessment on price controls

2.1 Our draft determination

In this section we outline the financial impacts of our draft determinations.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 2.1: Draft determination on adjustment to 2024-25 price controls as a result of performance against ODIs

This table sets out our draft determinations 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 draft determination on these payments after any interventions;
- our draft determination on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details, see section 1.

This draft determination on the ODI payments to be applied for Affinity Water is also set out in the in-period adjustments model published on our website.

Price control	Company's reported ODI payments (£m)	Ofwat DD ODI payments (£m)	ODI payments deferred from 2021-22 (£m)	Ofwat DD deferrals (£m)	Ofwat DD abatements (£m)	Bespoke adjustments (£m)	C-MeX payments (£m)	D-MeX payments (£m)	Total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	1.013	1.013	0.000	0.000	0.000	0.000	0.000	0.000	1.013
Water network plus	-7.645	-8.084	0.000	0.000	0.000	0.000	0.000	-0.202	-8.286
Residential retail	0.245	0.245	0.000	0.000	0.000	0.000	-1.060	0.000	-0.815
Total	-6.387	-6.826	0.000	0.000	0.000	0.000	-1.060	-0.202	-8.088

Table 2.2: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations.

Price control	Prior year restatements (£m)	Time value of money adjustment on prior year total (£m)	Green 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
Residential retail	0.000	0.000	0.000	0.000
Total	0.000	0.000	0.000	0.000

Table 2.3: Changes to price controls (draft determinations)

This table sets out the impact of our draft determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft 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	10.58	14.77	11.15	-4.03
	Revised	10.58	14.77	11.15	-1.05
Water network plus (K factors)	Previous determination	1.40	-1.94	3.20	3.55
	Revised	1.40	-1.94	3.20	-1.62
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	27.875	26.496	27.849	30.044
	Revised	27.875	26.496	27.849	28.654

We have based Affinity Water's draft determination on the data and commentary provided to us by Affinity Water. Should any of this information be revised or restated in future years, we will take account of adjustments we have made to the relevant price control in relation to the performance commitment(s) in question in making future determinations.

3. Responding to this consultation

We would welcome any comments on this document. Please email them to in-periodODIs@ofwat.gov.uk or post them to:

IPD2023 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Or IPD2023 Consultation response Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD.

The closing date for this consultation is **18 October 2023**. If you wish to discuss any aspect of this consultation, please contact the In-period ODI team by post or by email at in-periodODIs@ofwat.gov.uk.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this draft determination you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this overview document, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for

disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

We will publish our final determinations by **15 November 2023**, after considering representations from all stakeholders.

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