

September 2023

Draft determination of Anglian 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 set by the Competition and Markets Authority (CMA) as adjusted by any subsequent interim determination of K (IDoK), need to be adjusted to reflect Anglian 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. Anglian Water's performance commitments for the 2020-25 period are set out in PR19 final determinations: Anglian 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.

Anglian Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

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](#).

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 Anglian 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 Anglian Water's performance against its performance commitments in 2022-23, its ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – C-MeX underperformance payment of £0.262m and no D-MeX payment as Anglian Water is the median performing company, based on our assessment of 2022-23 company performance; and
- interventions on the following performance commitment:
 - Abstraction incentive mechanism (AIM) – £0.011m increase in underperformance payments to rectify a calculation error in the company's submission.

In our in-period adjustments model, we include a bespoke adjustment of £0.005m, which we adjust for the time value of money, to correct for a minor typographical error in our model relating to the underperformance incentive rate for internal sewer flooding in year 2021-22.

The company has requested that a 0% tax rate is applied to its ODI payments. We retain a tax rate of 19% because the evidence submitted by the company did not convince us that a different tax rate should be applied at this time.

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 Anglian 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)
Abstraction Incentive mechanism (AIM)	-0.052	-0.063	-0.011

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

Abstraction incentive mechanism

We are intervening to increase Anglian Water's underperformance payment in relation to its abstraction incentive mechanism performance commitment from £0.052m to £0.063m which is an increase of £0.011m. This is because the company had incorrectly calculated the outperformance payment for Marham Ground Water which is one of four sites incentivised in the performance commitment definition. Anglian Water reported an outperformance payment for Marham Ground Water of £11,340. However, the outperformance payment should have been £1,134 which increases the total underperformance payment for this performance commitment.

We apply the following adjustment in the in-period adjustments model:

Internal sewer flooding

We are including a bespoke adjustment of £0.005m, which we adjust for the time value of money, to correct for a minor typographical error in our in-period adjustments model relating to the underperformance incentive rate for internal sewer flooding in year 2021-22. Anglian Water contacted us on 17th May 2023 to highlight this error. This will be repaid to customers.

We also comment on policy decisions for the following performance commitments:

Tax

In its 2022-23 APR, Anglian Water submitted information to support its view that it does not expect to pay corporation tax within the 2020-25 period. As a result, the company included a 0% tax rate in its in-period adjustments model for the remaining years of the 2020-25 period.

In our 2022-23 in-period ODI draft determination, we retain a tax rate of 19% because the evidence submitted by the company did not convince us that a different tax rate should be applied at this time. We note that the company's tax computations show it expects to be profitable in 2024-25, and that it expects tax on these profits to be covered by the available capital allowances. The company also confirms that it is surrendering tax losses to group companies and receiving tax credits. The total value of tax losses surrendered will be finalised by March 2024. As these tax losses have a value if other group companies are able to use them, we consider it is possible that the company will benefit within the 2020-25 period from the additional tax losses. We will be in a better position to consider whether such an adjustment to tax is appropriate as part of our decisions for the 2024 price review (PR24) determinations, when we will have information on the value of tax losses surrendered by the company over 2020-25 and the company's proposed opening tax loss balance at PR24.

Pollution Incidents

In its 2022-23 APR, Anglian Water states that it is voluntarily reporting potential dry weather spills retrospectively identified using EDM data and, since this is not standard practice across the industry, the inclusion of these in the total number of pollution incidents means that the reporting methodology for this PC is not consistent across companies. The Environment Agency undertook a review to ensure that guidance was being followed and that there was a level playing field between companies. The review concluded that guidance was being followed in the vast majority of cases but did identify a small number of Anglian Water incidents which were being reported differently to other companies. These remained classified by the Environment Agency as incidents and /or permit breaches but were not included in the Environmental Performance Assessment (EPA) to ensure fair comparison across companies. This did not affect the company's pollution incident or overall EPA rating. Consequently, for the purpose of calculating the company's performance, we use the number of pollution incidents for which the company is responsible, as determined by the Environment Agency.

If in the future additional pollution incidents are identified that should have been reported, we may adjust performance payments accordingly.

1.2 C-MeX and D-MeX

On 26 September, we published the relative performance of all companies. Our draft determination includes a C-MeX underperformance payment of £0.262m and no D-MeX payment as Anglian Water is the median performing company, 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.

Anglian 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 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 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 draft determination on these payments after any interventions;
- 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 Anglian Water is also set out in the in-period adjustments model published on our website.

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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	0.284	0.273	0.000	0.000	0.000	0.000	0.000	0.000	0.273
Water network plus	-16.858	-16.858	0.000	0.000	0.000	0.000	0.000	0.000	-16.858
Wastewater network plus (WaSCs only)	-6.695	-6.695	0.000	0.000	0.000	0.005	0.000	0.000	-6.689
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	1.179	1.179	0.000	0.000	0.000	0.000	-0.262	0.000	0.917
Total	-22.090	-22.100	0.000	0.000	0.000	0.005	-0.262	0.000	-22.357

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
Wastewater network plus (WaSCs only)	0.005	0.000	0.000	0.005
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
Total	0.005	0.000	0.000	0.005

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	-1.56	3.72	1.72	2.63
	Revised	-1.56	3.72	1.72	3.34
Water network plus (K factors)	Previous determination	3.22	5.87	2.62	6.20
	Revised	3.22	5.87	2.62	1.03
Wastewater network plus (K factors)	Previous determination	0.12	4.86	3.29	8.06
	Revised	0.12	4.86	3.29	6.51
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	Previous determination	93.953	96.661	97.503	100.793
	Revised	93.953	96.661	97.503	100.793
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	89.437	94.811	95.455	95.257
	Revised	89.437	94.811	95.455	96.821

We have based Anglian Water's draft determination on the data and commentary provided to us by Anglian 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.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
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