

September 2023

# **Draft determination of SES Water's in-period outcome delivery incentives for 2022-23**

**Ofwat**

## 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 SES 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. SES Water's performance commitments for the 2020-25 period are set out in PR19 final determinations: SES Water – Outcomes performance commitment appendix, which is available on our [website](#).<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.

SES 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

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<sup>1</sup> 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 SES 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 SES 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 £0.138m and a D-MeX underperformance payment of £0.105m, based on the assessment of 2022-23 company performance; and
- Leakage – we are deferring the company's reported outperformance payment of £0.208m until the company's review of its water balance reporting is complete, in line with the request from the company.

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	5
1.3 Payment deferrals and abatements	5
2. Impact of 2022-23 in-period ODI assessment on price controls	7
2.1 Our draft determination	7
3. Responding to this consultation	10

# 1. Results of our assessment

## 1.1 Interventions and policy decisions

We make comments with respect to the following performance commitments:

### Leakage

In our [Final determination of SES Water in-period outcome delivery incentives for 2021-22](#), we intervened to defer SES Water's outperformance payment for its leakage performance commitment. This is because the company's reported data did not comply with the PR19 common performance commitment methodology. Our review of SES Water's 2021-22 APR submission identified that one of the areas in which it had not achieved compliance, an imbalance of 4.8% in its water balance, had a material impact on the accuracy of the reported data.

SES water has reported an outperformance payment of £0.208m for 2022-23, achieving a leakage reduction of 8.7% against its performance commitment level (PCL) of 6.2%. However, the company has a water balance gap of 5.1%, which means that it remains materially non-compliant with the PR19 common performance commitment methodology. The company states in its 2022-23 APR that it is continuing to conduct work to ensure its water balance reporting is compliant with all regulatory guidelines and that it will not seek to apply for any outperformance payments associated with its leakage performance until this work is concluded.

We are therefore deferring our decision and payments in relation to leakage, in line with SES Water's request, as the company remains materially non-compliant with the performance commitment (PC) definition. This means that we have set payments for this PC at £0 in the ODI performance model.

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

### Greenhouse Gases

In its 2022-23 APR, SES Water reported a greenhouse gas (GHG) intensity ratio of 41 kgCO<sub>2</sub>e/MI against a target of 55 kgCO<sub>2</sub>e/MI. Although this represents an outperformance against this PC, no payments are due as it is an underperformance payment only performance commitment.

In confirming its reported performance, the company is required to confirm that all data relating to its operational GHG emissions is compliant with the version of the international carbon reporting standard (ISO14064, Part I) which was in effect as the time of the PR19 final determination publication. The PC definition also requires that compliance is assured following an audit carried out by an appropriately qualified independent third party.

In its response to queries SES-APR-IP-009 and SES-APR-IP-010, the company has confirmed that its auditor is not ISO14064 accredited and that its auditor does not provide ISO14064 certification. We are also unable to confirm that the company is compliant with the ISO14064 Part I, as the assurer is not certified, and certification is needed to confirm compliance.

As the company's performance has not been assured by an appropriately qualified independent third party, and compliance with ISO14064 Part I has not been confirmed, we are deferring our decision in relation to this PC until the company confirms compliance by obtaining ISO14064 Part I certification by an appropriately qualified independent third party.

We require SES Water to provide us with evidence of this compliance, including certification by an appropriately qualified independent third party, in its response to this draft determination. For the company's final determination, we will make any adjustments that we consider necessary, as a result of the third party's report, to the 2020-25 price controls.

## 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 £0.138 and a D-MeX underperformance payment of £0.105m, 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.

As described in section 1.1, we are deferring our decision on the company's leakage performance commitment and setting payments for this PC at £0 in the ODI performance model, in line with the company's request.



## 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;
- brought forward deferrals;
- our draft determination on 2022-23 deferrals and abatements; 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 SES 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	-0.001	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	-0.001
Water network plus	-0.688	-0.895	0.000	0.000	0.000	0.000	0.000	-0.105	-1.000
Residential retail	0.017	0.017	0.000	0.000	0.000	0.000	-0.138	0.000	-0.122
<b>Total</b>	<b>-0.672</b>	<b>-0.880</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.138</b>	<b>-0.105</b>	<b>-1.123</b>

**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
<b>Total</b>	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
<b>Water resources (K factors)</b>	Previous determination	-2.89	-2.69	-3.99	-2.09
	Revised	-2.89	-2.69	-3.99	-2.12
<b>Water network plus (K factors)</b>	Previous determination	-0.60	-1.93	1.74	-0.78
	Revised	-0.60	-1.93	1.74	-3.59
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	5.422	5.095	5.164	5.910
	Revised	5.422	5.095	5.164	5.702

We have based SES Water's draft determination on the data and commentary provided to us by SES 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](mailto: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](mailto:in-periodODIs@ofwat.gov.uk).

We intend to publish responses to this consultation on our website at [www.ofwat.gov.uk](http://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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