

September 2023

Draft determination of South Staffs 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 South Staffs 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. South Staffs Water's performance commitments for the 2020-25 period are set out in PR19 final determinations: South Staffs 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.

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

- a C-MeX outperformance payment of £0.127m and a D-MeX outperformance payment of £0.044m, based on the assessment of 2022-23 company performance.

[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 South Staffs Water's reported performance and ODI payments for 2022-23 in our draft 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 have the following comments relating to the leakage performance commitment:

Leakage (South Staffs region)

For its South Staffs region, South Staffs Water has reported achieving a 9.4% reduction against a performance commitment level of 7.8% in relation to its leakage performance commitment for 2022-23. In line with the operation of this performance commitment, the company can claim £0.216m in outperformance.

South Staffs Water states that it is compliant in all components of the PR19 common methodology for leakage. However, for the second year running, the company told us it is providing restated values for leakage and PCC from 2017-18 onwards, and the PR19 baseline, and in its submission provided numerical data relating to pre and post back-casted methodologies. The restated data included annual average leakage values (megalitres/day) and PCC (litres/person/day) for each year from 2017-18. The company stated this was due to a methodology update and improving household night use models to control for seasonality across the reporting year. The company explained that it has incorporated an element within its household night use model which accounts for seasonal variations. South Staffs Water further told us that it is not claiming its outperformance payment for South Staffs region leakage because it considers the change is material and it “feels it is appropriate to abate the additional ODI reward that results from this change”.

In addition, we note the company has an unexplained significant increase in the number of void household properties year-on-year without a justification. As stated in the [PR19 definition for the leakage performance commitment](#) it incorporates the [PR19 reporting guidance](#) which requires companies to justify the number of void properties each year and how this is derived. We have therefore asked South Staffs Water to provide us with further evidence justifying its sustained increasing trend in its void household properties number, and an explanation of its voids property process and its interaction with its reported leakage and PCC data.

As a result, we are deferring our decision and payments on South Staffs Water's reported leakage for its South Staffs region. We are continuing to engage with the company to have a clearer understanding of the datasets and methodologies for all components of the water balance, to ensure that the restated leakage and PCC performance represents the most accurate record for 2017-18 through to 2022-23. We are making no changes to the company's submitted ODI model, as the company has requested a voluntary abatement of £0.216m for this performance commitment in its in-period adjustments model. 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.

Green Economic Recovery

Upon reviewing the company's reported progress, we find it generally satisfactory, and we are proceeding with its requested approval of allowances as noted in table 2.2. A comprehensive assessment of the company's progress will occur during the price review 2024. Should the company fail to meet the requirements as outlined in the green economic recovery [final decisions 2021](#) or it forecasts that it will not fully deliver a scheme by the time of the PR24 final determination, an amount of in-period funding will be returned to customers, proportional to the amount of the scheme which has not been delivered. We will account for this using an approach set out in the green economic recovery [final decisions 2021](#) document.

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 outperformance payment of £0.127m and a D-MeX outperformance payment of £0.044m, 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.

South Staffs Water did not request any payment deferrals but, due to its methodology change, it chose to abate its resulting outperformance payment of £0.216m on its leakage performance commitment for its South Staffs region.

Based on our assessment of the company's leakage performance as described in section 1.1, we are deferring our determination on its leakage performance and payments for the company's South Staffs region. As such, we accept the company's decision to abate its reported outperformance this year and, in our draft determination, are applying an abatement of £0.216m 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;
- our draft determination on 2022-23 abatements; and
- our draft determination on C-MeX and D-MeX payments.

For further details on the abatements and bespoke adjustments, see section 1.

This draft determination on the ODI payments to be applied for South Staffs 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	0.026	0.026	0.000	0.000	0.000	0.000	0.000	0.000	0.026
Water network plus	0.141	0.141	0.000	0.000	-0.216	0.756	0.000	0.044	0.725
Residential retail	-0.010	-0.010	0.000	0.000	0.000	0.000	0.127	0.000	0.118
Total	0.157	0.157	0.000	0.000	-0.216	0.756	0.127	0.044	0.869

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	0.756	0.756
Residential retail	0.000	0.000	0.000	0.000
Total	0.000	0.000	0.756	0.756

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	4.55	2.33	-2.57
	Revised	1.56	4.55	2.33	-2.20
Water network plus (K factors)	Previous determination	-0.61	0.42	-4.21	-4.43
	Revised	-0.61	0.42	-4.21	-3.38
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	13.998	14.045	15.187	14.484
	Revised	13.998	14.045	15.187	14.685

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