

September 2023

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

About this document

This document provides our draft determination on the extent to which South West Water's price controls included in our [PR19 final determinations](#) (South West area) and set by the Competition and Markets Authority (Bristol area), need to be adjusted to reflect South West 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](#).

On 3 June 2021, Pennon Group plc (the parent undertaking of South West Water Limited) acquired 100% of the share capital of Bristol Water Holdings UK Limited BWHUK (the parent undertaking of Bristol Water Limited). Paragraph 2.3 of the [undertakings](#) made by Pennon to the CMA and accepted by the CMA on 7 March 2022 states that South West Water (now referred to as "South West area") and Bristol Water (now referred to as "Bristol area") will continue to report their performance commitments and ODIs separately for the remainder of the 2020–25 price control period. Therefore, our draft determination states separately the extent to which the PR19 price controls need to be adjusted for the South West area's performance and for the Bristol area's performance for the 2022–23 charging year.

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. The performance commitments for the company's South West area are set out in [PR19 final determinations: South West Water - Outcomes performance commitment appendix](#).¹ The performance commitments for the company's Bristol area are set out in [PR19 final determinations: Bristol Water - Outcomes performance commitment appendix](#).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 West Water reported its performance against its 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 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 West 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

South West area

Having assessed the South West area'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 underperformance payment of £0.697m and a D-MeX underperformance payment of £0.308m, based on the assessment of 2022-23 company performance; and
- interventions on the following performance commitments:
 - Water quality compliance (CRI, or compliance risk index) - we are increasing the company's underperformance payment by £0.004m to align with the latest data from the Drinking Water Inspectorate.
 - Sewer collapses - we are decreasing the company's outperformance payment by £0.066m to maintain reporting consistency against the performance commitment level set at PR19.

See section 1 for the results of our assessment for the South West area.

Bristol area

Having assessed the Bristol area's performance against its [performance commitments](#) in 2022-23, the ODI payments and performance are as reported by the company with the following exception:

- a C-MeX outperformance payment of £0.214m and a D-MeX outperformance payment of £0.139m, based on the assessment of 2022-23 company performance.

See section 1 for the results of our assessment for the Bristol area.

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1. Results of our assessment

1.1 Interventions and policy decisions

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 for the Bristol area.

South West area

Table 1.1 below sets out our view of the payments due for performance commitments for the South West area on which we have intervened, compared to the values reported by South West Water for the South West area.

Table 1.1: Summary of interventions for the South West area

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Difference (£m)
Water quality compliance (CRI)	-0.144	-0.148	-0.004
Sewer collapses	0.290	0.224	0.066

In our draft determination we are intervening on the following performance commitments for the South West area:

Leakage

In our [Final determination of South West Water in-period outcome delivery incentives for 2021-22](#), we deferred our decision for South West Water's performance in relation to its leakage performance commitment (PC) and the associated ODI payment. This was to give us sufficient time to consider further information that we had requested. We expected that this would give us a clearer understanding of the data and the methodology the company had used for reporting its 2021-22 leakage performance commitment.

We have since opened a Section 203 investigation into South West Water relating to the accuracy of information reported by the company for its performance on leakage and per capita consumption. The scope of our draft determination is limited to whether the company has reported its performance in line with the requirements of the PC definition for leakage, based on evidence submitted by the company in its 2022-23 APR submission.

The South West area met its performance commitment level for its leakage PC for 2022-23 but reported no payments in its APR, as its reported performance is within the outperformance deadband for this PC.

While South West Water stated in its APR submission that the South West area is compliant in all components of the PR19 common methodology for leakage and PCC for 2022-23, the company's third party assurer noted that it found exceptions where the company's leakage is reported differently to the baseline in the 2019 Final Determination. In response to our query (SWB-APR-IP-003), South West Water referred to its formal response to the Section 203 investigation, noting that changes made could represent a change in methodology and that it would be considering its historical position. The company further stated that the Section 203 investigation is ongoing and it continues to work openly and transparently with us as it works through the historical review and further requests.

We are therefore deferring our decision for South West Water's performance in relation to its leakage performance commitment for the South West area. As a consequence of our deferral, our draft determination retains the ODI payment for leakage reported by the company for the South West area of £0.

Should any leakage 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.

Water quality compliance (CRI)

We are intervening to increase South West Water's underperformance payments for the South West area in relation to its water quality compliance performance commitment by £0.004m to align with the latest Drinking Water Inspectorate (DWI) data. South West Water reported a CRI of 2.39 for the South West area but the latest DWI data shows that the CRI for the South West area was 2.396. When reported to 2 decimal places as required, the reported performance is 2.40.

Sewer collapses

We are intervening to decrease the South West area's outperformance payments on this PC by £0.066m from £0.290m to £0.224m. This is because the company's reported outperformance payment of £0.290m uses a different methodology for estimating private sewer length transferred under Section 105a compared to previous reporting years. The private sewer length for 2022-23, using the new methodology, is 11,642km compared to 7,857km in previous reporting years. This represents a significant deviation from the basis used for setting the company's performance commitment levels at PR19. On page 2 of the [Consolidated PR19 FD Outcomes PC appendix](#), we state "Companies should commit that their outcome delivery incentive payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment." Therefore,

we are applying the private sewer length of 7,857km¹ used in previous reporting years to maintain reporting consistency for the remainder of the 2020-25 period.

Bristol area

We make comments with respect to the following areas:

Voluntary abatement of K

Our draft determination reflects the agreed reduction in customer bills through a voluntary abatement of K for the Bristol area's financing cost and household retail revenue allowances, to reflect the undertaking to the Competition and Markets Authority (CMA) following the acquisition by Pennon Group.

In accordance with the company's proposal, we have deducted:

- 1.47% from the 2023-24 K factor for wholesale water resources;
- 1.10% from the 2023-24 K factor for wholesale water network plus; and
- £0.01m from household residential retail allowed revenue for 2023-24 and 2024-25.

Unplanned outage

In its 2022-23 APR, the company reported an increase in unplanned outage of 6.21% for the Bristol area against the performance commitment level of 2.34% and an underperformance payment of £0.712m.

The company reported that it has not achieved full compliance with the [PR19 common performance commitment definitions](#) and the [unplanned outage reporting guidance](#) relating to peak week production capacity (PWPC). We also identified that the company reported its unplanned outage performance for 2022-23 inconsistently across its [annual performance report](#) and [Bristol Water PLC annual report and financial statements](#) and [Pennon Group financial report](#). We asked the company to explain the approach to calculating PWPC and to clarify the inconsistency of the reported performance figures across its publications.

In response to our query BRL-APR-IP-001, the company reviewed its PWPC calculations for the Bristol area and stated that its unplanned outage for 2022-23 should be 6.36% instead of the 6.21% reported in its APR. There is no impact on the Bristol area's reported underperformance payment, which is already capped by the underperformance collar of 4.68% for this PC. However, we note that the external assurer's report (provided as part of the response) stated that four sites which were included in the prior year's PWPC estimates are now excluded from the revised PWPC calculation, resulting in a lower figure compared to

¹ Length of formerly private sewers and lateral drains (s105A sewers) reported in Table 7C in 2021-22: 7,857 km
Length of public legacy sewers reported in Table 7C in 2022-23: 11,386 km
Total used for revised calculation: 7,857 + 11,386 = 19,243km

previous years. This change in PWPC is the main reason for the change in reported unplanned outage performance for 2022-23.

We require the company to review its reported PWPC figures for the Bristol area, including the four sites that were excluded, and to confirm the impact of any corrections required to the Bristol area's reported performance and ODI payments for 2022-23 and previous years. We require the company to complete the review before its PR24 business plan submission (as it suggests in its query response) and to include the outcome of the review in its response to this draft determination. This should include a report by the external assurer confirming that it has assured the output of the review and subsequent data changes.

Leakage

The company reported that the Bristol area has not achieved full compliance with the [PR19 common performance commitment definitions](#) and the [leakage reporting guidance](#). The company reported one main component as materially non-compliant (water balance and MLE). We are therefore applying the reported underperformance payment of £0.681m in our draft determination.

We expect all companies to be reporting full compliance with the leakage and per capita consumption (PCC) methodology. Should any leakage information be revised or restated in future, our subsequent in-period 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.

1.2 C-MeX and D-MeX

On 26 September 2023 we published the relative performance of all companies.

For the South West area, our draft determination includes a C-MeX underperformance payment of £0.697m and a D-MeX underperformance payment of £0.308m, based on our assessment of 2022-23 performance.

For the Bristol area, our draft determination includes a C-MeX outperformance payment of £0.214m and a D-MeX outperformance payment of £0.139m, based on our assessment of 2022-23 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 West Water did not request any payment deferrals or abatements for its South West area. As set out in section 1.1, based on our assessment of the company's performance, we are intervening to defer our decision on its leakage performance commitment. Because the company reported an outperformance payment of £0m we do not consider any interventions are required on how the company has reflected this in its ODI performance model. As such, we do not apply any payment deferrals or abatements in our in-period adjustments model for the draft determination.

In our [Final Determination of South West Water's in-period outcome delivery incentives for 2021-22](#), we deferred our decision on the company's outperformance payment in relation to its leakage performance commitment. We continue to defer our decision on the South West area's leakage performance for 2021-22 due to the continuing concerns we have in this area, as set out in section 1.1.

The company did not request any payment deferrals or abatements for the Bristol area. 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 in our draft determination.

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

2.1 Our draft determination (South West area)

In this section we outline the financial impacts of our draft determinations for the company's South West area.

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 for the company's South West area 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 deferrals and abatements;
- our draft determination on C-MeX and D-MeX payments.

For further details on the interventions and deferrals see section 1.

This draft determination on the ODI payments to be applied for the company's South West area 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	-0.150	-0.150	0.000	0.000	0.000	0.000	0.000	0.000	-0.150
Water network plus	-4.290	-4.294	0.000	0.000	0.000	0.000	0.000	-0.157	-4.451
Wastewater network plus (WaSCs only)	-3.665	-3.731	0.000	0.000	0.000	0.000	0.000	-0.151	-3.882
Bioresources (WaSCs only)	-0.064	-0.064	0.000	0.000	0.000	0.000	0.000	0.000	-0.064
Residential retail	0.000	0.000	0.000	0.000	0.000	0.000	-0.697	0.000	-0.697
Total	-8.170	-8.239	0.000	0.000	0.000	0.000	-0.697	-0.308	-9.244

Table 2.2: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations for the company's South West area.

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)	0.000	0.000	0.000	0.000
Bioresources (WaSCs only)	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 South West area 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	-2.54	1.65	-2.88	1.95
	Revised	-2.54	1.65	-2.88	0.82
Water network plus (K factors)	Previous determination	0.58	-1.75	-5.78	6.00
	Revised	0.58	-1.75	-5.78	2.85
Wastewater network plus (K factors)	Previous determination	-0.82	-6.35	3.57	0.31
	Revised	-0.82	-6.35	3.57	-2.18
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	Previous determination	23.360	23.372	23.691	23.911
	Revised	23.360	23.372	23.691	23.826
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	30.516	29.772	29.633	30.477
	Revised	30.516	29.772	29.633	29.288

We have based South West Water's draft determination for its South West area on the data and commentary provided to us by South West 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.

2.2 Our draft determination (Bristol area)

In this section we outline the financial impacts of our draft determinations for the company's Bristol area.

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

Table 2.4: Draft determination on adjustment to 2024-25 price controls for the company's Bristol area 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 C-MeX and D-MeX payments.

For further details, see section 1.

This draft determination on the ODI payments to be applied for the company's Bristol area 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	0.043	0.043	0.000	0.000	0.000	0.000	0.000	0.000	0.043
Water network plus	-2.977	-2.977	0.000	0.000	0.000	0.000	0.000	0.139	-2.838
Residential retail	0.004	0.004	0.000	0.000	0.000	0.000	0.214	0.000	0.218
Total	-2.929	-2.929	0.000	0.000	0.000	0.000	0.214	0.139	-2.577

Table 2.5: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations for the company's Bristol area.

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 2.6: Changes to price controls (draft determinations)

This table sets out the impact of our draft determination on the company's Bristol area 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 ²	2024-25
Water resources (K factors)	Previous determination	0.57	10.77	9.68	9.63
	Revised	0.57	10.77	8.21	9.92
Water network plus (K factors)	Previous determination	2.24	1.31	7.11	3.32
	Revised	2.24	1.31	6.01	-1.01
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	11.122	11.618	12.166	11.790
	Revised	11.122	11.618	12.156	12.151

We have based South West Water's draft determination for its Bristol area on the data and commentary provided to us by South West 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.

² Our revised price controls for 2023-24 include the agreed reduction in customer bills through a voluntary abatement of K for the Bristol area's financing cost and household retail revenue allowances, to reflect the undertaking to the Competition and Markets Authority (CMA) following the acquisition by Pennon Group.

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.
We regulate the water sector in England and Wales.**

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