

September 2023

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

Thames 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 Thames 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 Thames 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 £13.121m and a D-MeX underperformance payment of £5.320m, based on the assessment of 2022-23 company performance.

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

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. However, the company has requested that a 0% tax rate is applied to its ODI payments.

We make comments on this and on the company's leakage performance below:

Leakage

Thames Water 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 (household night use). We are applying the company's reported underperformance payment of £8.908m 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 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.

Tax

In its 2022-23 APR, Thames 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 2023-24 and 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.

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 £13.121m and a D-MeX underperformance payment of £5.320 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.

Thames 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; 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 Thames 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	-0.471	-0.471	0.000	0.000	0.000	0.000	0.000	0.000	-0.471
Water network plus	-60.714	-60.714	0.000	0.000	0.000	0.000	0.000	-3.703	-64.417
Wastewater network plus (WaSCs only)	-22.999	-22.999	0.000	0.000	0.000	0.000	0.000	-1.617	-24.616
Bioresources (WaSCs only)	1.886	1.886	0.000	0.000	0.000	0.000	0.000	0.000	1.886
Residential retail	0.020	0.020	0.000	0.000	0.000	0.000	-13.121	0.000	-13.100
Thames Tideway Tunnel (TMS only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	-82.278	-82.278	0.000	0.000	0.000	0.000	-13.121	-5.320	-100.719

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)	0.000	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
Thames Tideway Tunnel (TMS only)	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	3.90	-1.02	0.55	3.66
	Revised	3.90	-1.02	0.55	2.92
Water network plus (K factors)	Previous determination	7.44	-2.34	3.74	0.19
	Revised	7.44	-2.34	3.74	-10.36
Wastewater network plus (K factors)	Previous determination	-0.81	-4.61	-4.42	6.60
	Revised	-0.81	-4.61	-4.42	1.93
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	Previous determination	160.767	160.099	163.349	163.333
	Revised	160.767	160.099	163.349	165.847
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	143.177	122.550	124.750	150.721
	Revised	143.177	122.550	124.750	128.387
Thames Tideway Tunnel (TMS only)	Previous determination	4.64	2.78	-11.51	-10.68
	Revised	4.64	2.78	-11.51	-10.68

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