

November 2023

Final determination of Northumbrian Water's in-period outcome delivery incentives for 2022-23

About this document

This document provides our final determination on the extent to which the price controls set by the Competition and Markets Authority (CMA), need to be adjusted to reflect Northumbrian 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: Final determinations of in-period outcome delivery incentives for 2022-23](#).

We also publish models related to our final determinations on our [website](#).

Background

At the 2019 price review (PR19), companies made pledges to their customers and stakeholders about the service levels they would meet to make progress towards stated outcomes (performance commitments). Companies' performance commitments form a key part of the service package that they are expected to deliver. Northumbrian Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Northumbrian 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 to incentivise them to keep up this outperformance.

Northumbrian Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We assessed the company's performance against its performance commitments and, in September 2023, consulted on our [draft](#)

¹ We take account of performance commitments as set out in this appendix, adjusted, if relevant, in accordance with Annex 2 of the 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](#).

[determinations](#) for companies' in-period ODIs for 2022-23. We have carefully considered the [responses](#) we received relating to our draft determinations.

Our final determination sets out relevant adjustments to the company's price controls, for one or more future years. The results of our assessment for 2022-23 will affect Northumbrian Water's customers' bills in the 2024-25 Charging Year.

Further details regarding the responses we received, our final determinations and the adjustments that we have made are presented in sections 1 and 2, and in [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#).

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' ODI payments for usage of water per person (known as Per Capita Consumption) 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 Northumbrian 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 outperformance payment of £3.368m and a D-MeX outperformance payment of £0.452m, based on the assessment of 2022-23 company performance; and
- interventions on the following performance commitment:
 - Water quality compliance (CRI, or the compliance risk index) - we are intervening to increase the company's underperformance payment by £0.014m to align with the latest data from the Drinking Water Inspectorate.

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 Northumbrian Water.

Table 1.1: Summary of interventions

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Our final determination after interventions 2022-23 (£m)	Difference between company view and our final determination (£m)
Water quality compliance (CRI)	-8.531	-8.545	-8.545	-0.014

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

1.1.1 Water quality compliance (CRI)

Our draft determination

We intervened to increase Northumbrian Water's underperformance payments in relation to its water quality compliance (CRI) performance commitment by £0.014m. This was because the reported performance of 7.62 had not fully agreed with the indicative compliance risk index value of 7.625 confirmed by the DWI. The performance commitment definition sets out the measurement unit and decimal places as Numerical CRI score, reported to two decimal places. Therefore, rounding 7.625 to two decimal places results in the CRI score of 7.63. The increase in underperformance payment reflected this change.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above.

We have the following comments relating to the leakage and unplanned outage performance commitments:

1.1.2 Leakage (ESW)

Our draft determination

For its Essex & Suffolk Water (ESW) region, Northumbrian Water reported achieving a 7.5% reduction against a performance commitment level (PCL) of 7.2% in relation to its leakage performance commitment for 2022-23. In line with the operation of the ODI mechanism for this performance commitment, the company can claim £0.031m in outperformance payments.

Northumbrian Water stated that it is compliant in all components of the PR19 common methodology for leakage (ESW), except for its water balance gap, which is 3.9%. The company noted that this does not have a material impact on its reported leakage and provided evidence from its third-party assurer to support this.

However, in its 2022-23 APR the company chose not to claim the outperformance payment for ESW leakage because it considered further improvements are required to the dataset relating to household plumbing losses.

As a result, we deferred our decision and payments on Northumbrian Water's reported leakage for its ESW region in line with the company's request. We made no changes to the company's submitted ODI model, which included an ODI payment override of £0.000m for this performance commitment.

We said that we expect all companies to be reporting full compliance with the leakage and per capita consumption (PCC) methodology. We said that 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.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above.

1.1.3 Unplanned outage

Our draft determination

We did not intervene or comment on this matter in our draft determination; nor did we receive any stakeholder comments on it.

Our final determination

In our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#) we highlight matters identified by our review of company submissions for the unplanned outage performance commitment. In light of these matters, companies should review their approach to peak week production capacity (PWPC) against the common methodology in the PR19 reporting guidance to ensure that they are acting in compliance. Should Northumbrian Water's unplanned outage performance information be revised or restated in future, we expect the company to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported unplanned outage. We will take account of adjustments we have made to the relevant price control relating to the company's unplanned outage performance in making future determinations.

1.2 C-Mex and D-Mex

Our draft determination

On 26 September 2023, we published the relative performance of all companies. Our draft determination included a C-MeX outperformance payment of £3.368m and a D-MeX outperformance payment of £0.452m, 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.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for these performance commitments is as stated in our draft determination, above.

1.3 Payment deferrals and abatements

As set out in the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments. 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.

Northumbrian Water did not request any payment deferrals, however, Northumbrian Water requested that we abate its outperformance payment of £0.031m on its leakage performance commitment for its Essex & Suffolk Water region. Based on our assessment of the company's performance, in our final determination we defer our decision on its leakage performance commitment for the company's Essex & Suffolk Water region. We have accounted for this in the way described in section 1.1.2 of this document. We did not consider that any interventions were required on how the company has reflected this in its ODI performance model. As such, we did not apply any payment deferrals or abatements in our in-period adjustments model for the final determination.

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

2.1 Our final determination

In this section we outline the financial impacts of our final determinations.

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

Table 2.1 below sets out the change between our draft and final determinations.

Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25

Price control	Draft determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	0.812	0.000	0.812
Water network plus	-11.824	0.000	-11.824
Wastewater network plus (WaSCs only)	5.458	0.000	5.458
Bioresources (WaSCs only)	0.208	0.000	0.208
Residential retail	5.232	0.000	5.232
Total	-0.113	0.000	-0.113

Table 2.2: Final determination on adjustment to 2024-25 price controls as a result of performance against ODIs

This table sets out our final 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 final determination on these payments after any interventions;
- our final determinations on 2022-23 deferrals and abatements; and
- our final determination on C-MeX and D-MeX payments.

For further details, see section 1.

This final determination on the ODI payments to be applied for Northumbrian Water is also set out in the in-period adjustments model published on our website.

Final determination of Northumbrian Water's in-period outcome delivery incentives for 2022-23

Price control	Company's reported ODI payments (£m)	Ofwat FD ODI payments (£m)	ODI payments deferred from 2021-22 (£m)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Bespoke FD adjustments (£m)	C-MeX FD payments (£m)	D-MeX FD payments (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	0.812	0.812	0.000	0.000	0.000	0.000	0.000	0.000	0.812
Water network plus	-12.218	-12.232	0.000	0.000	0.000	0.000	0.000	0.408	-11.824
Wastewater network plus (WaSCs only)	5.414	5.414	0.000	0.000	0.000	0.000	0.000	0.044	5.458
Bioresources (WaSCs only)	0.208	0.208	0.000	0.000	0.000	0.000	0.000	0.000	0.208
Residential retail	1.864	1.864	0.000	0.000	0.000	0.000	3.368	0.000	5.232
Total	-3.920	-3.934	0.000	0.000	0.000	0.000	3.368	0.452	-0.113

Table 2.3: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our final determinations.

Price control	Prior year restatements (£m)	Time value of money adjustment on prior year total (£m)	Green economic 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 2.4: Changes to price controls (final determinations)

This table sets out the impact of our final determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Final 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	-1.31	12.24	13.95	9.57
	Revised	-1.31	12.24	13.95	10.75
Water network plus (K factors)	Previous determination	0.39	1.14	-4.67	5.33
	Revised	0.39	1.14	-4.67	-0.24
Wastewater network plus (K factors)	Previous determination	0.41	3.80	2.02	2.21
	Revised	0.41	3.80	2.02	5.53
Bioresources (unadjusted revenue, Urt - £m, 2017-18 FYA CPIH prices)	Previous determination	20.739	23.658	24.135	24.062
	Revised	20.739	23.658	24.135	24.340
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	56.015	62.921	65.236	58.634
	Revised	56.015	62.921	65.236	67.571

We have based Northumbrian Water's final determination on the data and commentary provided to us by Northumbrian Water. Should any of this information be revised or restated,

we may take account of this, and previous price control adjustments relating to company performance, when making future determinations.

**Ofwat (The Water Services Regulation Authority)
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