

November 2023

# Final determination of SES 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 included in our PR19 final determinations, are 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: 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. SES Water's performance commitments for the 2020–25 period are set out in [PR19 final determinations: SES Water – Outcomes performance commitment appendix](#).<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 to incentivise them to keep up this outperformance.

SES 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 determinations](#)

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<sup>1</sup> 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](#).

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 SES 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 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 are including 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.

In our draft determination, we said we required SES Water to provide us with evidence of compliance with ISO14064 Part 1 for its Greenhouse Gases performance commitment, including certification by an appropriately qualified independent third party, with its consultation response. We note that the company has neither provided this confirmation nor acknowledged the requirement to do so in its draft determination consultation response. We reiterate the requirement for the company to provide us with evidence of this compliance.

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 make comments with respect to the following performance commitments:

### 1.1.1 Leakage

#### Our draft determination

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

In our draft determination, we therefore deferred our decision and payments in relation to leakage, in line with SES Water's request, as the company remained materially non-compliant with the performance commitment (PC) definition. This meant that we set payments for this PC at £0.000m in the ODI performance model.

In our draft determination, we said that we expected 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

In its [consultation response](#), SES Water stated that it notes Ofwat's decision to defer its reward payment for leakage until further revision of the data, which is in line with the company's expectations.

We did not receive any other 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.

### **1.1.2 Greenhouse Gases**

#### **Our draft determination**

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

In our draft determination, we said that in confirming its reported performance, the company was required to confirm that all data relating to its operational GHG emissions was compliant with the version of the international carbon reporting standard (ISO14064, Part I) which was in effect at the time of the PR19 final determination publication. We stated that the PC definition also required 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 confirmed that its auditor is not ISO14064 accredited and that its auditor does not provide ISO14064 certification. We were 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 had not been assured by an appropriately qualified independent third party, and compliance with ISO14064 Part I had not been confirmed, we said we were 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.

In our draft determination, we said we required SES Water to provide us with evidence of this compliance, including certification by an appropriately qualified independent third party, in its response to the draft determination. We said that 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.

## Stakeholders' responses

We note that the company has neither provided the required evidence of compliance with ISO14064 Part I, nor acknowledged the requirement to do so in its draft determination consultation response.

## Consideration of responses and final determination

Our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above.

However, we reiterate the requirement for the company to provide evidence of its compliance with ISO14064 Part I. The company should confirm the timescale by which it will provide this information.

### 1.1.3 Calculation of K factors

#### Our draft determination

In table 2.3 of [Draft determination of SES Water's in-period outcome delivery incentives for 2022-23](#), we set out the impact of our draft determination on the company's price controls. This showed a notable change in the K factor for the water network plus price control because of the relatively large underperformance payment in this price control for 2022-23.

#### Stakeholders' responses

In its [consultation response](#), SES Water stated that the revised K factors has a significant impact on its allowed revenue which it stated has already been in under-recovery. The company requested more details about the basis of our decision and any calculations that led to the revision.

#### Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination is as stated in our draft determination.

The basis of the calculation of K factors for the in-period ODIs process is set out and explained in the [PR19 Reconciliation Rulebook: Guidance Document](#) and the company's draft determination in-period adjustments model. We have shared these with the company.

We have not received any subsequent request to defer all or part of the underperformance payment this year.

In the [PR19 Reconciliation Rulebook: Guidance Document](#) and [Draft determination of SES Water's in-period outcome delivery incentives for 2022-23](#), we make it clear that the option to

ask us for a deferral is available in prescribed circumstances. Whether to do so is therefore a matter for each company, to consider its financial position in light of our determination and provide evidence in support of a deferral if it considers that is necessary.

#### **1.1.4 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 SES 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 final determination includes a C-MeX underperformance payment of £0.138m 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.

##### **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.

As described in section 1.1.1, we are deferring our decision on the company's leakage performance commitment and setting payments for this PC at £0.000m 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 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    | -0.001  | 0.000  | -0.001  |
| Water network plus | -1.000  | 0.000  | -1.000  |
| Residential retail | -0.122  | 0.000  | -0.122  |
| <b>Total</b>       | <b>-1.123</b>   | <b>0.000</b>   | <b>-1.123</b>   |

**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;
- brought forward deferrals;
- 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 SES Water is also set out in the in-period adjustments model published on our website.

Final determination of SES 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    | -0.001                               | -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>       | -0.672                               | -0.880                     | 0.000                                   | 0.000                   | 0.000                    | 0.000                       | -0.138                 | -0.105                 | -1.123  |

**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   |
| Residential retail | 0.000                        | 0.000   | 0.000                        | 0.000   |
| <b>Total</b>       | 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 |
|---|------------------------|---------|---------|---------|---------|
| <b>Water resources (K factors)</b>                                  | Previous determination | -2.89   | -2.69   | -3.99   | -2.09   |
|   | Revised                | -2.89   | -2.69   | -3.99   | -2.13   |
| <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 final determination on the data and commentary provided to us by SES 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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