

November 2023

Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23

About this document

This document provides an overview of our final determinations on the extent to which the price controls included in our [PR19 final determinations](#)¹ are to be adjusted to reflect the sector's performance for the 2022–23 charging year. These adjustments are made under Part 3A (Performance Measure Adjustments) of Condition B of companies' licences and are referred to in this document as 'in-period' determinations. The specific changes, and our reasons for these, are set out in this document and the individual final determinations documents for each company².

We have published company specific final determinations documents and associated models related to our final determinations on our [website](#).

Background

At the 2019 price review (PR19), companies made commitments 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. The performance commitments for the 2020–25 period are set out in each company's PR19 Outcomes performance commitment appendix.³

Each performance commitment (PC) 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

¹ or set by the Competition and Markets Authority (CMA), and as adjusted by any subsequent interim determination of K (IDoK).

² 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 and Bristol Water will continue to report their performance commitments and ODIs separately for the remainder of the 2020–25 price control period. Therefore, our final determination for South West Water states separately the extent to which the PR19 price controls need to be adjusted to reflect the Bristol area's performance and the South West area's performance for the 2022–23 charging year.

³ We take account of performance commitments as set out in this appendix, adjusted, if relevant, by the annex 2 process. Annex 2 appendix provides for changes and corrections to be made to its 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](#).

environment can receive outperformance payments to incentivise them to keep up this outperformance.

The companies reported performance against their PCs in their annual performance reports (APRs) in July 2023. We assessed companies' performance against their performance commitments and, in September 2023, consulted on our [draft determinations](#) for companies' in-period ODIs for 2022–23. We have carefully considered the [responses](#) we have received relating to our draft determinations, including a small number of responses from individual customers.

Our final determinations set out relevant adjustments to the companies' price controls, for one or more future years. The results of our assessment for 2022–23 will affect customers' water bills in England and Wales in the 2024–25 Charging Year.

As set out in the PR19 final determinations, if a company's outperformance is more than 3% of its wastewater or water regulatory equity for that year, it will receive only 50% of outperformance payments above this threshold, to protect customers against excessive bills. This applies to all ODI payments except to the customer measure of experience (C-MeX), developer measure of experience (D-MeX) and those allocated to retail price controls, as the sharing mechanism does not apply to the retail controls.

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 the individual final determinations for each company.

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](#).

Executive summary

This section sets out the final determinations of 2022–23 in-period ODI payments for the seventeen largest water and wastewater companies in England and Wales, which were subject to the PR19 price review.

Table 1.1 summarises the total adjustments we are making for each company, having assessed companies' performance against their 2022–23 PCs. For each company, this includes the net impact of total ODI payments, the payments for the customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) performance commitments, as well as any deferrals, abatements or bespoke adjustments. We set out the financial impacts of our final determinations for all companies in section 2 of this document.

Table 1.1: Total final determination adjustments to price controls (£m, 2017-18 FYA CPIH prices)

Company	Total final determination adjustments to price controls to be applied to customer bills in 2024-25 (£m, 2017-18 FYA CPIH prices)
Affinity Water	-8.088
Anglian Water	-27.185
Dŵr Cymru	-24.080
Hafren Dyfrdwy	-0.486
Northumbrian Water	-0.113
Portsmouth Water	0.302
SES Water	-1.123
Severn Trent Water	88.698
South East Water	-5.188
South Staffs Water	0.869
South West Water (South West area)	-9.244
South West Water (Bristol area)	-2.573
Southern Water	-21.451
Thames Water	-73.766
United Utilities	25.229
Wessex Water	7.960
Yorkshire Water	-19.825
Industry total	-70.066

Our final determinations include a number of changes to the payments companies reported in their own annual performance reports. These changes are set out and explained in each company's final determination on our [website](#). We refer to these changes as 'interventions'.

In response to our draft determination, Southern Water requested a deferral of £21.451m of its 2022-23 underperformance payments to the 2025-26 charging year. In light of the information provided to us by the company and our statutory duties, we consider that there is sufficient reason to intervene to defer £21.451m of underperformance payments to 2025-26 (see section 2.3).

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1. Key interventions and policy decisions

1.1 Leakage and per capita consumption (PCC)

Our draft determination

In our draft determinations, we said that in the [Sector overview Final determinations of in-period outcome delivery incentives for 2020–21](#) we stated that we expected all companies to be reporting full compliance with the common leakage and PCC methodologies in their 2021–22 APR. We said we were disappointed that some companies had not yet adopted fully compliant approaches. We also said that should any company's leakage information be revised or restated, we expected companies to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported leakage and on the leakage baseline if applicable.

We said we were disappointed that two years later some companies are still not fully compliant. We stated that most companies that were not fully compliant were able to demonstrate that non-compliance does not have a material impact on their reported performance. However, for five companies, we said we considered the non-compliance to be material. This means we considered that it could have a significant impact on these companies' reported leakage performance.

We noted that in their 2022–23 APRs, five companies had restated 2020–21 and 2021–22 leakage and PCC performance data and/ or their leakage and PCC baseline data. 'Baseline' is the term we use for the historical level against which performance is measured. The companies said the restatements resulted from improving compliance with the common methodology and/or improving the accuracy of the reported data.

Based on the evidence each company provided, and for the reasons set out in each of the companies' draft determination documents, we intervened as set out below, where companies were materially non-compliant with the common leakage and PCC methodologies and / or have restated their leakage and PCC data in their 2022–23 APR.

- For Affinity Water, we deferred our decision on the reported leakage outperformance payment of £0.439m for 2022–23 and intervened to remove the bespoke adjustment of £0.128m (not adjusted for the time value of money) the company made to restate its 2020–21 and 2021–22 leakage data. This is because the company remains materially non-compliant with the common methodology. This returns £0.567m to customers.
- For Hafren Dyfrdwy, we intervened to increase the company's reported leakage underperformance payment for 2022–23 by £0.071m and to include a bespoke adjustment of £0.081m in respect of 2020–21 and 2021–22 performance. This ensures that the

company's performance is based on its own unmeasured consumption data. This returns £0.152m to customers.

- For SES Water, we deferred our decision on the company's reported leakage outperformance payment, in line with the company's request. This is because the company remains materially non-compliant with the common methodology. This returns £0.208m to customers.
- For South West Water (Bristol area), Southern Water and Thames Water, which are materially non-compliant with our methodology, we included the reported underperformance payments of £0.681m, £2.332m and £8.908m respectively.
- For Dwr Cymru, we accepted the company's bespoke adjustment to restate its 2020–21 and 2021–22 leakage and PCC data, as the company stated it is now compliant with the common methodology. This returns £5.456m to customers.
- For South Staffs Water (South Staffs region), we deferred our decision on the company's leakage PC until we have a clearer understanding of the dataset and methodologies for all components of its water balance. We accepted the company's voluntary abatement of its reported outperformance payment. This returns £0.216m to customers.
- For Severn Trent Water, we did not make a bespoke adjustment with respect to the company's restated leakage and PCC performance for 2020–21 and 2021–22. The company did not request that we make this adjustment, which would have the effect of increasing customer bills.

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.

We noted that PCC performance will be determined at the end of the 2020–25 period⁴ with appropriate adjustments to PCC ODI payments during the 2024 price review (PR24).

Stakeholders' responses

⁴In 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 [Consultation on PCC ODI timing and determination – Our decision](#) which we published after having considered stakeholder responses to our July 2021 consultation.

We discuss each response in the relevant company specific final determination. In summary, all companies except for Affinity Water, which considered its non-compliance with the PR19 common methodology not material, accepted our draft determination on leakage.

Consideration of responses and final determination

Having considered stakeholders responses on this matter, our final determinations for all companies' leakage performance payments remain unchanged from our draft determinations, above.

We note that Affinity Water did not provide any new information in its consultation response to demonstrate that it was not materially non-compliant with the PR19 common methodology.

1.2 High quality data and assurance

Our draft determination

In our draft determinations, we referred to the [Sector overview: Final determinations of in-period outcome delivery incentives for 2021-22](#), where we said that the data, information and evidence companies provide to support their reported performance should be of good quality and subject to a rigorous, high-quality assurance process. We said this is critical to provide confidence to us, customers and other stakeholders that the information reported is accurate and reliable. We said that we reinforced this message and our expectations for data and assurance in companies' 2022-23 APR submissions in [IN 23/03 Expectations for monopoly company annual performance reporting 2022-23](#).

We said we were concerned that, in 2022-23, some companies still did not follow the PC reporting guidance or definitions. In particular, we noted that some companies still only provided the following reporting and assurance requirements in response to queries from us and not within their APR submission:

- specific third-party assurance required for bespoke PCs; and
- Regulatory Accounting Guideline (RAG) checklists for common PCs (or a statement that the company is fully compliant where this was the case).

We said that whilst there was an improvement in the quality of information and evidence provided by some companies to support their reported performance for 2022-23, some companies still did not provide a level of detail and supporting information, proportionate to the size of their ODI payment, in their APR commentaries to explain the drivers of performance and associated ODI payments.

We said we required all companies to be transparent with their stakeholders in providing all the specified data and assurance when they are supposed to. We stated that where we have

concerns with the quality of the data, evidence or assurance underpinning reported performance or payments, we may choose to intervene to protect customers.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

We will consider these issues further and set out our expectations for the whole sector in the information notice (IN) that we publish next spring that sets out our expectations for monopoly company annual performance reporting.

1.3 Sewer flooding

Our draft determination

In our draft determinations, we said our review of companies' 2022–23 APR submissions identified that some companies had reported performance that appeared to be inconsistent across interrelated wastewater PCs.

We stated that through our query process, these companies provided us with further information to support their performance on these PCs. However, companies were not able to provide convincing explanations and quantify how their interventions in the sewerage network impacted their performance on these PCs.

We reiterated what we said in [IN 23/03 Expectations for monopoly company annual performance reporting 2022–23](#), that in order to ensure transparency for customers and other stakeholders, companies should provide a proportionate level of detail and supporting information in their commentaries to explain drivers of performance and associated ODI payments. We said that this is particularly important where there are material outperformance payments or underperformance payments and where there is performance that is inconsistent across interrelated PCs.

We said we required all companies to be open and transparent with stakeholders in explaining how their interventions in the sewerage network have impacted the performance of relevant PCs. We said where we have concerns about this, we may choose to intervene to protect customers.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

We will consider these issues further and set out our expectations for the whole sector in the information notice (IN) that we publish next spring that sets out our expectations for monopoly company annual performance reporting.

1.4 Pollution incidents

Our draft determination

In our draft determinations, we stated that this PC is reported as the total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length for which the company is responsible in a calendar year. We stated that the metric is based on the data that the companies confirm with the Environment Agency and Natural Resources Wales, the environmental regulators. That data is reviewed by the environmental regulators in accordance with their respective annual Environmental Performance Assessment (EPA) methodologies.

We said we will work closely with the environmental regulators as they continue to keep under review how to best use emerging and existing environmental data more effectively to drive measurable improvements in water quality in England and Wales. We also noted that work was also underway to better align the efforts of the regulatory bodies and optimise the way information is shared and used to hold water companies to account.

We noted that in Wales, work to install Event Duration Monitors (EDMs) was completed in March 2020. In England, all storm overflows will be monitored by EDMs by the end of 2023. While EDMs are being rolled out in England, companies have been retrospectively estimating the number of incidents. Once EDM rollout is completed, the Environment Agency expects to carry out a review to check the accuracy of historical company reporting based upon those retrospective estimates. In the meantime, the Environment Agency has not included, in the total number of incidents reported, any identified this way unless the Environment Agency has seen other evidence that it would have been possible for the company to report a pollution incident so-estimated at the time it occurred. The Environment Agency has taken this approach to ensure that the reporting methodology does not change during the current price review period and that all companies report using the same methodology.

We said that if, in the future, additional pollution incidents are identified that should have been reported, we may adjust performance payments accordingly.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

We will continue to work closely with environmental regulators, as they continue to review pollution incidents' reporting. As stated in our draft determinations, if in the future additional pollution incidents are identified that should have been reported, we may adjust performance payments accordingly.

1.5 Unplanned outage

Our draft determination

In our draft determinations, we noted that Dwr Cymru and the Bristol Area of South West Water had not been fully compliant with our [PR19 reporting guidance on unplanned outage](#) with respect to the requirements for peak week production capacity (PWPC). We required these companies to quantify the impact of this non-compliance on their reported performance and ODI payments for 2020-21, 2021-22 and 2022-23.

Stakeholders' responses

In their [consultation responses](#):

- Dwr Cymru restated its PWPC performance for 2022-23 and confirmed that no changes are required to reported PWPC performance for 2020-21 and 2021-22;
- South West Water restated the PWPC performance for its Bristol area for 2020-21, 2021-22 and 2022-23; and
- both companies confirmed that, due to the operation of the ODI mechanism, there was no impact on reported ODI payments for any of these years.

We have engaged with Affinity Water through our query process to clarify its reported unplanned outage performance for the current and prior years. The company has confirmed, in response to our queries, that its PWPC performance for 2020-21 and 2021-22 was incorrect and needs to be restated. It has also confirmed that no changes are required to its reported 2022-23 PWPC performance. Affinity Water has also confirmed that, due to the operation of the ODI mechanism, there was no impact on reported ODI payments for any of these years.

Consideration of responses and final determination

The use of common, converged methods for reporting data increases transparency for all stakeholders and makes comparisons across the sector more meaningful. We had expected that all companies would have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2022-23 unplanned outage data. In IN21/01 we said that "If the data submitted is not based on a fully converged methodology then companies should clearly state this and demonstrate that not being fully compliant does not have a material impact on the reported performance."

Our review of company submissions identified that, for the unplanned outage performance commitment, most companies reported full compliance on all PWPC methodology components in 2022–23. However, upon review, most companies had not followed all elements of our PR19 reporting guidance. The guidance clearly states that companies are expected to:

- define PWPC for each water production site;
- review PWPC annually;
- support PWPC with evidence of actual output or of capacity tests undertaken on a rolling programme each five years. This should be based on a risk-based approach for each works and the duration of testing does not need to extend to seven days; and
- support revisions to PWPC with evidence of changes to assets or processes;

Further explanation is given in the guidance that:

- PWPC is equivalent to the maximum volume of water which can be put into supply and sustained over a period of one week measured in Ml/d;
- it is expected that PWPC would be a fixed value for each production site each year unless a change to assets or process can be evidenced; and
- peak week production capacity does not account for seasonal changes in yield (most commonly observed at groundwater sources) and allowed abstraction volumes (most commonly observed at river sources) which are weather dependent and not an indicator of asset health.

Most companies could not demonstrate that capacity tests were undertaken, on the basis required in the guidance, to check PWPC. In fact, in most cases companies stated that they did not intend to undertake capacity tests. Companies explained that they used telemetry data to establish daily output or distribution input to inform PWPC. However, this data is weather dependent and therefore, as stated in the guidance, it should not be the primary way of establishing PWPC. In addition, some companies identified that a number of sites had been out of supply for a few years, and that they therefore needed to restate PWPC values for historic years, this suggests the annual review had not taken place at the time of reporting.

The only company that was able to confirm that it had used physical tests to inform its PWPC was Wessex Water. Wessex Water explained in its 2022–23 APR submission that in 2020–21 it undertook a company review of PWPC and identified sites to undertake maximum flow trials during the 2021–22 reporting year based on its confidence in the maximum production capacity value. This resulted in an evidence-based approach for a small change to its PWPC value for 2022–23.

We will continue to engage with each company regarding its compliance with the reporting guidance for its unplanned outage performance commitment. For all companies, it is our expectation that all components of the company's unplanned outage methodology should be fully compliant when reporting performance. We will closely assess any non-compliant

elements in companies' 2023-24 APR submissions and will consider what interventions might be appropriate in light of our findings. Should any unplanned outage 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 unplanned outage performance commitment.

We will set out any appropriate price control adjustments relating to unplanned outage payments during the 2024 price review (PR24). Those adjustments may take into account in-period adjustments made earlier in the period, including those relating to unplanned outage ODI payments, particularly where the company has revised or restated performance or new information becomes available.

1.6 C-MeX and D-MeX

Our draft determination

C-MeX (the customer measure of experience) is designed to incentivise water companies to provide an excellent customer experience for residential customers, across both retail and wholesale activities that can impact on the service they receive. D-MeX (the developer services measure of experience) is designed to incentivise water companies to provide an excellent customer experience to developer services customers, including small and large property developers, self-lay providers and those with new appointments and variations (NAVs).

The ODI payments for both C-MeX and D-MeX for each company are set out in table 2.2 and in each company-specific in-period ODI draft determination document. We have taken the data from the APR submissions and compared this against the recorded data from our survey agent, Accent. The C-MeX and D-MeX scores for 2022-23 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 with respect to 2022-23 ODI payments on this issue.

Consideration of responses and final determination

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

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

2.1 Our final determinations

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

Unless otherwise stated all values are £m in 2017-18 financial year average (FYA) Consumer Prices Index including owner occupiers' housing costs (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

Company	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)
Affinity Water	-8.088	0.000	-8.088
Anglian Water	-22.357	-4.828	-27.185
Dŵr Cymru	-24.080	0.000	-24.080
Hafren Dyfrdwy	-0.513	0.027	-0.486
Northumbrian Water	-0.113	0.000	-0.113
Portsmouth Water	0.302	0.000	0.302
SES Water	-1.123	0.000	-1.123
Severn Trent Water	88.083	0.615	88.698
South East Water	-5.230	0.042	-5.188
South Staffs Water	0.869	0.000	0.869
South West Water (South West area)	-9.244	0.000	-9.244
South West Water (Bristol West area)	-2.577	0.004	-2.573
Southern Water	-42.903	21.451	-21.451
Thames Water	-100.719	26.953	-73.766
United Utilities	25.229	0.000	25.229
Wessex Water	7.960	0.000	7.960
Yorkshire Water	-19.825	0.000	-19.825
Industry total	-114.330	44.265	-70.066

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 determinations 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 its performance in 2022-23;
- our final determinations on these payments after any interventions;
- brought forward deferrals;
- our final determinations on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; and
- our final determination on C-MeX and D-MeX payments.

For further details on the interventions, deferrals, abatements and bespoke adjustments, see the company specific final determinations.

These final determinations on the ODI payments to be applied for each company are also set out in the in-period adjustments model published on our website for each company.

Company	Company's reported ODI payments (£m)	Ofwat FD 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)
Affinity Water	-6.387	-6.826	0.000	0.000	0.000	0.000	-1.060	-0.202	-8.088
Anglian Water	-22.090	-22.100	0.000	0.000	0.000	-4.822	-0.262	0.000	-27.185
Dŵr Cymru	-19.378	-19.378	0.000	0.000	0.000	-5.766	2.191	-1.127	-24.080
Hafren Dyfrdwy	-0.356	-0.479	0.000	0.000	0.000	-0.085	0.032	0.046	-0.486
Northumbrian Water	-3.920	-3.934	0.000	0.000	0.000	0.000	3.368	0.452	-0.113

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Company	Company's reported ODI payments (£m)	Ofwat FD 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)
Portsmouth Water	-0.370	-0.370	0.343	0.000	0.000	0.000	0.243	0.085	0.302
SES Water	-0.672	-0.880	0.000	0.000	0.000	0.000	-0.138	-0.105	-1.123
Severn Trent Water	24.315	24.315	31.594	0.000	0.000	30.120	0.000	2.669	88.698
South East Water	-3.544	-3.502	0.000	0.000	0.000	0.000	-0.937	-0.748	-5.188
South Staffs Water	0.157	0.157	0.000	0.000	-0.216	0.756	0.127	0.044	0.869
South West Water (South West area)	-8.170	-8.239	0.000	0.000	0.000	0.000	-0.697	-0.308	-9.244
South West Water (Bristol area)	-2.929	-2.926	0.000	0.000	0.000	0.000	0.214	0.139	-2.573
Southern Water	-37.429	-37.429	0.000	21.451	0.000	0.000	-3.657	-1.817	-21.451
Thames Water	-82.278	-82.278	0.000	0.000	0.000	26.953	-13.121	-5.320	-73.766
United Utilities	22.214	22.214	0.000	0.000	0.000	-0.055	3.024	0.046	25.229
Wessex Water	-1.128	-1.128	7.242	0.000	0.000	0.000	1.610	0.237	7.960
Yorkshire Water	-16.463	-16.463	0.000	0.000	0.000	0.005	-0.510	-2.857	-19.825
Industry total	-158.429	-159.246	39.179	21.451	-0.216	47.107	-9.573	-8.768	-70.066

2.2 Our modelling approach

We set out how we would apply in-period ODI payments in our PR19 final determinations and the [PR19 reconciliation rulebook](#). In the rulebook we set out where we would make decisions on specific inputs to our published models during the in-period determinations process.

In this section we set out our proposed approach. In each of the 17 ODI performance models we have included a worksheet called 'Ofwat_IPD23_actions' to record changes we have made to the models. These range from data cleansing changes with no financial impact to interventions or corrections which can affect ODI payments. For details on these changes refer to the company specific models published on our website.

2.3 Deferrals and abatements

As set out in the PR19 reconciliation rulebook, companies can ask us to defer outperformance or underperformance payments, or to abate outperformance payments. A deferral results in us delaying when the adjustment will be made to a company's revenue. When deferring payments to the following year, we increase the amount slightly to reflect the fact that a sum of money next year is worth a little less than the same sum today. This is known as a 'time value of money' adjustment and is set out in our PR19 reconciliation rulebook.

Our draft determination

In our in-period ODIs draft determinations for 2021–22, we agreed to requests from Severn Trent Water, Wessex Water and Portsmouth Water to defer outperformance payments of £30.698m, £7.035m and £0.333m respectively. After adjusting for the time value of money, the value of these deferrals increased to £31.594m, £7.242m and £0.343m respectively. All three companies have applied the deferred outperformance payments to customers' bills for 2024–25. This means there is no deferral to carry forward to future years.

Stakeholders' responses

We did not receive any stakeholder comments in respect of the above.

However, in its consultation response and subsequent correspondence with us, Southern Water requested to defer £21.451m of its 2022–23 underperformance payments to the 2025–26 charging year. Under the normal operation of the ODI mechanism, these payments would have been applied to the 2024–25 charging year.

Consideration of responses and final determination

We do not make any changes with respect to deferrals for Severn Trent Water, Wessex Water and Portsmouth Water, therefore our final determination is as per our draft determination for these companies on this matter.

We have considered Southern Water's deferral request in light of the requirements for deferrals set out in the [PR19 Reconciliation Rulebook](#). The company meets these requirements and, having considered the company's request, we have intervened to defer £21.451m of underperformance payments to 2025–26. When the deferral is applied next year, it will include an adjustment for the time value of money.

We provide more details on these decisions in Southern Water's final determination.

2.3 Inflation

In the PR19 final determinations all ODI rates were specified in 2017–18 financial year average (FYA) prices. This means that ODI payments for in-period ODIs need to be translated into the relevant price base for this year's in-period determinations.

For this year's in-period determinations, the relevant price base is the consumer prices index including owner occupiers' housing costs (CPIH) in November 2023. This is the normal, official way of measuring inflation. As set out in the reconciliation rulebook, we use published inflation data, companies' submissions and publicly available short-term inflation forecasts to estimate this index.

Our draft determination

In our draft determinations we estimated this to be 4.3% and said we would revise this estimate in our final in-period determinations informed by latest published inflation data, forecasts and stakeholders' responses.

Stakeholders' responses

We did not receive any stakeholder comments on this matter.

Consideration of responses and final determination

For our final determinations we have updated the inflation estimate to be 4.5% and have applied this in the published in-period adjustments models for each company.

2.4 Taxation

We adjust the size of companies' net ODI payments to reflect their marginal rate of corporation tax. This ensures that companies receive the level of ODI payments as envisaged in the PR19 final determinations, which maintains the degree of financial incentive intended by PR19. If we did not do this, the financial incentives PR19 intended for companies would be dulled by the amount of taxation saved.

In the PR19 reconciliation rulebook, we said companies should set out their expected marginal tax rate for the following charging year in their requests for an in-period determination with appropriate evidence. We said we would take this into account, as well as upcoming changes to tax policies and any other relevant factors, when making our determinations.

Our draft determination

In our draft determination, we applied a uniform marginal tax rate of 19% in most companies' in-period adjustments model to reflect the headline rate of corporation tax. We said we may revise this in our final in-period determinations informed by stakeholders' responses, upcoming changes to tax policies and other relevant factors.

There were two exceptions to this. For Dŵr Cymru and Southern Water, we have included 0% marginal tax rate in both our draft and final determinations, consistent with the allowances made at PR19. Both companies set out a case to demonstrate that they do not expect to incur tax during the 2020–25 period.⁵ We provide more details on these decisions in the company specific final determinations documents.

Stakeholders' responses

In their 2022–23 APRs, Thames Water and Anglian Water requested that a 0% tax rate was applied to their ODI payments. In our draft determination we retained 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. In their consultation responses, both companies disagreed with our draft determination on tax and provided material additional evidence to support their view that a 0% tax rate should be applied to their ODI payments.

In its consultation response, South East Water requested for the first time that we apply a 0% tax rate to its ODI payments.

⁵ In the [PR19 reconciliation rulebook](#) (p64), we said "companies should set out their expected marginal tax rate for the following charging year in their requests for an in-period determination, including whether they expect to pay corporation tax and any capital allowances, with appropriate evidence. We will take this information into account when making our determination."

Consideration of responses and final determination

In our final determination we are intervening to apply a 0% tax rate for Thames Water and Anglian Water, after accounting for the funding the companies have received through their PR19 wholesale tax allowances. We consider this is appropriate based on all the evidence submitted, including the additional evidence submitted by these companies on their tax losses. Having received both companies' business plans for 2025-30, we also note there are bill smoothing benefits associated with accepting this adjustment now, rather than to implement it through PR24.

This means that, to reflect the adjustment for this year and adjustments for 2020-21 and 2021-22, for:

- Thames Water, allowed revenue increases by £59.285m in 2024-25; and for
- Anglian Water, allowed revenue increases by £2.711m in 2024-25

We will also apply the adjusted tax rate of 0% to future ODI payments for Thames Water and Anglian Water in 2023-24 and 2024-25.

In our final determination for South East Water, we apply 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.

This means that in our final determination we are applying a tax rate of 0% for Anglian Water, Thames Water, Southern Water and Dwr Cymru and a tax rate of 19% for all other companies for 2022-23.

From 2023-24 onwards we apply a marginal tax rate of 25% for most companies in line with the UK government's recently announced decision to increase corporation tax from April 2023.

We provide more details on these decisions in the company specific final determinations documents.

2.5 Bespoke adjustments

In some instances, we may need to make bespoke adjustments to account for matters that have arisen after our PR19 determinations and publication of the reconciliation rulebook in December 2020. For example, in July 2021 our [green economic recovery funding](#) decisions included additional in-period funding for two companies (Severn Trent Water and South Staffs Water).

Table 2.3: Breakdown of bespoke adjustments

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

Company	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)
Affinity Water	0.000	0.000	0.000	0.000
Anglian Water	-4.736	-0.086	0.000	-4.822
Dŵr Cymru	-5.540	-0.226	0.000	-5.766
Hafren Dyfrdwy	-0.082	-0.003	0.000	-0.085
Northumbrian Water	0.000	0.000	0.000	0.000
Portsmouth Water	0.000	0.000	0.000	0.000
SES Water	0.000	0.000	0.000	0.000
Severn Trent Water	-0.008	0.000	30.129	30.120
South East Water	0.000	0.000	0.000	0.000
South Staffs Water	0.000	0.000	0.756	0.756
South West Water (South West area)	0.000	0.000	0.000	0.000
South West Water (Bristol area)	0.000	0.000	0.000	0.000
Southern Water	0.000	0.000	0.000	0.000
Thames Water	25.712	1.241	0.000	26.953
United Utilities	-0.053	-0.002	0.000	-0.055
Wessex Water	0.000	0.000	0.000	0.000
Yorkshire Water	0.005	0.000	0.000	0.005
Industry total	15.298	0.925	30.885	47.107

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