

# **Yorkshire Water In-Period ODI Report 2022/2023**

**July 2023**



**YorkshireWater**

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## **Introduction**

Our performance commitments for 2020 to 2025 were set as part of the Periodic Review 2019 (PR19) process. In Asset Management Period 7 (AMP7), Yorkshire Water has 44 performance commitments. The majority of these performance commitments have associated outcome delivery incentives (ODIs), which attract a reward or penalty based on our performance to target.

There are 24 ODIs that are taken in-period, annually, through adjustments to our allowed revenues for the next charging year. Such adjustments can be spread over more than one year to reduce bill volatility if this is in customers' best interests and agreed with our regulator, Ofwat.

There are four ODIs (working with others, land conserved and enhanced, length of river improved and living with water) that are measured over the course of the whole AMP (2020 to 2025) and the net reward or penalty position is reflected at that point through the next Price review in 2024 (PR24). There is an additional ODI, per capita consumption, which was an in-period measure but, due to the change in consumption patterns seen since the Covid-19 pandemic, the annual penalty / reward is reported but the overall adjustment is deferred until the end of the AMP.

The remaining 15 performance commitments are reputational measures and do not have a financial incentive attached to them. For more information on our performance commitments and how we performed last year, please see the Annual Performance Report (APR) for 2022/2023.

**Table 1** summarises the in-period ODIs, performance obtained in 2022/2023, the resulting penalty or reward and whether any intervention is being requested to the automatic operation of the in-period ODIs. There are no intervention requests this year.

Although no interventions have been requested for 2022/2023, a separate letter has been submitted to Ofwat with a request for changes to historic ODI payments.

This submission report should be read alongside:

- Annual Performance Report (APR) for 2022/2023
- APR Tables for Tables 3A to 3I with the ODI performance model
- In-period adjustments model

**Table 1.** Summary of in-period ODIs, 2022/2023 performance and whether intervention is requested within this report.

ODI	2022/23 Performance	Reward/ Penalty £m	Intervention requested
<b>Common ODIs</b>			
PR19YKY_20 Water quality compliance (CRI)	4.61	-3.813	No
PR19YKY_21 Water supply interruptions	00:09:27	-4.551	No
PR19YKY_22 Leakage	9.5%	0.070	No
PR19YKY_25 Per capita consumption <sup>1</sup>	-3.1%	-2.997	No
PR19YKY_24 Mains repairs	219.3	-4.726	No
PR19YKY_23 Unplanned outage	3.26%	0	No
PR19YKY_31 Internal sewer flooding	2.67	-9.194	No
PR19YKY_30 Pollution incidents	22.39	0.266	No
PR19YKY_33 Sewer collapses	10.96	0	No
PR19YKY_32 Treatment works compliance	99.68%	0	No
<b>Bespoke ODIs</b>			
PR19YKY_6a Operational carbon	10.9%	0.873	No
PR19YKY_7 Education	28,164	0	No
PR19YKY_9 Water recycling	0	-0.085	No
PR19YKY_17 Gap sites	95	0	No
PR19YKY_18 Managing void properties	3.60%	1.989	No
PR19YKY_26 Drinking water contacts	10.2	-0.615	No
PR19YKY_27 Significant water supply events	20	-2.120	No
PR19YKY_28 Low pressure	4	0	No
PR19YKY_29 Repair or replace customer pipes	6,441	-0.424	No
PR19YKY_35 External sewer flooding	5,375	8.342	No
PR19YKY_36 Bathing water quality	16	-2.470	No
PR19YKY_37 Surface water management	4	-0.005	No
PR19YKY_40 Quality agricultural products	100%	0	No
<b>TOTAL ODI Payments (excluding PCC)</b>		<b>-16.463</b>	
<b>CMeX &amp; DMex Payments</b>			
Other: PR19YKY_19 C-Mex <sup>2</sup> (estimated)	11 <sup>th</sup>	-0.570	No
Other: PR19YKY_10 D-Mex (estimated)	17 <sup>th</sup>	-2.708	No
<b>Total ODI Payments to be applied to customer bills in 2023-24</b> (excludes PCC and includes estimated CMeX, DMex)		<b>-19.741</b>	

<sup>1</sup> Per capita consumption has an annual reward / penalty rate. However, the value of the reward/ penalty obtained within the year will be carried forward to the end of AMP reconciliation in line with the latest Ofwat guidance.

<sup>2</sup> Yorkshire Water's net penalty position includes, for completeness, all revenue-based incentives including a forecast of the C-Mex reward and D-Mex penalty positions, even though these are not reflected in the APR Table 1F. Two versions of the PR19 in-period adjustments model have been provided: one version contains C-Mex and D-Mex and the other excludes these.

## **Impact on bills and bill smoothing**

The in-period determination request claim from the 2022/2023 arising from the net penalty position is summarised as adjustments to the price controls in Table 2a and Table 2b. The 'in-period' revenue adjustments will be applied using the 'in-period adjustments model' which deals with taxation, time value of money, inflation and any voluntary deferrals. End of period adjustments will be applied at the end of the 2020-25 period in the relevant PR24 revenue and RCV models.

**Table 2a.** Summary of revenue adjustments by price control arising from the 2022/2023 net ODI penalty position (all adjustments stated at 2017/2018 prices). This data is drawn from the ODI performance model and therefore does not include the draft assessment for C-Mex and D-Mex included in Table 1.

<b>Price Control (including CMeX &amp; DMeX)</b>	<b>Unit</b>	<b>2022/2023</b>
Revenue Adjustments - net ODI payments (to be applied in period)		
Water resources	£m	<b>0.08</b>
Water network plus	£m	<b>(17.63)</b>
Wastewater network plus	£m	<b>(4.09)</b>
Bioresources (sludge)	£m	<b>0.48</b>
Residential retail	£m	<b>1.42</b>

**Table 2b.** Summary of revenue adjustments by price control arising from the 2022/2023 net ODI penalty position (all adjustments stated at 2017/2018 prices). This data is drawn from the ODI performance model and therefore does not include the draft assessment for C-Mex and D-Mex included in Table 1.

<b>Price Control (excluding CMeX &amp; DMeX)</b>	<b>Unit</b>	<b>2022/2023</b>
Revenue Adjustments - net ODI payments (to be applied in period)		
Water resources	£m	<b>0.08</b>
Water network plus	£m	<b>(16.10)</b>
Wastewater network plus	£m	<b>(2.91)</b>
Bioresources (sludge)	£m	<b>0.48</b>
Residential retail	£m	<b>1.99</b>

Overall, Yorkshire Water is in a penalty position of -£19.741m. This equates to a reduction in bills of circa £6.58 per household. As a result, it is not considered that there is a need for bill smoothing and this can be accounted for in the 2024/2025 charges. Table 3 shows the impact of this by price control.

**Table 3.** Impact of penalty claim on customers' bills for each relevant price control. The table results include C-Mex and D-Mex ODI outturns (Table 1) which have been adjusted for tax and deflated to the 2017-18 price base.

<b>Price Control (including CMeX and DMeX)</b>	<b>2017/2018 (£)</b>	<b>%</b>
Water resources	<b>0.03</b>	<b>0.1%</b>
Water network plus	<b>(5.75)</b>	<b>-3.6%</b>
<b>Water</b>	<b>(5.72)</b>	<b>-3.1%</b>
Wastewater network plus	<b>(1.04)</b>	<b>-0.6%</b>
Bioresources (sludge)	<b>0.18</b>	<b>0.7%</b>
<b>Wastewater</b>	<b>(0.86)</b>	<b>-0.4%</b>
<b>Average Bill Impact</b>	<b>(6.58)</b>	<b>-1.7%</b>

## **Customer Engagement**

Our focus over the last year has been understanding the changing lives of our customers as we emerge from the pandemic into one of the worse cost-of-living crises in living memory. We understand this is a challenging time for our customers and a moment in time which will likely have a longer-term impact on their lives. As we move through our PR24 planning process, we remain conscious of the challenges our customers face whilst also balancing our need to meet our regulatory requirements whilst making improvements to our service.

Whilst we are still to test our Long-Term Delivery Strategy, our early PR24 engagement on the profile of bills over time has confirmed a preference for bills which remained consistent or flat for the longest period, particularly for our more vulnerable customers. We know customers see fluctuations as difficult to manage, as experienced with energy bills this year. Customers agree that given the cost-of-living crisis a flat bill is more important than ever and the fairest way to tackle intergenerational fairness.

In addition to this, and in support of a stable bill profile, our PR24 engagement on ODI's through our acceptability and affordability testing of our plan, show that associated rewards and penalties remain a bone of contention with customers and difficult to grasp. This remains consistent with PR19 findings. Customers imagine huge peaks and troughs in their bills and therefore worry about the impact on their preferred flat bill scenario, however the likely small adjustments were felt to be somewhat bearable despite not agreeing with the principle.

Given the non-materiality of the impact Yorkshire Water's penalty position will have on the average household bill, the reduction in bills may help to offset the impact of the forecasted increase in Consumer Price Index including owner occupiers' housing costs (CPIH) in 2024. Therefore, based on the knowledge we already have from previous engagement with our customers, we have not specifically undertaken any further engagement with customers on the impact of the 2022/2023 in-period ODIs on bills.