

September 2023

Draft determination of Yorkshire 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 set by the Competition and Markets Authority (CMA), need to be adjusted to reflect Yorkshire 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. Yorkshire Water's performance commitments for the 2020-25 period are set out in PR19 final determinations: Yorkshire 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.

Yorkshire Water reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We have considered this information and,

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](#).

where necessary, further information from companies' answers to our queries. In our draft 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 Yorkshire 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 the Yorkshire 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:

- a C-MeX underperformance payment of £0.510m and a D-MeX underperformance payment of £2.857m, based on the assessment of 2022-23 company performance.

[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.

The company applied the following adjustments in its in-period adjustments model, which we consider are appropriate:

Surface water management

Yorkshire Water has reported performance of four hectares against a performance commitment level (PCL) of five hectares in relation to its surface water management performance commitment for 2022-23, claiming an underperformance payment of £0.005m.

In its 2022-23 APR Yorkshire Water has also stated that its 2021-22 performance was reported as an annual figure of two hectares, rather than the cumulative value required for this performance commitment. This has led to under-reporting of performance, and to an additional underperformance payment that should not have been paid. It is therefore restating its reported value for 2021-22 as three hectares. This is supported by the company's third party assurance statement.

In line with the company's request, we are applying a bespoke adjustment to decrease Yorkshire Water's underperformance payments by £0.005m in relation to its surface water management performance commitment to account for its erroneous reporting for 2021-22.

We make comments with respect to the following areas:

Low pressure

We note that the company's third party assurer has identified 'amber' reporting risks in relation to the company's low pressure performance commitment in their assurance report indicating significant issues relating to both the methodology and data. The assurer concluded that further effort is needed to ensure the robustness of reporting and that the company's approach creates uncertainty in the reported figure.

Yorkshire Water states on page 105 of its Annual Performance Report 2022-23 that "A comprehensive review is underway to pull all the information and ensure that loggers are being assessed from the time installed, and not just when enabled within the software package. Further information will be provided to our auditors and Ofwat as we progress this

review." The company stated in a query response that it was working towards having this review fully completed by the end of this calendar year.

We expect the company's comprehensive review to be concluded in advance of it reporting its performance in its 2023-24 APR. We require the company to provide us with commentary clearly explaining any impacts on historical, current and future reporting. The company must restate any changed performance and ODI payment values, if impacted, for previous reporting years. We expect all revisions or restatements to be audited by the company's external assurer ahead of submission and a report provided alongside the company submission. We may make adjustments to allowed revenue if we find current or previous years' reported performance to be incorrect once the company's comprehensive review is complete.

Sewer collapses

In its 2022-23 APR submission, Yorkshire Water's external assurer has identified significant issues and reporting risks in relation to the company's sewer collapses performance commitment. The assurers noted that "Material issues were identified regarding the analysis that produced the reported number for Table 3B Line 3 and 3I Line 4; this was subsequently re-assessed. While the highest priority incidents originally classified as non-reportable have been reassessed, there remains a risk that there are misclassifications for other incidents where the original classification was not undertaken by the auditee and an internal review was not subsequently undertaken."

In response to our queries YKY-APR-IP-005 and YKY-APR-IP-008, Yorkshire Water confirmed that it has undertaken measures to address misclassifications and also stated that these issues have only impacted its performance this year.

However, we note that similar methodological issues related to sewer collapses incidents were identified in 2020-21 and 2021-22 third party assurance findings. We expect these issues to be fully resolved ahead of 2023-24 APR. The persistence of these issues raises concerns regarding the company's existing processes and controls. We expect to see greater robustness in the company's internal data processing and reporting mechanisms, with controls in place to identify and rectify errors prior to third party assurance.

D-MeX

Yorkshire Water stated in its 2022-23 APR submission that it would like to retrospectively make a correction for 2020-21 and that it intends to republish its 2020-21 APR to this effect. In its 2022-23 submission the company stated this correction impacts on a number of APR tables and provided a list of all tables and the original and corrected values against each table. The company stated it would result in an increase of its 2022-23 revenue allowance of £5.8m and that it has requested an adjustment to the D-MeX payment for 2020-21.

We received a similar request from the company at 2021-22 APR and wrote to Yorkshire Water stating that we did not consider it appropriate to adjust revenue in-period. We also said that we may consider a case for an adjustment at PR24 but, to do so, the company would need to be able to set out the full impact of the adjustment, considering interactions with funding provided at PR19. It would also need to demonstrate why it would be in customers' interests to make an adjustment and provide us with confidence that its assurance process is sufficiently robust.

We continue to consider that the company has not provided the information we had requested, including the full impact of the adjustment considering interactions with funding provided at PR19, or demonstrated that it would be in customers' interests to make an adjustment. In the absence of any new evidence we are retaining our decision not to apply a bespoke adjustment in the in-period determination in respect of 2020-21 to the D-MeX performance commitment but may consider making an adjustment as part of PR24.

1.2 C-MeX and D-MeX

On 26 September we published the relative performance of all companies. Our draft determination includes a C-MeX underperformance payment of £0.510m and a D-MeX underperformance payment of £2.857m, 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.

Yorkshire 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;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details on the interventions and bespoke adjustments, see [section 1](#).

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

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	0.079	0.079	0.000	0.000	0.000	0.000	0.000	0.000	0.079
Water network plus	-16.102	-16.102	0.000	0.000	0.000	0.001	0.000	-1.612	-17.714
Wastewater network plus (WaSCs only)	-2.908	-2.908	0.000	0.000	0.000	0.004	0.000	-1.245	-4.149
Bioresources (WaSCs only)	0.480	0.480	0.000	0.000	0.000	0.000	0.000	0.000	0.480
Residential retail	1.989	1.989	0.000	0.000	0.000	0.000	-0.510	0.000	1.479
Total	-16.463	-16.463	0.000	0.000	0.000	0.005	-0.510	-2.857	-19.825

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	0.001	0.000	0.000	0.001
Wastewater network plus (WaSCs only)	0.004	0.000	0.000	0.004
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
Total	0.005	0.000	0.000	0.005

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	-1.94	1.85	1.83	1.75
	Revised	-1.94	1.85	1.83	1.92
Water network plus (K factors)	Previous determination	2.50	1.99	-0.36	11.92
	Revised	2.50	1.99	-0.36	5.45
Wastewater network plus (K factors)	Previous determination	-3.94	1.25	-2.01	-1.11
	Revised	-3.94	1.25	-2.01	-2.38
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	Previous determination	73.037	73.640	74.226	74.308
	Revised	73.037	73.640	74.226	74.948
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	69.842	69.002	75.404	73.455
	Revised	69.842	69.002	75.404	75.976

We have based Yorkshire Water's draft determination on the data and commentary provided to us by Yorkshire 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)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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