

DRAFT DETERMINATION OF SEVERN TRENT WATER'S IN- PERIOD OUTCOME DELIVERY INCENTIVES FOR 2020-21

Severn Trent Water response

21 October 2021

WONDERFUL ON TAP



Steve St Pier
Director
Ofwat
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21 October 2021

Dear Steve,

SEVERN TRENT'S RESPONSE TO THE DRAFT DETERMINATION OF SEVERN TRENT WATER'S IN-PERIOD OUTCOME DELIVERY INCENTIVES (ODIs) FOR 2020-21

We welcome the opportunity to respond to your draft determination (DD) of our ODIs for 2020-21 and the sector overview document.

At Severn Trent we support your vision of a water sector that provides high-quality services that reflect customers' expectations, delivers environmental improvements and continues to provide one of the most affordable water services in the world.

Since the outcomes framework and ODIs were introduced there is compelling evidence that it has delivered greatly improved performance for customers and the environment. We welcome that our sector-leading service performance for our customers and the environment in 2020-21 is reflected in your DD.

We also welcome your draft decision to agree to our proposal to defer some of our ODI outperformance payments to help manage the impact of bill changes on our customers.

We have the follow comments on the DD:

Business void and gap site supply points

In the DD you intervened to remove our outperformance payment of £0.154m for business void and gap site supply points (our ODI A03). You had identified some uncertainty in the reported performance figure, particularly in relation to the use of covid-19 vacancy flags and required further evidence to support the reported performance. You asked us to provide additional assurance, such as from a third-party auditor, that our reported performance is accurate.

You were concerned that during 2020-21 supply points which had had covid-19 vacancy flags removed might have been counted as being brought back into charge as part of our performance commitment. To provide additional clarity and assurance that we have not benefited from retailers applying for a vacancy reward after bringing a temporary covid-19 vacancy back into charge, we asked our third-party assurer, Jacobs, to assure a breakdown of our ODI A03.

Following analysis of our data on 12 October 2021, Jacobs assured the following components of our reported number of 783 business void and gaps site supply points brought back into charge during 2020-21:

- 160 sites were gap sites i.e. additional properties identified by the retailer and added to the market through the gap site process. Gap sites are not covered by covid-19 vacancy flags.

The remaining 623 void properties can be split into two groups by date of vacancy: before 1 February 2020 and after 1 February 2020 in line with the date in Ofwat's previous query.

- Void before 1 February 2020, 597 properties:
 - 474 sites were migrated into the market as void properties and remained void until they were brought into charge in 2020-21.
 - 43 sites were added to the market post migration as void properties and remained void until being brought into charge in 2020-21.
 - 80 sites had occupancy at some point since migration but were set to void prior to 1 February 2020 and were subsequently brought into charge in 2020-21.
- Void on or after 1 February 2020, 26 properties:
 - Only 26 sites were set to void after 1 February 2020 and were subsequently brought into charge in 2020-21.

Overall, we believe that the risk of retailers benefiting from the covid-19 vacancy flag only applies to the 26 sites that were set to vacant after February 2020. However, the report script used excluded any sites where the covid-19 text description was present at the time the report was run. As a result, 40,818 sites were excluded on the basis they mentioned covid-19. Furthermore, our own assurance checks identified and excluded an additional 99 sites from the measure as we believed them to be Covid-19 temporary vacancies. This number was also verified by Jacobs as part of our year end data assurance and was included as a statement in our APR.

As part of our checks we noted that after the retailer applied for the reward and us approving the reward, retailers have retrospectively amended two sites to apply the Covid-19 special condition. This was noted as a stated risk of our scheme that retailers may amend the properties after approval for settlement payment.

We consider that the third-party assurance from Jacobs and our updated information demonstrates that our reported business void and gap site supply points data is accurate and has not been increased by supply points with covid-19 vacancy flags being brought back into charge. This means that the reported number of 783 business void and gaps supply points should be used for the purpose of our ODI, adjusted for the two Covid changes retrospectively made by retailers.

Persistent low pressure

We recognise there was a difference between the original design of the performance commitment levels we proposed in our business plan (including household and non-household properties) and the scope of the PR19 final determination (FD) performance commitment definition for persistent low pressure (domestic properties only).

We understand the rationale for making the forward-looking adjustment, however the retrospective adjustment for 2020/21 and the first half of 2021/22 runs counter to the interventions Ofwat made to our PR19 FD. Despite us twice pointing these issues out in writing at PR19, the definition in our business plan was changed as part of the PR19 DD and FD to domestic properties only. It is therefore disappointing that the definition is now being changed again.

Sewer blockages

We welcome that you are including the full outperformance payment of £39.113m for sewer blockages performance in your in-period ODIs DD. You mention that there is some additional evidence outstanding and we have provided a comprehensive response to your latest query. We expect this will provide you with the reassurance you require.

Leakage

In the sector overview document, you say that your expectation is that there should not be any components of a company's leakage methodology that are not fully compliant with the PR19 common performance commitment definition when reporting 2021-22 performance. We will engage with you following the completion of the in-period ODI process this year to ensure we are meeting your expectations.

Please let us know if we can be of any further help as you work to complete your in-period ODI FD for Severn Trent.

Yours sincerely,

Shane Anderson
Director of Strategy and Regulation
Severn Trent Water