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PR24 final determinations: Accounting for past delivery

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Amendment	Date
Page 36 - removal of Anglian Water and addition of Thames Water to the list at the top of the page.	06/02/25

Summary

Our draft determination included a number of adjustments to account for incentive and reconciliation mechanisms set at PR19 that cover performance in the 2020–25 control period. The reconciliation mechanisms provide significant protection for companies against risk during 2020–25. The adjustments we made reflected actual and forecast performance in the control period and affect companies' revenue allowances and Regulatory Capital Value (RCV) from 31 March 2025. They were based on the latest information available at that time, including the company submitted business plans.

Overall, for final determination the reconciliation mechanisms provide additional revenue of £1.5 billion and an uplift to the RCV of £4.2 billion. This compares with a £1.4 billion revenue adjustment and £4.3 billion RCV uplift proposed in the draft determinations.¹

In making final determinations, we took account of information companies submitted in their business plans, new information companies and stakeholders provided in response to the draft determinations and any other relevant information identified. Specifically, we include actual performance data for 2023–24 from the 2024 annual performance reports (APR) and updated forecast 2024–25 performance data that companies submitted as part of their draft determination responses.

Some companies asked us to intervene and adjust the calculated adjustment for specific reconciliation mechanisms. They argued specific circumstances affected their performance in the control period. We consider each of these requests. In a limited number of cases, we also intervene where we identify issues, such as errors in submitted data or where data was not reported in line with guidance. Details of all the interventions are set out in the relevant incentive and reconciliation models, published on our website. Key actions and interventions in the final determinations are:

- We partially adjust Outcome Delivery Incentive (ODI) payments for the per capita consumption (PCC) performance commitment, due to the impact of the COVID-19 pandemic on consumption and company activities to manage demand;

¹ Figures for the draft and final determination uplifts to the RCV include the £0.3 billion for the total value of PR14 Blind Year RCV adjustments in 2024–25.

- We maintain the revised approach to applying ODI payments for some end of period PCs related to investment programmes with delivery dates during 2025–30 set out at draft determinations, updated to reflect reported company performance for 2023–24;
- We continue to make a number of interventions for company reported performance on delivery of Water Industry National Environment Programme (WINEP) schemes during 2020–25;
- We do not to apply the gearing outperformance sharing mechanism at final determination;
- We confirm our draft determination decision to allow South West Water's calculated PR19 cost sharing revenue adjustment to be applied as an RCV adjustment;
- We confirm our draft determination decision to amend the cost sharing rate that applies in 2024–25, consequently a 60% cap will apply for overspend; and
- We confirm our draft determination decision to amend the date on which the RCV midnight adjustment applies from 1 April 2025 to 31 March 2025.

Unless otherwise stated, all figures are £ million 2022–23 financial year average, CPIH deflated prices.

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1. Our approach to PR19 reconciliations

In the PR19 final determinations, we included a number of incentive and reconciliation mechanisms that set incentives for companies to deliver for customers or mitigate risk for both customers and companies. At PR24, we reconcile companies' 2020-2025 performance against these mechanisms. Table 1 sets out the list of mechanisms and indicates by green shading whether they adjust a company's regulatory capital value (RCV) or revenue (or both) and which price controls the adjustments can apply to.

While the set of mechanisms were confirmed in the PR19 final determination, the detailed models and the rules by which the models operate were set out in the PR19 Reconciliation Rulebook.² We set out further information about how we would apply adjustments in the PR24 methodology. The PR24 final determination:

- Includes adjustments related to the 2021 blind year process³ which determines differences between forecast 2019-20 performance data included in the PR19 final determinations and the actual reported 2019-20 performance.
- Includes actual Outcome Delivery Incentive (ODI) payments for 2023-24 (forecast data was used for draft determination) and updated forecasts for 2024-25 (provided alongside company draft determination responses). All payments for 2020-23 have already been accounted for through the in-period determination process.
- Allows for PR19 reconciliation mechanism revenue adjustments to be profiled across the whole of the next price control period.

We carefully reviewed additional information provided since the draft determination, mainly 2024 company annual performance reports and draft determination responses from companies and other stakeholders. We issued queries where we identified issues with the information provided. As a result of our analysis, we identify the following instances where we intervene for final determination:

- to correct errors or ensure data is consistent with the reporting guidance and the expectations set out in the reconciliation rulebook;
- to correct for issues Ofwat or companies identified in the reconciliation models;
- where we disagreed with the company's view of its performance and what this means for adjustments to be made; and
- in a limited number of cases, companies asked us to intervene because of mitigating factors affecting performance. Generally, these are where the reconciliation mechanisms explicitly allow companies to ask us to intervene in specific

² Ofwat, '[PR19 Reconciliation Rulebook](#)' was originally published in December 2020, amended in August 2021 and amended again in August 2023 to make minor updates and clarifications.

³ The blind year adjustments are summarised in table 2 of each company's 'Blind year adjustments, Final decision' document and the accompanying final 'Blind year adjustments model' published on our website: Ofwat, '[PR19 blind year reconciliation – final decisions](#)', November 2020.

circumstances. We accept some of these requests, although in some instances, based on the evidence provided, our view of the required intervention may differ from a company's view.

In each case, we have reviewed the evidence companies provided and considered whether it is appropriate to intervene. We set out details of our interventions either in section 3 below or the relevant company specific reconciliation model published as part of the draft determination.

Table 1: Applying past delivery adjustments to price controls

Type of adjustment	Price control							
	Water resources	Water network plus	Wastewater network plus	Bio-resources	Additional control (1)	Additional control (2)	Residential retail	Business retail
Revenue adjustments								
Revenue Forecasting Incentive (RFI)								
C-MeX								
D-MeX								
Bioresources								
Residential retail								
Water trading								
Business retail								
Developer services								
Cost of new debt								
Gearing out-performance ⁴								
Tax								
RCV adjustments								
WINEP / NEP								
Land sales								
Green recovery (TVM)								
Revenue and RCV adjustments								
ODIs								
Totex costs								
RPI-CPIH wedge								
Strategic regional water resources								
Havant Thicket								
Other								

⁴ We have not applied the gearing outperformance sharing mechanism in our final determinations and provide further details on the reasons for this in section 3.6 below and in the 'PR24 final determinations: Aligning risk and return' chapter.

2. Overall PR19 reconciliations

We set out the RCV and revenue adjustments associated with PR19 reconciliations for the sector for the final determination in tables 2 and 4. The tables compare our final determination adjustments to the draft determination proposals and the updated requests from companies in their draft determination responses.

Table 2: Total value of PR19 reconciliation RCV adjustments in 2024-25 (£m 2022-23 financial year average, CPIH deflated prices)

	Draft determination £m	Company view £m	Final Determination £m	Difference £m
WINEP / NEP ⁵	-45.9	30.2	-178.9	-209.1
Land sales	450.2	468.6	451.9	-16.6
Green recovery (TVM)	660.5	596.9	596.9	0.0
ODIs	32.2	31.8	32.7	0.9
Totex costs	913.6	1261.7	1392.5	130.8
RPI-CPIH wedge	1785.0	1480.6	1437.9	-42.7
Strategic regional water resources	-46.3	-53.3	-44.4	8.9
Havant Thicket ⁶	216.1	216.1	216.1	0.0
Other	0.0	19.1	0.0	-19.1
Total	3965.3	4051.6	3904.7	-146.9

In addition to the PR19 reconciliation adjustments, we also apply the PR19 blind year RCV adjustments as midnight adjustments, these are shown below in table 3.

Table 3: Total value of PR14 Blind Year (BYR) RCV adjustments in 2024-25 (£m 2022-23 financial year average, CPIH deflated prices)

	Draft determination £m	Company view £m	Final Determination £m	Difference £m
BYR ODI	-11.6	-11.6	-11.6	0.0
BYR Totex	150.9	150.4	150.9	0.5
BYR Land sales	15.7	14.9	15.7	0.8

⁵ The actual difference for the WINEP / NEP is significantly less than that shown in the table when the three years' adjustments for 2022-23, 2023-24 and 2024-25 are included in the draft determination and company views (see sections 3.4 and 3.9). The draft determination would have been -£141.8 million and the company view -£129.6 million. This reduces the WINEP/NEP difference from -£209.1 million to -£49.3 million and changes the overall total from -£146.9 million to £12.8 million.

⁶ This only affects Portsmouth Water.

	Draft determination £m	Company view £m	Final Determination £m	Difference £m
BYR RPI-CPIH wedge	152.4	151.5	152.4	0.9
BYR Other	-9.7	-8.6	-9.7	-1.0
IFRS16	25.7	25.7	0.0	-25.7
Total	323.3	322.3	297.6	-24.6

Table 4: Total value of PR19 reconciliation revenue adjustments in 2024-25 (£m 2022-23 financial year average, CPIH deflated prices)

	Draft determination £m	Company view £m	Final determination £m	Difference £m
RFI	-61.3	5.7	92.3	86.5
C-MeX	0.0	-30.5	-15.4	15.1
D-MeX	0.0	-6.6	-2.7	3.9
Bioresources	9.9	-6.0	31.5	37.5
Residential retail	7.1	-22.9	-18.2	4.6
Business retail	0.0	1.7	2.6	0.9
Water trading	0.3	0.3	0.3	0.0
Developer services	239.3	193.3	200.1	6.8
Cost of new debt	402.7	405.3	410.6	5.3
Gearing out-performance	0.0	-2.7	0.0	2.7
Tax	-475.2	-443.9	-455.4	-11.5
ODIs ⁷	-162.4	-394.8	-475.1	-80.4
Totex costs	1012.1	1298.8	1406.2	107.4
RPI-CPIH wedge	424.2	399.4	390.6	-8.7
Strategic regional water resources	3.9	-75.3	-62.7	12.6
Havant Thicket ⁸	0.0	0.0	0.0	0.0
Other	28.7	33.6	28.7	-4.9
Total	1429.4	1355.5	1533.3	177.8

The PR14 blind year revenue adjustments were applied through the RFI, bioresources revenue and residential retail reconciliations and are included within the RFI, bioresources revenue and residential retail adjustments. We have published the PR19

⁷ Includes in-period revenue adjustments for 2023-24 and 2024-25 and end of period revenue adjustments for 2024-25. Also includes bespoke adjustments, voluntary abatements and voluntary deferrals for 2023-24 and 2024-25 although the values are zero for voluntary abatements and deferrals, as no company included proposals for these in their business plans.

⁸ This only affects Portsmouth Water.

reconciliation models which set out how we have reconciled companies' performance over the 2020-25 period and reflected this in our final determination price controls.

Each reconciliation model contains an 'override' sheet which provides details of any actions or interventions we have made. Where necessary, we have included more detailed information on our actions and/or interventions, and how we have considered stakeholder representations on it in the cover sheet or in additional sheets within the final determination models.

We discuss some of the key issues identified in section 3.

As stated in the PR24 methodology, we intend to assess companies' actual performance for 2024-25 against the forecasts included in the PR24 final determination. We will run the PR19 reconciliation models to calculate the resulting revenue and RCV adjustments. We have provided for a blind year adjustment in the revenue forecasting incentive formula set out in the notifications of companies' final determinations of price controls. This will allow blind year revenue adjustments to be recovered through bills from April 2026, RCV adjustments will be made at PR29. Differences in PR24 final determination forecast and actual 2024-25 ODI payments will be dealt with through a redetermination of 2025-30 price controls, using the ODI and in period adjustments models. We will provide further details on the blind year reconciliation in 2025 ahead of annual performance report submissions in July 2025.

3. Key issues

In this section we summarise some of the key issues identified for the final determinations. Detailed interventions and company specific decisions are provided in the relevant published reconciliation model unless otherwise stated.

3.1 The impact of the COVID-19 pandemic on per capita consumption (PCC) reported performance

At the PR19 price review, we set a per capita consumption performance commitment for all companies for the 2020-25 period. This applies to household consumption only. For all companies except for South West Water, this was an in-period performance commitment for which payments are determined annually.

In November 2021, following consultation, we confirmed that per capita consumption ODI payments would be made at the end of the 2020-25 period during the PR24 price review.⁹ This was because of the significant uncertainties around the short-term impact of measures (such as lockdowns) introduced by the UK and Welsh governments to combat COVID-19 and what, if any, the enduring effects might be on patterns of per capita consumption for the 2020-25 period. We said it was important that companies retained the strongest incentives possible for managing household demand and so we proposed that the current in-period financial incentives (ODI payments) for per capita consumption should instead be determined at the end of the 2020-25 price control period. We said that when deciding on ODI payments due for performance during 2020-25, we would take account of:

- the impact of COVID-19;
- specific steps taken by companies during the price control period to reduce household demand for water; and

⁹ Please see: Ofwat, '[PCC consultation decisions on reporting performance and ODI timing](#)', November 2021, which concluded: Ofwat, '[Consultation on changes to per capita consumption performance commitments](#)' July 2021. Previously we had signalled we may consider the impact of covid pandemic in: Rachel Fletcher, '[Letter from Rachel Fletcher to water industry Chief Executives on COVID-19: Water Industry Response](#)', dated 19 March 2020 and [Letter from Rachel Fletcher to Chief Executives](#) dated 14 July 2020. The consultation drew on evidence including: Frontier Economics report on '[Economic impacts of COVID-19 on the water sector](#)', commissioned jointly by Ofwat and Water UK, published in December 2020; and Artesia Consulting report on: '[The impact of COVID-19 on water consumption during February to October 2020 – Final report](#)' (referred to as "Artesia 2021 report"), commissioned by most water companies and the Environment Agency, published on 21 May 2021.

- the extent to which the need to recover any remaining shortfall (against PR19 per capita consumption targets) has been incorporated into companies' proposals made at the 2024 price review.

The COVID-19 pandemic was an exceptional and unpredictable event, which led to a paradigm shift (the long-term structural change of working from home), where neither the event nor its consequences could reasonably have been controlled or mitigated by the water companies, and where the nature and scale of the impact was not observable or capable of being anticipated until after it occurred. Consequently, we considered it appropriate to make our decision on per capita consumption ODI payments on an ex-post basis, at the end of the 2020–25 period.

What we said in our draft determinations

At draft determination, we reviewed all the information companies submitted in their business plans, including an updated study by Artesia Consulting, as well as the information in companies' annual performance reports (APRs).¹⁰ We also commissioned work by Europe Economics to consider the impact of the COVID-19 pandemic on per capita consumption.¹¹

Taking into account the evidence submitted by companies on per capita consumption performance and the reports covering the impact of the pandemic, we considered whether and to what extent we should intervene for the impact of the COVID-19 pandemic on the 2020–25 per capita consumption performance commitment, in light of the specific purpose and design of this performance commitment, the PR19 framework and our statutory duties. We carefully considered how best to ensure the appropriate balance between the risks and incentives that companies face as our price review determinations recognise that companies bear risk, including some external risk, and so have a degree of variability in their returns that is outside of their control. We considered this in the context of the assessment framework that we set out in the November 2021 consultation decision document.

Overall, we proposed intervening to relieve companies of some of the financial impact of the COVID-19 pandemic on per capita consumption. We considered there was clear evidence of:

- a shift in consumption caused by restrictions introduced as a result of the COVID-19 pandemic, which companies could not have reasonably been expected to have a

¹⁰ Artesia Consulting Interim Draft report on Water Use Shock Event Effects and Regulatory Treatment (referred to as Artesia February 2024 report) dated 1 February 2024. Anglian Water, Hafren Dyfrdwy and Severn Trent Water did not collaborate in this study.

¹¹ Europe Economics, 'The [Impact of COVID-19 on Per Capita Consumption](#)', March 2024 (referred to as Europe Economics March 2024 report).

plan for and mitigate to an extent which would have enabled them to achieve their PR19 per capita consumption performance commitment levels;

- companies demonstrating that they took reasonable steps to reduce household demand during and after the COVID-19 pandemic; and
- companies demonstrating plans to recover any shortfall in meeting their PR19 performance commitment levels during PR24 and beyond.

We proposed making the biggest interventions for 2020-21 (which was the year most affected by the COVID-19 pandemic) and the smallest for 2024-25 which is the year least affected by the COVID-19 pandemic. We explained that our intervention drew on the results of Europe Economics' March 2024 report rather than the Artesia February 2024 report because:

- the Europe Economics models use data which has been formally reported to and validated by us for all water companies, including data submitted in response to our specific information request to companies in October 2023;
- the Artesia report does not include any data from four water companies (including one of the largest companies, Severn Trent); and
- the Artesia report only quantifies the impact of the COVID-19 pandemic on per capita consumption at a company level for one company (Thames Water).

For the years most affected by the COVID-19 pandemic, 2020-21 and 2021-22, we proposed a company specific intervention for the impact of the COVID-19 pandemic as the evidence suggests that the impact on consumption differed between regions, reflecting the varying restrictions and circumstances in place across the country during this period, including the 'zonal' approach to relaxing lockdowns. The company specific intervention for these two years was based on Europe Economics' preferred model (the annual Region-varying crisis model – PECC).¹²

We used the adjusted performance figures for 2020-21 and 2021-22 to calculate per capita consumption performance and associated ODI payments. As per capita consumption payments are based on average performance over a three-year period, this means that the adjusted annual performance figures for these years are also used in the calculation for ODI payments for later years of the 2020-25 period.

For 2022-23 to 2024-25, we included a glide path for each company from the company specific COVID-19 pandemic adjustment in 2021-22 to a sector-wide working from home adjustment of 1.8% in 2024-25. The sector wide working from home adjustment was also accounted for in the setting of the PR24 performance commitment level baseline. Our glidepath recognised that there was not an overnight return to more

¹² For 2020-21 COVID-19 adjustment, see: Europe Economics, Table 3.3 on page 39 of the '[Impact of COVID-19 on Per Capita Consumption](#)', March 2024. For 2021-22 COVID-19 adjustment, see Table 3.4 on page 39 of the 'Impact of Covid-19 on PCC' by Europe Economics report.

normal conditions from April 2022 but rather a more gradual return to workplaces, international travel and attendance at large events and other leisure activities.

For the draft determination, we did not make any additional intervention to the incentive payments that relate to annual reported performance for 2022-23, 2023-24 and 2024-25, over and above the glidepath, to account for a longer-term working from home adjustment.

Where the size of our potential intervention would be greater than the company's reported underperformance payments (prior to any intervention), we restricted relief such that no company would move from an underperformance to an outperformance payments position. Instead, we moved the company to a £0 payments position.¹³ Where the company was already reporting actual or forecast outperformance payments (prior to any intervention), the company kept those outperformance payments, but we did not intervene to increase its outperformance payments.¹⁴

We also did not include an additional intervention, over and above that set out above, for companies which have particularly large per capita consumption underperformance payments for 2020-25 as a proportion of their appointee level Return on regulatory equity (RoRE) because at the time we considered that there was insufficient evidence to support this.

Consistent with the 2021 consultation decision document, our proposed intervention relates solely to the impact of the COVID-19 pandemic on ODI payments.

We did not consider it appropriate to make more granular adjustments to the relief given to individual companies in relation to specific steps taken to reduce household demand for water, because of the inherent limitations in quantifying, in a robust way, how specific company actions directly affected reported performance.

At a sector level, the result of our proposed interventions was that total net underperformance payments for per capita consumption for the 2020-25 period reduce from around £131 million to around £43 million.

Stakeholders' representations

Stakeholder representations on this matter focus on the following four areas:

1. Insufficient allowance made for the ongoing impact of greater homeworking following the COVID-19 pandemic

A number of companies including Portsmouth Water, South East Water, Thames Water and Yorkshire Water argue that our draft determination intervention to remove the

¹³ This applied to Anglian Water in 2022-23, 2023-24 and 2024-25, South West Water in 2020-21 and 2022-23, Thames Water in 2022-23, 2023-24 and 2024-25 and Unities Utilities in all years in the 2020-25 period.

¹⁴ This only applied to South West Water in 2021-22.

impact of the COVID-19 pandemic on the per capita consumption performance commitment makes insufficient allowance for the ongoing impact of greater working from home following the COVID-19 pandemic.

They argue that we should use the longer-term working from home impact of 2.7% calculated by Artesia Consulting in its May 2024 report, rather than the 1.8% in our draft determination intervention, as the adjustment to per capita consumption for 2024–25 and the start of the 2025–30 period.¹⁵ They state this is because Artesia's report is based on the best available and most comprehensive evidence on COVID-19 impacts and the cost-of-living crisis.

2. The "national adjustment" of 1.8% for longer-term working from home underplays regional differences across the country

Portsmouth Water and Yorkshire Water state that the "national adjustment" of 1.8% which we made to per capita consumption in our draft determination to account for the longer-term working from home impact underplays regional differences across the country.

3. The inappropriateness of applying an intervention based on Europe Economics' modelling for companies where Artesia used more detailed data in their modelling

Thames Water and Portsmouth Water argue that Europe Economics' modelling in its March 2024 report, which we used for our draft determination intervention on per capita consumption, is less detailed, less comprehensive and less up to date than the modelling in Artesia Consulting's May 2024 report.

Thames Water also points out that the detailed analysis conducted by Artesia Consulting for its supply area, which was the focus of the Artesia study, should take priority over the estimates we used for the company in our draft determination from Europe Economics' "general research". The company states that Europe Economics' report uses high-level data and limited consumption data, whereas the Artesia study uses more extensive consumption data for its area and a more rigorous methodology.

Both companies argue that we should therefore use Artesia Consulting's modelling of the impact of the COVID-19 pandemic on per capita consumption as the basis of our final determination intervention.

¹⁵ We refer to Artesia Consulting's "Water Use Shock Events and Regulatory Treatment Summary Report" and "Water Use Shock Events and Regulatory Treatment Summary Report Phase 2 Report" dated May 2024 as the "Artesia May 2024 report". This report was commissioned by most water companies. The 2.7% referred to here is from page 52 of the Phase 2 Report.

4. A bias in favour of larger companies and against smaller companies due to insufficient consideration of more localised factors

In its draft determination representation, South Staffs Water argues that the Europe Economics' modelling, which we used as the basis of our draft determination intervention, has a clear bias in favour of larger companies and against smaller companies. It states that the modelling does not take account of the unique circumstances of its South Staffs area. In particular, it states that it does not account for the very high level of cross border commuting to its neighbouring major conurbations, which it does not serve, and the working from home impacts of this during and after the COVID-19 pandemic. It argues that this resulted from the lack of more granular data available on working from home.

The company says that this high level of cross border commuting meant that it had a lower per capita consumption baseline for 2020-25 than other companies. This in turn means that its per capita consumption was disproportionately affected when those in its dense commuter belt who would normally work in Birmingham and Wolverhampton were forced to work from home or go onto furlough during the COVID-19 pandemic. It also states that this caused the impact of the COVID-19 pandemic on per capita consumption to last longer than for other companies.

The company commissioned PA Consulting to review Europe Economics' modelling. Europe Economics summarise PA Consulting's observations on its modelling and respond to these in the November 2024 report.¹⁶

Given these concerns, South Staffs Water argues that Ofwat should abandon its per capita consumption ODI payments or apply a mid-group average ODI payment to outlier companies if total abandonment of ODI payments is not an option.

Our assessment and reasons

Updates since the draft determination

Artesia Consulting, in a report commissioned by most companies, produced an updated report, dated May 2024, on the Impact of shocks to Per Capita Consumption.¹⁷

We engaged Europe Economics to update its modelling assessment of the impact of the COVID-19 pandemic on per capita consumption for the 2020-25 period. Europe Economics' final report on the Impact of COVID-19 on Per Capita Consumption, dated

¹⁶ Europe Economics report on "The Impact of Covid-19 on PCC – Revised", dated November 2024. Europe Economics summarise PA Consulting's observations on their modelling in section 7.1 and respond to these in section 7.2.1.

¹⁷ The May 2024 Artesia report was commissioned by all water companies except for Anglian Water, Severn Trent Water and Hafren Dwfrdwy.

November 2024, is published alongside our final determination. This work updated a number of assumptions and used the latest available data. For example, it considered:

- actual performance against company per capita consumption performance commitments for 2023–24, which companies submitted in July 2024;
- updated forecast performance for 2024–25, which companies submitted in August 2024; and
- where appropriate updates to other variables originally included in company business plans submissions in October 2023, such as metering assumptions and working from home.

We note that, in these submissions, two companies – Hafren Dyfrdwy and Thames Water – restated their performance on per capita consumption for all years of the 2020–25 period. Having assessed the evidence provided, we accepted these restatements.

In Table 5 below, we compare the impact of COVID-19 on per capita consumption at a sector level in the latest Europe Economics and Artesia reports. The figures from the Europe Economics report are based on Europe Economics' preferred model, 4c.¹⁸

We note that both the Europe Economics and Artesia Consulting reports clearly identify that COVID-19 has had an impact on per capita consumption, which we consider strengthens the case for us making an intervention. We also note that the results of their modelling for the year most affected by COVID-19, 2020–21, are similar: Europe Economics estimate the average impact to be 10.0% at a sector level in 2020–21, with their estimates for individual companies ranging from 8.2% to 11.4%, and Artesia Consulting's estimate for 2020–21 of 9.04% falls within this range.

¹⁸ Europe Economics set out why Model 4c is their preferred model on page 48 of their November 2024 report.

Table 5: Comparison of results of Europe Economics and Artesia Consulting reports

	% increase in household demand due to impact of COVID-19 and longer-term working from home ¹⁹			
Report	2020-21	2021-22	2022-23	2023-24 onwards
Europe Economics (November 2024)	10.0	2.5	1.8	1.8
Artesia Consulting (May 2024)	9.04	5.62	2.98	2.7

Consideration of stakeholder representations

We consider the key representations made by stakeholders in turn below.

1. Insufficient allowance made for the ongoing impact of greater homeworking following the COVID-19 pandemic

We do not agree that we should use the 2.7% longer-term working from home impact from the May 2024 Artesia report as the basis for our final determination intervention on the per capita performance commitment for 2024-25 and the start of the 2025-30 period.

This is because:

- The Artesia May 2024 report was published six months before the updated Europe Economics report. This means that its models will not use the most recent data and assumptions including companies' assured 2023-24 actual performance, the latest forecasts for 2024-25 performance and the latest assumptions for areas such as metering and working from home. In contrast, the models which feed into Europe Economics' November 2024 report do include this data and these assumptions.
- The company performance data used by Europe Economics in its models has been formally reported to us and validated by us through our review of companies' annual performance reports, and through our review of data submitted in response to our specific information requests to companies in October 2023 and May 2024. This is not the case with all of the data used by Artesia in its models.

¹⁹ For the breakdown of factors identified by Artesia for each year – Covid restrictions, Work from home and Persisting covid effect – see page 11 of the Artesia 2024 Summary Report. From 2022-23 onwards, the increase identified by Europe Economics in this table relates only to the longer-term working from home impact.

- The Europe Economics report provides estimates of the impact of COVID-19 on per capita consumption at a company level whereas the Artesia report does not. The Europe Economics report uses per household consumption data for 16 of the 18 companies and uses this to create separate estimates for the impact of the COVID-19 pandemic on per capita consumption for each of the 18 companies. In contrast, the Artesia report only uses household consumption data for one company (Thames Water) and validates this by cross checking it against two other companies before creating one overall estimate for the impact of the COVID-19 pandemic on per capita consumption. We also note that the main estimates in the Artesia report may not be representative of the impact of per capita consumption on most water companies as they are only based on Thames Water's smart meter data which may be atypical.
- The Europe Economics models take into account economically and statistically important factors when estimating the impact of COVID-19 on per capita consumption such as furlough, travel effects and meter penetration. The Artesia models do not consider these factors.
- When we agreed to delay decisions on ODI payments for per capita consumption to the end of the 2020-25 period, we were clear that if we intervened to adjust payments, this would only be for the impact of the COVID-19 pandemic. We note that Europe Economics has responded to companies' challenge for not accounting for the cost-of-living crisis in its modelling in its November 2024 report.²⁰

2. The "national adjustment" of 1.8% for longer-term working from home underplays regional differences across the country.

We agree that the 1.8% intervention in our draft determination for all companies for longer-term working from home did not take account of regional differences across the country.

Europe Economics' November 2024 report includes regional longer-term working from home projections. For our final determination, we consider it more appropriate to use these projections as the starting point for our interventions for the impact of COVID-19 on per capita consumption for 2024-25 for each company.²¹

3. The inappropriateness of applying an intervention based on Europe Economics' modelling for companies where Artesia used more detailed data in its modelling

²⁰ Page 74 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

²¹ We use the longer-term working from home projections set out in Table 4.5 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

We considered whether we should use the results of Artesia Consulting's modelling as the basis for our intervention for Thames Water. We decided against this for the following reasons:

- The Artesia modelling is based on smart meter customers, living primarily in London. This may not be representative of customers in the wider Thames Water region.
- The Europe Economics modelling includes more recent data, which has been validated by us, including actual performance for 2023-24 and the latest forecasts for 2024-25.
- Artesia's study focused on per household consumption (PHC) rather than per capita consumption (PCC). This means it did not take account of reduced household occupancy in London during the COVID-19 pandemic due to significant population movements away from the city.
- The Artesia models do not take into account important factors such as furlough, travel effects and meter penetration, which the Europe Economic models consider.

Whilst we are not using the results of Artesia's modelling for our intervention for Thames Water, they provide a useful cross check against Europe Economics' estimates for the impact of COVID-19 on Thames Water's per capita consumption. We note that whilst there is a bigger difference between the Artesia and Europe Economics estimate for 2021-22, the estimates for 2020-21, the year most affected by COVID-19, and for 2022-23 onwards are more similar.²² Indeed, once we apply our glidepath from 2022-23 to 2024-25, which we describe under "Our final determination", the basis of our intervention for these years becomes more similar to Artesia's estimate, especially for 2022-23 and 2023-24. Overall, our approach means that Thames Water gains relief, through our final determination intervention, for around 100% of its reported per capita performance underperformance payment for the 2020-25 period (see table 3.1.3).

In addition, for the reasons set out below, we consider that the Europe Economics' modelling gives us a more accurate estimate of the impact of the COVID-19 pandemic on companies in the sector. We do not consider it appropriate to base our intervention for Thames Water on the Artesia model and for all other companies on the Europe Economics model.

We consider that the impact of the COVID-19 pandemic on Thames Water may not be representative of the impact on other companies for the following reasons:

²² Increase in Thames Water's household demand due to impact of COVID-19 and longer-term working from home per the Europe Economics November 2024 report is 8.2% for 2020-21, 3.0% for 2021-22 and 2.3% for 2022-23 onwards. Increase in Thames Water's household demand due to impact of COVID-19 and longer-term working from home per the Artesia Consulting May 2024 report is 9.04% for 2020-21, 5.62% for 2021-22, 2.98% for 2022-23 and 2.7% from 2023-24 onwards.

- The effects of the COVID-19 pandemic were atypical in the Thames Water area due to the significant movements out of London that occurred in this period.
- Artesia's study only included customers on smart meters. These customers may not be representative of customers in general.
- Artesia's study included primarily customers in London. It is not clear that their consumption is representative of the wider Thames Water region or of other company regions.

In addition, we consider that the small sample size that Artesia Consulting appears to have used for its cross checks against unmeasured customers in the Yorkshire Water and Wessex Water areas makes it difficult to draw broad conclusions from the results and extrapolate them to other companies.

We also note that whilst Artesia Consulting has modelled the impact of the COVID-19 pandemic on part of the Thames Water region and cross checked this against a sample of customers from two other companies, Europe Economics has separately modelled the impact on 16 of the 18 companies.

Therefore, for the purposes of determining the extent of our intervention, we consider it appropriate to use Europe Economics' modelling to estimate of the impact of the COVID-19 pandemic on per capita consumption for these 16 companies, and a more representative sample for any extrapolation required for the remaining two companies²³.

4. A bias in favour of larger companies and against smaller companies due to insufficient consideration of more localised factors

We have considered the arguments South Staffs Water put forward in its draft determination representation as well as Europe Economics' assessment of these in its report²⁴.

We note that Europe Economics observes that, for companies that border major conurbations, three times as much of the per capita consumption target missed in 2020 is assigned to factors other than the COVID-19 pandemic as is the case for other firms. This is supported by our analysis in Tables 6 and 7 which shows that our draft determination intervention for the impact of the COVID-19 pandemic relieved on average 53% of the 2020–25 per capita consumption underperformance payment for

²³ South West Water (South West area) and Harfen Dwfrdwy)

²⁴ See Section 7.2 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

smaller companies (which are often the firms that border major conurbations) compared to 78% for larger companies.

We also note that our draft determination underperformance payments for per capita consumption represent a much larger percentage of appointee RoRE for smaller companies than for larger companies. For the 10 largest companies, the underperformance payment ranged from 0% and 0.05% of appointee RoRE and was on average 0.02% of appointee RoRE. In contrast, for the eight smallest companies the underperformance payment ranged from 0.03% and 0.96% of appointee RoRE and was on average 0.32% of appointee RoRE.

We also note that there is also no obvious explanation, including in the Europe Economics and Artesia Consulting reports, for why so much more of the increase in per capita consumption should be attributed to factors other than the impact of the COVID-19 pandemic for these companies. One possible explanation could be that smaller companies were unable to react to the situation as quickly as larger companies, but we don't have robust evidence to support this hypothesis. Further, even if it was the case, it is unlikely to explain the quantum of the difference.

We note that in their November 2024 report, Europe Economics states that “some data is available only at the level of English regions rather than WRZs (in particular working from home data).” This means that potentially Europe Economics' models may capture a disproportionately large increase in working from home levels for smaller companies that border major conurbations.

Having reviewed the available evidence, we consider that, on balance, some companies may have been disproportionately affected by the impact of the COVID-19 pandemic on per capita consumption for the 2020–25 period and that our draft determination may have accounted for some, but not all, of this impact.

Table 6: Impact of per capita performance draft determination intervention on larger companies

Company	% PCC underperformance payment relieved by draft determination intervention	% PCC underperformance payment as a % of appointee RoRE
United Utilities	100	0.00
Thames Water	98	0.00
Severn Trent Water	98	0.00
Anglian Water	97	0.00
South West Water (South West area)	80	0.02
Wessex Water	75	0.01

Company	% PCC underperformance payment relieved by draft determination intervention	% PCC underperformance payment as a % of appointee RoRE
Northumbrian Water	61	0.05
Dwr Cymru	59	0.02
Southern Water	55	0.04
Yorkshire Water	52	0.04
Average	78	0.02

Table 7: Impact of per capita performance draft determination intervention on smaller companies

Company	% PCC underperformance payment relieved by draft determination intervention	% PCC underperformance payment as a % of appointee RoRE
SES Water	76	0.15
Cambridge Water	75	0.03
South East Water	63	0.14
South West Water (Bristol area)	52	0.07
Affinity Water	45	0.39
Hafren Dwfrdwy	38	0.40
South Staffs Water	38	0.96
Portsmouth Water	37	0.42
Average	53	0.32

Our final determination

In arriving at our final determination, we have considered the updated information in Europe Economics' November 2024 report and Artesia Consulting's May 2024 report and the draft determination representations we have received from stakeholders.

For the reasons set out above, we use the updated modelling from the Europe Economics November 2024 report rather than the Artesia May 2024 report as the basis for our final determination intervention for the impact of the COVID-19 pandemic on per capita consumption.

We use Europe Economics' preferred model, Model 4c. This is the annual Region-varying crisis model using PECC but with travel impacts only applied to 2020, and a tapered version of workers not at work (WNAW). This builds on the model we used as the basis of our draft determination intervention by including updated assumptions on

travel effects and working from home. To account for updated information on travel impacts and holidaying within the UK in 2021-22, the model only adjusts per capita consumption for travel impacts in 2020-21. To account for updated information on working from home, the model assumes that homeworkers worked from home 4 days per week in 2020-21, reducing to 3.5 days per week in 2023-24 and to 3 days per week from 2023-24.

Our starting position for our intervention for the impact of the COVID-19 pandemic on per capita consumption for each company is as follows:

- We apply the same approach as for draft determination for the years with the greatest COVID-19 impact, 2020-21 and 2021-22. This means that we use the adjusted performance figures for 2020-21 and 2021-22, after removing the estimated impact of COVID-19 based on Europe Economics' Model 4c²⁵, to calculate per capita consumption performance and associated ODI payments.

We use the starting point for adjusting for the longer-term impact of working from home in 2025-30 as the end point for our intervention for per capita consumption in 2024-25. This means that, rather than using a sector-wide working from home adjustment as in our draft determination, we apply a "no worse off" intervention for 2024-25. This is the greater of our sector-wide draft determination intervention of 1.8% and the company specific longer-term working from home estimate from Europe Economics' Model 4c²⁶. Our "no worse off" approach ensures that no company is disadvantaged for moving from a sector level adjustment to a company specific adjustment.

- We apply a glidepath, in equal increments, from the 2021-22 COVID-19 impact on per capita consumption intervention to the starting point longer-term working from impact used for performance commitment level setting for 2025-30. Our glidepath recognises that there was not an overnight return to more normal conditions from April 2022 but rather a more gradual return to workplaces, international travel and attendance at large events and other leisure activities.

For final determination, we retain our policy that where the size of our potential intervention would be greater than the company's reported underperformance payments (prior to any intervention), we restrict relief such that no company would move from an underperformance to an outperformance payments position. Instead, we move the company to a £0 payments position. Where the company was already reporting actual or forecast outperformance payments (prior to any intervention), the

²⁵ See Tables 4.1 and 4.2 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

²⁶ See Table 4.5 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

company keeps those outperformance payments, but we do not intervene to increase its outperformance payments

As can be seen in Table 8 below, our starting intervention would relieve between 34% and 100% of the reported per capita performance underperformance payments for each company for the 2020–25 period with an average relief of 64%. For most companies, the percentage of underperformance payment relieved is similar to our draft determination. However, we note that this intervention results in a significant increase in the percentage of underperformance payment relieved for Hafren Dyfrdwy and a significant decrease for South West Water (South West area) compared to our draft determination.

For Hafren Dyfrdwy, the main reason for this is the restatements that the company made to its per capita performance between our draft and final determination. For South West Water (South West area), the significant decrease in underperformance payment relieved is due to our final determination reflecting the company's latest actual and forecast performance without the company's adjustment for the COVID-19 pandemic. In our draft determination for this company, we had incorrectly applied our intervention on top of the company's own adjustment for the COVID-19 pandemic. This made our draft determination intervention larger than it should have been.

Table 8: Per capita consumption (PCC) underperformance payments relieved by starting point for our intervention

Company	% PCC underperformance payment relieved by starting point for final determination intervention	% underperformance payment relieved after additional intervention
Thames Water	100	100
Severn Trent Water	97	97
United Utilities Water	97	97
Anglian Water	94	94
Wessex Water	78	78
Hafren Dyfrdwy	76	76
Cambridge Water	73	73
SES Water	71	71
South West Water (Bristol area)	62	64
Northumbrian Water	57	64
Southern Water	53	64
Dwr Cymru	48	64
South East Water	47	64

Company	% PCC underperformance payment relieved by starting point for final determination intervention	% underperformance payment relieved after additional intervention
Yorkshire Water	46	64
Portsmouth Water	39	64
South Staffs Water	39	64
Affinity Water	37	64
South West Water (South West area)	34	64
Average	64	74

For the reasons set out in point 4. above, we consider that there is a case for applying an additional intervention for some companies as the evidence indicates that they may have been disproportionately affected by increases in per capita consumption for the 2020–25 period and that our draft determination may have accounted for some, but not all, of this impact.

Therefore in our final determination, we apply an additional intervention for companies which would receive less than the sector average per capita performance underperformance payment relief of 64%. This additional intervention means that each company obtains a minimum relief of 64% of their per capita performance commitment underperformance payment. This recognises the limitations of the modelling, particularly in the working from home data which is not available at a water resource zone level (which will disproportionately affect some companies, in particular some of the smaller companies). It also recognises Europe Economics' statement in their November 2024 report that “Our estimates of the overall impact of Covid are likely to be more robust than our regional attribution”²⁷ by ensuring that all companies get as a minimum the sector average intervention of 64%, with companies where the modelling shows an impact greater than 64% getting an intervention for the company specific impact per the modelling.

As can be seen in Table 8 above, we apply this additional intervention to ten companies. This additional intervention means that our average intervention at a sector level increases to 74% for our final determination. This compares to 67% at draft determination but importantly all companies receive a minimum relief of 64% of their per capita underperformance in our final determination whereas ten companies received less relief than this in our draft determination with some receiving significantly less.

²⁷ Page 77 of Europe Economics' report on "The Impact of Covid-19 on PCC – Revised", dated November 2024

In making this additional intervention, we carefully considered how best to ensure the appropriate balance between the risks and incentives that companies face as our price review determinations recognise that companies bear risk, including some external risk, and so have a degree of variability in their returns that is outside of their control. When we confirmed that per capita consumption ODI payments would be made at the end of the 2020–25 period during the PR24 price review we were clear on the importance of companies retaining incentives to reduce consumption. We did not indicate that we would remove all underperformance payments. We consider that for these 10 companies, uplifting their intervention to the sector average per capita consumption underperformance payment relief of 64% achieves an appropriate balance between these risks and incentives and recognises that companies still bear risk, including some external risk. We also consider that companies struggled to quantify and to provide sufficient and convincing evidence of the exact impact of the COVID-19 pandemic on their per capita consumption performance commitment for the 2020–25 period. For these reasons, we have not removed 100% of companies' underperformance payments for per capita consumption for the 2020–25 period, as suggested by South Staffs Water.

In our final determination we maintain our draft determination position:

- that consistent with the 2021 consultation decision document, our final determination intervention relates solely to the impact of the COVID-19 pandemic on ODI payments; and
- that we do not consider it appropriate to make more granular adjustments to the relief given to individual companies in relation to specific steps taken to reduce household demand for water, because of the inherent limitations in quantifying, in a robust way, how specific company actions directly affected reported performance.

Accounting for the updated actual, forecast and restated performance, our final determination interventions reduce sector level total net underperformance payments for per capita consumption for the 2020–25 period from around £132 million to around £35 million (£m 2017–18 financial year average, CPIH deflated prices). This compares to a net underperformance payment of £43 million at draft determination.

Our final determination intervention for each company, and the calculations which support this, is set out in the "Override_Additional info" tab of each company's final determination ODI performance model for 2024–25.

3.2 Our approach to late delivery payments associated with end of period performance commitments

What we said in our draft determinations

For draft determination, we proposed applying ODI payments for non-delivery of schemes. However, where schemes are expected to be delivered later than planned, we proposed intervening in the operation of these performance commitments so that non-delivery underperformance payments and payments to recover allowed costs do not apply.²⁸

Instead, where companies are forecasting late delivery or where we identify delivery is likely to be late, we proposed introducing a PR24 price control deliverable for the 2025–30 period to ensure that companies continue to face performance payments in the next period equal to those that apply at PR19 (including taking account of the time value of money). This would mean that time incentive underperformance payments will be made at PR29 in accordance with the price control deliverable (rather than at PR24 in accordance with the PR19 performance commitment definition).

We considered this approach would retain strong incentives to deliver these schemes in the next control period. We proposed applying this policy to the following performance commitments:

- Anglian Water (PR19ANH_39) – Internal interconnection delivery;
- Northumbrian Water (PR19NES_BES29) – Delivery of Howdon STW enhancement;
- Southern Water (PR19SRN_WN13) – Long term supply demand schemes; and
- Wessex Water (PR19WSX_E13) WINEP requirements (Bristol (Avonmouth) STW).

We explained in information notice IN24/01²⁹ that we expect all companies to provide third-party assurance on the progress against end of period performance commitments with their annual performance report submissions in July 2024. This includes those companies where we are proposing price control deliverables.

We said we might update, remove or add additional price control deliverables for other performance commitments, if we consider it appropriate in light of latest information on progress available at the time of the final determination.

Stakeholders' representations

²⁸ The exception to this is PCs relating to direct procurement for customers, which come under a separate process.

²⁹ Ofwat, '[IN2401-Expectations-for-monopoly-company-annual-performance-reporting-2023-24.pdf](https://www.ofwat.gov.uk/in2401-expectations-for-monopoly-company-annual-performance-reporting-2023-24.pdf)' ([ofwat.gov.uk](https://www.ofwat.gov.uk)), April 2024.

Most companies were either supportive of, or did not comment on, our approach to late delivery associated with end of period performance commitments, which we set out in our draft determination.

We summarise company representations on our proposals to set up the PR24 price control deliverables below within the "Override_Additional info" tab of the relevant company's final determination ODI performance model for 2024-25.

- Anglian Water (PR19ANH_39) – Internal interconnection delivery;
- Northumbrian Water (PR19NES_BES29) – Delivery of Howdon STW enhancement;
- Southern Water (PR19SRN_WN13) – Long term supply demand schemes; and
- Wessex Water (PR19WSX_E13) WINEP requirements (Bristol (Avonmouth) STW).

Our assessment and reasons

We assess and respond to company representations on these four performance commitments within the "Override_Additional info" tab of the relevant company's final determination ODI performance model for 2024-25.

Our final determination

For the reasons set out in the "Override_Additional info" tab of the relevant company's final determination ODI performance model for 2024-25, as a result of the latest information on scheme delivery and company representations, our decisions are as follows:

We maintain and update the following price control deliverables:

- Anglian Water (PR19ANH_39) – Internal interconnection delivery;
- Northumbrian Water (PR19NES_BES29) – Delivery of Howdon STW enhancement;
- Wessex Water (PR19WSX_E13) WINEP requirements (Bristol (Avonmouth) STW).

We add the following price control deliverables:

- Northumbrian Water (PR19NES_BES24) – Delivery of water resilience enhanced
- Wessex Water (PR19WSX_SEC) – Security non-SEMD outputs

We remove the following price control deliverable:

- Southern Water (PR19SRN_WN13) – Long term supply demand schemes

We expect all companies to provide third-party assurance on their progress against end of period performance commitments with their annual performance report submissions

in July 2025. This includes those companies where we are introducing price control deliverables.

Companies' submissions should be clear on progress and provide explicit third-party assurance on the elements that may not be delivered at all, the elements that may be delivered late and the expected delivery date(s) of the late elements. This should include assurance of the payments that would be associated with both non delivery and late delivery separately.

Once we have reviewed this information, we will take the approach that we have applied at PR24 to consider whether and to what extent we should intervene, in light of the specific purpose and design of these performance commitments, the PR19 framework and our statutory duties. This will include careful consideration of how to best incentivise companies to continue to deliver these performance commitments. As a consequence, we may decide to update, revise, remove or add price control deliverables for other performance commitments as part of the blind year process if we consider it appropriate in light of the information companies provide.

3.3 Cost reconciliation

3.3.1 Proposal to amend cost sharing for 2024–25

What we said in our draft determinations

For draft determination, we proposed capping the cost overspend sharing rates to 60% for those companies with cost sharing rates that exceed 60% in 2024–25. Because of the step down in cost sharing rate between PR19 and PR24, we wanted to ensure that companies didn't defer spend that might otherwise be incurred in 2024–25 because this would defer associated benefits of that overspend for customers. This proposal affected three companies – South East Water, Southern Water and Thames Water – who have overspend rates that exceed the 60% threshold across one or more price controls in the current period.

Stakeholders' representations

All three companies directly affected (South East Water, Southern Water and Thames Water) supported the proposal. Of the remaining companies, three agreed that the approach would remove incentives to delay spend and six raised no comment. Four identified some concerns with the retrospective nature of the proposed adjustment. We also engaged with the three affected companies separately to ensure that if this proposal was implemented it was applied in a robust way.

Our assessment and reasons

A key focus for us is supporting investment in the sector. It is not unusual for us to adapt and amend our approach where we identify issues that can lead to perverse incentives, which is in the interests of customers and companies. But we are mindful of the need for consistency and transparency.

In this case we consider the proposal to be a targeted, proportionate response to an identified issue. We note concerns about artificially separating incentive rates between years. While we do not consider it appropriate to apply this retrospectively to all years, we note that the timing of the draft determination means that affected companies could not choose to delay spend specifically to benefit from the proposed change.

One company argued that such a change was a material precedent, which should only apply in exceptional and well-defined circumstances, with evidence that the determination was incorrect. While we are cautious about making adjustments to elements of a price control package that has been already set, there is precedent for specific, targeted changes of lower impact – for example changes to specific performance commitments, the treatment of tax in ODI reconciliations and the green recovery and transition spend programmes. We consider this is an exceptional forward-looking adjustment, reflecting forecast sector overspend in 2020–25 and our intention that the regime continues to support investment in 2024–25 particularly given the scale of the 2025–30 investment programme.

Two companies argue we should also adopt this approach for companies with a lower cost sharing rate at PR24 than PR19. We disagree. Such an intervention would be significantly more material and less targeted and would not be proportionate at this late stage of the price review process. Southern Water suggested the sharing rate should be amended to align with the CMA determined cost sharing rate of 55:45. However, we consider this would not be appropriate as this intervention is intended to mitigate perverse incentives for companies for the transition to the cost sharing rates that will apply in 2025–30 period not the rates applied through the appeal process for the 2020–25 control period.

Our final determination

For final determination we apply the draft determination proposal to cap the cost overspend sharing rates to 60% for those companies with cost sharing rates that exceed 60% in 2024–25. As explained above this change affects only three companies – South East Water, Southern Water and Thames Water.

3.3.2 South West Water request to take revenue allowance as RCV

What we said in our draft determinations

For South West Water, we allowed its calculated PR19 cost sharing revenue adjustment to be applied as an RCV adjustment. The company proposed this approach in its business plan to support affordability for customers through lower bill increases and reducing a large step change in bills. We explained that we had considered the company's proposal on its merits and our decision reflects its individual circumstances. We accepted the proposal, noting that the proposed approach:

- changes the speed/ time over which the company receives its share of the costs not the amount recovered;
- achieves a similar outcome to using RCV run-off rates to manage step changes in bill impacts in the 2025-30 period; and
- would mean future customers fund a greater portion of the adjustment than would otherwise be the case, but the expenditure it relates to will include assets providing significant benefit to future customers.

Stakeholders' representations

We did not receive any representations on this issue. In its draft determination response, South West Water's updated models continued to include the full adjustment to the RCV.

Our final determination

Given that stakeholders did not raise any issues and we did not identify any further issues not already taken into account, for final determination we transfer the calculated revenue adjustment to RCV.

In our PR24 methodology we said that during 2025-30 companies will have, as they did during 2020-25, flexibility to use a range of tools to reduce or mitigate bill volatility. This includes the ability to request deferrals within the outcomes framework by deferring some of the impact of ODI payments between years and their approach to setting charges.

We may consider similar future requests to take some or all of the revenue payments, including ODI payments, as an RCV adjustment³⁰. Any such request would be considered on a company by company basis. Were a company to make such a request it would need to demonstrate to our satisfaction that to do so would be in customers interests.

³⁰ How any such adjustment would operate will be considered in the PR24 reconciliation rulebook.

3.3.3 Thames Water gated allowances reconciliation

What we said in our draft determinations

In PR19 we provided Thames Water with two gated allowances: one for London water network improvement of £300 million (2017-18 prices, £354 million in 2022-23 prices) and one for London resilience of £180 million (2017-18 prices, £213 million in 2022-23 prices). For the London network resilience allowance Thames Water is due to make a £400 million shareholder contribution (2017-18 prices, £472 million in 2022-23 prices).

In our draft determination we set out the current position for both elements:

London Water Network Improvement (PR19 conditional gated allowance)

Through the gated process, we agreed in November 2022 for a programme of works to be funded by the conditional allowance and the shareholder contribution. We ultimately allowed around £347 million in 2022-23 prices (£294 million in 2017-18 prices) of customer funded expenditure across a range of agreed interventions. This funding is conditional on a shareholder contribution of £472 million in 2022-23 prices (£400 million in 2017-18 prices) into the London water network. Thames Water is currently delivering against this package and we are monitoring its progress.

We also agreed with Thames Water appropriate customer protection mechanisms if the schemes are not delivered. The customer protection mechanisms include that:

1. Wholesale totex including the shareholder contribution exceeds the PR19 FD of £9.3 billion by a minimum of £400 million (2017-18 prices before cost sharing) across wholesale water and wastewater (additional investment in water cannot be offset by cost savings in wastewater); and
2. The investments included in the £400 million shareholder contribution are delivered in line with the scope and profile of delivery defined at PR19.

These two success criteria will be tested at the end of the investment period defined in the shareholder contribution schedule. Other customer protection mechanisms include:

3. Specified improvements to performance commitments were put in place related to customer funded outputs. Specifically, the works are linked to given improvements in leakage and water mains repairs.³¹

³¹ We amended Thames Water's PR19 Performance Commitments in February 2023 to give effect to these changes. Please see: Ofwat '[Notice of intention to change PR19 final determinations – Thames Water – Outcomes performance commitment appendix](#)', February, 2023.

4. If Thames Water's shareholders do not contribute the £472 million that they have agreed to, a proportionate amount of customer funding will be returned to customers; and
5. Non-delivery incentives to incentivise Thames Water to continue to deliver in the event it meets the above shareholder contribution requirement but has not delivered the agreed schemes.

Thames Water has encountered challenges in delivering customer-funded schemes within the London Water Infrastructure Conditional Allowance (LWICA) on schedule. As a result, some of the LWICA allowance is being carried into the 2025–30 period as set out in, '9.3 PR24 final determinations – Expenditure allowances – Thames Water asset improvement gated allowance appendix'. However, its September 2024 progress report on the LWICA highlighted more rapid progress on schemes supported by shareholder contributions. Thames Water said it was on track to spend the PR19 FD plus £400 million to unlock the LWICA. On the named schemes, Thames Water had spent £382 million as at September 2024 and was forecasting to spend £478 million to complete the schemes. Of this £478 million, £409 million is within AMP7, with a further £69 million of work moving into AMP8. Thames Water explained that scope development and costs above inflation were driving the programme above the original project estimated values.

To ensure that Thames Water delivers the package of commitments it has agreed to, as part of the gated allowance we are monitoring its performance through our Water Company Performance Reports (available on the Ofwat website) and on an annual basis as part of Thames Water's annual performance report. While the company is progressing investment, we are conscious that it has a significant amount of work to deliver in 2024–25 to meet its PR19 commitments. We also note that while an equity injection of £500 million was provided in March 2023, Thames Water has not, so far, overspent its cost allowance in the 2020–25 period.

London Water System Supply Resilience (PR19 conditional gated allowance)

In December 2023, we confirmed the allowable efficient costs for this gated allowance (for eight schemes) as £492 million in 2022–23 prices (£417 million in 2017–18 prices) which included costs up to 2031 with the majority falling in the 2025–2030 period.

The costs schedule of the London Water System Supply Resilience (WSSRP) allowance is shown in table 9 below.

Table 9: London Water System Supply Resilience allowance

£million	2017-18 prices	2022-23 prices
Allowance falling in PR19	26.2	30.9
Allowance falling in PR24	370.2	437.1
Allowance falling in PR29	20.2	23.9
Total allowance	416.6	491.9

As Thames Water will only incur £31 million in costs over the 2020-2025 period, compared to an allowance of £213 million, we have agreed with the company to adjust the PR19 allowances at PR24 to reflect the lower totex amount required in the 2020-2025 period so that it does not impact totex incentives.

Each of the eight schemes we have approved has associated price control deliverables with specified delivery dates. Customer protection mechanisms on WSSRP include commitments from Thames Water to return money to customers in the event of delay and non-delivery of schemes.

Stakeholders' representations

We did not receive any representations on this issue.

Our final determination

We have not changed our approach for final determinations. More information on our PR24 gated allowances for Thames Water can be found in our document 'PR24 final determinations: Expenditure allowances – Thames Water gated allowance appendix'.

3.3.4 Performance related pay recovery

In November 2024, we published our assessment of whether companies' decisions on performance related executive pay (PRP) outcomes for 2023-24 met our expectations.³² We explained that we will protect customers by ensuring that they do not pay for PRP outcomes which are based on decisions that do not meet our expectations. We also explained that this meant that, as a result, we will make an adjustment to some companies' costs for 2023-24, equivalent to the relevant PRP payments for the year, through the cost reconciliation mechanism. Our decision was too late to be taken into

³²Ofwat, '[Protecting customer interests on performance-related executive pay: 2023-24 assessment](#)', November 2024

account in the final determinations. We will therefore make these adjustments as part of the blind year process in Autumn 2025.

The adjustments that we will make are:

- Dŵr Cymru: £163,000
- Thames Water £770,000
- Yorkshire Water: £616,000

3.4 PR19 WINEP reconciliation overview

PR19 WINEP reconciliation policy issues

At the time of the PR19 final determinations, the need for a large part of the Water Industry National Environment Programme (WINEP) in England and the National Environment Programme (NEP) in Wales was uncertain. We therefore included an uncertainty mechanism to allow us to adjust totex allowances for the costs of schemes which were either included in allowances and not required or delivered, or not included in allowances but required and delivered. Both adjustments would be made through an end-of period RCV adjustment in PR24.

What we said in our draft determinations

In draft determinations we set four policy areas for our PR19 WINEP reconciliations: reconciliation of grouped WINEP actions; use of population equivalent data; funding clawback; and funding of uncompleted WINEP actions.

Reconciliation of grouped WINEP actions. We applied an all or nothing approach to reconciling groups of WINEP actions. Where a company WINEP reconciliation model states that an action which is part of a shared outcome allowance group will be delivered after the end of PR19 (after March 2025), the funding for the whole group is clawed back. Where a company has not highlighted delivery beyond PR19 for a given action within a shared outcome group, but the Environment Agency or Natural Resources Wales has confirmed the completion date has been officially extended to a date beyond March 2025 via the WINEP/NEP alteration process then the funding for the whole group is clawed back. For groups of actions, or individual actions that still need to be completed beyond PR19, then the company is refunded or funded (if the actions were unfunded) via the PR19 WINEP carryover model.

Use of population equivalent data. The population equivalent (PE) data utilised in the WINEP reconciliation model is the PE data in the WINEP issued at the time of the PR19 Final Determination and presented in the published PR19 feeder model for

phosphorus removal³³. This is a consistent data set, visible to all companies which was used in calculating PR19 allowances. The only exception to this is the data used for Thames Water where a document specifically referenced in the company's Final Determination³⁴ is utilised as the source of the PE data.

Funding clawback. Funding clawback is the recovery of funded totex in PR19 based upon each company's PR19 Final Determination and WINEP adjustment mechanism. We outlined three categories of clawback:

1. **Removal:** For actions that were funded in PR19 (as per the companies' Final Determination detailed in the Cost Efficiency Appendix³⁵), where a company model states that an action has been removed from the WINEP/NEP and/or is no longer required then the funding is clawed back in the model. Where a company has not highlighted removal, but the Environment Agency or Natural Resources Wales has confirmed the formal removal of an action via the alterations process then the funding for the action is clawed back. As there is no longer a need for these actions they are not refunded.
- **Carry over funded:** For actions that were funded in the PR19 Final Determination, where a company model states that an action that is still required will be delivered beyond the end of PR19 (March 2025) either with or without a formal approved alteration in completion date in the WINEP/NEP then the funding is clawed back in the model. Where a company has not highlighted delayed delivery, but the Environment Agency or Natural Resources Wales has confirmed the formal change in completion date via the alterations process then the funding for the action is also clawed back. For individual actions that still need to be completed beyond PR19, then the company is refunded via the WINEP carryover model.
- **Carry over unfunded:** This is for actions that were un-funded in PR19 that were also an agreed list of actions covered by the uncertainty mechanism. Like the funded amber actions these actions had not been agreed at the time of final determination. Only three companies had an unfunded list of actions within the uncertainty mechanism: Thames Water, Severn Trent Water and United Utilities. For United Utilities this only included four actions. Of these three companies Severn Trent Water and United Utilities confirmed all unfunded actions have or will be delivered by the end of PR19. This was reflected as additional funding in their WINEP reconciliation models.

Where a returned model includes some unfunded actions that are still required but will not be delivered until beyond the end of PR19 (March 2025), then the company will be

³³ Ofwat, [FM_E_WWW_p-removal_FD.xlsx \(live.com\)](#), 'Final WINEP reconciliation' tab contains a list of all funded PR19 phosphorus actions and includes the PE data, in column BN from row 39, December 2019.

³⁴ Ofwat, ['PR19 final determinations: Thames Water - Cost efficiency final determination appendix - Ofwat'](#), May 2020.

³⁵ Ofwat, ['Final determinations - Ofwat'](#), 2019.

funded for these via the WINEP carryover model.³⁶ Only Thames Water had actions within this category.

Funding of uncompleted WINEP actions. Where WINEP schemes have not been completed by March 2025 then PR19 funding is clawed back. Where actions still require completion to comply with WINEP/NEP, they are funded in PR24 through the PR19 WINEP carryover model. Carry over PR19 WINEP actions will be covered by a price control deliverable (PCD), with both non-delivery and time incentive rates, to encourage companies to complete schemes as quickly as possible. We propose to spread the PR19 carry over allowance evenly over the five years of AMP8 to provide a consistent approach across all companies.

Stakeholders' representations

We did not receive specific representations from the companies regarding our WINEP reconciliation policies. Companies made comments on individual clawback and carry over allocations within PR19 WINEP reconciliation and carryover models.

We received WINEP reconciliation model returns from several companies in draft determination representations. Of these Hafren Dyfrdwy, Affinity Water and Dŵr Cymru confirmed acceptance of the draft determination WINEP reconciliation models.

South Staffs Water and United Utilities returned a copy with no changes to the draft determination model. South West Water (Bristol Area and South West Area), Yorkshire Water, Severn Trent Water, Wessex Water and Anglian Water returned copies of the model with suggested amendments.

Northumbrian Water and Southern Water did not return a company model in their draft determination representations but confirmed through the query process that some model amendments were required. Thames Water did not return a company model but submitted a proposal requesting additional funding to deliver WINEP AMP7 actions from a range of different cost pressures and cost escalations, particularly across its WINEP wastewater programme.

United Utilities, Southern Water, Severn Trent Water, Wessex Water and Northumbrian Water commented on certain aspects of the PCD approach for PR19 carryover actions. For additional detail on PCD associated stakeholders' representations, our assessment and reasons, and final determination decisions please refer to the '9.6 PR24 final determinations – Price control deliverables appendix' document.

³⁶ Either with or without a formal approved alteration in completion date in the WINEP/NEP, or, where a company has not highlighted delayed delivery, but the Environment Agency or Natural Resources Wales have confirmed the formal change in completion date via the alterations process.

Our assessment and reasons

We are not making any changes to our WINEP reconciliation policies in final determinations. In terms of individual clawback and carry over action allocations, where more evidence was required to gain further understanding to enable decision making, we queried companies and the Environment Agency.

Company models that have had model input updates since draft determination publication are Anglian Water, Northumbrian Water, Southern Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water and South West Water (Bristol Area and South West Area). Details of publication funding clawback challenges for PR24 final determinations and amendments, made in conjunction with companies, are set out in the issued final determination company specific PR19 WINEP reconciliation models. To enable companies to see differences between draft determination and final determination models, each of the published final determination WINEP reconciliation models retain draft determination commentary as well as include new final determination commentary where further amendments have been made.

Severn Trent Water stated that 11 wastewater carryover actions were not funded at the PR19 Final Determination so they should be removed from the model. Severn Trent Water also stated that 16 water actions had been delivered in AMP7 so the model should not claw back these actions. After an extensive query process with Severn Trent Water, we have decided to continue to clawback 11 wastewater actions from its WINEP reconciliation model. We recognise that 16 water carryover actions, that were allocated in the PR19 Final Determination as funded in PR19, have been delivered in AMP7 so there is no claw back in its WINEP reconciliation model. Severn Trent Water have confirmed these actions were fully funded at PR19.

We have also updated Thames Water final determination PR19 WINEP reconciliation model for the errors in five actions we identified in draft determinations. This has resulted in additional allowance clawed back within the PR19 WINEP Reconciliation model and additional refunding/funding within the PR19 WINEP carry over model.

For the final determination we assessed Thames Water's updated enhancement claim for additional funding to complete delivery of its AMP7 WINEP obligations. We are providing an additional allowance to the company where the scope of schemes has increased since PR19, for example to accommodate additional growth. Our assessment of this claim determined that an allowance should be made for the company to deliver the 66 carryover actions which were due to be completed by 2030 which are detailed in the PR19 WINEP carryover model. In addition, we carried out deep dive assessments of the remainder of this enhancement claim where the company provided sufficient and convincing evidence that additional funding was needed (see 'PR24CA103 PR19 WINEP Carryover.xlsx').

Our final determination

We maintain our draft determination approach on our WINEP reconciliation policies for the final determination. We also maintain the view that in all cases the WINEP reconciliation model should not include any additional funding allowance requests. We stick to agreed allowances included in company's PR19 Final Determination published document. Allowances are applied as part of the PR19 Final Determination package that companies accepted as determined at PR19. Uncertain (amber) PR19 WINEP actions, that were unfunded at the time of PR19, appear in the PR19 Final Determination as 'unfunded and will be delivered' do not count as an additional funding request.

PR19 WINEP reconciliation model summary

In the PR19 WINEP reconciliation models for publication at final determinations, we fixed the error we identified at draft determinations where we input incorrect values for the PR19 Weighted Average Cost of Capital (WACC) for Anglian Water, Northumbrian Water, Yorkshire Water and South West Water (Bristol area) Portsmouth Water and South Staffs Water. We also fixed the error we identified in our PR24 draft determination RCV adjustments feeder model, whereby the WINEP / NEP RCV adjustments for 2022–23 and 2023–24 have been incorrectly excluded. We also note that at final determinations the funding in the PR19 WINEP carryover for publication has been adjusted using the company specific Weighted Average Cost of Capital (WACC) for PR19.

Total PR19 WINEP reconciliation is zero (indicating all PR19 WINEP actions will be completed) for three companies: Hafren Dyfrdwy, Affinity Water and South Staffs Water. The reconciliation models for United Utilities and Severn Trent Water generate net additional funding for unfunded actions within the uncertainty mechanism. Reconciliation models for all other companies generate a net funding clawback. For Thames Water the net clawback, is after additional funding for some unfunded actions.

Table 10, summarises the number of actions for:

- PR19 WINEP reconciliation model clawbacks and funding; and
- WINEP carryover model refunding/funding.

Table 10: FD Model Output Summary

Company	PR19 WINEP/NEP Reconciliation			PR19 WINEP carry over
	Clawbacks		Funding	Refunding
	Funded actions not delivered before the end of PR19 but still required	Funded actions removed from WINEP/NEP	Unfunded actions likely to deliver in PR19	Actions still need to be delivered
Anglian Water	21	3		21
Dŵr Cymru		1		
Northumbrian Water	3			3
Severn Trent Water		31	68	
South West Water – Bristol Area		1 ³⁷		
South West Water		9		
Southern Water	14	1		14
Thames Water	42		3	66 ³⁸
United Utilities	9	3	4	9
Wessex Water	1			1
Yorkshire Water	4	8		4

3.5 Amending the timing of the RCV midnight adjustment

What we said in our draft determinations

In the draft determination, in response to company proposals to support investment in 2024–25 we said that we were intending to apply the RCV midnight adjustment on 31 March 2025. This was a change from our existing approach, which applied the RCV midnight adjustment on 1 April 2025. We said that, given the materiality of the RCV adjustments at PR24, we considered this proposal to be a reasonable approach, as it will support companies to continue to raise finance in the 2024–25 period, aligns the RCV reconciliation adjustments to the period to which they apply and was unlikely to

³⁷ This includes 1 funded South West Water – Bristol area action with a revised delivery date of March 2035. This action has been removed from the draft determination carry over model as the model mechanism does not manage carry over to PR29. Please see company WINEP reconciliation model input tab comments for further information.

³⁸ This includes 24 unfunded actions that were agreed for expenditure allowance at PR19 final determination. 1 funded action which is part of a combined group of 5 actions where the remaining actions have not been delivered and so we clawback funding for this action alongside the rest of the actions and refund as part of PR24.

have any negative consequences for customers. We sought views on this proposed approach.

Stakeholders' representations

Companies generally agreed with this approach. Some companies suggested further engagement as part of the APR25 consultation and queried whether this would apply in future control period and was a move to update annual RCV values.

Our assessment and reasons

As explained in the draft determination, we consider the proposed approach supports investment in 2024–25 and was unlikely to lead to any negative consequences for customers. The PR24 draft determinations representations did not identify concerns and were generally supportive. For most companies, it will increase regulatory RCV at 31 March 2025 and reduce reported regulatory gearing than would otherwise be the case, providing additional funding headroom for 2025–26.

At this point, we do not assume that a similar adjustment will apply at PR29 or beyond. Any future decision will depend on the circumstances and benefits and risks identified at that time.

We do not currently intend to update the RCV within the price control period. This is because adjustments may not be final until the end of the period, for example, totex is a five year allowance. We note for example that the past delivery reconciliations included in this price review for the 2020–25 period add £4.2 billion to the RCV at a sector level.

Our final determination

For the reasons stated above, we retain the approach proposed in draft determination. The RCV annual update we publish in 2025 will contain the RCV reconciliation adjustments in the figures stated as at 31 March 2025.

3.6 Gearing outperformance sharing mechanism (GOSM)

What we said in our draft determinations

For the draft determination, we proposed not to apply the GOSM mechanism as part of the PR19 reconciliation process or for the 2025–30 period. This reflected both the fact that the CMA disapplied the mechanism to companies that appealed the PR19 determinations and that, since PR19, we modified the regulatory ring-fence licence conditions to strengthen customer protections against poor levels of financial

resilience. We also recognised that the application of the GOSM would reduce funds available to companies that could otherwise be used to improve performance levels.

Stakeholders' representations

All the companies that responded on this proposal agreed with the decision to remove the GOSM from PR19 reconciliations, although United Utilities Water noted that retrospective policy changes should only occur in exceptional circumstances.

Consumer Council for Water (CCWater) suggested we reintroduce a financial outperformance mechanism, so customers get a share of any windfall from high gearing, lower cost financing, or changes to inflation and interest rates.

Our assessment and reasons

The GOSM has not operated as intended over the 2020–25 price control period, with the reported cost of debt being higher than the fixed nominal cost of equity used in the calculation. As stated at draft determination, the CMA did not include the mechanism in the determinations of the companies that appealed their PR19 determinations and we have modified the regulatory ring-fence licence conditions to strengthen customer protections against poor levels of financial resilience since PR19. We also recognise that the application of the GOSM would reduce funds available to companies that could otherwise be used to improve performance levels.

We do not consider it is necessary to introduce a financial outperformance mechanism in our final determinations. Our allowance for the cost of new debt is indexed, ensuring that that customers will benefit from any reductions to the market cost of debt rates. Our updated licence conditions require dividends declared or paid to take account of service delivery for customers and the environment over time. Our dividend guidance sets out that we would not expect benefits that accrue as a result of high inflation to be distributed if this is not linked to operational performance or the prudent actions of management in terms of managing financial risks to the regulated business.

Outside of the price control, we continue to monitor companies' financial performance and resilience, and we engage with those companies where identify any concerns over the level of financial headroom. We have set out that we will consider further protections for customers with a view to consulting on these in 2025.

Our final determination

We confirm that we have not applied the PR19 GOSM reconciliations in our PR24 final determination. Further details are set out in '[PR24 Draft determinations: Aligning Risk and Return appendix](#)'.

3.7 Strategic Regional Water Resources reconciliation model

As part of our PR19 final determinations, we funded the development of strategic water resource options (SROs) to progress to construction readiness. We introduced a stage-gate process linked to key progression milestones. We recognised that over the 2020-25 period solutions may fall away for technical or environmental reasons or that progress may be slower than anticipated when we determined the allowances. As a result, we put in place an end of period reconciliation to return money to customers depending on the extent of progress.

What we said in our draft determinations

At draft determinations, we acknowledged that as a result of the CMA redeterminations, proposed changes in partnership arrangements for solutions and policy clarifications made as part of the gate two decisions, resulted in us making changes to the strategic regional water resources reconciliation model. We shared the revised model with the water companies for comment.

We recognised that most solutions were working towards their gate three submissions, with a few expected to make this milestone ahead of March 2025. We noted any further changes that may arise from gate three decisions will be picked up ahead of Final Determinations, or if later, the blind year process.

Stakeholders' representations

We received responses from Affinity Water, Anglian Water, United Utilities, Wessex Water and Yorkshire Water as part of company representations.

South West Water, Severn Trent Water, South Staffs Water and Southern Water returned copies of this reconciliation model to us with no changes. Thames Water returned a copy to us post representation period.

Anglian Water states that they disagreed with Ofwat's published model for draft determinations as they were unable to reconcile the outputs produced. They suggested that the model was clawing back too much for expenditure towards partially completed gates resulting in errors in the final RCV and revenue adjustment calculations.

Similarly, United Utilities raised a similar concern regarding the clawback of allowances where the allocation of shares in the partnership had changed. The calculated adjustments could be reconciled for the increased Thames water share of the Severn to Thames Transfer solution, but the model was clawing back more than

expected where United Utilities and Severn Trent were required to return money to customers due to the reduce share in the project development.

Affinity Water notes it has updated its model in light of better evidence on scheme expenditure forecasts for 2024-25.

Wessex Water submitted a superseded version of the model which had originally been published in March 2024 rather than the version that published as part of the draft determinations. It does not agree with the model outputs.

Additionally, Yorkshire Water states the model is producing an output much lower than expected and therefore considers the model does not function correctly. Yorkshire Water did not submit a model back to us for this reason.

In most cases, companies suggested that there were errors in the model because they could not reconcile the outputs of the model to their view, but had not identified specific calculation errors, except for United Utilities. Further engagement with water companies highlighted that there were differing interpretations with respect to the treatment of gated expenditure where the development phase straddled the end of the 2020-25 period and the early part of the 2025-30 period.

Our assessment and reasons

The differing interpretations of how expenditure should be treated with respect to the reconciliation model has contributed, in part, to the differences in views. We have undertaken a thorough review of the model and identified a small number of calculation errors which means that the published version at draft determinations did not function as intended under specific circumstances.

We have amended the model. For funded schemes, these amendments are in relation to solutions where there have been changes in partnership arrangements. The model clawing back part of the allowance twice through the adjustment for recovery of unused allowances given the gate that the project had reached, and again through the adjustment for change of partnership arrangements.

In addition to this, we also recognised that for unfunded schemes the time value for money adjustment was not being applied correctly to the final model outputs when calculating the RCV and revenue adjustment, and therefore agree with the issue raised by Anglian Water and Yorkshire Water.

We have allowed solution owners to keep any unused gate one and two underspend, consistent with our policy position of allowing those monies to be carried over to support funding of gate three activities. However, we note that some companies had

assumed that the unused underspends would be returned to customers. The funds that are returned to companies are expected to be ringfenced within the strategic resource option portfolio to provide additional contingency for development spend in the 2025-30 period.

We continued to find inconsistencies in the input data water companies had included within their representation responses against actual and forecast data which had been previously provided to RAPID. We queried companies on this and noted we would intervene where necessary for final determination unless justified evidence was provided.

Our final determination

For final determinations, we publish a new version of this model. Changes to the model include amendment to the calculation in relation to changes in partnership arrangements and the final RCV and revenue adjustments for unfunded schemes.

Additionally, we recognise that no solutions are expected to reach the gate four milestone before March 2025 and therefore we have made the decision to remove cost sharing from the model because there would be no instance where this would be triggered.

We have flagged within each company model where interventions have been made and the source of the input data which has been used, particularly regarding expenditure towards incomplete gates and the additional gate three allowances. These were areas where the approaches were not aligned to the policy approach that we have previously set out. As noted at draft determinations, any further adjustments that need to be made will be managed through the blind year process.

3.8 Updated ASHE figures for the wage reconciliation

In October 2024 the Office for National Statistics published its provisional 'Earnings and hours worked' dataset for 2024.³⁹ For the final determination, we have updated the cost reconciliation model inputs to reflect the most recent ASHE data in table 4.5 and reforecast the final years' data using the same wage rate growth as our PR19 final determinations and companies' inflation forecasts.

³⁹ Office for National Statistics, '[Earnings and hours worked, industry by two-digit SIC: ASHE Table 4](#)', October 2024.

3.9 Business retail model

What we said in our draft determinations

In the draft determination, we did not apply a PR19 reconciliation adjustment to business retail costs. Our PR24 methodology proposed to check compliance through the annual performance report (APR) process and we did not envisage building a separate model.

Stakeholders' representations

Through the PR24 query process, Dŵr Cymru informed us that it had submitted a proposed reconciliation model as part of its PR24 business plan for consideration. The company submitted an updated version of its reconciliation model in its response to our draft determination.

Our assessment and reasons

We have assessed Dŵr Cymru's proposed reconciliation model as part of our final determination. The approach is consistent with the setting of PR19 business retail allowances, and the adjustment is material. We have therefore applied an adjustment in our final determination to both Dŵr Cymru and Hafren Dyfrdwy.

We have checked the submission by Dŵr Cymru against the information provided in the company's APRs. The company also calculates allowed revenue using the formula set out in the PR19 final determination notification.⁴⁰ We agree with the company that an adjustment should be made for the final determination.

Our final determination

We apply a PR19 reconciliation for the business retail price control in our final determination. See the 'PR19 Business retail revenue reconciliation' models for more information.

3.10 Sector wide updates to reconciliation models since the draft determination

The final determination includes changes and updates to reconciliation models not included in the draft determinations. Some were identified too late to be included in draft determination. Others were identified by stakeholders in their responses to the

⁴⁰ [Notification of the final determination of price controls for Dŵr Cymru, December 2019.](#)

draft determinations. Where applicable these individual changes are set out in detail in a relevant company's specific reconciliation models. Changes which affect a significant number of companies are summarised below:

- As explained in section 3.4, we update the RCV feeder model to include 2022-23 and 2023-24 WINEP adjustments along with 2024-25 adjustments. This leads to a further reduction in RCV of around £121m compared to the draft determination.
- We adjust the revenue forecasting model to reflect rechargeable income for 2020-25. During 2020-25 we confirmed that we would make an adjustment for rechargeable income at PR24. This was because rechargeable income was incorrectly excluded from price controls at PR19. The adjustment was not included in our draft determination. We have now queried all companies to clarify the amount of rechargeable income across 2020-25 and we adjust the models to account for this. This provides companies with an additional £85m (2024-25 prior November (CPIH deflated) prices) of revenue compared to draft determination.

At draft determination we said we had updated inputs for companies related to tax and capital allowances and set out a proposed correction of the RPI-CPI wedge model for final determination (see sections 3.6 and 3.8 of [PR24 draft determinations: Accounting for past delivery](#)). We received no comments from stakeholders and retained both these changes for final determination. Any other specific issues related to tax are covered in the relevant company model.

3.11 Bespoke adjustments

Our final determination includes a number of bespoke adjustments, which take account of issues such as the impact of restatements of prior years' performance, adjustments to reflect changes in a company's tax position or where we are correcting an error in our modelling.⁴¹ These were identified by stakeholders in their APRs and responses to the draft determination.

⁴¹ This is consistent with our modelling approach to calculating ODIs in-period in 2021, 2022 and 2023. Actual ODI payments for 2023-24 and forecast payments for 2024-25 and any associated bespoke adjustments form part of the PR24 final determination modelling.

Table 11: Bespoke adjustments in the final determination (£ million 2017-18 CPIH deflated prices)

Company	Reason	Value
Anglian Water	Restated leakage performance in 2022-23	-£1.8200
Dwr Cymru	Restated sewer collapses performance in 2020-21	+£0.0014
Hafren Dyfrdwy	Restated leakage performance in 2020-21, 2021-22 and 2022-23	-£0.0816
Thames Water	Restated leakage performance in 2020-21, 2021-22 and 2022-23	+£1.6868
United Utilities	Restated internal sewer flooding, sewer blockages and external flooding incidents performance in 2020-21, 2021-22 and 2022-23	-£2.8964
Wessex Water	Restated mains repairs performance in 2022-23	-£3.2742
Yorkshire Water	D-MeX performance payment correction in 2020-21	+£0.6413

We provide further explanation for these bespoke adjustments in the 'Override_Additional info' sheets of the final determination ODI performance models for 2024-25 for these seven companies.

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is a non-ministerial government department.
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