

October 2021

**Draft determination of Dŵr Cymru's
in-period outcome delivery incentives
for 2020-21**

Ofwat

About this document

This document provides our draft decision on the extent to which the price controls set by our [PR19 final determinations](#) need to be adjusted to reflect Dŵr Cymru's performance for the 2020-21 Charging Year, under [Part 3A of condition B](#) of the company's licence. The specific changes, and our reasons for these, are set out in this document and [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#), which concerns the impact of our draft determinations across the companies.

We also publish models related to our draft determinations on our [website](#).

Executive summary

This section sets out the results of our 2020-21 in-period outcome delivery incentives (ODI) assessment for Dŵr Cymru. ODIs are the financial or reputational consequences for companies of outperformance or underperformance against its performance commitments. Performance commitments are the pledges companies made to their customers and stakeholders at the 2019 price review (PR19) about service levels to make progress towards their outcomes.

'In-period' ODIs bring ODI payments closer in time to when customers experience a given level of performance. We do this through an annual reconciliation process between July and November following the relevant reporting year, in this case 2020-21. The results of our assessment for 2020-21 will affect Dŵr Cymru's bills in the 2022-23 charging year.

For 2020-21 Dŵr Cymru reported total net underperformance payments of £7.494m against its performance commitments with in-period outcome delivery incentives, excluding C-MeX and D-MeX. We have assessed the company's performance against its performance commitments. In our draft determination we are intervening on the following performance commitments:

- Per capita consumption (PCC) – in line with our July consultation proposals, we are changing the timing of payments for this performance commitment to end of period.
- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £2.014m and a D-MeX underperformance payment of £0.354m, based on assessment of 2020-21 company performance in our draft determinations.

See sections 2.2, 2.3, and 3.1 for details of our interventions.

In our draft determination we propose that the amount of revenue the company can recover from customers in 2022-23, as a result of its performance against its performance commitments with in-period ODIs in 2020-21, is reduced by £4.524m. This figure includes C-

MeX and D-MeX payments but is before adjustments for inflation, tax and other relevant factors.

Contents

1. Introduction	4
1.1 Background	4
1.2 Purpose of this document	4
2. Results of our assessment	5
2.1 Reported performance.....	5
2.2 Key interventions.....	5
2.3 Payment deferrals and abatements	5
3. Impact of 2020-21 in-period ODI assessment on price controls	8
3.1 Our draft determination	8
4. Next steps	12

1. Introduction

1.1 Background

Dŵr Cymru's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Dŵr Cymru - Outcomes performance commitment appendix](#).¹ Most of the company's performance commitments have financial incentives which are paid 'in-period'. This brings ODI payments closer in time to when customers experience a given level of performance. The remaining financial incentives are end of period.

Dŵr Cymru reported its performance against these performance commitments in its annual performance report (APR) in July 2021. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with [Part 3A of condition B](#) of its licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations). Our determination, when finalised, will affect Dŵr Cymru's customers' bills from the 2022-23 charging year.

As set out in the PR19 final determinations, outperformance payments above 3% of a company's wastewater or water regulatory equity for that year are shared with customers. This means companies receive 50% of outperformance payments above this threshold. This aggregate sharing mechanism automatically applies to all ODI payments except to the customer measure of experience (C-MeX), developer measure of experience (D-MeX) and those allocated to retail price controls.

1.2 Purpose of this document

This document provides detailed information relating to the extent to which the price controls for the 2020-25 period need to be adjusted to reflect Dŵr Cymru's performance for the 2020-21 Charging Year. These changes are the result of the company's performance against its in-period ODIs as set out in the PR19 final determinations. This is our draft decision for consultation. We welcome your views by 21 October 2021 as set out in section 4. We will make our final determinations by 15 November 2021.

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, by the annex 2 process. Annex 2 of the company's performance commitment appendix provides for changes and corrections to be made to its performance commitment definitions during the 2020-25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

2. Results of our assessment

2.1 Reported performance

Dŵr Cymru's reported performance for 2020-21 against its performance commitments with in-period ODIs is set out in table 3.1 below. The company's largest individual underperformance payment was £2.796m for its water supply interruptions performance commitment. The company's largest individual outperformance payment was £0.660m for its sewer flooding on customer property (external) performance commitment.

2.2 Key interventions

We are not proposing any interventions in our draft determination, other than for C-MeX and D-MeX and for per capita consumption as set out sections 2.3 and 3.1.

2.3 Payment deferrals and abatements

As set out in our [PR19 final determinations](#) and the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments on individual performance commitments. A deferral results in us delaying when the adjustment will be made to companies' revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment in the subsequent charging year.

Per capita consumption

Dŵr Cymru requested to defer underperformance payments for its per capita consumption performance commitment for 2020-21. In our [July 2021 consultation](#) on changing the timing of our determination of the value of ODI payments for per capita consumption performance commitments, we proposed that this should be end of period for all companies. Prior to our July 2021 consultation, we had asked relevant companies to include ODI payments arising from their per capita consumption performance commitments in the deferrals function of the in-period adjustments model. We now consider it would be more appropriate to reflect this proposed treatment through the ODI performance model, ensuring consistency with our policy proposals and ensuring that all ODI payments accrued during the 2020-25 period can be applied at PR24, when we will make our final decisions.

Community education

Dŵr Cymru requested that we intervene to remove its reported underperformance of £0.112m on its community education performance commitment. We set out our approach to assessing

company requests for interventions, abatements and deferrals due to the impact of Covid-19 in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#). We understand that Dŵr Cymru's ability to carry out education activities has been affected by the Covid-19 lockdown, and we note that the company has adapted to use virtual and digital delivery methods.

Based on the evidence provided we consider that the company has demonstrated that Covid-19 has impacted performance on this performance commitment and that the company has adapted. However, the purpose of the visits, outreach and open days in the performance commitment is to provide an interactive, face to face, experience in order to meet the intended quality of education. We consider that engagement through live, interactive online sessions with company representatives are sufficient to replicate a face to face experience, but that website materials or other self-guided activities fall short of this requirement. We also note that other companies facing similar circumstances, who have adapted their delivery methods in a similar way, have met the targets for their education performance commitments.

In our draft determination, we are not intervening to remove Dŵr Cymru's underperformance payment of £0.112m. In its response to this consultation, the company should confirm the total number of individuals who have participated in direct, or virtual, sessions with company representatives for a minimum of 15 minutes, so that we can make a final determination.

Visitors to recreational facilities

Dŵr Cymru requested that we intervene to remove its reported underperformance of £0.530m on its visitors to recreational facilities performance commitment. We set out our approach to assessing company requests for interventions, abatements and deferrals due to the impact of Covid-19 in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#).

Dŵr Cymru stated that Covid-19 measures meant that individuals were not able to visit its sites and/ or it could not open its sites to normal capacity and that, in the circumstances, under performance payments for 2020-21 are not appropriate. We recognise that Covid-19 affected this performance commitment during 2020-21. We note the steps that Dŵr Cymru took to adapt its behaviour and respond to the new circumstances. However, we also need to consider whether the evidence provided demonstrates that intervening would be in customers' interests and would retain incentives on the company to deliver the relevant outcome.

We note that, in the absence of overseas travel and the very high level of demand for domestic holidays and day excursions, it seems likely that the company might see rapid recovery or potentially outperformance of this performance commitment in future years. In requesting that we intervene, the company has not sought to quantify these potential

benefits. We also note that opening of a refurbished visitor centre at one site in June 2021, which had been closed for two years is also likely to increase visitor numbers going forwards.

Based on the evidence provided, the wider considerations set out in [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#) and the specific operation of this performance commitment, which is to provide benefits to customers through access to company facilities, we consider that intervening now to adjust the company's underperformance payment is not consistent with the allocation of risk assumed within the regulatory framework.

In our draft determination, we are therefore rejecting Dŵr Cymru' request that we intervene to remove its underperformance of £0.530m on its visitors to recreational facilities performance commitment.

3. Impact of 2020-21 in-period ODI assessment on price controls

3.1 Our draft determination

In this section we outline the financial impacts of our draft decisions. First, we set out our view compared to the company's requested ODI payments in Table 3.1.

Table 3.2 sets out the C-MeX and D-MeX payments included in our draft determination.

Table 3.3 summarises the overall ODI payments, after other payments and relevant adjustments, that the company is due based on its performance in 2020-21.

Table 3.4 sets out our draft decisions on deferrals and abatements and how we propose that these payments should be applied in 2022-23.

Table 3.5 sets out the impact of our draft decisions on the company's relevant price controls.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 3.1: In-period ODI payments for 2020-21 by price control (excluding C-MeX and D-MeX)

This table sets out the in-period ODI payments requested by Dŵr Cymru for 2020-21, by price control, and our draft determination on these payments after any interventions.

Further detail on how these overall numbers have been derived is set out in the ODI performance model, which we have published on our website as part of the draft determinations. Where we have applied interventions, this is set out in "Ofwat_PC_Interventions" in the ODI performance model for this company.

Price control	Company's reported payments (£m)	Our draft decisions after interventions (£m)	Difference (£m)
Water resources	-0.530	-0.530	0.000
Water network plus	-6.357	-5.047	1.310
Wastewater network plus	-0.591	-0.591	0.000
Bioresources	0.454	0.454	0.000
Residential retail	-0.308	-0.308	0.000
Business retail	-0.162	-0.162	0.000
Total payments	-7.494	-6.184	1.310

See section 2.2 for details of our interventions on the company's performance commitments.

Table 3.2: C-MeX and D-MeX payments

Our draft determinations include the following C-MeX and D-MeX payments for this company:

Price control	C-MeX payments (£m)	D-MeX payments (£m)
Residential retail	2.014	n/a
Water network plus	n/a	-0.239
Wastewater network plus	n/a	-0.115
Total payments	2.014	-0.354

We have taken the data from the APR submissions and compared this against the recorded data from our survey agent, Accent.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

Table 3.3: ODI payments including C-MeX, D-MeX, bespoke adjustments and deferrals from 2019-20 (before 2020-21 deferrals and abatements)

This table sets out the composition of total ODI payments, including C-MeX and D-MeX, brought forward deferrals and bespoke adjustments where relevant, but before our draft decisions on 2020-21 deferrals and abatements.

Price control	Ofwat view of in-period ODI payments (£m)	C-MeX and D-MeX payments (£m)	ODI payments deferred from 2019-20 (£m)	Bespoke adjustments (£m)	Total ODI payments (£m, before 2020-21 abatements and deferrals)
Water resources	-0.530	0.000	0.000	0.000	-0.530
Water network plus	-5.047	-0.239	0.000	0.000	-5.286
Wastewater network plus	-0.591	-0.115	0.000	0.000	-0.706
Bioresources	0.454	0.000	0.000	0.000	0.454
Residential retail	-0.308	2.014	0.000	0.000	1.706
Business retail	-0.162	0.000	0.000	0.000	-0.162
Total	-6.184	1.660	0.000	0.000	-4.524

Table 3.4: 2020-21 ODI payments after deferrals and abatements

This table sets out our draft decisions on the ODI payments to be applied, after deferrals and abatements, as set out in the in-period adjustments model published on our website.

Price control	Total ODI payments (£m, before 2020-21 deferrals and abatements)	Ofwat proposed deferrals (£m)	Ofwat proposed abatements (£m)	Total ODI payments to be applied in 2022-23 (£m)
Water resources	-0.530	0.000	0.000	-0.530
Water network plus	-5.286	0.000	0.000	-5.286
Wastewater network plus	-0.706	0.000	0.000	-0.706
Bioresources	0.454	0.000	0.000	0.454
Residential retail	1.706	0.000	0.000	1.706
Business retail	-0.162	0.000	0.000	-0.162
Total	-4.524	0.000	0.000	-4.524

See section 2.3 for our decisions relating to deferrals and abatements for this company.

Table 3.5: Changes to price controls (draft determinations)

This table sets out the impact of our draft decision on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#) for how we propose to apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Previous determination	6.76	5.09	2.49	-4.59
	Revised	6.76	3.25	4.28	-4.59
Water network plus (K factors)	Previous determination	-5.71	1.39	-1.24	0.26
	Revised	-5.71	-1.25	1.33	0.26
Wastewater network plus (K factors)	Previous determination	-0.30	-1.07	-1.29	-1.45
	Revised	-0.30	-1.31	-1.05	-1.45
Bioresources (unadjusted revenue, UR_t – £m, 2017-18 Nov CPIH prices)	Previous determination	34.573	34.926	35.278	35.630
	Revised	34.573	35.487	35.278	35.630
Residential retail (total revenue, TR_t – £m, nominal prices)	Previous determination	46.830	47.340	47.850	48.357
	Revised	46.830	49.664	47.850	48.357
Business retail (allowed average retail cost component, rc_t – £, nominal prices)	Previous determination – water supplies < 50 Ml	31.06	31.06	30.97	31.04
	Revised – water supplies < 50 Ml	31.06	29.98	30.97	31.04
	Previous determination – wastewater services	40.81	41.01	41.12	41.44
	Revised – wastewater services	40.81	39.51	41.12	41.44

We have based Dŵr Cymru's draft determination on the data and commentary provided to us by Dŵr Cymru. Should any of this information be revised or restated in future years, we will take account of adjustments we have made to the relevant price control in relation to the performance commitment(s) in question in making future in-period determinations.

4. Next steps

We welcome any written comments or representations on our draft decisions by **21 October 2021**. Representations can be made by all stakeholders. Representations can be sent to our inbox OfwatPandO@ofwat.gov.uk.

To ensure transparency, we expect companies to publish their representations in full. We also intend to publish all the written representations we receive on our website once we set out our final decisions.

In view of this, if respondents consider that some of the information in their representations should not be disclosed (for example, because they consider it is commercially sensitive information) they should identify that information and explain why. We would expect strong, robust reasons that are specific to the information concerned. We will take such explanations into account, but we cannot give an assurance that information included in representations will not be disclosed.

Information provided in response to this document, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

Where companies are making representations, they should consider what further evidence may be necessary to submit with their representations.

We will publish our final decisions by 15 November 2021, after considering representations from all stakeholders.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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

© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL