

October 2022

Draft determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22

Ofwat

About this document

This document provides our draft determinations on the extent to which the price controls included in our [PR19 final determinations](#) need to be adjusted to reflect Dŵr Cymru's performance for the 2021-22 charging year, under [Part 3A of condition B](#) of the company's licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations).

The specific adjustments, and our reasons for these, are set out in this document and in our [Sector overview: Draft determinations of in-period outcome delivery incentives for 2021-22](#).

We also publish models related to our draft determinations on our website.

We welcome your views by 21 October 2022. We will make our final determinations by 15 November 2022.

Background

At the 2019 price review (PR19), companies made performance commitments (PCs), or pledges, to their customers and stakeholders about the service levels they would meet to make progress towards their outcomes. Dŵr Cymru's performance commitments for the 2020-25 period are set out in [PR19 final determinations: Dŵr Cymru - Outcomes performance commitment appendix](#).¹

Each performance commitment has an outcome delivery incentive (ODI) that provides either financial or reputational consequences for companies of outperforming or underperforming their performance commitments. Many of the financial ODIs are paid during the 2020-25 price control-period. The reason for this is to bring payments closer in time to when customers experience a given level of performance. The remaining incentives are paid at the end of the period.

ODIs act as an incentive for companies to deliver their committed levels of performance, returning funding to customers for foregone benefits if they deliver less than is expected. Companies that go beyond and deliver greater benefits than expected to customers and the environment can receive outperformance payments.

Dŵr Cymru reported its performance against these performance commitments in its annual performance report (APR) in July 2022. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

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

determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with Part 3A of Condition B of each company's licence.

We will make our final determination by 15 November 2022. This will affect Dŵr Cymru's customers' bills from the 2023-24 charging year.

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' Per Capita Consumption (PCC) ODI payments for the 2020-21 to 2023-24 charging years to the end of the 2020-25 period. We set out this decision and the reasons for it in this [decision document](#) which we published after having considered stakeholder responses to our July 2021 consultation.

Executive summary

Having assessed Dŵr Cymru's performance against its performance commitments in 2021-22, the ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £1.492m and a D-MeX underperformance payment of £0.129m, based on the assessment of 2021-22 company performance;
- Pollution incidents - we are intervening to increase Dŵr Cymru's outperformance payment by £0.049m because National Resources Wales has confirmed that the actual number of pollution incidents was 83 rather than the 84 reported by the company;
- Adjustments on tax to ensure consistency with PR19 relating to:
 - a bespoke adjustment of £1.061m to remove the tax element of Dŵr Cymru's ODI performance in 2020-21;
 - a change to the tax rate from 19% to 0% for 2021-22 ODI performance.

See section 1 for details of our interventions and policy decisions.

Contents

1. Results of our assessment	4
1.1 Interventions and policy decisions	4
1.2 C-MeX and D-MeX	6
1.3 Payment deferrals and abatements	6
2. Impact of 2020-21 in-period ODI assessment on price controls	7
2.1 Our draft determination	7
3. Responding to this consultation	11

1. Results of our assessment

1.1 Interventions and policy decisions

Table 1.1 below sets out our view of the payments due for performance commitments on which we have intervened compared to the values reported by Dŵr Cymru.

Table 1.1: Summary of interventions

Performance commitment	Company's reported payments 2021-22 (£m)	Our draft determinations after interventions 2021-22 (£m)	Difference (£m)
Pollution incidents	0.101	0.150	0.049

In our draft determination we are intervening on the following performance commitment:

Pollution incidents

We are intervening to increase Dŵr Cymru's outperformance payments in relation to its pollution incidents performance commitment by £0.049m. This is because National Resources Wales has confirmed that the actual number of pollution incidents was 83, rather than the 84 reported by the company.

We are also applying the following amendments to the in-period adjustment model and the ODI performance model respectively:

- Taxation
- Delivery of our South Wales Grid water supply resilience scheme

Taxation

In our PR19 final determination, we did not expect Dŵr Cymru to pay tax during the current price control period and so its Final Determination did not include any allowance for tax. On page 58 of the [PR19 Reconciliation Rulebook Guidance Document](#) we stated that companies should set out their expected marginal tax rate for the following charging year in their requests for an in-period determination, including whether they expect to pay corporation tax and any capital allowances, with appropriate evidence. We said we will take this information into account when making our determination.

This year, Dŵr Cymru submitted information to support its view that it does not expect to pay tax within the 2020-25 period, due to its high capital allowances that reduce its future tax liabilities. Based on the information provided, and subject to further clarification from the company ahead of the final determination, we are adjusting the modelled tax rate. Consequently, in our modelling its draft determination for 2021-22 performance, we are

changing the assumed tax rate from 19% to 0%. We also adjust the tax element of the company's 2020-21 ODI performance, through a bespoke adjustment of £1.061m (2017-18 prices) split between the water resources, water network plus, wastewater network plus, bioresources, residential retail and business retail price controls. However, subject to our decision for final determination, we will keep the company's position under review and if its circumstances change, for example, if the company were to pay tax in the current period, we may revisit this adjustment.

Delivery of our South Wales Grid water supply resilience scheme

We have made three corrections in the Dŵr Cymru ODI performance model and recorded these in the Ofwat IPD22 actions worksheet. Only one of these corrections has a financial impact on ODI payments and that is for this performance commitment (PR19WSH_BI10). The company selected 'true' in row 36 of the PC_Company_input worksheet when it should have been false because the ODI for this PC only applies in 2024-25. The financial impact of this correction is to decrease the sum of the underperformance shown in the Initial calculation of end of period revenue adjustment by price control by £0.034m. This change is visible in cells C19:C25 of worksheet 3H but it makes no financial difference to our 2021-22 in-period ODI draft determinations.

We have the following comments relating to the leakage and per capita consumption (PCC) performance commitments.

Leakage and per capita consumption (PCC)

We had expected Dŵr Cymru to have been compliant with the [PR19 common performance commitment definitions](#) when reporting 2020-21 and 2021-22 leakage and PCC data. The [Reporting Guidance - Leakage](#) sets out that where a company is not able to meet any part of the guidance then it is required to explain any shortfalls, its materiality, and plans to address this.

Dŵr Cymru had previously reported that it was compliant with the PR19 leakage and PCC methodology in its 2020-21 APR. However, Dŵr Cymru contacted us prior to submitting its 2021-22 APR data to inform us that it is undertaking a review of the components that feed into its reported leakage performance. The company told us that this exercise will take several months to complete and that it has reported its 2021-22 performance on the same basis as it reported its 2020-21 performance in the 2020-21 APR.

As a result of this review, Dŵr Cymru has voluntarily changed the outperformance payment of £0.257m which would be applicable based on its reported 2021-22 leakage performance to zero. However, we are deferring our decision in relation to Dŵr Cymru's performance and any associated ODI payment regarding its leakage performance commitment, as the company's review means that we are unable to assess its performance.

We expect all companies to be fully compliant with the leakage and PCC methodology, and to commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes. After our final 2022 in period determination, we will engage with Dŵr Cymru to fully understand its review and the impact of the changes on reported performance for leakage and per capita consumption for both 2020-21 and 2021-22. Pending the outcome of the company's findings, to maintain transparency we expect Dŵr Cymru to report on a consistent basis with the PR19 methodology and may require it to do so for the remainder of the 2020-25 period.

Should any leakage or per capita consumption information be revised or restated in future, our subsequent in-period determinations will take account of the company's relevant performance and the adjustments we have made to the relevant price control in relation to the leakage performance commitment.

1.2 C-MeX and D-MeX

On 21 September we published the relative performance of all companies. Our draft determination includes a C-MeX outperformance payment of £1.492m and a D-MeX underperformance payment of £0.129m, based on our assessment of 2021-22 company performance.

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

1.3 Payment deferrals and abatements

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

Dŵr Cymru did not request any payment deferrals or abatements within its modelling but because the company deliberately changed its reported leakage (see section 1.1) so that it did not earn an outperformance this has the same effect as a voluntary deferral. Based on our assessment of the company's performance, we do not consider any are required. As such, we do not apply any payment deferrals or abatements in our draft determination.

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

2.1 Our draft determination

In this section we outline the financial impacts of our draft determinations.

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

Table 2.1: Draft determinations on adjustment to 2023-24 price controls as a result of performance against ODIs

This table sets out our draft determinations on the ODI payments to be applied to price controls in the 2023-24 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2021-22;
- our draft determinations on these payments after any interventions;
- our draft determinations on 2022-23 deferrals and abatements;
- our draft determination on C-MeX and D-MeX payments.

For further details on the interventions, deferrals, abatements and bespoke adjustments, see section 1.

The draft determinations on the ODI payments to be applied for Dŵr Cymru is also set out in the in-period adjustments model published on our website.

Price control	Company's reported ODI payments (£m)	Interventions (£m)	ODI payments deferred from 2020-21 (£m)	Ofwat DD deferrals (£m)	Ofwat DD abatements (£m)	Bespoke adjustments (£m)	C-MeX payments (£m)	D-MeX payments (£m)	Total ODI payments to be applied to customer bills in 2023-24 (£m)
Water resources	0.168	0.000	0.000	0.000	0.000	0.128	0.000	0.000	0.296
Water network plus	-10.733	0.000	0.000	0.000	0.000	1.291	0.000	-0.094	-9.535
Wastewater network plus (WaSCs only)	-0.214	0.048	0.000	0.000	0.000	0.178	0.000	-0.035	-0.023
Bioresources (WaSCs only)	0.454	0.000	0.000	0.000	0.000	-0.110	0.000	0.000	0.345
Residential retail	0.047	0.000	0.000	0.000	0.000	-0.540	1.492	0.000	0.999
Business retail (HDD and WSH only)	-0.119	0.000	0.000	0.000	0.000	0.039	0.000	0.000	-0.080
Total	-10.397	0.048	0.000	0.000	0.000	0.986	1.492	-0.129	-8.000

Table 2.2: Breakdown of bespoke adjustments

This table provides a breakdown of the bespoke adjustments included in our draft determinations.

Price control	Prior year restatements (£m)	Prior year C-Mex indexation (£m)	Prior year D-Mex indexation (£m)	Prior year total (£m)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2023-24 (£m)
Water resources	0.124	0.000	0.000	0.124	0.004	0.000	0.128
Water network plus	1.240	0.000	0.015	1.255	0.037	0.000	1.291
Wastewater network plus (WaSCs only)	0.166	0.000	0.007	0.173	0.005	0.000	0.178
Bioresources (WaSCs only)	-0.107	0.000	0.000	-0.107	-0.003	0.000	-0.110
Residential retail	-0.400	-0.124	0.000	-0.525	-0.016	0.000	-0.540
Business retail (HDD and WSH only)	0.038	0.000	0.000	0.038	0.001	0.000	0.039
Total	1.061	-0.124	0.022	0.959	0.028	0.000	0.986

The prior year C-Mex and prior year D-Mex values correct an error in how the C-Mex and D-Mex models applied indexation in 2020-21. Where applicable we adjust for the time value of money.

Table 2.3: Changes to price controls (draft determinations)

This table sets out the impact of our draft determinations 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 2021-22](#) for how we apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Previous determination	6.76	3.24	4.28	-4.59
	Revised	6.76	3.24	5.14	-5.30
Water network plus (K factors)	Previous determination	-5.71	-1.25	1.33	0.26
	Revised	-5.71	-1.25	-2.80	4.17
Wastewater network plus (WaSCs only)	Previous determination	-0.30	-1.31	-1.05	-1.45
	Revised	-0.30	-1.31	-1.05	-1.44
Bioresources (WaSCs only)	Previous determination	34.573	35.487	35.278	35.630
	Revised	34.573	35.487	35.623	35.630
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	46.830	49.670	47.850	48.357
	Revised	46.830	49.670	49.069	48.357
Business retail (allowed average retail cost component, rct – £, nominal prices)	Previous determination - water supplies < 50 MI	31.06	29.98	30.97	31.04
	Revised – water supplies < 50 MI	31.06	29.98	30.49	31.04
	Previous determination – wastewater services	40.81	39.51	41.12	41.44
	Revised – wastewater services	40.81	39.51	40.45	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.

3. Responding to this consultation

We would welcome any comments on this document. Please email them to in-periodODIs@ofwat.gov.uk or post them to:

IPD2022 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Or Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD if that is more appropriate.

The closing date for this consultation is **21 October 2022**. If you wish to discuss any aspect of this consultation, please contact the In-period ODI team by post or by email at in-periodODIs@ofwat.gov.uk

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this draft determination, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for

disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

We will publish our final determinations by **15 November 2022**, 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 2022

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