

In-Period ODI Consultation Response 2022

21 October 2022

By email only to: in-periodODIs@ofwat.gov.uk

Draft Determination of Dŵr Cymru's in-period outcome delivery incentives

We welcome the opportunity to respond to the draft determination for the 2021-22 in-period Outcome Delivery Incentives (ODIs). Our representation covers two main areas: tax and the calculation of C-MeX and D-MeX incentives. We have no comments on the other interventions.

Tax

We welcome the adjustments for tax in the in-period ODI draft determination to align the approach with our effective tax rate for 2020-21 and 2021-22, and with our expected effective tax rate during the remainder of this AMP.

C-MeX and D-MeX Incentives

We note that the 2021-22 in-period ODI Draft Determination changes the approach to indexation for the calculation of C-MeX and D-MeX incentives from the previous year's in-period Final Determination. The Draft Determination outlines that an adjustment was made to correct for an error in the treatment of indexation. The 2020-21 in-period ODI Final Determination considered the issue of indexation and stated that its approach was consistent with the methodology set out in the December 2019 Final Determination. We would welcome clarification on the change in the approach.

It is also worth noting that these difficulties have only arisen because the household retail control is not indexed. In our response to the draft PR24 methodology we argued that Ofwat should revert to a real terms price control (incorporating efficiency targets as appropriate) in part because of the complexities that the co-existence of real terms and nominal terms price controls creates for the modelling of price reviews and their associated calculations (reconciliations, ODIs, etc). The treatment of C-MeX in the in-period Draft Determination is one illustration of this point.

Yours faithfully



Strategy and Regulation Director