

15 November 2022

# **Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22**

**Ofwat**

## About this document

This document provides notice of our final determination on the extent to which the price controls set by the [PR19 final determination](#), are 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: Final determinations of in-period outcome delivery incentives for 2021-22](#).

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

## Background

At the 2019 price review (PR19), companies made performance commitments, 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](#).<sup>1</sup>

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 assessed the company's performance against its performance commitments and, in October 2022, consulted on our [draft determinations](#) for companies' in-period ODIs for 2021-22.

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<sup>1</sup> 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](#).

In our final 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 the company's licence. The results of our assessment for 2021-22 will affect Dŵr Cymru's customers' bills in the 2023-24 Charging Year.

Further details regarding the responses we received, our final determinations and the adjustments that we have made are presented in sections 1 and 2, and in [Sector overview: Final determinations of in-period outcome delivery incentives for 2021-22](#).

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 the [Consultation on changes to per capita consumption performance commitments – our decision on reporting performance and ODI timing](#) 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 £1.493m 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; and
  - 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.

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# 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 determination after interventions 2021-22 (£m)	Our final determination after interventions 2021-22 (£m)	Difference between company view and our final determination (£m)
Pollution incidents	0.101	0.150	0.150	0.049

In our final determination we are intervening on the following performance commitment(s):

### Our draft determination

#### Pollution incidents

In our draft determination, we intervened to increase Dŵr Cymru's outperformance payments in relation to its pollution incidents performance commitment by £0.049m. This was because National Resources Wales had confirmed that the actual number of pollution incidents were 83, rather than the 84 reported by the company.

### Stakeholders' responses

We did not receive any specific comments on this issue.

### Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

We applied 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

### Our draft determination

In our draft determination we said that 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.

In our draft determination we stated that this year, Dŵr Cymru submitted information to support its view that it did not expect to pay tax within the 2020-25 period, due to its high capital allowances that reduced its future tax liabilities. Based on the information provided, and subject to further clarification from the company ahead of the final determination, we adjusted the modelled tax rate. Consequently, in our modelling its draft determination for 2021-22 performance, we changed the assumed tax rate from 19% to 0%. We also adjusted 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, we said that subject to our decision for final determination, we will keep the company's position under review and if its circumstances changed, for example, if the company were to pay tax in the current period, we may revisit this adjustment.

### Stakeholders' responses

In its consultation response, which is published on our [website](#), Dŵr Cymru said it welcomed the adjustments for tax in the in-period ODI draft determination to align the approach with its effective tax rate for 2020-21 and 2021-22, and with its expected effective tax rate during the remainder of the 2020-2025 period.

### Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

## Delivery of the South Wales Grid water supply resilience scheme

### Our draft determination

In our draft determination, we made three corrections in the Dŵr Cymru ODI performance model and recorded these in the Ofwat IPD22 actions worksheet. Only one of these

corrections had a financial impact on ODI payments and that was 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 performance commitment only applies in 2024-25. The financial impact of this correction was 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 was visible in cells C19:C25 of worksheet 3H but it made no financial difference to our 2021-22 in-period ODI draft determinations.

## **Stakeholders' responses**

We did not receive any specific comments on this issue.

## **Consideration of responses and final determination**

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

In our draft determination, we had the following comments relating to the leakage and per capita consumption (PCC) performance commitments.

### **Leakage and per capita consumption (PCC)**

#### **Our draft determination**

In our draft determination, we said that 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 was undertaking a review of the components that fed into its reported leakage performance. The company told us that this exercise would take several months to complete and that it 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 voluntarily changed the outperformance payment of £0.257m which would have been applicable based on its reported 2021-22 leakage performance to zero. However, we deferred our decision in relation to Dŵr Cymru's performance and any associated ODI payment regarding its leakage performance commitment, as the company's review meant that we were unable to assess its performance.

As stated in our draft determination, 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.

We also stated that 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.

### **Stakeholders' responses**

We did not receive any specific comments on this issue.

### **Consideration of responses and final determination**

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment is remains unchanged from our draft determination, above.

## **1.2 C-Mex and D-Mex**

### **Our draft determination**

On 21 September we published the relative performance of all companies. Our draft determination included 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.

### **Stakeholders' responses**

Dŵr Cymru asked for clarification on the change of approach to indexation for the calculation of C-MeX and D-MeX incentives from the approach we used for the previous year's in-period final determination.

Also, another company identified a very minor technical inconsistency between the reporting of C-MeX scores in the reconciliation models and the expectation in the [RAG 4.10 guidance](#), which states that scores should be rounded to 2 decimal places.

## Consideration of responses and final determination

We have considered the above responses on these measures and address them as following.

We acknowledge that the approach we took for our 2021 in-period ODI final determinations has changed. We have identified a technical error on the indexation approach in the models that required correction. We have corrected the models to calculate the 2021-22 incentive payments for the 2022 in-period determinations. We have made bespoke adjustments to retrospectively account for the impact of this correction on the 2020-21 C-MeX and D-MeX incentive payments.

To ensure both C-MeX and D-MeX reconciliation models operate consistently with RAG 4.10 and the [PR19 Reconciliation rulebook](#) guidance, we have updated these models to round the input scores to 2 decimal places. This has a minor impact on the payment values calculated by the models. For Dŵr Cymru, this increases its C-MeX outperformance payment by £0.001m to £1.493m. The company's D-MeX payment is unaffected and remains unchanged from the draft determination.

## 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 interventions are required on how the company has reflected this in its ODI performance model. As such, we do not apply any payment deferrals or abatements in our in-period adjustments model for the final determination.

## 2. Impact of 2021-22 in-period ODI assessment on price controls

### 2.1 Our final determination

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

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

**Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2023-24 (£m)**

This table sets out the change between our draft and final determinations.

Price control	Draft determination on total ODI payments to be applied to customer bills in 2023-24 (£m)	Change between draft and final determination (£m)	Final determination on total ODI payments to be applied to customer bills in 2023-24 (£m)
Water resources	0.296	0.000	<b>0.296</b>
Water network plus	-9.535	0.000	<b>-9.535</b>
Wastewater network plus (WaSCs only)	-0.023	0.000	<b>-0.023</b>
Bioresources (WaSCs only)	0.345	0.000	<b>0.345</b>
Residential retail	0.999	0.001	<b>1.000</b>
Business retail	-0.080	0.000	<b>-0.080</b>
<b>Total</b>	<b>-8.000</b>	<b>0.001</b>	<b>-7.999</b>

**Table 2.2: Final determination on adjustment to 2023-24 price controls as a result of performance against ODIs**

This table sets out our final determination 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 final determination on these payments after any interventions;
- our final determination on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; and
- our final determination on C-MeX and D-MeX payments.

For further details on the interventions, deferrals, abatements and bespoke adjustments, see section 1. This final determination on the ODI payments to be applied for Dŵr Cymru is also set out in the in-period adjustments model published on our website.

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

Price control	Company's reported ODI payments (£m)	Ofwat FD interventions (£m)	ODI payments deferred from 2020-21 (£m)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Bespoke FD adjustments (£m)	C-MeX FD payments (£m)	D-MeX FD payments (£m)	Final determination on 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	<b>0.296</b>
Water network plus	-10.733	0.000	0.000	0.000	0.000	1.291	0.000	-0.094	<b>-9.535</b>
Wastewater network plus (WaSCs only)	-0.214	0.048	0.000	0.000	0.000	0.178	0.000	-0.035	<b>-0.023</b>
Bioresources (WaSCs only)	0.454	0.000	0.000	0.000	0.000	-0.110	0.000	0.000	<b>0.345</b>
Residential retail	0.047	0.000	0.000	0.000	0.000	-0.540	1.493	0.000	<b>1.000</b>
Business retail	-0.119	0.000	0.000	0.000	0.000	0.039	0.000	0.000	<b>-0.080</b>
<b>Total</b>	<b>-10.397</b>	<b>0.048</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.986</b>	<b>1.493</b>	<b>-0.129</b>	<b>-7.999</b>

**Table 2.3: Breakdown of bespoke adjustments**

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

Price control	Prior year restatements (£m)	Prior year C-Mex indexation (£m)	Prior year D-Mex indexation (£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	0.004	0.000	<b>0.128</b>
Water network plus	1.240	0.000	0.015	0.037	0.000	<b>1.291</b>
Wastewater network plus (WaSCs only)	0.166	0.000	0.007	0.005	0.000	<b>0.178</b>
Bioresources (WaSCs only)	-0.107	0.000	0.000	-0.003	0.000	<b>-0.110</b>
Residential retail	-0.400	-0.124	0.000	-0.016	0.000	<b>-0.540</b>
Business retail	0.038	0.000	0.000	0.001	0.000	<b>0.039</b>
<b>Total</b>	<b>1.061</b>	<b>-0.124</b>	<b>0.022</b>	<b>0.028</b>	<b>0.000</b>	<b>0.986</b>

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 2.4: Changes to price controls (final determinations)**

This table sets out the impact of our final determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Final 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
<b>Water resources (K factors)</b>	Previous determination	6.76	3.24	4.28	-4.59
	Revised	6.76	3.24	5.14	-5.30
<b>Water network plus (K factors)</b>	Previous determination	-5.71	-1.25	1.33	0.26
	Revised	-5.71	-1.25	-2.80	4.17
<b>Wastewater network plus (WaSCs only)</b>	Previous determination	-0.30	-1.31	-1.05	-1.45
	Revised	-0.30	-1.31	-1.05	-1.44
<b>Bioresources (WaSCs only)</b>	Previous determination	34.573	35.487	35.278	35.630
	Revised	34.573	35.487	35.623	35.630
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	46.830	49.670	47.850	48.357
	Revised	46.830	49.670	49.071	48.357
<b>Business retail (allowed average retail cost component, rct – £, nominal prices)</b>	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 final 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.

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