

September 2023

# **Draft determination of Dŵr Cymru's in-period outcome delivery incentives for 2022-23**

**Ofwat**

## About this document

This document provides our draft determination 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 2022-23 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 2022-23](#).

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

We welcome your views by 18 October 2023. We will make our final determinations by 15 November 2023.

## 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, which is available on our [website](#).<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 2023. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

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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](#).

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 2023. This will affect Dŵr Cymru's customers' bills from the 2024-25 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 the Dŵr Cymru's performance against its performance commitments in 2022-23, 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 £2.191m and a D-MeX underperformance payment of £1.127m, based on the assessment of 2022-23 company performance

Dŵr Cymru has applied the following bespoke adjustments in its in-period adjustments model, which we consider are appropriate:

- Tax – the company has applied a 0% tax rate for 2022-23 as it does not expect to pay corporation tax during the 2020-25 period.
- Leakage - £5.456m restatement for 2020-21 and 2021-22 to increase compliance with our leakage methodology. This will be repaid to customers.
- Water supply interruptions - £0.084m, restatement to exclude cattle troughs from connected properties used to calculate this performance commitment in 2020-21 and 2021-22, in line with the requirements of this PC. This will be repaid to customers.

See section 1 for the results of our assessment.

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# 1. Results of our assessment

## 1.1 Interventions and policy decisions

We are not intervening on Dŵr Cymru's reported performance and ODI payments for 2022-23 in our draft determination.

The company has not requested any interventions to its reported performance and ODI payments for 2022-23. Based on our assessment of the company's performance, we do not consider any are required.

The company applied the following adjustments in its in-period adjustments model, which we consider are appropriate:

### Tax

In its 2021-22 APR, Dŵr Cymru submitted information to support its view that it does not expect to pay corporation tax within the 2020-25 period. Based on the information provided, in our [Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22](#) we adjusted the modelled tax rate to 0% for 2021-22 and the remainder of the 2020-25 period.

In its 2022-23 APR, the company submitted updated information to support its view that it does not expect to pay corporation tax within the 2020-25 period, due to its high capital allowances and taxable losses that reduce its future tax liabilities. Based on the information provided, we consider that a tax rate of 0% for 2022-23 remains appropriate.

### Water supply interruptions

In its in-period adjustments model, the company has included a bespoke adjustment of £0.084m, which we adjust to account for the time value of money, to correct for an understatement of the underperformance on the company's water supply interruptions performance commitment (PC) for 2020-21 and 2021-22. This will be repaid to customers.

The company has made this adjustment because it had included cattle troughs within the number of connected properties used to calculate this PC. In [IN 23/03 Expectations for monopoly company annual performance reporting 2022-23](#), we clarified that the total number of connected properties used to calculate performance for this PC should exclude cattle troughs. Therefore, we consider that the adjustment the company has made is appropriate.

## Leakage

In our [Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2021-22](#), we deferred our decision on the company's leakage performance and any associated payment. This was because we were unable to assess the company's performance due to an ongoing review of the components that fed into its reported leakage performance.

This review is now complete. In its 2022-23 APR, Dŵr Cymru reported full compliance with our PR19 [leakage methodology](#). As a result of the changes to its methodology, the company has restated its leakage baseline and performance for 2020-21 and 2021-22. In its in-period adjustments model, the company has included a bespoke adjustment to include an underperformance payment of £5.456m with respect to the restated performance for its leakage PC for 2020-21 and 2021-22. We adjust this to account for the time value of money. Based on the evidence provided, we consider that the company's adjustment is appropriate. This will be repaid to customers.

We note that there is an open enforcement investigation into Dŵr Cymru with respect to the potential misreporting of leakage. The scope of our draft determination is limited to whether the company has reported its performance in line with the requirements of the PC definition for leakage, based on evidence submitted by the company in its APR submission.

Should any leakage information be revised or restated in future, our subsequent 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.

We also comment on policy decisions for the following performance commitments.

## Unplanned Outage

We note that the values reported for overall peak week production capacity (PWPC) have reduced over the last 3 years from 1323 Ml/d to 1320 Ml/d to 1306 Ml/d. Dŵr Cymru explained in its response (ref. WSH-APR-CA-009-response) the significant reduction was caused by the amended values of flow capacity for five treatment works (Llwynon, Pontsticill, Court Farm, Ffynnon Gaer and Sluvad). However, the company recognises this is not in line with Ofwat's [reporting guidance of unplanned outage](#) as set out in [PR 19 outcome definitions](#). We queried (ref. WSH-APR-IP-002) the company regarding this misalignment and Dŵr Cymru responded that its technical assurer has confirmed that it does not have a material impact on the reported performance for 2022-23.

As a result, we accept the company's reported outperformance for 2022-23. We expect Dŵr Cymru to quantify all impacts, caused by amended values of flow capacity for treatment works, on the reported performance for 2020-21 and 2021-22 and report any changes as part of its response to this consultation.

## 1.2 C-MeX and D-MeX

On 26 September 2023 we published the relative performance of all companies. Our draft determination includes a C-MeX outperformance payment of £2.191m and a D-MeX underperformance payment of £1.127m, based on our assessment of 2022-23 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. 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.

In our [Final Determination of Dŵr Cymru in-period outcome delivery incentives for 2021-22](#), we deferred our decision in relation to Dŵr Cymru's performance and any associated ODI payment in relation to its leakage performance commitment. As stated in section 1.1, the company has implemented what it considers to be a more compliant approach for its 2022-23 leakage and PCC reporting. The company has restated its 2020-21 and 2021-22 performance based on this revised approach and has applied a bespoke adjustment to reflect this. Therefore, there is no deferral to carry forward to future years.

## 2. Impact of 2022-23 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 determination on adjustment to 2024-25 price controls as a result of performance against ODIs**

This table sets out our draft determination on the ODI payments to be applied to price controls in the 2024-25 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2022-23;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details, see section 1.

This draft 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.



Price control	Company's reported ODI payments (£m)	Ofwat DD ODI payments (£m)	ODI payments deferred from 2021-22 (£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 2024-25 (£m)
Water resources	0.019	0.019	0.000	0.000	0.000	0.000	0.000	0.000	0.019
Water network plus	-19.731	-19.731	0.000	0.000	0.000	-5.766	0.000	-0.686	-26.183
Wastewater network plus (WaSCs only)	0.663	0.663	0.000	0.000	0.000	0.000	0.000	-0.441	0.222
Bioresources (WaSCs only)	0.400	0.400	0.000	0.000	0.000	0.000	0.000	0.000	0.400
Residential retail	-0.539	-0.539	0.000	0.000	0.000	0.000	2.191	0.000	1.652
Business retail	-0.190	-0.190	0.000	0.000	0.000	0.000	0.000	0.000	-0.190
<b>Total</b>	<b>-19.378</b>	<b>-19.378</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-5.766</b>	<b>2.191</b>	<b>-1.127</b>	<b>-24.080</b>

**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)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2024-25 (£m)
Water resources	0.000	0.000	0.000	0.000
Water network plus	-5.540	-0.226	0.000	-5.766
Wastewater network plus (WaSCs only)	0.000	0.000	0.000	0.000
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
Business retail	0.000	0.000	0.000	0.000
<b>Total</b>	<b>-5.540</b>	<b>-0.226</b>	<b>0.000</b>	<b>-5.766</b>

**Table 2.3: Changes to price controls (draft determinations)**

This table sets out the impact of our draft determination 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 2022-23](#) 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	5.14	-5.30
	Revised	6.76	3.24	5.14	-5.24
<b>Water network plus (K factors)</b>	Previous determination	-5.71	-1.25	-2.80	4.17
	Revised	-5.71	-1.25	-2.80	-6.97
<b>Wastewater network plus (K factors)</b>	Previous determination	-0.30	-1.31	-1.05	-1.44
	Revised	-0.30	-1.31	-1.05	-1.37
<b>Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)</b>	Previous determination	34.573	35.487	35.623	35.630
	Revised	34.573	35.487	35.623	36.031
<b>Residential retail (total revenue, TRt - £m, nominal prices)</b>	Previous determination	46.830	49.670	49.071	48.357
	Revised	46.830	49.670	49.071	50.469
<b>Business retail (allowed average retail cost component, rct - £, nominal prices)</b>	Previous determination Water supplies < 50 MI	31.06	29.98	30.49	31.04
	Revised Water supplies < 50 MI	31.06	29.98	30.49	29.87
	Previous determination Wastewater services	40.81	39.51	40.45	41.44
	Revised Wastewater services	40.81	39.51	40.45	39.79

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 determinations.

### 3. Responding to this consultation

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

IPD2023 Consultation response  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Or IPD2023 Consultation response Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD.

The closing date for this consultation is **18 October 2023**. 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](mailto:in-periodODIs@ofwat.gov.uk).

We intend to publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk). Subject to the following, by providing a response to this draft determination 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 overview document, 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 2023**, after considering representations from all stakeholders.

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