

November 2023

Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2022-23

About this document

This document provides our final determination on the extent to which the price controls included in our PR19 final determinations, are 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: Final determinations of in-period outcome delivery incentives for 2022-23](#).

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

Background

At the 2019 price review (PR19), companies made pledges to their customers and stakeholders about the service levels they would meet to make progress towards stated outcomes (performance commitments). Companies' performance commitments form a key part of the service package that they are expected to deliver. 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 to incentivise them to keep up this outperformance.

Dŵr Cymru reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We assessed the company's performance against its performance commitments and, in September 2023, consulted on our [draft determinations](#)

¹ We take account of performance commitments as set out in this appendix, adjusted, if relevant, in accordance with Annex 2 of the 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](#).

for companies' in-period ODIs for 2022-23. We have carefully considered the [responses](#) we received relating to our draft determinations.

Our final determination sets out relevant adjustments to the company's price controls, for one or more future years. The results of our assessment for 2022-23 will affect Dŵr Cymru's customers' bills in the 2024-25 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 2022-23](#).

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' ODI payments for usage of water per person (known as Per Capita Consumption) 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 2022-23, the ODI payments and performance are as reported by the company with the following exception:

- 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 of ODI payments 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 final 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:

1.1.1 Tax

Our draft determination

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 considered that a tax rate of 0% for 2022-23 remained appropriate.

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 as stated in our draft determination, above.

1.1.2 Water supply interruptions

Our draft determination

In its in-period adjustments model, the company included a bespoke adjustment of £0.084m, which we adjusted 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. We said that this will be repaid to customers.

The company 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 considered that the adjustment the company made was appropriate.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final determination

Having received no other stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination, above.

1.1.3 Leakage

Our draft determination

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.

The company told us that this review was 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 had restated its leakage baseline and performance for 2020-21 and 2021-22. In its in-period adjustments model, the company 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. In our draft determination, we adjusted this to account for the time value of money. Based on the evidence provided, we considered that the company's adjustment was appropriate. We said that this will be repaid to customers.

We noted that there is an open enforcement investigation into Dŵr Cymru with respect to the potential misreporting of leakage. We said the scope of our draft determination remains 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 2022-23 APR submission.

We said that 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.

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 as stated in our draft determination, above.

We have the following comments relating to the unplanned outage performance commitment:

1.1.4 Unplanned Outage

Our draft determination

We noted 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 recognised this was not in line with Ofwat's [reporting guidance of unplanned outage](#) as set out in [PR19 outcome definitions](#). We queried (ref. WSH-APR-IP-002) the company regarding this misalignment and Dŵr Cymru responded that its technical assurer had confirmed that it did not have a material impact on the reported performance for 2022-23.

As a result, we accepted the company's reported outperformance for 2022-23. We stated that 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.

Stakeholders' responses

Dŵr Cymru's response to our consultation, which is published on our [website](#), stated that in order to be compliant with the Ofwat guidance, the Peak Week Production Capacity (PWPC) for 2022-23 APR should have been reported as 1313.01Ml/d. Dŵr Cymru confirmed that the values for PWPC in 2020-21 and 2021-22 are unchanged at 1313.01Ml/d, and that there is no impact on the unplanned outage performance in 2020-21 and 2021-22. The company restated its 2022-23 reported performance for its unplanned outage performance commitment to 1.05%, using the PWPC of 1313.01Ml/d.

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 is as stated in our draft determination, above. This is because the company's restated performance for unplanned outage does not impact its reported ODI payment which remains £0.000m, as Dŵr Cymru are outperforming against the performance commitment level and this performance commitment has underperformance payments only.

In our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#), we highlight matters identified by our review of company submissions for the unplanned outage performance commitment. In light of these matters, companies should review their approach to peak week production capacity (PWPC) against the common methodology in the PR19 reporting guidance to ensure that they are acting in compliance. Should Dŵr Cymru's unplanned outage performance information be revised or restated in future, we expect the company to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported unplanned outage. We will take account of adjustments we have made to the relevant price control relating to the company's unplanned outage performance in making future determinations.

1.2 C-Mex and D-Mex

Our draft determination

On 26 September 2023 we published the relative performance of all companies. Our draft determination included 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.

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 payments for these performance commitments is as stated in our draft determination, above.

1.3 Payment deferrals and abatements

As set out in the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments. 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 final 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 per capita consumption (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 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 below sets out the change between our draft and final determinations.

Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25

Price control	Draft determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	0.019	0.000	0.019
Water network plus	-26.183	0.000	-26.183
Wastewater network plus (WaSCs only)	0.222	0.000	0.222
Bioresources (WaSCs only)	0.400	0.000	0.400
Residential retail	1.652	0.000	1.652
Business retail	-0.190	0.000	-0.190
Total	-24.080	0.000	-24.080

Table 2.2: Final determination on adjustment to 2024-25 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 2024-25 charging year after accounting for:

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

For further details, 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 2022-23

Price control	Company's reported ODI payments (£m)	Ofwat FD ODI payments (£m)	ODI payments deferred from 2021-22 (£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 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
Total	-19.378	-19.378	0.000	0.000	0.000	-5.766	2.191	-1.127	-24.080

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)	Time value of money adjustment on prior year total (£m)	Green economic 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
Total	-5.540	-0.226	0.000	-5.766

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 2022-23](#) 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	5.14	-5.30
	Revised	6.76	3.24	5.14	-5.24
Water network plus (K factors)	Previous determination	-5.71	-1.25	-2.80	4.17
	Revised	-5.71	-1.25	-2.80	-6.99
Wastewater network plus (K factors)	Previous determination	-0.30	-1.31	-1.05	-1.44
	Revised	-0.30	-1.31	-1.05	-1.37
Bioresources (unadjusted revenue, Urt - £m, 2017-18 FYA CPIH prices)	Previous determination	34.573	35.487	35.623	35.630
	Revised	34.573	35.487	35.623	36.031
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	46.830	49.670	49.071	48.357
	Revised	46.830	49.670	49.071	50.473
Business retail (allowed average retail cost component, rct - £, nominal prices)	Previous determination [customer type 1]	31.06	29.98	30.49	31.04
	Revised [customer type 1]	31.06	29.98	30.49	29.87
	Previous determination [customer type 2]	0.00	0.00	0.00	0.00
	Revised [customer type 2]	0.00	0.00	0.00	0.00
	Previous determination [customer type 3]	40.81	39.51	40.45	41.44
	Revised [customer type 3]	40.81	39.51	40.45	39.79
	Previous determination [customer type 4]	0.00	0.00	0.00	0.00
	Revised [customer type 4]	0.00	0.00	0.00	0.00
	Previous determination [customer type 5]	0.00	0.00	0.00	0.00
	Revised [customer type 5]	0.00	0.00	0.00	0.00
	Previous determination [customer type 6]	0.00	0.00	0.00	0.00
	Revised [customer type 6]	0.00	0.00	0.00	0.00

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, we may take account of this, and previous price control adjustments relating to company performance, when making future determinations.

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