

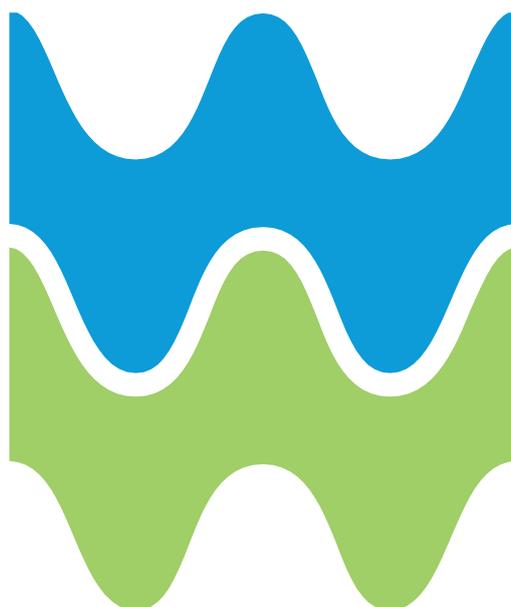
In-period ODI Submission

2020-21

Supporting document

July 2021

dwrcymru.com



Summary

The proposed in-period ODIs adjustments for 2020-21 performance to be applied to 2022-23 charges are reported in table 1. The adjustments to the revenue controls are reported in table 2.

Table 1- 2020-21 in-period ODIs applied

In-period ODIs applied	£m (2017-18 Prices)
Water resources	-
Water network plus	(5.239)
Wastewater network plus	(0.641)
Bioresources (sludge)	0.454
Residential retail	1.710
Business retail	(0.162)
Total	(3.877)

Table 2- Revenue adjustment for 2020-21 in-period ODIs

		2022-23	2023-24	2024-25
Water Resources (K factor)	PR19 Blind Year Final Decision	5.09	2.49	-4.59
	Revised	No change	No change	No change
Water Network Plus (K factor)	PR19 Blind Year Final Decision	1.39	(1.24)	0.26
	Revised	(0.71)	0.85	0.26
Wastewater Network Plus (K factor)	PR19 Blind Year Final Decision	(1.07)	(1.29)	(1.45)
	Revised	(1.24)	(1.11)	(1.45)
Bioresources-Revised Total Revenue (£m)- 2017-18 Prices	PR19 Blind Year Final Determination	34.926	35.278	35.630
	Revised	35.380	35.278	35.630
Residential Retail Total revised revenue (£m)- Nominal Prices	PR19 Blind Year Final Decision	47.340	47.850	48.357
	Revised	49.209	47.850	48.357
Business Retail- Customer Type 1 Average retail cost component- (£) Nominal Prices	PR19 Final Determination	31.06	30.97	31.04
	Revised	30.17	30.97	31.04
Business Retail- Customer Type 2 Average retail cost component (£) Nominal Prices	PR19 Final Determination	41.01	41.12	41.44
	Revised	39.84	41.12	41.44

1. Methodology

1.1. Purpose

The PR19 in-period ODI submission comprises the following documents:

1. **PR19 In-period ODI Model** “PR19IPD01_ODI-performance-model-May-2021_v1.4 WSH.xlsx; and
2. This supporting document which outlines the model inputs and supporting evidence.

1.2. Background

Our PR19 Final Determination included 31 financial outcomes delivery incentives (ODIs) and 25 reputational Performance Commitments (PCs). Performance on these commitments is outlined in part 3 of our Annual Performance Report (APR). Financial incentives are either applied at the end of the period or within the AMP as in-period ODIs. This submission outlines our request for an in-period determination for our 2020-21 performance commitments to be applied to 2022-23 charges.

Our performance on a number of measures has been impacted by the Covid-19 global pandemic. We have considered the impact in the round and we request an intervention to be made on two of our performance commitments, namely Ft10 Community Education and Ft11 Visitors to Recreational Facilities. Details are set out in section 2 “Covid Impact on Performance Commitments”.

An overview of the inputs and outputs of the in-period submission model is presented in section 3 “In-Period ODI Submission Model”.

2. Covid Impact on Performance Commitments

Overview

Our working practices and service improvements planned for 2020-21 were severely impacted by the Covid pandemic. We have embraced different ways of working across our business to meet the needs of our customers, ensuring a continued service. Covid has impacted on both our financial performance and our ability to achieve our performance commitments. Covid had a material impact on expenditure, resulting in £34m of exceptional expenditure. There have been some limited offsetting cost savings and the net overspend will be dealt with in the cost sharing mechanism in the usual way.

We have outlined the impact of Covid, where relevant on each of our performance commitments in part 3 of our APR commentary. There has not been any performance upside as a result of Covid. The impact of Covid has been considered in the round and following the guidance in IN 21/01 this submission requests an intervention for two of our performance commitments as the impact is beyond management control.

2.1. PR19WSH_Ft10 Community Education

Our community education programme aims to educate our customers to increase their awareness of their water and wastewater services. This comprises visits from schoolchildren to one of our education centres, participation in outreach sessions and our 'asset open days'.

2.1.1 The Impact of Covid 19 On Our Community Education Programme

Our community education performance commitment was impacted by school closures for much of the 2020-21 reporting year. There were periods of the year where schools were open to students, however visits to our education centres were not permitted, and our teachers were not able to visit schools to deliver classes in person.

This meant that the team were unable to deliver the physical visits required to meet the Performance Commitment definition, viz:

- *Visits from schoolchildren to one of the company's education centres*
- *Children participating in outreach sessions when one of the company's team visits schools*
- *Adults or children who come to one of the company's 'asset open days'*

Instead, we adapted rapidly to different ways of delivering lessons and engaging children through online methods. Core to this were the Live Microsoft Teams sessions delivered to classrooms virtually. We have interpreted the number of children reached this way as being valid for reporting purposes in these exceptional circumstances. However, we would note that these sessions were only possible when schools were open and could not be delivered at the scale of the original programme as whole school assemblies were not taking place.

Our reported outturn figure in the APR21 performance measures submission of 5,834 is the number of unique users engaged via the 'Live Microsoft Teams Sessions', as we interpret these 'virtual visits' as being within the definition of the measure.

When all of the alternative delivery methods are included, we estimate that we actually engaged with 74,343 people, above our targeted figure of 70,000. We believe that the overall outcome of our education activities in terms of engaging with future and current customers, supporting delivery of business objectives through behaviour change and enhancing the reputation and trust of the company in communities, was met to a substantial degree.

Therefore, we do not believe an in-period underperformance payment is appropriate for this measure for 2020-21 and we request an intervention.

Table 3- Community Education PR19 Performance Commitment

PR19 Performance Commitments (PC)	2020-21			
	FD Target (Nr)	Outturn (Nr)	APR 2020-21 Performance Payment (£m, 2017-18 Prices)	Proposed Performance Payment (£m, 2017-18 Prices)
Community Education	70,000	5,834	(0.112)	0

Note that although we were unable to hold education activities for which we had planned, we did not achieve cost savings as a result of the pandemic because our education resources were re-deployed to carry out the alternative education activities listed above and below.

2.1.2 How We Adapted and Responded to Continue to Deliver the Key Outcomes

As a result of the restrictions on face-to-face meetings and our compliance with health and safety guidance we pursued alternative methods of delivering the Community Education programme. In adopting new methods of delivery, the company took care to comply with safeguarding considerations for education practitioners in relation to the involvement of external organisations. Our various approaches are outlined below:

Live Microsoft Teams Delivery Direct to Schools

The return of pupils to the classroom in September 2020 provided the opportunity to offer schools live interactive sessions, utilising Microsoft Teams to engage directly with pupils and school staff. These sessions are simultaneously streamed into primary school classrooms and contained a balance of dialogue and pre-recorded content.

360° Virtual Classroom

Pupils in key stage 2 used the 'virtual classroom'. Our custom-built 360° imagery of our Education Centre allows them to journey through our site from the classroom to the pond to the Wastewater Treatment Works and on to our replica remote Ugandan village of Rwenjojo Ntooma, absorbing information and completing activities, via 'learning hotspots', as they go.

Electronic Resource Development

Welsh Water teachers enhanced the existing collection of education resources available on the website, taking the overall bank of unique bilingual educational documents to 106, with many of them containing multiple activities.

Social Media

Social media activity to signpost educators, parents and pupils to the bank of online resources created 42,204 impressions (number of unique people who have clicked on our content) and 2,902 engagements via the education twitter account @DiscoverDwr, with further traction achieved through main company accounts.

Other Provision

Captured within the Water Resilient Communities Project, the Education team are working co-producing a children's book in partnership with our Waste Networks team, Caerphilly County Borough Council and the Parent Network. Development of this book, which is written by children for children, is ongoing.

Table 4 below shows the engagement numbers for each of the alternative education delivery methods.

Table 4- Community Education Activities

Description	Dates	Number of school sessions/teacher initiated downloads	Number of unique users involved	Number of pupils participated, taking into account multiple sessions where themes are district & different	Hours of learning (number of participants x duration of each session)
Education area website usage (incremental increase during home learning period, compared to same period of the previous year only)	01.04.2020 – 29.07.2020; 02.11.2020 – 06.11.2020; 04.01.2021 – 22.02.2021		4,440	4,440	1,110
Live Microsoft Teams sessions streamed directly into school, including two-way dialogue	28.09.2020 – 10.12.2020 22.02.2020 – 31.03.2021	114 ^[1]	5,834 ^[2]	5,834	4,904
360° Virtual Learning Platform ^[2]	03.01.2021 – 26.03.2021	94	1,874	1,874	468.5
Blended Learning: Home learning, teacher guided sessions ^[3]	03.01.2021 – 15.03.2021	201	20,725	62,175 ^[3]	15,544
Total		409	32,873	74,323	22,026.5

^[1] Average duration extended to 39 minutes to improve engagement

^[2] See video for insight

<https://twitter.com/DiscoverDwr/status/1361998613459718145?s=20>

^[3] Adjustments and assumptions applied to acknowledge that there could be a participation drop-off for schools during home-learning periods due to technology.

Table 5- Community Education Social Media

Channel	Impressions	Engagements
Twitter: @DiscoverDwr (Bespoke Education Twitter Account)	42,204	2,902
Twitter: @Dwr Cymru (Corporate Channel)	25,159	815
Facebook: Dŵr Cymru (Corporate Channel)	24,124	
Totals	91,487	3,717

Following implementation of our new and innovative education delivery methods over the last year, we were invited by Ofwat on the 24th of June to present in one of their internal ‘Outside In’ sessions. This focused largely on good practice and our experience of maximising impact for schools, in the context of the challenging circumstances presented by the pandemic. The session outlined some of our approaches, offered insight into the extent to which the provision was valued by schools and referenced our recent participation numbers. The comments received from attendees during the session were positive.

2.1.3 Impact of Performance on Future years

We anticipate schools are unlikely to allow face-to-face external visits during the Summer Term 2021 and our year 2 performance is likely to continue to be impacted for APR 2022 reporting. We will be continuing to deliver our education programme through Live Microsoft Teams sessions until Government restrictions are lifted on face-to-face visits, we are therefore unable to forecast when our performance targets will be achievable.

2.1.4 Influence on other performance commitments

This performance commitment is not directly linked to other performance commitments.

2.1.5 Impact of the potential long-term implications for planning and investment

This performance commitment incentivises us to engage with customers and local communities to increase their awareness of its water and wastewater services. This performance commitment has no impact on long term planning and investment.

2.1.6 Customer interest and incentives

Our education performance commitment is an annual performance commitment to educate over 70,000 customers each year. An intervention to remove the underperformance payments does not alter the incentives to deliver education in future years as these still have financial incentives. We do not believe that the application of an underperformance payment for this measure is in customers’ interests as we have continued to provide access to educational material throughout the Covid-19 pandemic.

2.2. PR19WSH_Ft11 Visitors to Recreational Facilities

Our visitors to recreational facilities performance commitment incentivises us to promote access to our recreational facilities. The sites include Llyn Brenig, Elan Valley, Llandegfedd and Llys y Frân.

2.2.1 The Impact of Covid 19 On Our Visitor Numbers to Recreational Facilities

The number of visitors to our recreational facilities have been impacted by travel restrictions imposed at national and local levels. When our sites were able to open we operated within the following restrictions, limiting the numbers of visitors we could accommodate:

- Only able to provide pre booked activities, limiting the ability for customers to choose activities once they were on site;
- Unable to provide indoor changing and shower provision for those undertaking Water sport activities;
- Sanitisation of activity equipment between each visitor;
- Restrictions on group sizes to 30 at any one time (which was amended as regulations changed);
- Reduced capacity at our café service, shop facilities and fishing boat hire due to the 2m social distance law in Wales;
- Monitoring and managing the number of visitors that could enter the recreational site at any one time;
- Monitoring and managing the number of visitors entering visitor centres; and
- Cancellation of events that are normally held at the site.

Our outturn performance was 294,763 visitors against a target of 560,000. The graph below shows that when we were able to open our sites and people were allowed to travel, we received visitor numbers in line with those in 2019-20. Our performance was around 260,000 visitors below our Final Determination target. In the absence of national and local lockdowns the graphs indicates that we would have achieved the target but for the effects of the pandemic.

Graph 1- Visitors to our Recreational Facilities



*The graph includes data for Elan Valley, Llyn Brenig and Llandegfedd visitor centres. Llys y Frân was closed in 2019-20 and 2020-21.

As access to our visitor centres was restricted by Government restrictions and beyond our control, we believe an in-period underperformance payment for this measure is not appropriate for 2020-21 and we request an intervention.

Table 6- Visitors to recreational facilities PR19 Performance Commitment

PR19 Performance Commitments (PC)	2020-21			
	FD Target (Nr)	Outturn (Nr)	APR 2020-21 Performance Payment (£m, 2017-18 Prices)	Proposed Performance Payment (£m, 2017-18 Prices)
Visitors to recreational facilities	560,000	294,763	(0.53)	0

Note that although we were unable to achieve the visitor numbers for which we had planned we did not achieve any cost savings because none of the staff who operate the centres were furloughed and in any event the operating expenditure for the centres is classified as non-appointed.

2.2.2 How We Adapted and Responded to Continue to Provide A Recreational Service to Our Customers

All sites were prepared to meet the internationally recognised “Covid Safe” accreditation for visitor attractions.

A requirement to pre-book activities was introduced so we accelerated the introduction of Elola – an online booking system. This enabled pre-booked and paid for activities such as water sports, bike hire and car park tickets.

We purchased additional equipment to sanitise and dry all equipment after each use and accommodate an increased demand for activities at Llandegfedd. We also extended the number of water sports sessions to meet customer demand.

2.2.3 Impact of Performance on Future years

We continue to welcome visitors to our recreational sites whilst following Covid restrictions. Our facilities will prioritise the safety of our customers and staff. Our Llys y Frân visitor centre was opened in June 2021, providing a refurbished visitor centre, café, outdoor activity centre, meeting rooms, changing facilities, cycle hire and many more activities, thereby expanding visitor access to our sites. Subject to any further travel restrictions in 2021-22 we believe we will be able to meet the visitor number performance measure for 2021-22 and the remainder of the AMP period.

2.2.4 Influence on other performance commitments

This performance commitment is not directly linked to other performance commitments.

2.2.5 Impact of the potential long-term implications for planning and investment

This performance commitment incentivises us to promote access to our recreational facilities. We have re-opened Llys y Frân visitors centre in June 2021. An intervention will not impact long term planning and investment. We are investing in a new visitors' centre at the Llanishen and Lisvane reservoir site. This will not be impacted by an intervention on this performance commitment and is covered by its own delivery performance commitment VIS01- Delivery of a new visitors centre.

2.2.6 Customer interest and incentives

Our visitors to recreational facilities performance commitment is an annual performance commitment to promote access of our facilities to customers. An intervention to remove the underperformance payments for 2020-21 does not alter the incentives going forwards as performance in future years is subject to separate incentives in each year. We do not believe that the application of an underperformance payment for this measure is in customers' interest as access to our recreational sites was impacted by local and national lockdowns. We welcomed back visitors to our sites following government guidelines and additional measures were implemented to ensure our sites were Covid safe.

3. In-Period ODI Submission Model

This section provides an overview of the inputs and outputs of the in-period ODI model. As set out in section 2 above, we have considered the impact of Covid-19 on our performance in the round and we request for an intervention to remove the underperformance payments for two of our PCs; Ft11 Visitors to recreational facilities and Ft10 Community Education.

3.1. ODI Payments for In-Period ODI model

The in-period ODI model requires the in-period ODIs for 2020-21 to be included in rows 21 to 27 in 2017-18 prices. The total in-period ODIs by price control are reported in table 3H of the APR. In line with our request for two interventions we have made an adjustment to the in-period payments to remove the underperformance payments for Ft11 Visitors to recreational facilities and Ft10 Community Education due to the impact of Covid-19 which is outlined in table 7.

Table 7- Performance Payments inputs into the in-period ODI model

2020-21 Performance Payments	2020-21 APR (Table 3H Lines 1-7) (£m)	Ft11 Visitors to recreational Facilities (£m)	Ft10 Community Education (£m)	Revised 2020-21 In-period ODI (£m)
Water resources	(0.530)	0.530		-
Water network plus	(6.357)		0.046	(6.310)
Wastewater network plus	(0.591)		0.066	(0.526)
Bioresources (sludge)	0.454			0.454
Residential retail	(0.308)			(0.308)
Business retail	(0.162)			(0.162)
Total	(7.494)	0.530	0.112	(6.851)

2017-18 Prices. Any differences are due to rounding.

3.2. Other in-period payments

This section includes in-period payments for C-MeX and D-MeX. The outperformance and underperformance payments have been calculated using Ofwat's C-MeX and D-MeX models published alongside the PR19 Reconciliation Rulebook and the industry published C-MeX data and a provisional set of D-MeX Results.

Table 8- C-MeX and D-MeX in-period payments

Other in-period payments	£m (2017-18 Prices)
C-MeX (residential retail)	2.018
D-MeX (water network plus)	(0.238)
D-MeX (wastewater network plus)	(0.115)

3.3. ODI payments deferred from previous reconciliation years

No ODI payments were deferred from previous years.

3.4. Voluntary abatements

No ODI payments have been abated.

3.5. Voluntary Deferrals

Ofwat has acknowledged the impact Covid has had on the industry Per Capita Consumption (PCC) performance and confirmed that underperformance and outperformance payment positions will be reviewed at the end of AMP7. Following this guidance¹, we have deferred £1.3m of underperformance payments for PCC.

Table 9- Voluntary Deferrals

Voluntary Deferrals	£m (2017-18 Prices)
Water resources	-
Water network plus	(1.310)
Wastewater network plus	-
Bioresources (sludge)	-
Residential retail	-
Business retail	-
Dummy control	-
Total	(1.310)

¹ Aileen Armstrong's letter on the 22nd of March 2021

3.6. In-period ODIs applied in the year

Table 10 shows the in-period ODIs that will be applied for 2022-23 charges.

Table 10- In-period ODIs applied

In-period ODIs applied	£m (2017-18 Prices)
Water resources	-
Water network plus	(5.239)
Wastewater network plus	(0.641)
Bioresources (sludge)	0.454
Residential retail	1.710
Business retail	(0.162)
Total	(3.877)

3.7. Marginal Tax Rate

The in-period ODI model makes an adjustment for the marginal tax rate. This adjustment is applied to ensure that companies receive the level of ODI payments as envisaged in the PR19 final determinations². Our company actual marginal tax rate is 0%, which is in line with the assumptions made at the Final Determination. Therefore, there should be no tax adjustment for the in-period ODIs.

3.8. Price control variable inputs

The model requires inputs for the allowed revenue. The price control variables are obtained from the 'Notification of the final determination of price controls for Dŵr Cymru' and 'Dŵr Cymru - Adjusting for actual performance in 2019-20: Blind year adjustments, final decisions'. Business Retail customer numbers are obtained from the PR19 Financial Model.

Table 11- Price Control input prices

	2020-21	2021-22	2022-23	2023-24	2024-25
WR- Allowed revenue starting point ³ (£m)	35.896				
WR- K Factors (%)	-	6.760	5.090	2.490	(4.590)
WN+- Allowed revenue starting point ⁴ (£m)	283.342				
WN+- K Factors (%)	-	(5.710)	1.390	(1.240)	0.260
WWN+- Allowed revenue starting point ⁵ (£m)	391.915				
WWN+- K Factors (%)	-	(0.300)	(1.070)	(1.290)	(1.450)
Bioresources- Unadjusted revenue (£m)- 2017-18 Nov CPIH Prices		34.573	34.926	35.278	35.630
Residential Retail Total Revenue (£m)- Nominal prices		46.830	47.340	47.850	48.357

² Ofwat, PR19 Reconciliation Rulebook Consultation- reconciliation model guidance. March 2020.

³ Notification of the final determination of price controls for Dŵr Cymru- Page 8

⁴ Notification of the final determination of price controls for Dŵr Cymru- Page 6

⁵ v Notification of the final determination of price controls for Dŵr Cymru- Page 7

Average Allowed Business Retail cost component (£s, Nominal Prices)

	2020-21	2021-22	2022-23	2023-24	2024-25
Business Retail- Customer Type 1 Water Supplies <50 MI a year	31.06	30.97	31.04	31.06	30.97
Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year	-	-	-	-	-
Business Retail- Customer Type 3 Wastewater Services	41.01	41.12	41.44	41.01	41.12

Business Retail Number of customers

	2020-21	2021-22	2022-23	2023-24	2024-25
Business Retail- Customer Type 1 Water Supplies <50 MI a year	101,020	101,400	101,779	101,020	101,400
Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year	113	113	113	113	113
Business Retail- Customer Type 3 Wastewater Services	74,685	74,959	75,233	74,685	74,959

3.9. Proportion of revenue expected to be collected from these customers in year adjustment to be made

The in-period ODI model requires an input for the proportion of revenue to be collected from the different customer types. The proportion of revenue expected to be collected from these customers have been split between Type 1 and Type 3 customers, in proportion to the allowed retail revenue. Type 2 customers allowed revenue is a gross margin and therefore no adjustment is applied.

Table 12- Proportion of Non-Household adjustments by customer type

	2020-21
Business Retail- Customer Type 1 Water Supplies <50 MI a year	50.6%
Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year	-
Business Retail- Customer Type 3 Wastewater Services	49.4%

3.10. Revenue Adjustments

The total in-period ODIs reported in table 10 are applied to 2022-23 charges using Ofwat's in-period ODI model. Table 13 reports the summary of proposed changes to the price controls for the in-period ODI determination. The revenue adjustments from the ODI payments are not significant and any impact on customer bills will be managed through our annual charges process.

Table 13- In-period Revenue Adjustments for 2020-21

		2022-23	2023-24	2024-25
Water Resources (K factor %)	PR19 Blind Year Final Decision	5.09	2.49	-4.59
	Revised	No change	No change	No change
Water Network Plus (K factor-%)	PR19 Blind Year Final Decision	1.39	(1.24)	0.26
	Revised	(0.71)	0.85	0.26
Wastewater Network Plus (K factor- %)	PR19 Blind Year Final Decision	(1.07)	(1.29)	(1.45)
	Revised	(1.24)	(1.11)	(1.45)
Bioresources-Revised Total revised revenue (£m) 2017-18 Nov CPIH Prices	PR19 Blind Year Final Decision	34.926	35.278	35.630
	Revised	35.380	35.278	35.630
Residential Retail Total revised revenue (£m)- Nominal Prices	PR19 Blind Year Final Decision	47.340	47.850	48.357
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Business Retail- Customer Type 1 Average retail cost component (£)- Nominal Prices	PR19 Final Determination	31.06	30.97	31.04
	Revised	30.17	30.97	31.04
Business Retail- Customer Type 2 Average retail cost component (£) Nominal Prices	PR19 Final Determination	41.01	41.12	41.44
	Revised	39.84	41.12	41.44