



In-period ODI Submission

2021-22

Supporting document

*July 2022*

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## Summary

The proposed in-period ODIs adjustments for 2021-22 performance to be applied to 2023-24 charges are reported in table 1. The adjustments to the revenue controls are reported in table 2.

**Table 1- 2021-22 in-period ODIs applied**

In-period ODIs applied	£m (2017-18 Prices)
Water resources	0.168
Water network plus	(10.733)
Wastewater network plus	(0.214)
Bioresources (sludge)	0.454
Residential retail	0.047
Business retail	(0.119)
C-MeX	1.600
D-MeX	(0.139)
<b>Total</b>	<b>(8.936)</b>

**Table 2- Revenue adjustment for 2021-22 in-period ODIs**

		2023-24	2024-25
Water Resources (% K factor)	2020-21 In-Period Final Determination	4.280	(4.590)
	Revised	4.770	(5.00)
Water Network Plus (% K factor)	2020-21 In-Period Final Determination	1.330	0.260
	Revised	(3.320)	4.830
Wastewater Network Plus (% K factor)	2020-21 In-Period Final Determination	(1.050)	(1.450)
	Revised	(1.120)	(1.380)
Bioresources-Revised Total Revenue (£m)- 2017-18 Prices	2020-21 In-Period Final Determination	35.278	35.630
	Revised	35.732	35.630
Residential Retail Total revised revenue (£m)- Nominal Prices	2020-21 In-Period Final Determination	47.850	48.357
	Revised	49.843	48.357
Business Retail- Customer Type 1 Average retail cost component- (£) Nominal Prices	2020-21 In-Period Final Determination	30.97	31.04
	Revised	30.27	31.04
Business Retail- Customer Type 2 Average retail cost component (£) Nominal Prices	2020-21 In-Period Final Determination	41.12	41.44
	Revised	40.14	41.44

## 1. Methodology

### 1.1. Purpose

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

1. **PR19 In-period ODI Model** “PR19IPD04-in-period-adjustments-model-v1.4b 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 2021-22 performance commitments to be applied to 2023-24 charges.

An overview of the inputs and outputs of the in-period submission model is presented in section 2 “In-Period ODI Submission Model”.

### 1.3 Assurance

The assurance for the in-period ODI submissions was undertaken alongside our 2021-22 Annual Performance Report. Further information on our assurance process can be found in our 2021-22 APR.

## 2. In-Period ODI Submission Model

This section provides an overview of the inputs and outputs of the in-period ODI model.

### 2.1. ODI Payments for In-Period ODI model

The in-period ODI model requires the in-period ODIs for 2021-22 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.

Table 3- Performance Payments inputs into the in-period ODI model

<b>2021-22 Performance Payments</b>	<b>2021-22 APR (Table 3H Lines 1-7) (£m)</b>
<b>Water resources</b>	0.168
<b>Water network plus</b>	(10.733)
<b>Wastewater network plus</b>	(0.214)
<b>Bioresources (sludge)</b>	0.454
<b>Residential retail</b>	0.047
<b>Business retail</b>	(0.119)
<b>Total</b>	(10.397)

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

## 2.2. 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 and the industry C-MeX data and of D-MeX Results.

Table 4- C-MeX and D-MeX in-period payments

Other in-period payments	£m (2017-18 Prices)
C-MeX (residential retail)	1.600
D-MeX (water network plus)	(0.101)
D-MeX (wastewater network plus)	(0.038)

## 2.3. ODI payments deferred from previous reconciliation years

No ODI payments were deferred from previous years.

## 2.4. Voluntary abatements

No ODI payments have been abated in the in-period ODI model.

The override function in part 3 of the APR has been used to override outperformance payments for leakage and complaints.

### *Leakage (En4)*

We are currently undertaking an extensive review of the components that feed into the leakage reporting process which will take several months to complete. We have reported our 2021/22 performance on a like for like basis with that followed in the 2020/21 APR. Ofwat are aware of the review and we will be providing regular progress updates. As a result of this review, we have not claimed the Outcome Delivery Incentive reward of £0.257m which would be applicable based on our 2021/22 performance of 5.2%; we have used the override function within the Ofwat ODI model in part 3 of the APR to reflect this.

### *Total Complaints (Rt4)*

CCWater reporting requirements for 2021/22 have changed to remove chase contacts being allocated to non-written complaint volumes. Our performance commitment target is the industry upper quartile performance for 2020/21. Discussions with Ofwat have taken place throughout the reporting year and it has been agreed to report the total number of complaints in line with the Final Determination and CCWater's 2021/22 guidance (i.e. removing chase contacts). The exclusions of chase contacts reduces the volume of complaints reported from 122.1 in 2020/21 to 28.2 in 2021/22 per 10,000 connected household properties. As the target and performance level are not aligned, a performance payment will not be reported; we have used the override function within the Ofwat ODI model in part 3 of the APR to reflect this.

## 2.5. Voluntary Deferrals

No ODI payments have been deferred.

## 2.6. In-period ODIs applied in the year

Table 5 shows the in-period ODIs that will be applied for 2023-24 charges. C-MeX payments are allocated to the residential retail price control. D-MeX payments for water and wastewater are allocated to the water network+ and wastewater network+ price controls respectively.

Table 5- In-period ODIs applied

<b>In-period ODIs applied</b>	<b>£m (2017-18 Prices)</b>
<b>Water resources</b>	0.168
<b>Water network plus</b>	(10.834)
<b>Wastewater network plus</b>	(0.252)
<b>Bioresources (sludge)</b>	0.454
<b>Residential retail</b>	1.647
<b>Business retail</b>	(0.119)
<b>Total</b>	(8.936)

## 2.7. 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 determinations<sup>1</sup>. The tax rate in the model is set at 19% as a default. Our company actual marginal tax rate is 0%, which is in line with the assumptions made at the Final Determination. Our expected marginal tax rate for 2023-24 is also zero, we can provide a draft tax computation if required. Therefore, in order for the company to incur the level of ODI payments as envisaged in the PR19 FD the tax rate in the model should be set at 0%.

Our concerns with the treatment of tax were raised during the 2020-21 in-period determination process. The treatment of tax for the in-period determination was inconsistent with the approach to taxation in the PR19 Final Determination. Ofwat's approach to price reviews to date has been to regulate post-tax instead of pre-tax. The post-tax approach considers tax as a "cash cost to the business" and a specific allowance is calculated for tax. The approach undertaken in the 2020-21 determination essentially applies a pre-tax approach, overlaid on Ofwat's general price control methodology which uses a post-tax approach. This approach for the ODI in-period determinations gives rise to inconsistencies, which would systematically over- or under-reward companies. We welcome Ofwat's commitment to reviewing the treatment of tax at PR24. However, we maintain that the appropriate payments could be achieved now by using the appropriate tax rate in the in-period ODI model.

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<sup>1</sup> Ofwat, PR19 Reconciliation Rulebook Consultation- reconciliation model guidance. March 2020.

## 2.8. 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 'Final determination of Dŵr Cymru's in-period outcome delivery incentives for 2020-21'. Business Retail customer numbers are obtained from the PR19 Financial Model.

Table 6- Price Control input prices

	2020-21	2021-22	2022-23	2023-24	2024-25
WR- Allowed revenue starting point <sup>2</sup> (£m)	35.896				
WR- K Factors (%)	-	6.760	3.240	4.280	(4.590)
WN+- Allowed revenue starting point <sup>3</sup> (£m)	283.342				
WN+- K Factors (%)	-	(5.710)	(1.250)	1.330	0.260
WWN+- Allowed revenue starting point <sup>4</sup> (£m)	391.915				
WWN+- K Factors (%)	-	(0.300)	(1.310)	(1.050)	(1.450)
Bioresources- Unadjusted revenue (£m)- 2017-18 Nov CPIH Prices		34.573	35.487	35.278	35.630
Residential Retail Total Revenue (£m)- Nominal prices		46.830	49.670	47.850	48.357

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

	2022-23	2023-24	2024-25
<b>Business Retail- Customer Type 1 Water Supplies &lt;50 MI a year</b>	29.98	30.97	31.04
<b>Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year</b>	-	-	-
<b>Business Retail- Customer Type 3 Wastewater Services</b>	39.51	41.12	41.44

### Business Retail Number of customers

	2022-23	2023-24	2024-25
<b>Business Retail- Customer Type 1 Water Supplies &lt;50 MI a year</b>	101,020	101,400	101,779
<b>Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year</b>	113	113	113
<b>Business Retail- Customer Type 3 Wastewater Services</b>	74,685	74,959	75,233

<sup>2</sup> Notification of the final determination of price controls for Dŵr Cymru- Page 8

<sup>3</sup> Notification of the final determination of price controls for Dŵr Cymru- Page 6

<sup>4</sup> Notification of the final determination of price controls for Dŵr Cymru- Page 7

## 2.9. 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 is used to allocate any underperformance or outperformance payments between customer types. Type 2 customers allowed revenue is a gross margin and therefore no adjustment is applied. The proportion for customer type 1 and 3 are set based on Ofwat's 2020-21 in-period Final Determination.

Table 7- Proportion of Non-Household adjustments by customer type

	2022-23	2023-24	2024-25
<b>Business Retail- Customer Type 1 Water Supplies &lt;50 Ml a year</b>	49.39%	49.27%	49.15%
<b>Business Retail- Customer Type 2 Water Supplies ≥ 50 Ml a year</b>	-	-	-
<b>Business Retail- Customer Type 3 Wastewater Services</b>	50.61%	50.73%	50.85%

## 2.10. Revenue Adjustments

The total in-period ODIs reported in table 5 are applied to 2023-24 charges using Ofwat's in-period ODI model. Table 8 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 8- In-period Revenue Adjustments for 2021-22

		2023-24	2024-25
Water Resources (% K factor)	2020-21 In-Period Final Determination	4.280	(4.590)
	Revised	4.770	(5.00)
Water Network Plus (% K factor)	2020-21 In-Period Final Determination	1.330	0.260
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