



In-period ODI Submission

2022-23

Supporting document

July 2023

dwrcymru.com



Summary

The proposed in-period ODIs adjustments for 2022-23 performance to be applied to 2024-25 charges are reported in table 1. The adjustments to the revenue controls are reported in table 2.

Table 1- 2022-23 in-period ODIs applied

In-period ODIs applied	£m (2017-18 Prices)
Water resources	0.019
Water network plus	(25.496)
Wastewater network plus	0.663
Bioresources (sludge)	0.400
Residential retail	(0.539)
Business retail	(0.190)
C-MeX	2.191
D-MeX	(1.156)
Total	(24.108)

Table 2- Revenue adjustment for 2022-23 in-period ODIs

		2024-25
Water Resources (% K factor)	2022-23 In-Period Final Determination	(5.30)
	Revised	(5.25)
Water Network Plus (% K factor)	2022-23 In-Period Final Determination	4.17
	Revised	(6.95)
Wastewater Network Plus (% K factor)	2022-23 In-Period Final Determination	(1.44)
	Revised	(1.380)
Bioresources-Revised Total Revenue (£m)- 2017-18 Prices	2022-23 In-Period Final Determination	35.630
	Revised	36.030
Residential Retail Total revised revenue (£m)- Nominal Prices	2022-23 In-Period Final Determination	48.357
	Revised	50.463
Business Retail- Customer Type 1 Average retail cost component- (£) Nominal Prices	2022-23 In-Period Final Determination	31.04
	Revised	29.870
Business Retail- Customer Type 2 Average retail cost component (£) Nominal Prices	2022-23 In-Period Final Determination	41.44
	Revised	39.803

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 2022-23 performance commitments to be applied to 2024-25 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 2022-23 Annual Performance Report. Further information on our assurance process can be found in our 2022-23 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 2022-23 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

2022-23 Performance Payments	2022-23 APR (Table 3H Lines 1-7) (£m)
Water resources	0.019
Water network plus	(19.731)
Wastewater network plus	0.663
Bioresources (sludge)	0.400
Residential retail	(0.539)
Business retail	(0.190)
Total	(19.378)

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)	2.191
D-MeX (water network plus)	(0.704)
D-MeX (wastewater network plus)	(0.452)

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.

2.5. Voluntary Deferrals

No ODI payments have been deferred.

2.6. Other Bespoke Adjustments

An 'other bespoke adjustment' of £5.539m for Water Network+ has been included to adjust for the restatement of performance for Leakage (PR19WSH_EN4) and Supply Interruptions (PR19WSH_Wt2) performance commitments. The ODI adjustment includes a time value of money adjustment using the PR19 wholesale allowed return on capital of 2.92%.

Table 5- Other Bespoke Adjustment Calculation

		2020-21	2021-22	Total
Leakage Adjustment	£m	(2.096)	(3.360)	(5.456)
Supply Interruptions Adjustment	£m	(0.030)	(0.053)	(0.083)
Other ODI Adjustment	£m	(2.126)	(3.413)	(5.539)
Discount Rate	2.92%			
Other ODI Adjustment incl Time Value of Money	£m	(2.252)	(3.513)	(5.765)

2017-18 Prices

Leakage (En4)

Leakage performance data for 2020-21 and 2021-22 has been restated to Ofwat, further commentary is available in part 3 of our APR. This section outlines the calculation of the ODIs for the restated leakage performance. A bespoke adjustment is applied to return the ODI under-performance payments to customers in 2024-25. Table 6 outlines the calculation of the revised ODI payments.

Table 6- Leakage Restated ODI Performance

Leakage PR19WSH_EN4- Restated Actuals					
	17/18	18/19	19/20	20/21	21/22
Leakage in year (MI/D)	208.9	216.6	225.8	232.7	240.3
Leakage three year rolling average (MI/D)			217.1	225	232.9
Percentage Reduction (%)				(4%)	(7%)
Target (%)				2%	4%
Target (MI/D)				213.2	208.0
Underperformance Collar (MI/D)				228.0	228.0
Underperformance Rate (£m per MI/D)	(0.168)				
Underperformance Payment (£m)				(1.982)	(3.360)

2017-18 Prices

Table 7 calculated the leakage ODI adjustment. The adjustment is the sum of the revised leakage ODI underperformance payment and an adjustment to return ODI outperformance payments for 2020-21 performance that were included in the 2020-21 in-period ODI determination.

Table 7- Total Leakage Adjustment

		2020-21	2021-22	Total
Leakage- ODIs included in previous in-period determin £m		0.114	0.000	
Leakage Restated ODI Payments	£m	(1.982)	(3.360)	
Leakage Adjustment	£m	(2.096)	(3.360)	(5.456)

2017-18 Prices

Supply Interruptions

Supply interruptions performance data for 2020-21 and 2021-22 has been restated to Ofwat, further commentary is available in part 3 of our APR. This section outlines the calculation of the ODI adjustment for the restated supply interruptions performance.

Table 8- Supply Interruption ODI Adjustment

		2020-21	2021-22
Previously Reported Supply Interruptions	(HH:MM:SS)	00:11:05	00:16:12
Revised Supply Interruptions	(HH:MM:SS)	00:11:08	00:16:17
ODI Underperformance Rate	(£m per Minute)	(0.610)	
Previous ODI Underperformance Payment	(£m)	(2.796)	(6.139)
Revised ODI Underperformance Payment	(£m)	(2.826)	(6.192)
Discount Rate		2.92%	
Supply Interruptions ODI Adjustment	(£m)	(0.030)	(0.053)

2017-18 Prices

2.7. In-period ODIs applied in the year

Table 9 shows the in-period ODIs that will be applied for 2024-25 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 9- In-period ODIs applied

In-period ODIs applied	£m (2017-18 Prices)
Water resources	0.019
Water network plus	(26.200)
Wastewater network plus	0.211
Bioresources (sludge)	0.400
Residential retail	1.652
Business retail	(0.190)
Total	(24.108)

2.8. 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 determinations¹. 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 2024-25 is also zero, alongside our submission we have provided a draft tax computation. 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%.

2.9. 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 2022-23'. Business Retail customer numbers are obtained from the PR19 Financial Model.

¹ Ofwat, PR19 Reconciliation Rulebook Consultation- reconciliation model guidance. March 2020.

Table 10- Price Control input prices

	2020-21	2022-23	2023-24	2024-25	2024-25
WR- Allowed revenue starting point ² (£m)	35.896				
WR- K Factors (%)	-	6.760	3.240	5.140	(5.300)
WN+- Allowed revenue starting point ³ (£m)	283.342				
WN+- K Factors (%)	-	(5.710)	(1.250)	(2.80)	4.170
WWN+- Allowed revenue starting point ⁴ (£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	35.623	35.630
Residential Retail Total Revenue (£m)- Nominal prices		46.830	49.670	47.071	48.357

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

	2022-23	2024-25	2024-25
Business Retail- Customer Type 1 Water Supplies <50 Ml a year	29.98	30.97	31.04
Business Retail- Customer Type 2 Water Supplies ≥ 50 Ml a year	-	-	-
Business Retail- Customer Type 3 Wastewater Services	39.51	41.12	41.44

Business Retail Number of customers

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

2.10. 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 2022-23 in-period Final Determination.

² Notification of the final determination of price controls for Dŵr Cymru- Page 8

³ Notification of the final determination of price controls for Dŵr Cymru- Page 6

⁴ Notification of the final determination of price controls for Dŵr Cymru- Page 7

Table 11- Proportion of Non-Household adjustments by customer type

	2022-23	2024-25	2024-25
Business Retail- Customer Type 1 Water Supplies <50 Ml a year	49.39%	49.27%	49.15%
Business Retail- Customer Type 2 Water Supplies ≥ 50 Ml a year	-	-	-
Business Retail- Customer Type 3 Wastewater Services	50.61%	50.73%	50.85%

2.11. Revenue Adjustments

The total in-period ODIs reported in table 12 are applied to 2024-25 charges using Ofwat’s in-period ODI model. Table 12 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 12- In-period Revenue Adjustments for 2022-23

		2024-25
Water Resources (% K factor)	2022-23 In-Period Final Determination	(5.30)
	Revised	(5.25)
Water Network Plus (% K factor)	2022-23 In-Period Final Determination	4.17
	Revised	(6.95)
Wastewater Network Plus (% K factor)	2022-23 In-Period Final Determination	(1.44)
	Revised	(1.380)
Bioresources-Revised Total Revenue (£m)- 2017-18 Prices	2022-23 In-Period Final Determination	35.630
	Revised	36.030
Residential Retail Total revised revenue (£m)- Nominal Prices	2022-23 In-Period Final Determination	48.357
	Revised	50.512
Business Retail- Customer Type 1 Average retail cost component- (£) Nominal Prices	2022-23 In-Period Final Determination	31.04
	Revised	29.870
Business Retail- Customer Type 2 Average retail cost component (£) Nominal Prices	2022-23 In-Period Final Determination	41.44
	Revised	39.803