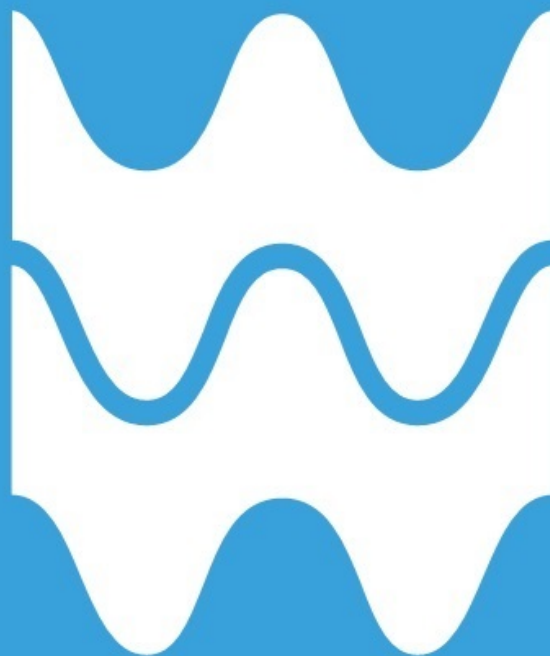


In-Period ODI Submission Model

APR 2023/24



1. Summary

The proposed in-period ODIs adjustments for 2023-24 performance to be applied to charges as part of PR24 as reported in table 1.

Table 1 - 2023-24 in-period ODIs applied

In-period ODIs applied	£m (2017-18 Prices)
Water resources	0.259
Water network plus	(22.072)
Wastewater network plus	(3.250)
Bioresources (sludge)	0.454
Residential retail	0.019
Business retail	(0.247)
C-MeX	1.169
D-MeX	(0.393)
Total	(24.061)

2. Methodology

Purpose

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

1. **PR19 In-period ODI Model** "PR19IPDO4-in-period-adjustments-model-v1.4b May2024 WSH.xlsx; and
2. This supporting document which outlines the model inputs and supporting evidence.

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 provides the commentary for the completion of the 2023-24 in-period adjustment model. The adjustments for the in-period ODI model will be reflected in charges through PR24.

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

Assurance

The assurance for the in-period ODI submissions was undertaken alongside our 2023-24 Annual Performance Report. Further information on our assurance process can be found in our 2023-24 APR.

3. In-Period ODI Submission Model

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

ODI Payments for In-Period ODI model

The in-period ODI model requires the in-period ODIs for 2023-24 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

2023-24 Performance Payments	2023-24 APR (Table 3H Lines 1-7) (£m)
Water resources	0.259
Water network plus	(22.072)
Wastewater network plus	(3.250)
Bioresources (sludge)	0.454
Residential retail	0.019
Business retail	(0.247)
Total	(24.837)

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

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)	1.169
D-MeX (water network plus)	(0.324)
D-MeX (wastewater network plus)	(0.069)

ODI payments deferred from previous reconciliation years

No ODI payments were deferred from previous years.

Voluntary abatements

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

Voluntary Deferrals

No ODI payments have been deferred.

Other Bespoke Adjustments

No bespoke ODI adjustments have been applied.

In-period ODIs applied in the year

Table 9 shows the in-period ODIs that will be applied as part of PR24. 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	0.259
Water network plus	(22.396)
Wastewater network plus	(3.319)
Bioresources (sludge)	0.454
Residential retail	1.188
Business retail	(0.247)
Total	(24.061)

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. This demonstrates that, 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%.

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.

Table 10 - Price Control inputs

	2020-21	2021-22	2022-23	2023-24	2024-25
WR- Allowed revenue starting point ² (£m)	35.896				
WR- K Factors (%)	-	6.760	3.240	5.140	(5.240)
WN+- Allowed revenue starting point ³ (£m)	283.342				
WN+- K Factors (%)	-	(5.710)	(1.250)	(2.80)	(6.990)
WWN+- Allowed revenue starting point ⁴ (£m)	391.915				
WWN+- K Factors (%)	-	(0.300)	(1.310)	(1.050)	(1.370)
Bioresources- Unadjusted revenue (£m)- 2017-18 Nov CPIH Prices		34.573	35.487	35.623	36.031
Residential Retail Total Revenue (£m)- Nominal prices		46.830	49.670	49.071	50.473

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

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

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

	2022-23	2023-24	2024-25
Business Retail- Customer Type 1 Water Supplies <50 MI a year	29.98	30.49	29.87
Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year	-	-	-
Business Retail- Customer Type 3 Wastewater Services	39.51	40.45	39.79

Business Retail Number of customers

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

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

The in-period ODI model also requires an input for the proportion of revenue to be collected from the different customer types. This 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 types 1 and 3 are set based on Ofwat's 2022-23 in-period Final Determination.

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

	2022-23	2023-24	2024-25
Business Retail- Customer Type 1 Water Supplies <50 MI a year	49.39%	49.27%	49.15%
Business Retail- Customer Type 2 Water Supplies ≥ 50 MI a year	-	-	-
Business Retail- Customer Type 3 Wastewater Services	50.61%	50.73%	50.85%

