

WONDERFUL ON TAP



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Sent via email

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Dear Kirstin,

Water PR24 price redeterminations

Thank you for the CMA's invitation for third party submissions on the issues the CMA should consider as part of its redeterminations. We have one issue we would like the CMA to consider.

Outturn Adjustment Mechanism

Ofwat's PR24 final determination includes an Outturn Adjustment Mechanism (OAM) designed to ensure that the overall outcome delivery incentives (ODI) for the sector are balanced and not skewed to the upside or downside.

As set out on page 17 of [Ofwat's PR24 final determinations - Aligning risk and return appendix 1](#) the OAM involves calculating the overall ODI net payment for each company from all common PCs. Ofwat then transforms the amounts into terms of regulated equity (RoRE) and then orders them from largest to smallest. Ofwat will then calculate the OAM median benchmark by reference to an average of the middle companies. In the case of an odd number of companies this will be three, or four if the number of companies is even. If the OAM median benchmark is within the range of -50bps to +50bps the adjustment is zero. Otherwise, the OAM adjustment is calculated as the OAM median benchmark less (plus) 50bps where the median benchmark is positive (negative).

In their statements of case, the 5 disputing companies have raised issues such as their performance commitment levels (PCLs), ODI rates and weather exclusions. If the CMA makes favourable changes to the disputing companies' performance commitments or ODIs this will positively affect their overall ODI net payments in terms of RoRE and will negatively affect the 11 non-disputing companies through the OAM.

To avoid this potential effect on the non-disputing companies, Ofwat could agree to apply the OAM for the non-disputing companies on the basis PR24 final determinations for all 16 companies - on the basis that the targets were set on a broadly consistent basis for all companies. While this is a decision for Ofwat we think it would be helpful if the CMA could make a statement in its redeterminations that its intention is for its decision not to affect the non-disputing companies through the OAM. The CMA could also suggest that Ofwat applies the OAM for the non-disputing companies on the basis PR24 final determinations for all 16 companies.

Yours sincerely,

Shane Anderson
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