

Thames Water Utilities Limited (TWUL)



In-period adjustments and  
revenue forecasting incentive  
models submission -  
commentary

July 2023

## Introduction

Alongside the Annual Performance Report (APR), we are submitting two models relating to in-period adjustments:

1. In-period adjustments model:  
[PR19IPD04-in-period-adjustments-model-v1.4b - TMS APR23 v2 20230627.xlsx];
2. Revenue Forecasting Incentive (RFI) model populated with data from the water resources, water network plus, wastewater network plus and Thames-delivered Thames Tideway Tunnel (TTT) price controls:  
[RFI-model-Apr-2023-v1.0a - TMS APR23 v2 20230627.xlsm]

## In-period adjustments model

### ODI payments

We have populated the ODI payments (by price control) as calculated with the ODI performance model and shown in table 3H of the APR.

As we are forecasting that we will not be in a tax-paying position in 2024-25, we have used a 0% marginal tax rate in the in-period model for the purposes of tax applied to our ODI payments. We will be submitting a separate representation shortly after the publication of our APR to provide the evidence to support this approach, reflecting the information requirements set out in an email from Gillian Tanfield at Ofwat.

### Other ODI payments

We have populated our expected C-MeX and D-MeX payments, based on the currently available data for the industry. Thames Water ranked 17<sup>th</sup> on the C-MeX industry league table, which corresponds to an underperformance payment rate of -12%. Thames Water has a preliminary D-MeX score of 80.46% and was the 16<sup>th</sup> best performer in the industry, which corresponds to an underperformance payment rate of -11.65%.

Our calculation of the performance payments replicates Ofwat's C-MeX and D-MeX models. The Thames Water C-MeX underperformance payment is £13.121m in 2017-18 prices, and £16.780m when inflated to 2024-25 prices using a 0% marginal tax rate. The D-MeX underperformance payment is £5.456m in 2017-18 prices, and £6.978m when inflated to 2024-25 prices using a 0% marginal tax rate.

## RFI models

The latest update of the RFI model, as published by Ofwat in May 2023, accounts for water resources, water network plus, wastewater network plus and TTT. We populated one version of the RFI model with data from these price controls.

### **Blind year adjustment (BYA)**

We propose to apply the BYA for the water resources, water network plus and wastewater network plus price controls fully in 2024-25.

In the BYA final decision document, Ofwat stated that the BYA for TTT would only be applied at PR24. Therefore, we populated the amount (£1.52m in 2019-20 prices) for reference purposes but set the profile to zero over all relevant years of AMP7.

### **RFI penalty adjustment**

The RFI model calculates the penalty adjustments arising from the imbalance between the allowed and the actual recovered revenue. The penalty adjustments after financing costs and inflation for wholesale water, wastewater network plus and TTT are £0.89m, £0.34m and £0.01m, respectively.

We propose to allocate the wholesale water adjustment in full to the water network plus price control, on the basis of simplicity and considering the immateriality of this penalty compared to the 2024-25 wholesale water allowed revenue (c. £1.1bn).