

Hafren Dyfrdwy: Actions summary table

Actions guidance

Company actions

We categorise actions that slow-track and significant scrutiny companies need to do as the following:

- **required actions** for companies which in general are required so that we can make draft determinations (or final determinations for some aspects of past delivery); and
- **advised actions** for companies to do by a specific date but that are not required for our draft determinations.

Each action has a unique reference. The prefix 'HDD' denotes the company Hafren Dyfrdwy. The central acronym references the test area where the action has been identified, please see the 'PR19 initial assessment of plans: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Timings and required response

- **Required actions:** Slow-track and significant scrutiny companies should address all **required actions** by the date shown in the 'date required' column in the table below (the majority of these are by 10am on 1 April 2019). The response to actions should be set out by companies in their resubmitted business plans and data tables. The template action tracker should be completed with a short description of the response and relevant business plan and/or data table references and should be submitted by 10 am on 1 April 2019. We will review the response to these actions in our assessment of company submissions ahead of determinations.
- **Advised actions:** Slow-track and significant scrutiny companies should set out their response to their **advised actions** by the date shown in the 'date required' column in the table below. For advised actions due on 1 April 2019 companies should include details of their response in their actions tracker.
- **Actions tracker:** Each company must complete and submit the template action tracker by 10 am on 1 April 2019 for review. For additional guidance, please see the cover page of the template action tracker.
- **Assurance:**
 - Assurance must be provided where requested as part of an action.
 - Companies must indicate the assurance that they have undertaken for all changes to data tables.
 - Where Customer Challenge Groups (CCGs) have provided assurance this should be indicated. In some instances, we have stated where we expect companies to work with CCGs as part of their re-submission of (parts of) their business plans. Please use our PR19 methodology as the guide for where their assurance of the quality of engagement with customers may be required.
 - If additional assurance is not required, companies may still provide it if they deem it appropriate.

For all the detailed actions documents referenced in the table below, the template action tracker and glossary, please see the [initial assessment of plans webpage](#).

Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	HDD.AV.A1	Required	<p>Hafren Dyfrdwy has proposed a higher bill than what it tested with customers in North Wales. A bill profile with an increase of 1% was tested in North Wales. However, an increase of 3.7% was submitted in the business plan for this area.</p> <p>Hafren Dyfrdwy should provide sufficient and convincing evidence that it has engaged with its customers on affordability and acceptability of its proposed bills and bill profiles for the 2020 to 2025 period. Hafren Dyfrdwy should demonstrate that its customers find its proposed bill and bill profiles acceptable and affordable. This should include testing its proposed bills and bill profiles for the 2020 to 2025 period with both the regions it serves. Hafren Dyfrdwy should confirm that testing has been assured by its CCG and conducted in line with social research best practice.</p>	1 April 2019
	HDD.AV.A2	Required	Hafren Dyfrdwy should provide a long-term bill profile for the 2025-30 period.	1 April 2019
	HDD.AV.A3	Required	<p>Hafren Dyfrdwy has not provided evidence to demonstrate that it has tested bills or bill profiles beyond 2025, particularly for the 2025-30 period, with customers.</p> <p>Hafren Dyfrdwy should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to demonstrate customer support for each of the profiles tested. Hafren Dyfrdwy should confirm that testing has been assured by its CCG and conducted in line with social research best practice.</p>	1 April 2019
	HDD.AV.A4	Required	<p>Hafren Dyfrdwy has not provided sufficient evidence on the level of cross-subsidy for social tariffs in its business plan. Hafren Dyfrdwy has also not provided sufficient evidence on support for this cross-subsidy across its customer base.</p> <p>Hafren Dyfrdwy should provide evidence on the level of cross-subsidy proposed and the support level for this cross-subsidy across its customer base.</p>	1 April 2019
	HDD.AV.A5	Required	<p>Hafren Dyfrdwy has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 0.7% in 2019/20 to 1.1% of customers in 2024/25. We consider this to be an insufficiently ambitious target. In addition, Hafren Dyfrdwy has only checked 50% of PSR data over the past two years.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Hafren Dyfrdwy should include a Performance Commitment to increase its PSR reach to at least 7% of its customer base (measured by households) by 2024/25. It should also commit to checking at least 90% of PSR data every 2 years via its Performance Commitment.</p> <p>For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.</p>	1 April 2019

	Advised actions	Advised	No Affordability and Vulnerability actions are advised.	N/A
Delivering outcomes for customers	HDD.OC.A1-55	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and ODI risk/return package. Please see 'Hafren Dyfrdwy: Delivering outcomes for customers detailed actions'.	Please see dates in 'Hafren Dyfrdwy: Delivering outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions.	N/A
Securing long-term resilience	HDD.LR.A1	Required	The company should ensure that the common performance commitments associated with operational resilience are clearly defined, sufficiently demanding for the period from 2020 to 2025 and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation to the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes. The company should propose direct bespoke resilience performance commitments linked to its resilience challenges and strategy.	1 April 2019
	HDD.LR.A2	Required	By 22 August 2019, the company should provide an action plan to deliver resilience in the round, reflecting upon our assessment of the business plan. This should include working to develop and implement a systems-based approach to resilience that considers a broad range of factors within and outside the water sector. The action plan should provide a clear baseline of operational, financial and corporate resilience and show how the actions will improve understanding of resilience or deliver improvement in resilience, progressing towards an integrated resilience framework that underpins the company's operations and future plans.	1 April 2019
	HDD.LR.A3	Required	The company should also provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019
	HDD.LR.A4	Required	The company's assessment of financial stress scenarios extends only to 2025. The company should commit to demonstrating that its assessment of financial resilience extends beyond 2025 in its next Long Term Viability Statement	1 April 2019
	HDD.LR.B1	Advised	No advised actions.	N/A
Targeted controls, markets and innovation	HDD.CMI.A1	Required	The company should provide commitment to submit a work programme by end August 2019 explaining how the company will deliver appropriate drainage and wastewater management plans by 2022. The programme should include timelines engagement with stakeholders, consultation and finalisation of the plans in early 2023 to inform PR24 business plans	1 April 2019

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	HDD.CMI.A2	Required	The company should revise its bid assessment framework to address our concerns around the lack of detail on the bidding process and lack of transparency.	15 July 2019
	HDD.CMI.B1	Advised	The company should consider how it can collaborate with other companies to deliver innovation.	1 April 2019
Securing cost efficiency	HDD.CE.A1	Required	We provide our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: <ul style="list-style-type: none"> the need for investment is not compelling; or there is no need for a cost adjustment claim beyond our existing cost baseline. 	1 April 2019
	HDD.CE.A2	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	1 April 2019
	Advised actions	Advised	No advised actions	N/A
Aligning risk and return	HDD.RR.A1	Required	The company proposes a net margin of 1.20% for <5ML/yr users despite operating in a non-contested market segment. The company should limit its margin to the PR16 1.0% cap, or provide compelling evidence why this is not appropriate.	1 April 2019
	HDD.RR.A2	Required	The company should amend its assessment of revenue variance in its RoRE risk analysis or provide convincing evidence that its exposure to revenue variation is as wide as its analysis suggests, particularly given the PR19 methodology.	1 April 2019
	HDD.RR.A3	Required	The company should set out the steps taken and the assurance obtained by the board in order to assess financeability of the business plan.	1 April 2019
	HDD.RR.A4	Required	The company should provide clarity with appropriate reasoning for the credit ratings targeted for both the notional and its actual company structure and should set out further evidence that the key financial ratios are consistent with the target credit ratings including threshold levels for the ratios.	1 April 2019
	HDD.RR.A5	Required	The company should ensure it is using the correct assumptions for the notional company including the cost of debt in assessing the key financial ratios. The RPI rate of inflation should be used to translate the nominal cost of debt to real for index linked debt.	1 April 2019
	HDD.RR.A6	Required	The company should provide further evidence to support the calculation of PAYG and RCV run-off rates and demonstrate that the starting point for the rates are consistent with the approach set out in the business plan.	1 April 2019
	HDD.RR.A7	Required	The company should provide further evidence that the proposed adjustments to PAYG and RCV run-off rates achieve the objectives set out in the business plan and are consistent with the commitments set out in the NAV application.	1 April 2019

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	HDD.RR.A8	Required	The company should set out the steps taken to address the concerns raised by the Customer Challenge Group and CCWater in relation to the final bill profile for water customers, providing further evidence that the final bill profile set out in the business plan is consistent with customer preferences for all customers or revise the bill increase for water only customers in line the profile presented to customers.	1 April 2019
	HDD.RR.B1	Advised	The company should explain in further detail how its risk management and risk mitigation measures are taken into account in its RoRE assessment	1 April 2019
Accounting for past delivery	HDD.PD.A1-6	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'Hafren Dyfrdwy: Accounting for past delivery detailed actions'.	
	HDD.PD.A7-10	Required	The company should develop and provide further evidence to support the continuous improvement and deliverability of outcomes and costs. Please see 'Hafren Dyfrdwy: Accounting for past delivery detailed actions'.	Please see dates in 'Hafren Dyfrdwy: Accounting for past delivery detailed actions'
	HDD.PD.B1-2	Advised	The company should develop and provide further evidence to support the continuous improvement and deliverability of complaints handling. Please see 'Hafren Dyfrdwy: Accounting for past delivery detailed actions'.	Please see dates in 'Hafren Dyfrdwy: Accounting for past delivery detailed actions'
Securing confidence and assurance	HDD.CA.A1	Required	The company is required to restate a forward looking Board assurance statement. Please see 'Hafren Dyfrdwy: Securing confidence and assurance detailed actions.'	1 April 2019
	HDD.CA.A2	Required	On gearing benefits sharing the company's explanation of its sharing mechanism is too high-level to assure that it provides benefits to customers equivalent to our default mechanism. It should incorporate our default sharing mechanism from 'Putting the sector in balance: position statement on PR19 business plans' into its published business plan, so that customers will receive bill reductions if gearing in any year is above the 70% threshold.	1 April 2019
	HDD.CA.A3	Required	On dividend policy the company is required to confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include: <ul style="list-style-type: none"> • clear Board commitment to publish detail on dividend policies in the APR and to signal changes to stakeholders; and • commitment to transparency about how the dividend policy in 2020-25 takes account of obligations and commitments to customers for the dividend policy that is applied in 2020-25 and when determining dividends. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019

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	HDD.CA.A4	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <ul style="list-style-type: none"> • providing full details and commitment to publish, including all performance metrics, the executive pay policy for 2020-25; • visibility and evidence of substantial linkage of executive remuneration to delivery to customers; • clear explanation of stretching targets and how they will be applied; • clear explanation of how the policy will be rigorously applied and monitored; and • commitment to report how changes, including the underlying reasons, are signalled to customers. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	HDD.CA.A5	Required	The company is required to provide further information on which PR14 performance commitments it has discontinued.	1 April 2019
	HDD.CA.A6- HDD.CA.A8	Required	The company is required to provide a revised financial model and data tables on 1 April 2019 and complete actions regarding its outcomes and risk and return data. Please see 'Hafren Dyfrdwy: Securing confidence and assurance detailed actions.'	1 April 2019
	HDD.CA.B1	Advised	The company has advisory actions regarding its financial model. Please see 'Hafren Dyfrdwy: Securing confidence and assurance detailed actions.'	1 April 2019

Securing cost efficiency

The tables below set out your performance on cost at different services and for different cost types. Costs are in £m of 2017-18. We index wholesale controls with consumer price inflation (CPIH). We do not index retail controls.

Costs by control

Costs	Water resources	Network + (water)	Bioresources	Network + (wastewater)	Residential retail	Company level
Business plan totex (£m)	18.0	100.9	3.6	21.8	13.4	157.7
Our view of totex (£m)	17.5	104.7	5.1	21.5	13.8	162.6
Efficiency challenge (£m)	0.5	-3.8	-1.5	0.3	-0.4	-5.0
Efficiency challenge (%)	2.8%	-3.8%	-41.3%	1.2%	-3.2%	-3.1%

Costs by residential retail, water and wastewater

Costs	Residential retail	Wholesale water	Wholesale wastewater	Company level
Business plan totex (£m)	13.4	118.9	25.4	157.7
Our view of totex (£m)	13.8	122.2	26.6	162.6
Efficiency challenge (£m)	-0.4	-3.3	-1.2	-5.0
Efficiency challenge (%)	-3.2%	-2.8%	-4.8%	-3.1%

Costs by base, enhancement and retail

Costs	Wholesale base costs			Enhancement costs			Residential retail	Company level
	Water	Wastewater	Total	Water	Wastewater	Total		
Business plan base/enhancement costs (£m)	101.0	22.3	123.3	17.9	3.1	21.0	13.4	157.7
Our view of base/enhancement costs (£m)	107.9	24.0	131.9	14.3	2.6	16.9	13.8	162.6
Efficiency challenge (£m)	-6.9	-1.7	-8.6	3.6	0.5	4.1	-0.4	-5.0
Efficiency challenge (%)	-6.9%	-7.6%	-7.0%	20.3%	15.2%	19.5%	-3.2%	-3.1%

Efficiency challenge (%) = efficiency challenge (£m) divided by business plan totex.

Note, the costs in the tables do not include pension deficit repair costs (for which we make an allowance in accordance with our policy set out in Information Notice 13/17) and third party costs. The costs are gross of grants and contributions.

Key areas where we disallowed enhancement costs.

- **Wholesale water:** New development and growth -£3m; and taste odour and colour -£0.4m.
- **Wholesale wastewater:** flow to full treatment -£0.4m.