Hafren Dyfrdwy: Test area assessment

All company test area grades								
Engaging customers	Addressing affordability and vulnerability	Delivering outcomes for customers	Securing long-term resilience	Targeted controls markets and innovation	Securing cost efficiency	Aligning risk and return	Accounting for past delivery	Securing confidence and assurance
C	D	D	D	C	B	D	D	C

Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	C	Overall the business plan falls short of high quality with insufficient evidence provided in the areas set out below. • Insufficient evidence of the use of a range of research techniques and the company has sourced its customer valuations for use in outcome delivery incentive (ODI) rates from a single piece of customer research with no evidence of triangulation and insufficient evidence of cross-checking against other sources, and that the research is robustly designed and implemented. • Insufficient evidence of a systematic and on-going approach to customer engagement: 'Pipe Up' is referred to as a method of gathering customers' 'in the moment' responses to interaction with the company. However, there is no mention of the insight, if any, gathered from using this survey, nor that any findings were used in the formation of its business plan. • The company makes efforts to engage with a wide range of customers. However, there is insufficient evidence of engagement with vulnerable customers (aside from those struggling to pay) or that their interests helped to shape the business plan. • The company provides insufficient evidence in some of the four areas of action set out in the 'Tapped In' report, in particular the Actions theme. While reference is made to how the company uses demographic data analysis and behavioural data tools to understand its customers and find ways to nudge them and change their behaviours, no specific examples are given of this work. • Although, the project to engage customers on asset health and resilience appears to have been well-designed, and there is evidence to show bill profiles have been adjusted following customer engagement, the CCG raises concerns about the company not repeating its acceptability research in both of its discrete geographic regions of operation and around the presentation of bill profiles. There is also insufficient evidence of extensive engagement with future bill-payers.	EC1	C
Addressing affordability and vulnerability	D	Hafren Dyfrdwy's business plan falls significantly short of the required quality with little or no evidence of its overall approach to affordability and vulnerability because: • the final bill was not tested with customers and is higher in one of the company's areas than the bill shown to customers. The CCG highlights major concerns with the company's acceptability testing, which it recommends be redone; • the company gave very little information on its long term bill projection and had a low quality approach to engagement with customers on this issue, as it did not test a specific bill amount or profile; • the company's approach to vulnerability lacks sufficient evidence, the number of customers it projects will be on its PSR in 2024-25 is low at 1.1%, and it has suggested a low quality Performance Commitment (PC) in the area; and • the company's plan proposed a low quality approach to helping people who can't afford their bills. There was insufficient evidence of how the company will promote its affordability schemes and its engagement with customers who struggle to pay was low quality.	AV1 AV2 AV3 AV4	D D C D

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Delivering outcomes for customers	D	Overall, across the delivering outcomes for customers test area, the evidence Hafren Dyfrdwy provides to support its proposed PCs and ODIs in its plan falls significantly short of high quality with little convincing evidence provided. There are a large number of material concerns with the plan. Key areas of concern where the business plan falls short of high quality are: • The company has not proposed stretching targets for the per capita consumption and supply interruptions PCs, nor does it report any data for the unplanned outage common PC and it does not explain how past performance data has been derived for unplanned outage. • There is not convincing evidence to demonstrate that the company's approach to triangulation of customer values is consistent or objective. • The company proposes ODI rates that are consistently lower than its industry peers and has an overall ODI package which is much smaller than the indicative RoRE range, it is unclear how this incentivises the company sufficiently or aligns with the interests of customers, stakeholders and shareholders. We also have concerns that the package does not have the right balance of incentives. The company provides no outperformance payment caps and provides no explanation of how it will protect customers should outperformance payments be higher than expected.	OC1	D
			OC2	D
			OC3	D
Securing long-term resilience	D	Overall, the plan falls significantly short of high quality and in many areas there is little or no evidence that convincingly demonstrates a commitment to resilience in the round. The plan provides little or no evidence to demonstrate a good understanding of the current level of resilience, the process for identifying risks and mitigation options. The company also provides insufficient or unconvincing evidence that it has engaged customers sufficiently on the range of risks and mitigation options. The company's plan covers some elements of operational, corporate and financial resilience at a high level. There is evidence of collaboration and partnership with water companies and other organisations through catchment management schemes and biodiversity improvements. However, the plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas: • There is no evidence of a systems-based framework that identifies and assesses risk interdependencies and interactions between internal and external elements of the business and that evaluates potential cascading and knock-on impacts from one system to another. • The company does not provide a resilience maturity assessment that demonstrates maturity at current and future levels of resilience. Similarly, the plan lacks a quantitative assessment framework to the assessment of risks and little evidence of how the mitigations link to the risks identified. • The company prioritises risks that it identified within its plan, but there is little evidence of how the priorities were determined. • The company's plan provides little evidence demonstrating how the resilience assessment is supported by stretching resilience focused PCs, especially where there are no direct resilience-related bespoke PCs. • The proposed resilience options are focused on reliability and resistance measures with less focus on redundancy or response and recovery measures. • The results of financial resilience stress scenario tests are presented as green/amber/red scores; and so there is insufficient evidence to determine the impacts of scenarios on key financial ratios. Whilst there is sufficient evidence that the company's targeted gearing level and credit rating are consistent with long term financial resilience, there is insufficient evidence of robust financial risk mitigation and risk management within the company as the assessment places significant reliance on the company's position within its group rather than as a standalone entity.	LR1	D
			LR2	C
Targeted controls, markets and Innovation	C	Overall, despite some areas of high quality, Hafren Dyfrdwy's plan falls short of high quality across the Targeted Controls, Markets and Innovation test area and evidence is insufficient and/or unconvincing in some areas. The company's business plan points to a number of lessons from the business retail market opening and its evidence on RCV allocation is complete. Hafren Dyfrdwy does not provide sufficient evidence to demonstrate how it was enabling a culture for innovation. The company provides insufficient evidence regarding its in-house approach to managing gap sites and voids, and its reasoning for not offering financial incentives to third parties. On the use of markets, catchment management and partnership working the company references natural capital principles. However, it does not evidence how this was incorporated in its decision making. The detail on the farmer incentive scheme is insufficient. Notwithstanding its current surplus, the company's evidence it had engaged with third parties to secure water resources was insufficient. The linkage between per capita consumptions targets and its metering strategy is unclear. The company's bid assessment framework provides little detail on the information parties will have to provide, how the company will assess bids, or the appeals process. It of concern that the company proposes to provide a bid application form only after the final determination. The company provides evidence it had considered DPC as part of its business planning. It also provides evidence of a detailed approach	CMI1	C
			CMI2	C
			CMI3	C
			CMI4	N/A
			CMI5	B
			CMI6	D

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		to assessing its Investment programme for DPC suitability. The company provides some justification why no scheme would meet the £100m totex threshold, and provides third party assurance of this. However, it does not provide the whole life totex of each scheme to support this conclusion.	CMI7	C
Securing cost efficiency	B	Overall, we consider Hafren Dyfrdwy's projected costs for 2020-25 to be relatively efficient. Its forecast costs in in water, wastewater and retail are below our benchmark costs. At the company level its costs are around 3% below our view of efficient costs. This gives the company a grade of B in both wholesale and retail areas of cost efficiency. The company scores highly in relation to the use of cost adjustment claims because it proposes four claims, mostly of high quality. Two claims receive a pass, and the other two a partial pass. This gives the company a grade of A in the cost adjustment claim test.	CE1	B
			CE2	B
			CE3	B
			CE4	A
Aligning risk and return	D	Overall, the company's plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting some of the most material aspects in Aligning risk and return. The following area of the plan is high quality: • it is based on our Final Methodology 'early view' cost of capital and, in the round, our 'early view' of retail margins. There is one area of concern where the business plan falls short of high quality: • insufficient evidence of the steps taken to assess financeability on both the notional and actual structure. There are three areas of major concern where the plan falls significantly short of high quality. The plan provides insufficient convincing evidence: • that the final bill increase for water-only customers is supported by acceptability testing; • that PAYG and RCV run-off rates are appropriate. Calculations of underlying natural rates for these rates were not set out and were inconsistent with submitted forecast cost data; and • in respect of risk and risk mitigation measures in the RoRE assessment for the notional company and we have concerns that the company's presentation of likely totex outcomes is weighted towards underperformance on a notional basis.	RR1	B
			RR2	D
			RR3	C
			RR4	D
Accounting for past delivery	D	Overall, Hafren Dyfrdwy's business plan falls significantly short of the required quality in accounting for past delivery. In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan, in particular for outcomes, costs and customer complaints handling. The plan is high quality for deliverability in the following areas. • There is good past performance in relation to major incidents. We do not have concerns with the evidence for deliverability of performance in relation to major incidents. The plan falls short of high quality for deliverability in the following areas. • We have substantial concerns about the company's outcomes performance as it has not provided sufficient evidence regarding past delivery of outcomes due to a lack of performance data following the Severn Trent Water and Dee Valley Water merger. We therefore have substantial concerns with the evidence for deliverability of outcomes.	PD1	C

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		• While there is good actual and forecast performance for costs, the company does not acknowledge the extent of its proposed efficiency challenge for 2020-25 and provides insufficient evidence on measures to ensure the planned costs are deliverable. We therefore have substantial concerns with the evidence for deliverability of the planned costs. • The company is resolving a falling proportion of household customer complaints at stage one between 2015 and 2018 and in 2018 is not yet meeting CCWater's 2020 target of 95% of complaints resolved at stage one. The company has provided insufficient evidence on its lessons learnt to give confidence that the measures in the plan will address this performance. We therefore we have some concerns with the evidence for deliverability of customer complaints handling performance. There is sufficient and convincing evidence for five out of eight PR14 reconciliation areas and insufficient evidence for ODIs, totex and land sales. The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments with appropriate outcome delivery incentivisation to the models for residential retail and wholesale revenue forecasting incentive mechanism in relation to the 2018 NAV but we have concerns with the outcome delivery incentivisation to the totex model. There is a minor difference (2.9% of 2019-20 revenue) between expected and proposed reconciliations. In the round, the evidence for the PR14 reconciliations is not sufficient to raise the accounting for past delivery test area score.	PD2	D
Securing confidence and assurance	C	Overall, Hafren Dyfrdwy's business plan falls short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area. The company's business plan falls short of demonstrating high quality in the following areas: The company's Board provides the majority of assurance statements requested to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable. However an insufficient number of statements are supported by sufficient and convincing evidence of the Board's challenge and assurance process. The company's Board provides a compliant statement of assurance to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term. However, the company provides insufficient evidence to support this statement. On demonstrating a fair balance between customers and investors: • The company proposes a base dividend yield less than 5%. • The company forecasts gearing to remain below 70% and has stated that, should it exceed 70%, it will share benefits with customers although the company provides insufficient detail to determine whether the proposals will provide equivalent benefits to customers as our default mechanism. • On executive pay, the company demonstrates insufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is little evidence of how the targets will be stretching and aligned with delivery to customers. Also, there is no reference to the policy for 2020-25 and how it will be rigorously applied and monitored or how changes will be signalled to customers. • On dividend policy, there is insufficient evidence of the company's intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is insufficient evidence of a commitment to publish detail on dividend policies annually and to signal changes to stakeholders. Also there is insufficient evidence how the dividend policy in 2020-25 takes account of obligations and commitments to customers when determining dividends. • The company does not put forward proposals for a bespoke voluntary benefits sharing mechanism or donations to social tariffs and hardship funds. However, voluntary sharing is not a requirement of the PR19 methodology, so this does not impact our assessment of this test area for this company. • The Board provides only a partially compliant statement that the company's business plan will enable customers' trust and confidence through	CA1	C
			CA2	C
			CA3	C
			CA4	D

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		high levels of transparency and engagement on corporate and financial structures and how this relates to financial resilience. • Additionally, there is insufficient evidence that the company has been transparent on its corporate and financial structures and how these relate to its financial resilience. The company's business plan also falls short of providing sufficient and convincing evidence that overall, its PR19 business plan tables and the assurance and commentary provided are consistent, accurate and assured. The company's business plan falls significantly short of high quality in the following areas: The company's Board provides a non-compliant statement of assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes. This assurance statement is included within the main business plan rather than the signed Board statement. In our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company meets expectations in 3 areas, it has minor concerns in 6 areas.	CA5 CA6	D C