Hafren Dyfrdwy: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	C	EC1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	C	Overall the business plan falls short of high quality with insufficient evidence provided in the areas set out below. The company provides sufficient evidence of some elements of its approach to customer engagement. However, the company provides insufficient evidence of a range of research techniques and sources its customer valuations for use in ODI rates from a single piece of customer research with no evidence of triangulation and insufficient evidence of cross-checking against other sources. The company also provides insufficient evidence to demonstrate its customer valuation research is robustly designed and implemented. There is also insufficient evidence of a systematic and on-going approach to customer engagement. For instance, '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 has made efforts to engage with a wide range of customers and this is praised by the CCG report. However, there is insufficient evidence of engagement with non-financially vulnerable customers or that their interests helped to shape the business plan. The company provides insufficient evidence in a number of the four areas of action set out in the 'Tapped In' report (i.e. increasing customer participation to improve the current and future sustainability of water, encouraging customer behaviour change actions, increasing community ownership of particular aspects of water as an essential resource, and increasing customer control of water in their home or of the customer service experience). Further evidence is required on any initiatives the company is planning or has undertaken as part of the "Action" theme of customer participation for the business plan to be considered high quality. Similarly, while reference is made to how the company's Insights and Analytics team use demographic data analysis and behavioural data tools to "understand our customers – and then find way[s] to nudge them and change their behaviours", no specific examples are given of this work. The company states it is considering how to use analytics to promote certain actions consistent with the "Action" theme. However, it provides no evidence to justify its lack of progress in taking forward this theme of customer participation. The company provides sufficient evidence that it has engaged with its customers on resilience and other longer-term issues, including specific asset health and resilience research, as well as acceptability and willingness to pay research. The project to engage customers on asset health and resilience project appears to be well-designed, and there is evidence to show bill profiles have been adjusted following customer engagement. However, 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.
Addressing affordability and vulnerability	D	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	D	Hafren Dyfrdwy provides little convincing evidence to demonstrate that bills are affordable and value for money for the 2020-25 period. In particular, it has not informed customers about proposed bills and has therefore not received customer's views in relation to proposed bills for the 2020-25 period. In addition to this, the company provides insufficient evidence across several key areas including bill profiles and research methods. The company's average bill from 2020-2025 is unclear as conflicting information is provided on it. 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 done again. The company also has a relatively inefficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices. The company's customer engagement on affordability has some (however limited) evidence of good practice, such as outlining the customer segments, however, these factors are not sufficient to bring the company's score up from a D to a C.

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		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	D	Hafren Dyfrdwy provides insufficient and unconvincing evidence of a high quality approach to addressing affordability of bills beyond 2025. In particular, there is insufficient evidence of what the bill profile for AMP8 is. In addition, we are not satisfied with the company's use of financial levers and there is insufficient evidence of testing an AMP8 bill profile with customers.
		AV3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?	C	Hafren Dyfrdwy provides insufficient and unconvincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, there is insufficient evidence of high-quality engagement with customers who struggle to pay. In addition, it is growing its social tariff by less than 50% over the period, and awareness of affordability support is also only forecast to grow by a small percentage when compared to other companies in the sector. Whilst there is evidence of some customer support to increase the social tariff cross-subsidy, we have concerns that the proposed increase to the cross-subsidy level was not supported by both regions the company tested, and there is insufficient evidence of whether different regions would contribute different amounts. The low-quality engagement on acceptability also reduces the confidence in this customer support. The company has proposed a performance commitment (PC) to increase the percentage of struggling to pay customers supported through tailored schemes. We consider this to be stretching as the company targets a significant improvement across 2020-25. In the round, we do not consider there is enough evidence of a high-quality approach to mitigate against the material concerns we have about customer engagement and customer support for increasing the social tariff cross-subsidy.
		AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	D	Hafren Dyfrdwy provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, it is proposing to increase the reach of its priority services register to 1.1 % by 2024/25, which is not sufficiently ambitious. The company has not been able to demonstrate an effective approach to addressing vulnerability. For example, there is a lack of evidence of direct engagement with vulnerable customers or of using data effectively to identify and support vulnerable customers. Furthermore, it has proposed a PC to support vulnerable customers in a clean water incident. We consider this to be business-as-usual for the sector and is therefore not stretching.
Delivering outcomes for customers	D	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	D	Overall the plan falls significantly short of high quality. The company has not provided sufficient evidence that it has selected appropriate PCs and that its PCs demonstrate stretching performance. The company does not meet our expectations for complying with the PR19 Final Methodology requirements because: • overall the package does not contain a bespoke resilience PC; • the company has significant areas of work to complete to comply with the leakage common PC definition with limited detail or timetabling of the work required; and • the company does not provide data for unplanned outage. There are no significant material issues with the individual bespoke PCs. The company does not meet our expectations for stretching PC levels because: • we have identified material concerns for per capita consumption (PCC), the company proposes the highest PCC service levels that are significantly above 140 l/h/d; • for supply interruptions the company's performance level of 8 minutes is significantly worse than the upper quartile and there is no proposed long-term improvement; and • the company is an outlier for pollution incidents in terms of performance by 2024/25 and continues to be through to 2035. Overall the company's approach falls significantly short of required quality on its proposed performance reporting because: • the company has not comprehensively documented how it will capture and assure the data required for its PCs; and • while it sets out half-yearly internal reporting to its audit committee, it provides no information on how it will report externally beyond its annual performance report (APR).

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	D	Overall we have substantial concerns with the company's package of outcome delivery incentives (ODIs). The plan falls significantly short of the required quality. In particular, we have concerns over its approach to justifying ODI types and rates and insufficient evidence of its approach to caps, collars and deadbands. We have concerns about the company's choice of ODIs including: • Insufficient evidence that the type of financial ODI, in particular the proposed use of outperformance payments, was fully discussed with and made transparent to customers. • The ambiguous nature of the design of the customer engagement that was carried out, in particular, framing around bill movements. • That some non-financial incentives (NFIs) are justified predominantly based upon an "inability to outperform", given the company's already high level of performance. The company's business plan falls significantly short of the required quality, with insufficient evidence provided to justify its ODI rates. We have some confidence that the company is complying with the PR19 Final Methodology requirements because it sets out that it has used the Ofwat formula as a default approach. However, we have identified that: • it does not provide sufficient evidence of an objective and consistent approach to triangulation of customer valuations; • the company proposes ODI rates that are consistently lower than its industry peers across both common and bespoke PCs. It does not provide suitable evidence that ODI rates adequately incentivise the company against under delivery; and • the company provides insufficient evidence that clearly sets out its ODI rate calculations across its ODI package. Although the company makes some limited use of caps, collars and deadbands, it provides insufficient evidence for those it proposes. We have identified the following material concerns: • Insufficient evidence to justify the cap and collar for water supply interruptions and internal sewer flooding and internal sewer flooding is one of the company's most financially significant PCs. • Insufficient evidence to justify the deadband for the mains bursts PC which is the company's most financially significant, yet the proposed collar is worse than the company's current performance, meaning that the incentive for the company to improve its performance is weak.

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		OC3	How appropriate is the company’s focus on service performance in its risk/return package?	D	Overall the company falls significantly short of the required quality and has little or no evidence in many areas that it has applied an appropriate focus on service performance in its risk return package. It does not provide sufficient explanation of how the total ODI package aligns the interests of management and its customers, and has also not provided sufficient evidence that it has adequately tested its balance of in-period and end of period ODIs with customers. Furthermore, the company does not provide any evidence of policies to protect customers from outperformance payments that are above expectation, or consideration of measures such as bill smoothing. The company has not met our expectations that the overall ODI package is appropriate because: • there is evidence that customers support more ambitious incentives that those set by the company; • the proposed return on regulatory equity (RoRE) package is lower than the indicative range and is the smallest proposed throughout the industry; • the package does not have the right balance of incentives and there is unconvincing evidence that the company has considered customer priorities and its company specific challenges; and • the company has not provided a convincing explanation of how the total ODI package provides appropriate incentives and aligns the interests of management and consumers, although has provided this in some cases for specific ODIs. The company provides evidence that the company’s overall RoRE range is built bottom-up, from individual customer valuations on individual ODIs. The company has only partially met our expectations on bringing payments closer in time. We identified three PCs where the company has not explicitly stated why the ODIs are end-of-period. The company does not appear to have sufficiently tested its balance of in-period and end-of-period ODIs, nor its rationale, with customers. The company has not met our expectations for ODIs for its asset health PCs. We identified that: • The company has no significant asset health past performance challenges which need addressing with PCs and ODIs. • The company demonstrates high quality customer engagement on asset health. • The CCG challenged the company's approach to asset health and was satisfied with the responses. • We consider that the nature and magnitude of the overall package of asset health ODIs, in terms of RoRE exposure, is sufficient to incentivise the company to meet its asset health challenges and protect customers. However, it does not demonstrate customer support for its asset health outperformance payments. We have identified concerns with the evidence that the company is protecting customers against higher than expected ODI payments because the company does not: • outline any policies to protect customers from outperformance payments that are above those expected; • provide notable protection in terms of caps on individual PCs, other than lead pipe replacement; or • does not provide details on its approach to bill smoothing. However, the company has a small ODI package (+0.24% to -0.46% RoRE) and so the risk to customers of a significant impact on bills is low.

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Securing long-term resilience	D	LR1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	D	Hafren Dyfrdwy presents a business plan that falls significantly short of high quality and provides little evidence regarding how the company has objectively assessed and prioritised the diverse range of risks and consequences of disruptions to its systems and services. At a high level, the plan lacks the integrated and in-the-round characteristics that are expected from a high quality plan. While the company's approach covers some elements of operational, corporate and financial resilience, it provides no evidence of a systems-based framework that identifies and assesses risk interdependencies and interactions between internal and external elements of the business and evaluates potential cascading and knock-on impacts from one system to another. In addition to this, the company provides little evidence of its assessment of current levels of resilience and how the plan helps to enhance resilience over time (i.e. resilience maturity assessment). The company presents a specific list of long-term risks to water quality and assesses their importance in driving the investment of specific asset groups, however, it is unclear how the assessment descriptions in the plan narrative are used to quantify operational resilience and assign scores to these risks. Furthermore, risks are prioritised in the plan but there is little evidence of how these are shortlisted from a long list of risks, which calls into question the drivers and robustness of the plan. The plan's approach to manage risks at a corporate level seems appropriate, although we are concerned that the recent acquisition by Severn Trent Water may have an impact on decision-making if inappropriate measures are in place to monitor and control the transition into the new company's systems and boundary. In this sense, the company should consider such risks in the plan to ensure these do not affect customers. Additionally, while the company provides assurance of its resilience approach, it has not considered risks to the delivery of the plan. The company's assessment of financial resilience has elements of high quality, but provides insufficient evidence in some areas. In particular, the results of financial stress scenario modelling for the period from 2020 to 2025 have only been shown as red/amber/green outcomes, which has resulted in an assessment that the company demonstrates insufficient transparency about its long term financial resilience. The company's board has made a clear statement that the business plan will deliver financial resilience over the next control period and the long term. The company assesses the prescribed financial stress test scenarios which it links to its internal risk assessment and its own additional scenarios. While the plan refers to the company's long-term viability statement (LTVS), there is little commentary on the relevance of the prescribed scenarios to the company's business and the company has not assessed its long term viability by modelling stress test results beyond 2025.

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		LR2	How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?	C	Hafren Dyfrdwy presents a business plan that falls short of high quality and provides insufficient and unconvincing evidence to objectively assess the full range of mitigation options and select the solutions that represent the best value for money over the long term. While the company presents some consideration of options as part of its proposals, it relies on reliability and resistance options and much less on redundancy or response and recovery measures to deliver water and wastewater services. It is also unclear how the various benefits of the proposed solutions have been assessed and compared against those of alternative options. In this sense, there is limited connection between the high level descriptions on resilience presented in the plan narrative and the cost adjustment claims included in the appendices. There is also a significantly limited package of outcomes that supports the company's resilience strategy, since the company proposes no direct bespoke resilience PCs and some common PCs related to resilience (e.g. supply interruptions) have insufficiently demanding levels of stretch. Although the company provides some evidence of collaboration and partnership with water companies and other organisations around catchment management schemes and biodiversity improvements, the plan demonstrates limited promotion of nature-based solutions. The plan also falls short in its development of efficient options, rarely managing future uncertainty, multiple risks and smart resilience options. The company became part of the Severn Trent plc group in February 2017 and expects gearing to have reduced from 70% to 60% by April 2020. It sets out its target financial ratios well within the investment grade credit rating category. While these factors provide some evidence of a resilient capital structure, the assessment of financial resilience places significant reliance on the risk management and mitigation systems of the wider Severn Trent group, and the terms of consents for intra-group financing arrangements under HDD's licence have not been referred to. The company's plan sets out the assurance, reporting and governance relationships that exist within the company and the Severn Trent group including a three lines of assurance risk management model. It also provides information on financial risk mitigation actions that should be available to the company, which refer mainly, and at a high level, to capital injections and reductions to outgoings. There is reference in the assessment of financial resilience to the principal risks identified in the company's Enterprise Risk Management process, but the assessment is high level and overall, there is insufficient evidence that the risks to the company's financial resilience have been assessed from the perspective of its own internal process of risk management, taking account of risks that are specific to the business.
Targeted controls, markets and Innovation	C	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	C	Hafren Dyfrdwy falls short of high quality with insufficient evidence to demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation. Although there are some elements where the company exhibits a high quality approach for example its open approach to challenging employees and the supply chain to contribute innovative ideas and its commitment to develop an 'anyone can innovate' culture, overall the company provides insufficient evidence on too many key areas for the plan to be high quality in terms of demonstrating an innovative culture. These include, its approach to managing innovation related risks, mechanisms in place to progress and reward innovative ideas, as well as evidence of systemised approach to continually encourage innovation. Further, and convincing, evidence on resources allocated to innovation, mechanisms for team supportiveness and measures for supervisors and leaders to support individuals to put forward ideas and to recognise their efforts, are needed for the plan to be high quality.
		CMI2	How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term?	C	Overall, Hafren Dyfrdwy's plan falls short of high quality in relation to this test question. The company provides significantly insufficient evidence regarding its plans to manage gap sites and voids. Neither effective financial incentives or an in-house approach is put forward. Regarding the use of markets, catchment management and partnership working for delivery services related to water and wastewater network-plus both water and waste-water network plus, the company provides insufficient evidence overall of a high quality plan. The company provides sufficient evidence of learnings from the business retail market with a sufficient nexus between these and its plan.

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		CM3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?	C	Hafren Dyfrdwy' business plan provides insufficient and unconvincing evidence of its overall approach to long-term resilient and sustainable water resources incorporating markets. The company's plan falls short of high quality as it provides insufficient detail with regards to engagement with third-parties for demand and supply-side solutions. In particular, there is limited evidence on how the company plans to engage with third-parties for solutions other than water trading. Under our assessment, surplus companies are still expected to seek third party providers if they can deliver demand solutions like water efficiency, metering or leakage reduction more efficiently than if developed in-house. In relation to its WRMP, whilst the leakage ambition has increased to a 15% reduction by 2025 and a 50% reduction over 25 years, the quality and clarity of information provided in relation to meter penetration and levels of service is considered to be insufficient.
		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	N/A	We did not evaluate Hafren Dyfrdwy's business plan in relation to sludge treatment and disposal given the de minis scale of bioresource activities.
		CMI5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided?	B	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocation appears appropriate.
		CMI6	To what extent has the company produced a company bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations?	D	Hafren Dyfrdwy has produced a bid assessment framework (BAF) that falls significantly short of demonstrating the key principles of transparency, non-discrimination and proportionality. While the overall process is described, little detail is provided on what information third-parties would have to provide, how the bids will be evaluated, what feedback they might expect to receive, or how any appeals might be handled. The assurances about non-discrimination rest on a claim that the evaluation criteria (not in the BAF) will ensure a rule-based process and the presence of an in-house water resources procurement team that is independent of in-house options being developed. The relative lack of detail makes it difficult to assess whether the process would be proportionate, notwithstanding favourable statements (such as a willingness to meet with parties preparing bids and the addition of parties to a list for five years once they have satisfied the pre-qualification criteria).

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		CMI7	To what extent has the company clearly demonstrated that it has considered, whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	C	Hafren Dyfrdwy provides evidence that it considered DPC as part of its business planning process, but its plan falls short of high quality because it does not provide sufficient evidence to convince us that there is there is no scheme that could be considered for DPC.
Securing cost efficiency	B	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	B	We consider that Hafren Dyfrdwy's water costs are efficient, being around 3% below our view of efficient costs. Its base costs are around 6% below our benchmark. The company is not as efficient as its peers in some enhancement areas where we have benchmark models, such as in the area of growth and new development, and we do not accept all of the cost adjustment claim amounts the company proposes. We are not making any leakage enhancement allowance because the company does not propose either upper quartile performance or a reduction greater than 15%.
		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	B	We consider that Hafren Dyfrdwy's wastewater costs are efficient, being almost 5% below our view of efficient costs. Its base costs are around 7% below our benchmark. However, we reject some of the enhancement proposals because of lack of evidence of the need for the investment and are challenging some of the enhancement costs where we have benchmark models.
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	B	We consider that Hafren Dyfrdwy's retail costs are efficient, being around 3% below our view of efficient costs.
		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?	A	Hafren Dyfrdwy proposes four cost adjustment claims. Two of them are high quality and receive a pass, and the other two are of reasonable quality and receive a partial pass. This gives the company a grade A in this test.

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Aligning risk and return	D	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	B	The company has, in almost all respects, provided sufficient and convincing evidence that it has based its business plan for 2020-25 on the cost of capital and retail net margins set out in our PR19 Final Methodology 'early view'. However, the company has provided insufficient evidence to justify the proposed net retail margins for one business customer group that are higher than our 'early view' net margin cap (the same as that which was set at PR16). In the round however, we have decided that this issue is not sufficiently material to impact on the overall question area 'B' grade.
		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	D	Hafren Dyfrdwy's business plan falls significantly short of the required quality in respect of the analysis undertaken in its assessment of risk in the RoRE analysis. The company has assessed the prescribed scenarios that are relevant to its circumstances. The company has identified risk factors and set out its findings. However, there is little evidence that the variances to expected RoRE outcomes have been sufficiently explored, and there is no evidence to demonstrate why it is appropriate to assume that totex outcomes should be asymmetrically skewed to the downside. Mitigation measures have been explained at a high level, but are limited to general statements about financing and cost management, and so there is no evidence of demonstrating an understanding of risk and risk management in the RoRE analysis. The company does not propose any bespoke uncertainty mechanisms.
		RR3	Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence?	C	Overall, Hafren Dyfrdwy's business plan falls short of providing convincing and high quality evidence to support the Board's statement that the company is financeable on the notional and its actual company structure. There are three main areas where the plan falls short of high quality. • The company has provided insufficient evidence of the steps taken to assess financeability or to provide assurance over the assessment. • There is insufficient evidence to support the credit ratings targeted on the notional and its actual company structures. There is an inconsistency between the target credit ratings for both structures set out in the business plan of Baa1/BBB+ (Moody's and S&P) and the accompanying business plan tables (App10) of A-/A3(Moody's and S&P). • While the financial ratios appear consistent with the investment grade, the company has not set out thresholds for the financial metrics that are consistent with the target credit ratings. The company has not identified a financeability constraint on its notional or actual structure.

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		RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	D	Overall, Hafren Dyfrdwy's business plan falls significantly short of the required standard of quality, with little to no convincing evidence supporting the company's choice of PAYG and RCV run-off rates and insufficient evidence that the resulting bill is supported by customer preferences. There are five areas of major concern where the plan falls significantly short of high quality. The plan provides insufficient convincing evidence: • That the final bill profile is supported by customer preferences, representing each group of customers. The company materially increased the water only bill following the customer engagement to test acceptability of the plan and did not repeat the exercise for water only customers. • The CCG and CCWater both raised concerns regarding the approach to obtaining customer views of the final charges. • The company has provided insufficient evidence that the rates are in line with the company's approach to PAYG rates. • the company has proposed to adjust the starting point for PAYG rates to balance bill increases across water and wastewater. However, there is insufficient evidence to demonstrate that the level of the adjustment achieves the stated objective. • The company has provided insufficient evidence of the calculation of current cost depreciation and the useful lives of the assets. • The company has proposed reductions to run-off rates to assist customer affordability but has provided insufficient evidence to support the adjustments or the final run-off rates. While adjustments were expected as a result of the NAV application, no explanation for the chosen rates was provided in the plan. The proposed bill profile includes the impact of the transition to CPIH although the company sets out that the impact is relatively small given the low RCV at the start of the period.
Accounting for past delivery	D	PD1	How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?	C	Hafren Dyfrdwy's plan falls short of high quality with insufficient evidence to support the PR14 reconciliation adjustments overall. There is sufficient and convincing evidence to support the PR14 reconciliations in terms of the rationale provided, however the company's submission falls short of high quality in terms of the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is minor at 2.9% of the 2019-20 PR14 allowed revenue. The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments with appropriate modifications to the models for residential retail and wholesale revenue forecasting incentive mechanism in relation to the 2018 NAV. However, we have concerns with the modifications to the totex model. We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor consistency issues for land sales and totex. The company has provided no evidence of how it has established the historical performance that the company would have delivered on the basis of the company area from 1 July 2018, nor any other explanation of how it derives the forecasts it has made for 2018-19 and 2019-20. Our independent checks of the reported ODI underperformance and outperformance payments have found significant differences between our values and those reported by the company. The differences are for PCs that were for both Dee Valley and Severn Trent at PR14. The company has provided little evidence to support its forecast performance for the ODIs. This is of significant concern due to the substantial change in the company area on 1 July 2018. For some of the other areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for land sales, service incentive mechanism and totex there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.

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		PD2	How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?	D	In the round we have substantial concerns with the evidence for deliverability for the 2020-25 plan, particularly for outcomes and costs, and some concerns for customer complaints. We have substantial concerns for outcomes performance as the company provided insufficient evidence and information regarding past delivery of outcomes following the Severn Trent Water and Dee Valley Water merger. The company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. The company is proposing to improve performance for water supply interruptions, leakage and pollution incidents. The plan provides insufficient evidence that it includes appropriate measures to improve its performance. For example, the company is proposing to reduce leakage by 15% while repairing fewer mains bursts. Taking into account the proposed level of stretch in the plan, we therefore have substantial concerns with the evidence for deliverability of outcomes. There is good performance on cost efficiency as the company's actual and forecast costs are below cost allowances for 2015-20 for wholesale water and wastewater. However, the company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company makes little reference to its own experiences, and instead discusses Severn Trent Water. The company is proposing a high level of stretch for 2020-25, but does not acknowledge the extent of this challenge and provides insufficient evidence of improvement measures to meet it. Taking into account the proposed level of stretch in the plan, we therefore have substantial concerns with the evidence for deliverability of the planned costs. As the company did not exist in the historic years, performance for major incidents reflects our assessment for Dee Valley Water's data, and the company's where available. The company has good performance on major incidents. It had no major incidents. The company does not provide evidence it understands the drivers of performance and has identified learnt lessons on major incidents; although the new company has not existed for long, we would expect it to identify lessons from the previous operator of the network it has adopted, and from within and beyond the sector. While the company provides evidence of root cause analysis of major incidents, it does not identify lessons learnt on the handling of major incidents. The plan provides insufficient evidence the company has measures in place to improve performance in relation to major incidents, in particular in relation to customer communication in major incidents. However, the company's current performance provides sufficient confidence that major incidents management performance will be maintained in 2020-25. We therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents. The company is not yet meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is falling. It has a below average number of complaints per 10,000 connections in 2017-18 and this is declining. The company provided insufficient evidence it understood the drivers of its performance and learned lessons, as it provided no evidence that it had assessed its complaints performance holistically. The plan does however provide some evidence that it includes appropriate measures to improve its performance. For example the company is introducing a new and proven billing format, a new Care and Assistance team, and a dedicated phone line for business customers. Nonetheless, the company's current performance provides insufficient confidence that customer complaints performance will be maintained in 2020-25. We therefore have some concerns with the evidence for deliverability of customer complaints handling performance.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Securing confidence and assurance	C	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	C	Hafren Dyfrdwy's business plan falls short of providing sufficient and convincing evidence that its full Board provides comprehensive assurance to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable, and that it has challenged management to ensure this is the case. High quality Board assurance statements include compliant statements as set out in the PR19 Final Methodology which, in general are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. Although the Board provides fourteen compliant statements, only four of these are supported by sufficient associated evidence. Two statements are partially compliant. On business planning, the Board provides three compliant assurance statements from the four set out in the PR19 Final Methodology. The Board's statement is partially compliant on whether it has owned the overall strategy and direction of the plan in the long term. For the assurance statements on the remaining topics, the Board provides eleven compliant statements from the twelve requested. The statement on whether the expenditure forecasts included in its company's business plan are robust and efficient is partially-compliant. For the statements on business planning, we asked in the PR19 Final Methodology, that Boards demonstrate how they challenged management and satisfied themselves prior to making their statements. The Board advises that it challenged the plan, however no evidence of specific challenges is provided. For statements on the remaining topics, we requested that Boards demonstrate how they satisfied themselves prior to making their statements. The company advises that the Board was provided with proof points and associated evidence, which were considered by the Board prior to making its statement. These proof points are not provided within the company's plan. It also referred us to the summary report provided by the company's external assurer who had attended Board meetings to provide updates. The information in the external assurer's report demonstrates the Board's assurance process sufficiently for four of the assurance statements, i.e. on whether the business plan has been informed by customer engagement; affordability; outcomes; and whether large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers. There is insufficient evidence of the Board's satisfaction process for the remaining statements.
		CA2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?	C	Hafren Dyfrdwy's business plan falls short of providing sufficient and convincing evidence that its full Board has been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next price control period and the long-term. High quality assurance means that the Board has provided a compliant statement supported by suitable supporting evidence. The Board's assurance statement advises that "Our business plan will deliver operational, financial, corporate and reputational resilience over the next control period and the long term, through our robust and independently assured governance and assurance processes." This is a suitable statement of assurance, however the company provided insufficient evidence of the Board's assurance process to support its statement.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA3	To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?	C	Overall we consider there to be insufficient evidence in some areas that the plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of engagement and transparency on corporate and financial structures and how they relate to financial resilience. Hafren Dyfrdwy's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement: • The company forecasts gearing to remain below 70% and has stated that, should its gearing exceed 70%, it will share benefits. However, the company provides insufficient detail to determine whether this will provide benefits to customers equivalent to our default mechanism. • The company proposes a base dividend yield of less than 5%. The company does not put forward proposals for a bespoke voluntary benefits sharing mechanism or donations to social tariffs and hardship funds. In terms of voluntary sharing its plan therefore falls short of high quality. 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. We also have concerns in three areas. On dividend policy, the company's plan falls short of high quality with insufficient evidence that the company's proposed policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders. The company clearly sets out its proposed dividend policy and states a dividend yield for the period 2020-25 but the split between the base dividend and the growth assumption was not explained. While the proposed dividend policy refers to all of the required elements (except pension obligations for which the pension scheme is currently in surplus), no evidence has been provided on how the elements will be taken into account when determining dividends. The plan refers to transparency in relation to dividends. However, there is no specific reference to annual publishing or signalling of changes in dividend policy to stakeholders. On executive pay, the plan falls short of high quality with insufficient evidence that the company has taken full account of all of the required elements in respect of its performance related executive pay policy for 2020-25. The company states that it has two schemes, annual and long term incentives. On the annual scheme there is no evidence relating to the setting of stretching targets. The company states it has recently enhanced its long term incentives by setting stretching targets based on upper quartile return on regulated equity delivery for the sector, but has made no reference to this being applied to 2020-25. There is reference that the remuneration committee will operate at the parent company level. However, overall there is insufficient evidence that the remuneration policy will be monitored and rigorously applied, or reference as to how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports. The plan falls short of high quality with insufficient evidence that the company's full Board provides assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement on corporate and financial structures and how this relates to financial resilience. The company provides only a partially compliant Board assurance statement, as it refers to the plan promoting rather than enabling customers' trust and confidence. We also found insufficient evidence of the Board's assurance process to support its statement. Additionally, the plan fall short of high quality with insufficient evidence that the company has been transparent with its customers about its corporate and financial structures and how they relate to its long-term resilience, through clear and accessible published information. Although the company referred us to its Annual Performance Report, which in turn referred us to its website where it publishes its group structure, there is no evidence or sign-posts within the plan to information on the company's financial structures.

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA4	To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?	D	Hafren Dyfrdwy's business plan provides no convincing evidence that its full Board has provided comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes The plan falls significantly short of high quality as the Board does not provide a statement of assurance within the signed Board Assurance Statement that it will monitor delivery of its outcomes and PCs. The Board makes a statement on monitoring delivery of outcomes and PCs but this statement is non-compliant as it is included within the main business plan rather than the signed Board statement.
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	D	Hafren Dyfrdwy's track record of producing high-quality data is insufficient, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans). While the company sufficiently describes its data assurance, governance and audit processes within its business plan, overall it falls significantly short of high quality as: • 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. • We identify many inconsistencies and omissions, some of which are major, between the data submitted in the company's Annual Performance Report and its business plan tables in the areas of cost assessment and outcomes. • The company does not sufficiently describe the interventions it has implemented as a result of the company's 'Prescribed' status in the 2017 Company Monitoring Framework. Whilst it adequately explains what it has done to address the serious weakness identified in the area of Board Leadership, Transparency and Governance, it does not explain what interventions it has put in place to address the minor weaknesses identified in the areas of outcomes and the Assurance Plan.
		CA6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?	C	Overall, Hafren Dyfrdwy's business plan falls short of providing sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. The plan falls short of high quality as we identify a number of issues within our assessments of the data tables across the policy areas of outcomes, cost assessment, risk and return and financial modelling. For example in risk and return, we identify inconsistencies in key information and in financial modelling, we identify differences between the data contained in the business plan tables and that submitted in the accompanying financial model.