

July 2019

Trust in water

PR19 draft determinations

Dŵr Cymru – Accounting for past delivery actions and interventions

PR19 Draft Determinations: Dŵr Cymru - Accounting for past delivery actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for 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.

Table 1 below sets out the required and advised actions, the model the action relates to, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each action and further intervention that is not resulting from an action has a unique reference. The prefix 'WSH' denotes the company Dŵr Cymru. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions. Actions whose numbers are preceded with a 'B' denote advised actions. Interventions not resulting from an action are preceded with a 'C' followed by a three digit code for the model the intervention is relevant to, and a two digit reference for the interventions in that model. The model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011

For all other documents related to the Dŵr Cymru draft determination, please see the [draft determinations webpage](#).

Table 1 – Dŵr Cymru’s response to required actions and interventions for draft determinations

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Land disposals	WSH.PD.A1	Required	PR14 Land sales: Dŵr Cymru is required to provide further evidence to support the forecast trajectory for land sales in 2018-19 and 2019-20.	1 April 2019	Dŵr Cymru provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	N/A
Outcomes	WSH.PD.A2a	Required	PR14 Outcome delivery incentives: Dŵr Cymru is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments. We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for:	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Dŵr Cymru’s updated data before making any interventions for the final determination.	N/A
Outcomes	WSH.PD.A2b	Required	B1b: Volume of water saved by water efficiency promotion	15 July 2019	As WSH.PD.A2a	As WSH.PD.A2a	As WSH.PD.A2a
Outcomes	WSH.PD.A2c	Required	G1: Customer contacts about drinking water quality	15 July 2019	As WSH.PD.A2a	As WSH.PD.A2a	As WSH.PD.A2a
Outcomes	WSH.PD.A2d	Required	D3: Water supply interruptions (> 3 hours including planned, unplanned and third party interruptions)	15 July 2019	As WSH.PD.A2a	As WSH.PD.A2a	As WSH.PD.A2a
Outcomes	WSH.PD.A2e	Required	D1: Collapses and bursts on sewer network	15 July 2019	As WSH.PD.A2a	As WSH.PD.A2a	As WSH.PD.A2a

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	WSH.PD.A3a	Required	PR14 Residential retail: Dŵr Cymru is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019.	1 April 2019	Dŵr Cymru clarifies that there is a difference between actual and reforecast customer numbers in 2018-2019 because the forecast actual customer numbers figure is a more recent forecast.	No intervention required. The company provides a satisfactory response to this action.	N/A
Residential retail	WSH.PD.A3b	Required	PR14 Residential retail: Dŵr Cymru is required to provide further evidence to support its forecasts in table R9.	1 April 2019	Dŵr Cymru provides evidence to support its forecasts by referring to estimates of new connections, changes in void properties and meter optants.	No intervention required. The company provides a satisfactory response to this action.	N/A
Residential retail	WSH.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to round Dŵr Cymru's modification factor figures to two decimal places to ensure consistency with the ' PR14 reconciliation rulebook '.	<p>We are rounding to two decimal places, modification factor figures for 2015-16 to 2019-20 associated with the following lines in business plan table R9:</p> <ul style="list-style-type: none"> • unmetered water-only customer; • unmetered wastewater-only customer; • unmetered water and wastewater customer; • metered water-only customer; • metered wastewater-only customer; and • metered water and wastewater customer. <p>Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at £4.374 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Dŵr Cymru.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	WSH.PD.C008.02	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to apply the appointee WACC as the discount rate to be used to provide a financing adjustment for the time value of money of the reward or penalty in line with the 'PR14 reconciliation rulebook'. This may be required if the materiality threshold for financing adjustment is exceeded.</p> <p>Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.</p>	<p>For Dŵr Cymru, we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 2.9% contained in Dŵr Cymru's April 2019 submission.</p> <p>Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period because the materiality threshold is not exceeded.</p> <p>Please see published draft determination residential retail revenue reconciliation model for Dŵr Cymru.</p>
SIM	WSH.PD.A4	Required	PR14 Service incentive mechanism: Dŵr Cymru is required to provide further explanation for the change made to 2015-16 value in table R10.	1 April 2019	Dŵr Cymru states that Ofwat has confirmed that no response to this action is required. This is correct as the action refers to an error in one of the prepopulated values for SIM in 2015-16 in table R10 which has since been corrected.	No intervention required.	N/A
SIM	WSH.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust Dŵr Cymru's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.</p>	We are intervening to set the service incentive mechanism adjustment to - 0.94% of household retail revenue, which is - £2.133 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in the 'Accounting for past delivery technical appendix.'

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	WSH.PD.A5a	Required	PR14 Totex: Dŵr Cymru is required to report and account for the expenditure on its Loughor Estuary project in the year it has spent the money rather than reporting it as all being spent in 2019-20 as transition expenditure for the 2020-25 period.	1 April 2019	Dŵr Cymru does not apply the treatment of expenditure on its Loughor Estuary project set out in this action in its submission. The company reports its actual totex exclusive of the Loughor Estuary costs incurred during PR14. The company states that it intentionally includes the expenditure incurred between 2015-16 and 2018-19 as PR19 transitional expenditure so the costs may be allowed in full. It considers the Loughor Estuary project is a unique case and warrants an exception to the standard Ofwat approach to transitional costs.	<p>Intervention required.</p> <p>The PR19 methodology only allows costs from 2019-20 to be included as PR19 transitional expenditure. Dŵr Cymru moves some Loughor Estuary costs from PR14 actual totex to PR19 transitional expenditure for costs incurred in years prior to 2019-20. We are intervening to add the Loughor Estuary costs back into PR14 actual sewerage totex as set out in the company's data table commentary.</p> <p>At the time of the submission of the 2015-20 business plan the company was already aware of a pending complaint in the European Commission in relation to the Loughor Estuary and the Wastewater Framework Directive requirements (that later resulted in the decision of the European Court of Justice). Within the totex framework, the PR14 final determination provided funding for the company to meet all statutory obligations and it is the company's responsibility to manage uncertainty around these costs, namely through the totex sharing mechanism.</p> <p>We provide further detail regarding our assessment of the request for transition expenditure in our wastewater freeform enhancement model ('FM_E_WWW_freeform_ST_DD').</p>	<p>We have changed the Sewerage: actual totex costs (outturn prices) as follows:</p> <ul style="list-style-type: none"> • 2016-17: from £285.063 million to £289.316 million; • 2017-18: from £297.622 million to £315.789 million; • 2018-19: from £336.872 million to £368.550 million; and • 2019-20: no adjustment, to be assessed as part of PR19 transitional costs. <p>Our intervention increases the company's actual sewerage totex costs to reflect annual actual totex on its Loughor Estuary as follows:</p> <ul style="list-style-type: none"> • 2016-17 by £4.253 million • 2017-18 by £18.167 million; and • 2018-19 by £31.678 million. <p>Overall, our interventions reduce the wastewater totex menu revenue adjustment from - £8.273 million to - £5.162 million (2017-18 FYA CPIH deflated price base) and increase the wastewater totex menu RCV adjustment from - £23.180 million to £1.395 million (2017-18 FYA CPIH deflated price base).</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
All models	WSH.PD.A6	Required	PR14 reconciliations: Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account of the actual 2018-19 performance.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Dŵr Cymru's responses to its actions and further information provided for all the PR14 reconciliation models before making any further interventions for the final determination.	N/A
Revenue adjustments	WSH.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments. Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers. We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in Dŵr Cymru's choices for profiling revenue adjustments in 2020-25.	We are using our view of the wholesale WACC (3.09%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	WSH.PD.B1	Advised	<p>Dŵr Cymru should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its performance past and current outcomes performance, including financial and reputational performance commitments; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and measures to ensure deliverability of the 2020-25 business plan. 	24 May 2019	The company provides further evidence to support the deliverability of its plan.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A
N/A	WSH.PD.B2	Advised	<p>Dŵr Cymru should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> how Dŵr Cymru will continuously monitor performance against PR14 and PR19 performance commitments, including how this relates to section 3 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; how Dŵr Cymru will identify drivers of performance and lessons learnt from both good and poor performance; how Dŵr Cymru will identify measures to improve performance and integrate these into its business; and how Dŵr Cymru will ensure that this is a continuous rather than one-off process. 	24 May 2019	The company provides an action plan as requested.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	WSH.PD.B3	Advised	<p>Dŵr Cymru should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its costs performance, including performance against cost allowances for all price controls; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	The company provides further evidence to support the deliverability of its plan.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A
N/A	WSH.PD.B4	Advised	<p>Dŵr Cymru should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> how Dŵr Cymru will continuously monitor performance against cost allowances, including how this relates to section 2 and 4 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; how Dŵr Cymru will identify drivers of performance and lessons learnt from both good and poor performance; how Dŵr Cymru will identify measures to improve performance and integrate these into its business; and how Dŵr Cymru will ensure that this is a continuous rather than one-off process. 	24 May 2019	The company provides an action plan as requested.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	WSH.PD.B5	Advised	<p>Dŵr Cymru should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its complaints handling performance both in terms of the number of complaints and how well complaints are dealt with; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	The company provides further evidence to support the deliverability of its plan.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A
N/A	WSH.PD.B6	Advised	<p>Dŵr Cymru should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> how Dŵr Cymru will continuously monitor performance, including with reference to CCWater analysis and targets, and those related to the delivery of C-Mex, including what evidence and best practice it will look for beyond itself and the sector; how Dŵr Cymru will identify drivers of performance and lessons learnt from both good and poor performance; how Dŵr Cymru will identify measures to improve performance and integrate these into its business; and how Dŵr Cymru will ensure that this is a continuous rather than one-off process. 	24 May 2019	The company provides an action plan as requested.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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