

July 2019

Trust in water

PR19 draft determinations

Hafren Dyfrdwy – Accounting for past delivery actions and interventions

PR19 Draft Determinations: Hafren Dyfrdwy - 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 'HDD' denotes the company Hafren Dyfrdwy. 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

Table 2 below is supplementary to Table 1 and provides additional information on our assessment of the evidence provided in response to required actions on deliverability. This constitutes our feedback on these required actions as set out in '[PR19 initial assessment of plans: Summary of test area assessment](#)'.

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

Table 1 – Hafren Dyfrdwy’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	HDD.PD.A1	Required	PR14 Land sales: Hafren Dyfrdwy is required to provide additional evidence to support the forecast trajectory in table App9.	1 April 2019	Hafren Dyfrdwy provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary provided confirming zero sales is sufficient.	N/A
Outcomes	HDD.PD.A2a	Required	PR14 Outcome delivery incentives: Hafren Dyfrdwy is required to clearly set out how it has established historical performance on the basis of the new company area for each performance commitment. This should set out if the assessment of historical performance is directly from auditable underlying sources or if any judgements have been made. Where judgements are made we expect the company to assess the potential for the judgement to affect the historical performance level and therefore the future level.	1 April 2019	Hafren Dyfrdwy sets out performance for both North Wales (previously Dee Valley Water) and Mid Wales (previously Severn Trent) for each performance commitments. The source or method used is set out, and the associated data confidence. The company presents details of the specific checks and findings from its assurance processes. In addition, Hafren Dyfrdwy identifies the need for a translation from tables App5 (PR14 performance commitment reconciliation) and App6 (PR14 sub-measure reconciliation) to App27 (PR14 financial outcome delivery incentives summary). It is producing an outcome delivery incentive workbook as part of the Annual Performance Report submission in July 2019. This spreadsheet will demonstrate how the incentives have been calculated through the licence variation and uncapping processes.	No intervention required. We will review Hafren Dyfrdwy’s full suite of reconciliation models (including counterfactuals, and updated data and translation spreadsheet) before making any interventions for the final determination.	N/A
Outcomes	HDD.PD.A2b2b	Required	As well as establishing historical performance levels Hafren Dyfrdwy is required to explain how it has used this information to forecast performance, or otherwise set out how it derived its forecasts for each performance commitment.	1 April 2019	As HDD.PD.A2a	As HDD.PD.A2a	As HDD.PD.A2a

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	HDD.PD.A2c	Required	Hafren Dyfrdwy is required to provide a clear explanation of how the values in App27 have been calculated in particular the payments for performance commitments customers rating our services as good value for money (S-B1 and W-C1) for Hafren Dyfrdwy in 2018-19 and 2019-20 and 'A1: discoloured water contacts' performance commitment for Dee Valley Water.	1 April 2019	<p>S-B1 and W-C1 (customers rating our services as good value for money)</p> <p>Hafren Dyfrdwy states that by exceeding the outperformance deadband both the water and wastewater service earn a £125,000 outperformance payment, and these are split in accordance with the NAV agreement.</p> <p>A1 (discoloured water contacts)</p> <p>Hafren Dyfrdwy states that it has incorrectly multiplied the outperformance incentive rate by a factor of 100.</p>	<p>Intervention required.</p> <p>S-B1 and W-C1 (customers rating our services as good value for money)</p> <p>The forecast performance levels in 2018-19 and 2019-20 are equal to the outperformance payment deadband and therefore do not qualify for outperformance payments.</p> <p>A1 (discoloured water contacts)</p> <p>To correct a company error we are intervening to reduce the forecast 2018-19 and 2019-20 outperformance payments.</p>	<p>S-B1 and W-C1 (customers rating our services as good value for money)</p> <p>We are intervening to remove the forecast in-period 2018-19 and 2019-20 outperformance payments for performance commitments W-C1 and S-B1 (£700 in both years for W-C1 (water) and £500 in both years for S-B1 (wastewater)).</p> <p>A1 (discoloured water contacts)</p> <p>We are intervening to reduce the 2018-19 forecast outperformance payment of £240,200 by £237,798. The revised 2018-19 forecast outperformance payment is £2,402.</p> <p>We are intervening to reduce the 2019-20 forecast outperformance payment of £315,300 by £312,147. The revised 2019-20 forecast outperformance payment is £3,153.</p> <p>Our intervention decreases the total net performance payment for water from £0.411 million to - £0.229 million (2017-18 FYA CPIH deflated price base).</p>
Outcomes	HDD.PD.A3	Required	PR14 outcome delivery incentives: Hafren Dyfrdwy is required to update the evidence for its forecast 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments.	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Hafren Dyfrdwy's updated data before making any interventions for the final determination.</p>	N/A
Outcomes	HDD.PD.C002.01	Intervention not resulting from an action	N/A	N/A	N/A	For the 2017-18 financial year we are intervening to adjust the totals in line with the 'Final determination of in-period ODIs for 2018' published on 13 December 2018.	This intervention has no impact on price limits as the customer bills have already been changed to reflect this determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	HDD.PD.C008.01a	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to include an updated weighted average modification factor for allowed retail service revenue per unmeasured water customer in 2018-19 and 2019-20.</p> <p>This is because the PR14 modification factors were different for Severn Trent Water and Dee Valley Water unmeasured water customers and it is appropriate to use a weighted average for the merged company.</p> <p>Since Hafren Dyfrdwy did not have any unmeasured wastewater customers prior to the merger, we use Severn Trent Water's modification factors for these customer types.</p>	<p>We are including the following calculated weighted average modifications factors for 'Allowed retail service revenue per unmeasured water customer':</p> <ul style="list-style-type: none"> 2018-19: £22.91 (outturn prices) 2019-20: £22.95 (outturn prices) <p>We are basing our calculation on the reforecast figures for Severn Trent Water and Dee Valley Water as contained in the residential retail revenue model submitted in September 2018 which replace the following company figures:</p> <ul style="list-style-type: none"> 2018-19: £22.90 (outturn prices) 2019-20: £22.93 (outturn prices) <p>The modification factors for the unmeasured customer types that include a wastewater component are the following:</p> <ul style="list-style-type: none"> Allowed retail service revenue per unmeasured sewerage customer (outturn prices) - £23.41 (2018-19), £23.59 (2019-20) Allowed retail service revenue per unmeasured dual service customer (outturn prices) - £30.43 (2018-19), £30.67 (2019-20) <p>Please see published draft determination residential retail reconciliation model for Hafren Dyfrdwy.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	HDD.PD.C008.01b	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to include an updated weighted average modification factor for allowed retail service revenue per measured water customer in 2018-19 and 2019-20.</p> <p>This is because the PR14 modification factors were different for Severn Trent Water and Dee Valley Water measured water customers and it is appropriate to use a weighted average for the merged company.</p> <p>Since Hafren Dyfrdwy did not have any measured wastewater customers prior to the merger, we use Severn Trent Water's modification factors for these customer types.</p>	<p>We are including the following calculated weighted average modifications factors for 'Allowed retail service revenue per measured water customer':</p> <ul style="list-style-type: none"> • 2018-19: £26.23 (outturn prices) • 2019-20: £26.29 (outturn prices) <p>We are basing our calculation on the reforecast figures for Severn Trent Water and Dee Valley Water as contained in the residential retail revenue model submitted in September 2018 which replace the following company figures:</p> <ul style="list-style-type: none"> • 2018-19: £26.15 (outturn prices) • 2019-20: £26.21 (outturn prices) <p>The modification factors for the unmeasured customer types that include a wastewater component are the following:</p> <ul style="list-style-type: none"> • Allowed retail service revenue per measured sewerage customer (outturn prices) - £24.11 (2018-19), £24.29 (2019-20) • Allowed retail service revenue per measured dual service customer (outturn prices) - £37.49 (2018-19), £37.74 (2019-20) <p>Please see published draft determination residential retail reconciliation model for Hafren Dyfrdwy.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	HDD.PD.C008.01c	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to round Hafren Dyfrdwy's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.	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: <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>Along with our intervention to include calculated weighted modification factors for the merged company as detailed in HDD.PD.C008.01a and HDD.PD.C008.01b above, our interventions increase the total residential retail revenue payment at the end of the 2015-20 period from - £0.045 million to - £0.046 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Hafren Dyfrdwy.</p>
SIM	HDD.PD.A4	Required	PR14 Service incentive mechanism: Hafren Dyfrdwy is required to provide more evidence to support the forecast trajectory in table R10.	1 April 2019	Hafren Dyfrdwy provides an explanation of its forecast trajectory in chapter 9 of its business plan.	No intervention required. The explanation provided for the company's forecasts is sufficient.	N/A
SIM	HDD.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to adjust Hafren Dyfrdwy's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	We are intervening to set the service incentive mechanism adjustment to - 1.18% of household retail revenue, which is - £0.180 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.' Our draft determination financial modelling includes an adjustment for the service incentive mechanism of £0.0 million. We will correct this inconsistency for the final determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Totex	HDD.PD.A5a	Required	PR14 Totex: Hafren Dyfrdwy is required to provide a detailed explanation to support its forecasted performance for years 2018-19 and 2019-20 in tables WS15/WWS15, with particular focus on the unusually high forecasted overspend in year 2018-19.	1 April 2019	Hafren Dyfrdwy responds to this action on P.164 of its revised business plan. The company's performance is driven by increased spend on distribution service reservoirs and investment in customer contact centres.	No intervention required. The company satisfactorily responds to this action.	N/A
Totex	HDD.PD.A5b	Required	PR14 Totex: Hafren Dyfrdwy should amend the PR14 final determination controls and targets data in tables WS15/WWS15 and reconciliation model, in order for it to match the values agreed with Ofwat.	1 April 2019	Hafren Dyfrdwy responds to this action and provides PR14 final determination controls and targets data which matches the values agreed with Ofwat.	No intervention required. The company satisfactorily responds to this action.	N/A
Totex	HDD.PD.A5c	Required	PR14 Totex: Hafren Dyfrdwy is also required to either re-submit the model without the changes made to cells L97-98, M97-98, N97-98, P97-08; or alternatively provide a credible explanation of why it has used a hard-coded value, rather than the formula.	1 April 2019	Hafren Dyfrdwy did not resubmit the model. This action refers to formulae within the model which the company changed in its July 2018 submission. We have used data from the company's business plan tables to run the model, so no change required.	No intervention required.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
All models	HDD.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 Hafren Dyfrdwy'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	HDD.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 Hafren Dyfrdwy'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.

N/A	HDD.PD.A7	Required	<p>Hafren Dyfrdwy should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its 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 the measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	1 April 2019	Hafren Dyfrdwy provides additional evidence on deliverability for its performance commitments at a general rather than performance commitment level.	<p>We have reviewed the company's response to this action on the performance commitments over which we had material concerns in our initial assessment of business plans. For our assessment and rationale see table 2.</p> <p>Pollution incidents performance commitment</p> <p>We are intervening in outcomes to increase the company's outcome delivery incentive underperformance payment rate. See HDD.AC.O37 within "Hafren Dyfrdwy – actions and interventions – outcomes" for intervention".</p> <p>Water supply interruptions performance commitment</p> <p>Intervention required.</p>	<p>These conclusions on interventions take account of the evidence submitted for actions HDD.PD.A7 and HDD.PD.A8.</p> <p>Pollution incidents performance commitment</p> <p>We are intervening to increase the company's ODI underperformance payment rate. See HDD.OC.A37 within "Hafren Dyfrdwy: Actions and interventions" document for outcomes for details on the intervention.</p> <p>However, as Hafren Dyfrdwy is small compared to other water and sewerage companies, we recognise that it can be adversely affected by a small number of incidents having a large impact on the normalised measure. We are therefore not intervening to increase the underperformance payment rate to a level equivalent to the other company we are intervening on. Instead, to protect customers, the company will also be required to report the following information for each major incident in its Annual Performance Report during 2020-25 to address our concerns in this area:</p> <ul style="list-style-type: none"> details on what the incident was; the impact of the incident (including number of customers affected and length of time they were affected for); the analysis the company has conducted to identify the cause of the incident; how the company responded to the incident and its assessment of how effective this was; the lessons the company learnt from the incident; and the measures put in place following the incident to prevent future incidents. <p>We would expect this to be subject to an appropriate level of governance and assurance.</p> <p>We consider that this protects customers by providing an increased level of exposure of relevant incidents, and hence a stronger incentive for the company to achieve the level of stretch in the 2020-25 business plan. This will also encourage the</p>
-----	-----------	----------	--	--------------	--	---	---

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
							<p>company to follow best practice in identifying lessons learnt following major incidents.</p> <p>Water supply interruptions performance commitment</p> <p>We are intervening to protect customers by increasing Hafren Dyfrdwy's outcome delivery incentive underperformance rate to the industry average (on a normalised basis) because we consider that a stronger incentive is required for the company to achieve the level of stretch in the 2020-25 business plan. This increases Hafren Dyfrdwy's outcome delivery incentive underperformance rate from £0.020m per minute lost per property to the industry average (on a normalised basis) of £0.047m per minute lost per property.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	HDD.PD.A8	Required	<p>Hafren Dyfrdwy should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Hafren Dyfrdwy 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 Hafren Dyfrdwy will identify drivers of performance and lessons learnt from both good and poor performance; • how Hafren Dyfrdwy will identify measures to improve performance and integrate these into its business; and • how Hafren Dyfrdwy will ensure that this is a continuous rather than one-off process. 	1 April 2019	Hafren Dyfrdwy provides an action plan for its performance commitments for 2020-25 at a general rather than performance commitment level.	<p>See assessment for action HDD.PD.A7 above for conclusions on interventions.</p> <p>We have reviewed Hafren Dyfrdwy's response to this action on the performance commitments over which we had material concerns in our initial assessment.</p> <p>Pollution incidents performance commitment; and</p> <p>Water supply interruptions performance commitment</p> <p>For our assessment and rationale see table 2.</p>	<p>Pollution incidents performance commitment</p> <p>See interventions for action HDD.PD.A7 above.</p> <p>Water supply interruptions performance commitment</p> <p>See interventions for action HDD.PD.A7 above.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	HDD.PD.A9	Required	<p>Hafren Dyfrdwy 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 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. 	1 April 2019	Hafren Dyfrdwy provides additional deliverability evidence for its costs performance in response to this action.	<p>We have reviewed the company's response to this action.</p> <p>No intervention required.</p> <p>Whilst we have some concerns, particularly around understanding past performance and having sufficiently granular data for this, these concerns are in part mitigated by the new processes that the company has put in place to monitor its costs, including the creation of the Financial Controller role, and to identify cost drivers and lessons learnt going forward.</p> <p>The company is forecasting to underspend by 3% for water and 25.8% for wastewater in 2015-20 in relation to our view of efficient costs. Our PR19 cost models show Hafren Dyfrdwy to be generally efficient. As the company is efficient on base totex, we have increased the company's base cost allowance relative to its business plan. This alleviates some of our concerns on deliverability. We therefore consider that the costs included in the draft determination are deliverable.</p> <p>For detailed assessment and rationale see table 2.</p>	<p>These conclusions on interventions take account of the evidence submitted for actions HDD.PD.A9 and HDD.PD.A10.</p> <p>No intervention required.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	HDD.PD.A10	Required	<p>Hafren Dyfrdwy should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Hafren Dyfrdwy 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 Hafren Dyfrdwy will identify drivers of performance and lessons learnt from both good and poor performance; • how Hafren Dyfrdwy will identify measures to improve performance and integrate these into its business; and • how Hafren Dyfrdwy will ensure that this is a continuous rather than one-off process. 	1 April 2019	Hafren Dyfrdwy provides an action plan for its costs performance for 2020-25 in response to this action.	See assessment for action HDD.PD.A9 above for conclusions on interventions. For detailed assessment and rationale see table 2.	N/A – no intervention required.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	HDD.PD.B1	Advised	<p>Hafren Dyfrdwy 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	Hafren Dyfrdwy has submitted its response to this action.	Following a risk-based review of Hafren Dyfrdwy's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	HDD.PD.B2	Advised	<p>Hafren Dyfrdwy should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Hafren Dyfrdwy 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 Hafren Dyfrdwy will identify drivers of performance and lessons learnt from both good and poor performance; • how Hafren Dyfrdwy will identify measures to improve performance and integrate these into its business; and • how Hafren Dyfrdwy will ensure that this is a continuous rather than one-off process. 	24 May 2019	Hafren Dyfrdwy has submitted its response to this action.	Following a risk-based review of Hafren Dyfrdwy's response to this action we will determine whether there is a need for intervention for the final determination.	N/A for draft determination.

Table 2 – Past delivery deliverability assessments supplementary table

Action reference	Our assessment and rationale
HDD.PD.A7	<p>Outcomes – additional deliverability evidence</p> <p>Pollution incidents performance commitment</p> <p>Hafren Dyfrdwy provides insufficient and unconvincing evidence that it has identified and understands past performance drivers and lessons learnt.</p> <p>The company provides insufficient evidence that it recognises the performance gap between current outcomes performance and proposed performance for pollution incidents in the 2020-25 plan.</p> <p>It provides insufficient and unconvincing evidence that it has identified and understood the main drivers of its past performance on outcomes. For example, it provides a high level summary of driver trees by outcomes but insufficient detail on the activities planned or underway in relation to pollution incidents. It provides insufficient and unconvincing evidence that it has identified plans for improvement in this area.</p> <p>Some information is presented on pollution root cause analysis for the mid-Wales region but it is unclear what changes the company is proposing in response to this analysis.</p> <p>The company provides a response to this action in general, not specific to individual performance commitments. The company provides a process flow for ‘understanding performance’ which states that root cause analysis and weekly/monthly monitoring occurs. The company also discusses its ‘driver trees’ which it uses to link activities to outcomes. While the example the company provides does relate to an environmental outcome and therefore links to pollution reporting, no detail is provided on individual activities or plans in terms of pollution incident management/reporting. In its revised business plan, the company states “We have a well-established process of carrying out root cause analysis whenever we have a significant failure (such as a pollution incident, supply interruption, sewer flooding event)” but no further pollution-specific detail could be located.</p> <p>The company has undertaken analysis to understand the gap between current and future performance which exemplifies the challenge faced by Hafren Dyfrdwy in delivering its pollution targets. While information on stretch levels is provided in the revised business plan, limited evidence could be found concerning pollution-specific issues with deliverability and planned or historic proactive behavioural or educational campaigns linked to pollution incidents.</p> <p>Hafren Dyfrdwy provides insufficient and unconvincing evidence of the measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan.</p> <p>The company provides insufficient and unconvincing evidence of measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan. The company proposes to target an improvement of 40% which is more challenging than in the original business plan submission yet the company has provided limited detail on how it will deliver against these targets.</p> <p>Water supply interruptions performance commitment</p> <p>Hafren Dyfrdwy provides insufficient and unconvincing evidence that it has identified and understands past performance drivers and lessons learnt.</p> <p>The company provides insufficient evidence that it recognises the performance gap between current outcomes performance and proposed performance for water supply interruptions in the 2020-25 plan. It provides insufficient and unconvincing evidence that it has identified and understood the main drivers of its past performance on outcomes. For example, the company provides a high level summary of driver trees by outcomes but insufficient detail on the activities planned or underway in relation to supply interruptions. It provides insufficient and unconvincing evidence that it has identified plans for improvement in this area. The company presents some case study information related to a recent burst main but limited performance commitment specific information. Consequently, it is unclear what changes or activities the company is proposing in order to deliver both the original business plan submission target and the revised submission, more stretching, target for supply interruptions.</p>

	<p>Hafren Dyfrdwy provides insufficient and unconvincing evidence of the measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan.</p> <p>The company provides a response to this action in general terms not performance commitment specific. The company proposes to target the upper quartile level of three minutes. This is more challenging than in the original business plan submission yet the company has provided limited detail on how it will deliver against these targets. The company provides limited evidence of root cause analysis or other asset management approaches to try and understand its historic poor performance. The additional narrative provided by the company in its revised business plan focuses on the suitability of the upper quartile target rather than proactive plans, strategies and approaches to deliver stretching performance.</p>
HDD.PD.A8	<p>Outcomes – action plan</p> <p>Pollution incidents performance commitment and water supply interruptions performance commitment</p> <p>Hafren Dyfrdwy provides sufficient and convincing evidence of how it will continuously monitor performance against PR14 and PR19 performance commitments at a general, not performance commitment specific, level.</p> <p>In its revised business plan the company sets out the role of the key groups involved in monitoring performance against performance commitments – Tactical Loopcell, Comm Cells, Wales Co-ordinating Committee, HDD Board and Severn Trent Board. The monitoring described is generic to all performance commitments; there is no specific reference to any separate monitoring for pollution incidents or water supply interruptions.</p> <p>The company does not demonstrate how this relates to section 3 of the Annual Performance Report.</p> <p>It provides some evidence that it is seeking best practice from beyond itself and the sector by regularly reviewing sector wide reports to understand what examples of good practice can be translated into our business. However, this evidence is very generic and not specific to pollution incidents.</p> <p>Hafren Dyfrdwy provides some evidence on how it will identify performance drivers and lessons learnt at a general level.</p> <p>This includes mapping out key activities that will contribute towards successful delivery of the outcomes and developing driver trees that show the connection between factors, and undertaking root cause analysis and a and lessons learnt exercise (what went well, what could be improved, solutions) where there has been a significant failure for example a pollution incident.</p> <p>Hafren Dyfrdwy provides some evidence on how it will identify new measures to improve performance at a general level.</p> <p>The company provides some evidence of how it will identify measures to improve performance but does not state how it will integrate these into its business. It states that it will use its root cause analysis and lessons learnt exercise where there has been a significant failure such as a pollution incident to understand what went well, what could be improved and solutions. It will also review sector wide reports to understand what examples of good practice can be introduced into the company. These are the only references to how the company will identify measures to improve performance.</p> <p>Hafren Dyfrdwy provides sufficient and convincing evidence that it has a continuous process in place for learning lessons from performance on outcomes and implementing appropriate measures as a result.</p> <p>The company provides evidence on the governance arrangements it has in place and the application of the Severn Trent Water rolling business planning process to Hafren Dyfrdwy.</p>
HDD.PD.A9	<p>Costs – additional deliverability evidence</p> <p>Hafren Dyfrdwy provides insufficient and unconvincing evidence of the drivers of its costs performance and lessons learnt.</p> <p>The company provides insufficient evidence that it understands the drivers of its current and future performance. This includes case studies on for example reservoir safety, however it has not quantified the impact of historic drivers on its costs. It has provided insufficient and unconvincing evidence that it understands the drivers of its past performance. It states that ‘It has been extremely challenging to</p>

	<p>extract cost data at the level of granularity that allows us to understand the precise cost of delivering different services against the new licence boundary. This is in part due to the fact that contracts (both former Dee Valley and Severn Trent) were set at a company level.'</p> <p>The company does not provide any information on its performance against allowances for price controls other than to state that 'Hafren Dyfrdwy has performed well against Ofwat's IAP cost baseline - being the only company to outperform it on each service. This implies that our costs are efficiently incurred given the cost drivers selected'.</p> <p>The company provides insufficient and unconvincing evidence of lessons learnt from good and poor past and current performance. The company provides some detail on the three key themes for lessons learnt; business planning process, communication with customers and stakeholders and granularity of cost capture. However, the lessons learnt are generic lessons learnt as part of the Severn Trent integration process rather than specific lessons learnt from the company's past performance on costs.</p> <p>Hafren Dyfrdwy provides insufficient evidence of the measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan.</p> <p>The company provides some evidence of measures it has implemented, or will be implementing, to deliver the level of stretch proposed in the 2020-25 business plan, for example through planned changes to its capital programme and the creation of the financial controller role and new governance structure to give more control over monitoring and reporting of costs.</p> <p>However, whilst the company's new measures are likely to result in some cost efficiencies, it may not result in the forecast efficiencies of 9% and the company has not provided anything to support the figure of 9%. It should be noted that the company is forecasting to underspend by 3% for water and 25.8% for wastewater in 2015-20 in relation to our view of efficient costs. This means that we can have a reasonable degree of confidence that the delivery of a 9% efficiency in 2015-20 is realistic, even in the absence of robust evidence to support an efficiency of 9%.</p>
HDD.PD.A10	<p>Costs – action plan</p> <p>Hafren Dyfrdwy provides sufficient and convincing evidence that it will continuously monitor performance against its cost allowances</p> <p>The company sets out the role of the key groups involved in monitoring costs – Tactical Loopcell, Comm Cells, Wales Co-ordinating Committee, HDD Board and Severn Trent Board. For example, Tactical Loopcell is a bi-weekly meeting that brings together Senior Leadership measure owners and key Executive members to track actual performance against the final determination and budget and review future delivery plans. The company also states that the creation of the role of Financial Controller will help to ensure "continuous monitoring of costs against all internal budgets and then the overall price controls and categories within the APR reporting requirements".</p> <p>The company does not demonstrate how this relates to section 2 and 4 of the Annual Performance Report, but) has provided some evidence that it is seeking best practice from beyond itself and the sector. The company states that 'As part of the service level agreements that are being set up between HDD and STE, they will include services relating to commercial and procurement activities ensuring third party and contactor costs receive appropriate scrutiny, with robust contract tender, external market testing and benchmarking processes in place. We also periodically participate in external benchmarking exercises such as European Benchmarking Co-operation (EBC) and will be considering the extent to which we benchmark HDD specific costs compared to Severn Trent Group costs.'</p> <p>Hafren Dyfrdwy provides sufficient and convincing evidence that it will identify drivers of performance and lessons learnt from both good and poor performance</p> <p>The company provides sufficient and convincing evidence of how it will identify drivers of performance and lessons learnt from both good and poor performance. The approaches to identifying drivers of performance and lessons learnt include:</p> <ul style="list-style-type: none"> • sharing lessons between Hafren Dyfrdwy and Severn Trent Water; • internal and external assurance processes; • budget and performance review meetings which cut across directorates to improve knowledge transfer; • active participation in relevant industry projects eg through UKWIR; and • bringing together cost and performance reporting and sharing best practice between the two types of performance reporting

However responsibilities for identifying and taking forward drivers of performance and lessons learnt are not clear.

Hafren Dyfrdwy provides insufficient and unconvincing evidence that it will identify measures to improve its costs performance and integrate these into the business.

The company provides insufficient and unconvincing evidence of how it will identify measures to improve performance and integrate these into its business. This is because the company focuses on measures that it is already looking to develop and does not give any information on the process it will use to identify new measures which may be required going forward.

Hafren Dyfrdwy provides insufficient and unconvincing evidence that it will ensure that it is a continuous rather than a one off process.

The company focuses on the creation of the new role of Financial Controller in helping to ensure that it is a continuous rather than a one off process. It also refers to the importance of transparency with customers and stakeholders. However it is unclear what the company plans to do with respect to transparency with customers and stakeholders to ensure that this is a continuous rather than a one off process.

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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

July 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

