

July 2019

Trust in water

# PR19 draft determinations

**Hafren Dyfrdwy – Securing cost efficiency  
actions and interventions**

## PR19 Draft Determinations: Hafren Dyfrdwy – Securing cost efficiency 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, 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.

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

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each 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. Intervention numbers are preceded with a 'C'.

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**

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing cost efficiency	HDD.CE.A1	Required	<p>We provide our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either:</p> <ul style="list-style-type: none"> <li>• the need for investment is not compelling; or</li> <li>• there is no need for a cost adjustment claim beyond our existing cost baseline.</li> </ul>	1 April 2019	<p>As part of the April resubmissions, Hafren Dyfrdwy has slightly increased its costs for wholesale water and waste water (by 1.4%) and equally for residential retail (by 1.3%).</p> <p>It withdrew one of its cost adjustment claims which we rejected at initial assessment of plans, and retained three claims for reducing lead, enhancing biodiversity and well-being in water resources and maintaining reservoir safety.</p> <p>In business retail, Hafren Dyfrdwy has not provided further evidence to support their high costs reported for small business (those with</p>	<p>Intervention required.</p> <p>In light of the lack of evidence of the high costs for small businesses, we challenge fren Dyfrdwy to reduce costs of small business retail customers to the same level as its residential retail customers.</p>	<p>We provide our view of efficient costs for the company along with our reasoning.</p> <p>We expect the company to continue to address areas of inefficiency and lack of evidence.</p>

					consumption below 5Mlper annum). There were no actions related to other cost efficiency areas.		
	HDD.CE.A2	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	1 April 2019	Hafren Dyfrdwy confirms that it does not have an undertaking for metaldehyde. The company states that it undertakes proactive catchment management and farm visits. This includes metaldehyde related investment (notionally £90k totex 2020-25).	No intervention required for Draft Determination but further action needed by the company.  We support the proactive catchment management activities and acknowledge these cover multiple drivers. Hafren Dyfrdwy does not specify if any of the expenditure is for product substitution.	Hafren Dyfrdwy to provide evidence to confirm DWI agreement with its submitted plans/ revised undertakings and that no metaldehyde specific treatment or product substitution costs are included in the requested allowance.
	Advised actions	Advised	No advised actions	N/A			

**Table 2: Further interventions for draft determinations**

Intervention reference	Our assessment and rationale	Interventions
We explain our approach to cost assessment, including the allowances we set for each control, assumption on revenue recovery from grants and contributions, opex-capex split and totex profiling, in 'Securing cost efficiency technical appendix'. We set out other company specific interventions, and the allowances we set for each control, in section 3 of the company's draft determination summary and its cost efficiency appendix.		

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](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto: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](http://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](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk).

