

July 2019

Trust in water

PR19 draft determinations

Dŵr Cymru – Securing confidence and assurance actions and interventions

0 f w a t

www.ofwat.gov.uk

PR19 Draft Determinations: Dŵr Cymru – Securing confidence and assurance 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 '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 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 '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. Intervention numbers are preceded with a 'C'.

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

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing confidence and assurance	WSH.CA.A1	Required	On gearing benefits sharing, while the company does not forecast gearing in excess of 70% in 2020-25, it should incorporate our default sharing mechanism from our 'Putting the sector in balance: position statement' into its plan.	1 April 2019	Dŵr Cymru confirms it will adopt the default gearing benefits sharing mechanism from our 'Putting the sector in balance: position statement' in its business plan.	No intervention required. The company provides a satisfactory response to this action.	N/A
	WSH.CA.A2	Required	Acknowledging Dŵr Cymru is a company limited by guarantee, the company is required to confirm how it will adapt the expectations on dividends for 2020-25 for its circumstances as set out in 'Putting the sector in balance: position statement' to include: <ul style="list-style-type: none"> • clear board commitment to signal changes to its policy stakeholders; and • commitment to transparency that the dividend policy in 2020-25 will take account of obligations and commitments 	1 April 2019	Dŵr Cymru confirms that it is committed to adopting all of the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance: position statement'. Its Board has committed to publish a statement on its dividend policy annually in its statutory Report and Accounts. It also states that all dividend pay outs for customers will be transparent and explained in detail in the context of how the dividend policy takes account of factors such as	No intervention required but further action needed by the company.	We expect Dŵr Cymru to demonstrate that its dividend policy for 2020-25 takes account of obligations and commitments to customers and other stakeholders, including performance in delivery against the final determination. The company should also confirm that it will publish statements on its dividend policy in its Annual Performance report. We expect the company to respond to these issues in its response to our draft determination.

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
			<p>to customers applied in 2020-25 and when determining 'dividends'.</p> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance: position statement.</p>		<p>obligations and promises to customers, delivery of service to customers, financial resilience and employee interests, only paying out once all of these factors have been taken into account. The company has consulted with its customers on how its customer dividend should be applied for their benefit.</p>		
	WSH.CA.A3	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance: position statement' to include:</p> <ul style="list-style-type: none"> commitment to report how changes, including the underlying reasons, are signalled to customers; and commitment to publish the executive pay policy for 2020-25 once it has been finalised. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance: position statement.</p>	1 April 2019	<p>Dŵr Cymru makes a clear statement that it considers it fully meets the principles set out in 'Putting the sector in balance: position statement.'</p> <p>The company states that it publishes its remuneration policy each year in the remuneration report which forms part of its annual report and accounts. In addition, the policy is put before Glas members for approval at least every three years or earlier, and if there are any changes these are reported in the annual accounts.</p>	<p>No intervention but further action needed by Dŵr Cymru.</p> <p>The company's proposed policy demonstrates the company's commitment to move in the direction of the expectations set out in 'Putting the sector in balance: position statement.'</p>	<p>There remain some details to be finalised, for example details of the underlying metrics and associated weightings for both the annual and long term bonus schemes. Once finalised, we expect Dŵr Cymru to provide an update in its response to the draft determination to demonstrate that it is committed to meet the expectations we have set out in 'Putting the sector in balance: position statement.'</p> <p>We expect the company and its remuneration committee to ensure its performance related executive pay policy demonstrates a substantial link to performance delivery for customers through 2020-25 and is underpinned by targets that are stretching. Trust and confidence can best be maintained where stretching performance is set by reference to the final determination and taking account of stretching regulatory benchmarks (for example delivery of upper quartile performance) and should include a commitment that it will continually assess performance targets to ensure targets will continue to be stretching throughout 2020-25.</p> <p>We expect the company to report transparently, in its annual performance report, about further updates to the development of its policy that will apply in 2020-25.</p>
	WSH.CA.A4	Required	<p>Provide a revised financial model (based on version 16z released on 31 January 2019) and data tables on 1 April 2019.</p>	1 April 2019	<p>Dŵr Cymru provides a revised financial model based on version 17z (as communicated to companies since the initial assessment of plans action was set) and data tables.</p>	<p>No intervention required.</p> <p>The company provides a satisfactory response to this action.</p>	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	WSH.CA.B1	Advised	Provide an updated financial model that uses a dividend policy consistent with Ofwat's view of the cost of capital.	1 April 2019	Dŵr Cymru provides an updated financial model that uses a dividend yield of 2.6% and growth of 2.43% which is consistent with our early view of the real (CPIH based) cost of equity.	No intervention required. The company provides a satisfactory response to this action.	N/A

Table 2 – Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	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.

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.

