



Hafren Dyfrdwy /Severn Dee Customer Challenge Group

Response to Ofwat's
Draft Determination
for
Hafren Dyfrdwy for 2020 -2025



Disclaimer

This document has been produced by the Customer Challenge Group (CCG) of Hafren Dyfrdwy (HD) specifically for issue to Ofwat to aid Ofwat's assessment of the HD Business Plan for 2020-2025. The document has been produced by the CCG based on the evidence provided to it by HD. The CCG recognises the need for further detailed challenge by Ofwat on those elements of the Business Plan unseen by the CCG and beyond its remit and competence. It is noted that the ability to deliver against the objectives and outcomes set is reliant entirely on whether the company has made sufficient provision in its financial calculations and is able to deliver against its Business Plan, and the outcome of the final determination. The document and/or its contents are not intended for use or to be relied upon by any other party.

Hafren Dyfrdwy Customer Challenge Group

Response to Ofwat's Draft Determination for 2020-2025

Ofwat published the draft determinations (DD) for all slow-track and significant scrutiny companies which included Hafren Dyfrdwy on 18th July 2019

(<https://www.ofwat.gov.uk/publication/pr19-draft-determinations-hafren-dyfrdwy-draft-determination/>).

Hafren Dyfrdwy's Independent Customer Challenge Group (CCG) welcomes the opportunity to understand Ofwat's view of Hafren Dyfrdwy's Business Plan in terms of service, costs, ambition, innovation and so on. It has also welcomed the opportunity to further challenge the company on specific areas highlighted by Ofwat and how it proposes to address them.

Main Interventions considered by the CCG

The CCG is aware that the main area of Hafren Dyfrdwy's Business Plan where Ofwat has made interventions is on incentives. In some cases the penalties have been strengthened and in others, penalty collars have been removed. In addition, several interventions have been made on the company's affordability and vulnerability PCs. Whilst not a major issue in the DD the CCG also notes, along with Ofwat, that Hafren Dyfrdwy has not put forward a voluntary sharing mechanism.

The CCG understands that HD will be making representations to Ofwat across a small number of areas, including the cost of capital.

Discussions with the CCG in particular have focussed on the following four areas which include:

- 1) design of ODIs;
- 2) PC targets (the CCG has been advised by the company that it is contesting less than 10 representations of the 47 interventions included in the DD);
- 3) Affordability PCs; and
- 4) Non-household retail costs.

Customer Challenge Group Engagement with Hafren Dyfrdwy

The CCG has considered the assessment made by Ofwat by reading through the draft determination itself along with the supporting documentation. In addition, members of the CCG have had the opportunity to scrutinise the company's proposed response to Ofwat through different mechanisms:

- The Chair of the CCG has spoken with several company officials to understand the process being undertaken by the company as it has prepared its response to Ofwat.
- The Chair has had a bilateral meeting with a representative of the Welsh Government's Water Branch and has also attended meetings of the Wales PR19

Forum with other stakeholders such as the Drinking Water Inspectorate (DWI), Natural Resources Wales (NRW) and the Consumer Council for Water (CCWater).

- The CCG held a Conference Call on 15th August 2019 with Hafren Dyfrdwy representatives to specifically consider the company's proposed response to Ofwat. This included challenge on the detailed rationale and supporting information relating to the areas of divergence between the company and Ofwat. This information had been circulated to the CCG in advance of the meeting.

Hafren Dyfrdwy's Response to the Draft Determination

In challenging the company on its response to the areas of intervention by Ofwat in the DD, the CCG is satisfied that the company's approach has addressed each area with rigour and due consideration.

It is clear that the company considers the application of Ofwat's methodology in some areas has produced exceptional (outlier) targets for Hafren Dyfrdwy. As an example, Ofwat's approach to normalisation in relation to pollution incidents in particular has produced a target that appears anomalous in comparison with other companies.

Information presented to the CCG also highlighted how the methodology applied by Ofwat to Hafren Dyfrdwy in some areas (specifically relating to the bespoke measures of low pressure and blockages) was causing the company considerable concern.

Customer Challenge Group view

The CCG feels somewhat conflicted in being able to provide a reasoned and substantive response to the DD. The CCG has only been able to have a bilateral meeting with the water company to discuss the interventions. There has not been an opportunity for the CCG to have a similar meeting with Ofwat.

The CCG is also conscious that since the draft determination has been published no new customer research of any kind has been undertaken by the company or key stakeholders (with the exception of CCWater whose research will unfortunately not be published for consideration by the CCG prior to the 30th August deadline).

Whilst the CCG does not feel in a position to take sides, it has some sympathy with the company's representations that appear to show HD's revised targets to be anomalous compared with other companies.

The CCG finds it particularly difficult not to support areas where more challenging targets have been set by the regulator. However, the CCG does acknowledge that well-evidenced customer support had already been provided by the company for the targets as included in the draft Business Plan. The CCG would be concerned if additional pressure to meet newly increased targets would result in other targets receiving less attention.

The CCG's key role as a Customer Challenge Group (CCG) is to ensure that customers are involved in the business planning and their views clearly drive decision making, fulfilling the Ofwat vision of "putting current and future customers at the heart of the way water

companies run their business¹". The Group is satisfied that the company has worked hard to develop a plan that reflects the needs and views of its customers while addressing the company's view of risk and return. Ofwat has rightly challenged a number of areas within the company's plans and the CCG believes that the company has thoroughly addressed these interventions when formulating its responses

However, the lack of any new customer research on which to the CCG can glean new information, the CCG's wish not to reproduce comments contained within its last report to Ofwat on the revised Business Plan, the fact that the CCG has not had a bilateral meeting with Ofwat to better understand its rationale for some of the interventions evident in the DD the CCG does not consider it to be in a position to offer any new or substantive views which would favour one position over the other.

It will be for Ofwat to consider Hafren Dyfrdwy's detailed response to the draft determination and to adjudicate on it accordingly.

30 August 2019

¹ https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf (page 3)