

December 2019

PR19 final determinations

Hafren Dyfrdwy – Delivering outcomes for customers final decisions

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In our draft determinations we published the ‘[Delivering outcomes for customers actions and interventions](#).’ document for each company. This document set out the actions from our initial assessment of plans, a summary of the company’s response to the action, our assessment of the company’s response, and the interventions we made as part of the draft determination. It also set out any interventions that did not result from an initial assessment of plans action, which we made as part of the draft determination.

This final determination document sets out the decisions we make for the final determination in response to representations received on our draft determinations and any other changes for the final determination.

Table 1 below sets out the draft determination decisions on performance commitments that were the subject of representations from the company, a summary of the company representation, our assessment and rationale for the final determination decision and our decisions for the final determination. Table 2 sets out the draft determination decisions on performance commitments that were the subject of representations from other stakeholders, a summary of the other stakeholder representations, our assessment and rationale for the final determination decision and our decisions for the final determination. Table 3 sets out any changes for the final determinations that are not resulting from representations received relating to the company.

Each performance commitment has a unique reference. The prefix ‘PR19HDD’ denotes Hafren Dyfrdwy.

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

Our ‘Outcomes performance commitment appendix’ for the company is published alongside this document. These documents are intended to be fully consistent. In the event of any inconsistency, then the ‘Outcomes performance commitment appendix’ takes precedence in all instances.

Table 1: Hafren Dyfrdwy - Representations in response to the draft determination

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
Overarching representation	Outcome delivery incentive rates	N/A	<p>The company notes that as it is a smaller company our approach to normalisation disproportionately affects it with much higher underperformance payments. It states that its actual downside financial risk is now significantly beyond our initial range. It sets out that our calculated range is incorrect as it does not take into account the removal of collars and increased underperformance payments.</p> <p>The company urges that we do a final check on the impacts of the interventions on final bills. The company sets out evidence and analysis from Frontier Economics on the appropriateness of the normalisation used by Ofwat and recommends we normalise incentives on a per-customer basis.</p>	<p>No change for the final determination.</p> <p>At draft determination, we said that we normalise both per household and by units because, all else equal, ‘a household should attach a similar value to an equivalent increment in performance.’ Absolute performance levels represent different degrees of improvement in performance across companies – ‘for example a reduction in external sewer flooding by one property affected represents a much smaller reduction in risk for a customer of a company that serves a larger number of properties (such as Severn Trent) than a company that serves relatively fewer (such as Hafren Dyfrdwy).’ For these reasons we rejected Hafren Dyfrdwy’s argument, otherwise it would result in ODI rates materially below the industry average.</p>	N/A

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				<p>We review the information that has been provided to us, and do not find evidence sufficient to change our draft determination approach to normalisation. For further details please refer to the 'Delivering outcomes for customers policy appendix'.</p>	
N/A	Aggregate cap and collar	In the draft determination we made various interventions on proposals that the company considers were required to achieve a fair balance of risk.	<p>In its draft determination response the company states that it decides to accept the majority of our interventions on caps and collars in the interests of pragmatism. However it is making representations regarding two interventions – supply interruptions and voids collars.</p> <p>The company also considers that there is a compelling case to apply an aggregate cap and collar.</p> <p>The company states that one of the key drivers for an aggregate cap and collar in the 2015-20 period was the uncertainty about estimates of company performance.</p> <p>The company considers that it does not have the same understanding of its data as other companies as it has only 9 months of historic data and has made assumptions to derive P10 and P90 estimates. It considers that the uncertainty for it is similar to other companies at PR14 and an aggregate cap and collar is appropriate. It has suggested this should be at 2.6% of return on regulated equity, but its main point is that there should be a limit to the risk it is exposed to.</p>	<p>Change for the final determination.</p> <p>For the final determinations we are introducing collars on performance commitments that are subject to low probability very high consequence events: supply interruptions; CRI, internal and external sewer flooding. This, alongside other changes, will materially reduce the risk compared to the draft determination for the company.</p> <p>In the 2020-25 period the uncertainty about estimates of performance for most companies will be reduced due to the availability of four years of historical data for nearly every measure. Where companies have new measures then these typically have caps and collars to provide additional customer protection.</p> <p>However, one of the reasons that the company is a significant scrutiny company is due to a lack of understanding of its data. Therefore there is a reason to be cautious for this company and consider if this uncertainty around downside exposure due to the lack of long-term historical data and the small size of the company should be mitigated.</p> <p>There are significant issues with collars as they lead to a loss of incentive once the collar is reached. Considering the other mitigations put in place we consider that the loss of incentive would be undue to the remaining possible risk. However, a sharing rate would maintain some incentive, whilst helping to mitigate downside risk.</p> <p>We consider it unlikely that underperformance will exceed 3% of return on regulated equity, but a sharing rate beyond this would mitigate the risk that downside is a result of poor understanding of past performance as opposed to genuine poor performance.</p>	We apply an aggregate 50% sharing mechanism for all companies that have a gross outperformance greater than 3% and, for Hafren Dyfrdwy, an aggregate 50% sharing mechanism if the net underperformance has more downside than 3%.
Water Supply Interruptions PR19HDD_B1	Performance commitment levels	The intervention we made at draft determination was to set performance commitment levels that are consistent with the rest of	The company rejects the draft determination performance commitment levels and instead proposes a new profile at:	<p>Change for the final determination.</p> <p>Whilst we recognise that 2018-19 performance was in general worse than expected across the sector, we do not consider this</p>	The following is a sector wide change for the final determination.

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		<p>the industry for supply interruptions. These levels are:</p> <p>2020-21 = 00:05:24 2021-22 = 00:04:48 2022-23 = 00:04:12 2023-24 = 00:03:36 2024-25 = 00:03:00</p> <p>Units: Hours:minutes:seconds (HH:MM:SS) per property per year</p>	<p>2020-21 = 00:06:46 2021-22 = 00:06:10 2022-23 = 00:05:34 2023-24 = 00:04:58 2024-25 = 00:04:22</p> <p>Units: Hours:minutes:seconds (HH:MM:SS) per property per year</p> <p>While the company supports the concept of the upper quartile ambition and the need for the sector to continuously push forward the standards of service that it delivers to customers, it states that our approach of setting the upper quartile results in an unachievable level. The company states that the September business plan data used for setting the upper quartile level suffers from optimism bias e.g. the levels achieved in 2018-19 are worse than forecast, by around 20% (on average). It states that the performance commitment levels should be uplifted to consider the optimism bias.</p>	<p>sufficient or convincing evidence of 'optimism bias' such that the upper quartile forecasts of companies for supply interruptions are unreasonable. The claim of optimism bias is based on a single year of data, in which performance was impacted by the after-effects of the freeze/thaw event followed by the dry summer, both of which could be considered atypical events.</p> <p>However, we have also considered the levels we have derived from company forecasts, the forward looking upper quartile, to take into account wider evidence such as historical improvement. Based on the assessment of evidence from all companies, we adjust the water supply interruptions 2024-25 level to five minutes, with an amended glidepath in the first four years, taking account of wider evidence to calibrate stretch of performance commitment for an efficient company.</p> <p>Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change.</p> <p>Our 2020-21 performance level of 06:30 is close to the company's proposed revised upper quartile level of 06:46 minutes and thus we consider this to be an achievable performance commitment level, while also stretching companies to improve performance.</p>	<p>We set performance commitment levels that are consistent with the rest of the industry for supply interruptions. These levels are:</p> <p>2020-21 = 00:06:30 2021-22 = 00:06:08 2022-23 = 00:05:45 2023-24 = 00:05:23</p> <p>2024-25 = 00:05:00</p> <p>Units: Hours:minutes:seconds (HH:MM:SS) per property per year</p>
<p>Water Supply Interruptions PR19HDD_B1</p>	<p>ODI rates</p>	<p>We intervened to increase the company's rate to the industry average due to past delivery concerns. This resulted in a move from -£0.0199m to -£0.047m/minutes per property.</p>	<p>The company states that we should remove the multiplier that was applied to the underperformance rate on the grounds that it had not provided sufficient evidence that it can deliver the sector wide expected improvement. The company addresses the two reasons we gave for this intervention.</p> <p>Understanding root cause and process for continuous improvement: the company provides details on how it plans to achieve continuous improvement, and refers to evidence in its April business plan (Appendix 4.3 Supply Interruptions Supporting Evidence).</p> <p>Deliverability concerns: the company provides details in its April business plan (Appendix 4.3 Supply Interruptions Supporting Evidence) on how it plans to address deliverability. The company considers that our decision to both apply an</p>	<p>Change for the final determination.</p> <p>We do not consider the company's evidence provided in its representation is sufficient to address our past delivery concerns. In particular the company does not provide sufficient and convincing evidence to justify its argument that service interruptions are caused by topography which it believes is beyond management control.</p> <p>However, when considering the performance commitment package as a whole, we consider whether the balance of incentives for particular performance commitments is appropriate at both an industry and company level. For companies with an outperformance rate, we set the underperformance rate symmetrically to the outperformance rate to provide a more balanced spread of incentives and risk on water supply interruptions. As Hafren Dyfrdwy does not have an outperformance rate, we reduce its underperformance rate by the average reduction between our draft determination and final</p>	<p>We change the company's underperformance rate to -£0.038m per minute per property.</p>

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			‘extremely stretching’ performance commitment level and then claim that there are deliverability concerns which justify a higher underperformance rate is ‘extremely punitive’. It proposes that we do not apply any uplift to the incentive rate and retain the rate at £0.0199m per property per minute.	determination for the underperformance rate for other companies for this performance commitment. For further details on our approach to sector wide interventions on ODI rates see our ‘Delivering outcomes for customers policy appendix’.	
Water Supply Interruptions PR19HDD_B1	Caps, Collars and deadbands	Our intervention at draft determination was to remove underperformance collars.	The company consider that the removal of underperformance collars on water supply interruptions is disproportionate given that it is financially material and that all other slow track companies have retained the underperformance collars or even had them added. It also states that its company-specific circumstances places more risk on it than any other company (i.e. due to its small size, system configuration and geography).	Change for the final determination. As we explain in the ‘Delivering outcomes for customers policy appendix’ we consider that all companies should have collars for supply interruptions. In the appendix we also explain how we set the level of collars in the final determination.	We set the following underperformance collar: 2020-21 = 00:22:45 2021-22 = 00:22:45 2022-23 = 00:22:45 2023-24 = 00:22:45 2024-25 = 00:22:45 Units: Hours:minutes:seconds per property per year
Risk of severe restrictions in a drought PR19HDD_B4	Performance commitment levels	The intervention we made at draft determination was a sector wide action: The company should provide a full set of intermediate calculations (at a zonal level), for the underlying the risk calculation (both baseline levels and performance commitment). The company should confirm that its performance commitment levels are reflective of their water resources management plan position. This should include the potential that they will have access to drought orders and permits. The company should confirm which programmes of work will impact its risk profile forecasts.	The company has not submitted the intermediate calculations at a zonal level, but has stated they are available if required. The company confirms that the performance commitment levels align with its published final water resources management plan and drought plan position. The company states it does not have any drought permits or drought sources in its supply zones. The company confirms it has no water resource schemes in its WRMP, and its leakage reduction and water efficiency programmes have a marginal impact by reducing distribution input. However they do not alter the risk score which remains at zero.	No change for the final determination. We consider that the percentage of risk aligns to the company’s Water Resources Management Plan and the company has provided assurance that a 30% change in values would have no impact. We retain our draft determination decision, as this is supported by the additional evidence provided.	N/A

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<p>Risk of sewer flooding in a storm</p> <p>PR19HDD_E4</p>	Performance commitment levels	<p>At draft determination we intervened to set out that the company should confirm that it is:</p> <ul style="list-style-type: none"> (i) using the updated parameters in the catchment vulnerability assessment (and setting out any additional criteria that it intends to use); (ii) reporting the extent to which it uses 2D or simpler modelling; and (iii) adopting FEH13 rainfall as standard, and if not, when it expects to do so. 	<p>The company provides the necessary information as part of its 2019 Annual Performance Report and its September business plan submission. This shows the company has:</p> <ul style="list-style-type: none"> (i) Used FEH13 rainfall parameters for assessments. It has used a single parameter based on the centre of each catchment. In accordance with the guidance no uplift has been applied for climate change. (ii) It has full coverage of all of its catchments with appropriately validated hydraulic models. These models are considered fit for use for the purposes of this assessment which means 100% of catchments have been assessed under Option 1b. (iii) The company has used both the 1D and 2D modelling approaches and reported against both to highlight the differences. 	<p>No change for the final determination.</p> <p>The company provides sufficient evidence to demonstrate it has a low percentage of its population at risk. We note that 43% of its population is located in small communities, which are excluded from the metric.</p> <p>We consider that the company provides sufficient evidence to retain the draft determination performance commitment levels.</p>	N/A
<p>Leakage</p> <p>PR19HDD_B2</p>	ODI rates	<p>We intervened at draft determination to set the underperformance rate at the level implied by the company's latest valuation research, taking the higher of the two implied ODI rates as this was closest to our reasonable range. This resulted in an underperformance rate of - £0.202 million per megalitre a day.</p>	<p>The company states that the ODI rate in its draft determination is drawn on the results from the additional research undertaken for its April business plan, rather than a triangulated value across all its research. The company proposes that reasonableness should be assessed on a rate per household per megalitre a day basis to ensure results are 'not distorted' by company size.</p> <p>The company calculates an implied willingness to pay figure associated with our draft determination rate and sets out that this is 8.4 times larger than the sector median. The company states that the value customers place on a 1 megalitre a day of water is unlikely to differ because of the size of the company providing the water services and provides a range of supporting arguments.</p> <p>The company states it has updated its rate in line with its view on the reasonable range upper-bound on a £ per household per megalitre a day basis. It considers this more appropriate than its initial assessment of plans triangulated value or the rate</p>	<p>Change for the final determination.</p> <p>The company challenges our methodology of assessing rates using the normalised industry reasonable range. We consider comparing performance across companies based on a percentage leakage reduction is more appropriate than performance based on 1 megalitre a day changes.</p> <p>A 1 megalitre a day change in leakage represents a very different level of performance change depending on the size of the company and does not capture a percentage change in performance. The company's approach materially understates the resulting incentive rate compared to industry comparisons based on £ per household per percentage leakage reduction, which we consider to be a more appropriate way of comparing performance changes.</p> <p>However, we recognise that our approach at draft determination (to take only the highest value of the company's willingness to pay research) could be based on an incomplete view of customer preferences. The company has correctly pointed out that our intervention only made use of one willingness to pay result (conducted post our initial</p>	<p>We change the company's underperformance rate to - £0.102m per megalitre per day.</p>

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			<p>proposed in our draft determination, as these sit 46% and 289% above its reasonable upper-bound.</p>	<p>assessment of plans). We consider the company's research to be good quality, despite the fact its customer valuations differed significantly (due to two different approaches). The company provides sufficient evidence to change our draft determination ODI rate for this performance commitment.</p> <p>We use an average of the two implied ODI rates to set the company's ODI rate for final determination.</p>	
<p>Pollution incidents PR19HDD_E2</p>	<p>ODI rates</p>	<p>At draft determination we intervened to set underperformance rate on this performance commitment to - £0.002m per incident per 10,000km of sewer.</p>	<p>The company states that the draft determination underperformance rate is far too high. It provides detailed challenges against the reasons we gave for intervening.</p> <p>It researched customer willingness to pay for pollution incidents rather than changes per 10,000KM of sewer network (as they only have 513kms network). When its proposed ODI rates were expressed as a rate per-incident per 10,000km of sewer network they thus looked artificially low. The company claims that one actual incident for the company translates into 19.5 incidents per 10,000km.</p> <p>The company states that our intervention implies a significantly higher willingness to pay for the company compared to the rest of the industry. The company has converted our proposed underperformance rates into a per-incident per-customer willingness to pay value, resulting in a value of £3.23. The company notes this is by far the highest such valuation in the sector, and also 36 times larger than the sector median. The company shows this effect by comparing its customers in Powys – were these still Severn Trent Water customers, each household would have an implied willingness to pay value per incident of approximately £0.03 compared to the £3.23 rate now that they are Hafren Dyfrdwy customers. The company states that given the way in which customers understand pollutions – i.e. on a per incident basis – this change cannot be adequately justified and is therefore inappropriate.</p>	<p>No change for the final determination.</p> <p>At the draft determination we intervened to set the company's underperformance rate at £0.002m per incident per 10,000km of sewer, based on triangulating across the company's willingness to pay research, the industry average and the rate implied by Severn Trent Water's corresponding performance commitment. We intervened because the company's business plan rate was lower than our reasonable range. We had no concerns about the company's performance commitment level stretch but noted that its ODI rate, on a comparable basis, was much lower than Severn Trent Water's.</p> <p>The company states in its representation that its relatively short sewer network means its ODI rate looks artificially low and that our intervention implies a willingness to pay value significantly higher than the rest of the industry. We do not accept this argument, consistent with other areas where the company has challenged our normalisation approach. We set out our assessment of the company's representation on our normalisation approach in the overarching methodology assessment at the top of this table.</p> <p>We therefore consider that the company does not provide sufficient and convincing evidence for us to revert to its business plan rate.</p>	<p>N/A</p>

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			The company proposes to retain its initial ODI value of £149 per incident per 10,000km of sewer. With its underlying per household valuation of £0.24 per incident the company claims this remains the highest valuation in the sector.		
Properties at risk of receiving low pressure PR19HDD_B7	Performance commitment levels	<p>Our intervention at draft determinations was to propose more stretching service levels that enable the company to achieve its 2025-26 aspirations more realistically. We set the performance commitment levels to the following values:</p> <p>2020-21 = 41 2021-22 = 39 2022-23 = 37 2023-24 = 34 2024-25 = 32</p> <p>Units: Number of properties</p>	<p>The company proposes a different performance commitment compared to the draft determination.</p> <p>The company proposes to revise its performance commitment levels and has set it in terms of percentage reduction (28%) from the base year 2019-20 instead of original reduction of absolute number of properties at risk of low pressure. It proposes a 7% improvement for year 2020-21 and then 28% improvement for each of 2021-25 compared to its selected base year of 2019-20. This equates to a total improvement of 28% compared to 2019-20.</p> <p>The company states that our proposed 44% improvement (from 2019-20 to 2024-25) compared to its 28% is not achievable for the following reasons:</p> <ul style="list-style-type: none"> Over 70% of customers (household and non-household) support the company's proposed levels Data quality issues mean that our comparative analysis is not valid Its new data from pressure loggers is likely to show worse performance simply due to better measurement. It notes other companies have had a similar issue. It states a percentage reduction reporting approach would mitigate this problem. It notes its size means it receives a very small number of complaints. <p>The company provides detail on the operational activities it would need to undertake, and claims resolving low pressure issues will take time and significant investment. It notes many properties with</p>	<p>Change for the final determination.</p> <p>The company has not conducted any new customer engagement to support its proposed performance commitment levels, but states that we did not consider that its customer's support its level when making our draft determination decision. We have considered the quality of customer engagement and also have used comparative analysis for this performance commitment as outlined in our PR19 final methodology. There is no evidence in the customer engagement that the company showed customers its performance relative to other companies.</p> <p>The comparative analysis is used to determine outliers, in addition, the Discover Water website data for the current year shows that the company is the second worst performing company. Therefore we consider the company's performance on this measure leads us to consider whether to change performance commitment levels.</p> <p>We recognise the circumstances where properties are close to (in elevation terms) the storage reservoir and others at higher levels in the valley making possible solutions potentially expensive. Section 65 of the Water Industry Act exempts undertakers from providing the same level of service that cannot be supplied by gravity from an existing service reservoir, and which thus receive a level of service below the reference level of 9 l/min at a pressure of 10m available head on the customer's side of the main stop tap. The company states 70% of its properties with low pressure fall within this category, though this does not mean it should not resolve these issues.</p> <p>The company provides sufficient and convincing evidence that to improve performance at many properties would require a large capital expenditure programme.</p> <p>We consider that the company provides sufficient and convincing evidence to change the performance commitment level in line with the company's proposal of switching from the</p>	<p>We revise performance commitment levels to the following values:</p> <p>2020-21 = 7% 2021-22 = 28% 2022-23 = 28% 2023-24 = 28% 2024-25 = 28%</p> <p>Units: Percentage reduction against the 2019-20 baseline</p>

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			<p>low pressure problems in its area are within Section 65 of the Water Industry Act.</p> <p>In its response to our query, the company explains that although the installation of new pressure loggers is resulting in more properties on the low pressure register, its forecast for 2019-20 would remain the same as the original forecast at 57 properties. However the company states there is some uncertainty around this because the full impact of the pressure loggers is not known. Because of this uncertainty the company wants to report based on a percentage reduction rather than absolute values.</p>	<p>absolute number to percentage reduction (28% over the period from 2019-20 position) in number properties at risk of low pressure for this performance commitment due to the uncertainty of the impact of its new pressure loggers on the data.</p>	
<p>Properties at risk of receiving low pressure</p> <p>PR19HDD_B7</p>	ODI type	In our draft determination we intervened to change the company's low pressure ODI type from non-financial to underperformance payment only.	The company considers that the ODI type should be non-financial.	<p>No change for the final determination.</p> <p>Whilst 52% of customers support a reputational only incentive, the company also provides evidence that customers consider it an important priority, with a willingness to pay valuation of £929 per property. We consider the company's evidence to not be sufficient and convincing to support a non-financial ODI, and therefore we use our default position (as per the PR19 methodology) of underperformance-only incentives. We also note that the company is currently the second worst performer in the industry (per 10,000 connections), and that financial incentives are appropriate to drive performance improvements.</p>	N/A
<p>Properties at risk of receiving low pressure</p> <p>PR19HDD_B7</p>	ODI rates	In our draft determination we intervened to set an underperformance rate of -£0.00313m per percentage reduction in properties from 2019-20 baseline.	<p>The company considers that our draft determination appears to have set the rate to align with the mid-point or average of the reasonable range for incentive rates, whereas the rate the company proposed in its September 2018 business Plan was consistent with the lower bound in this reasonable range and the initial assessment of business plans stated that there was 'no concern' with the incentive rate and that no action was required.</p> <p>The company proposes we use the original underperformance payment of £956 per property set out in its September 2018 business Plan.</p> <p>The company also notes that as it now intends to set the performance commitment on a percentage improvement basis, it needs to ensure that the</p>	<p>Change for the final determination.</p> <p>Regarding the incentive rate, the company proposed a rate of £0.000987m in September. As it proposed a non-financial incentive in April, it did not then propose a rate. The company notes its proposed rate is within our reasonable range. However the company fails our past performance test, and we consider that an intervention to increase the rate is still required as the company may have a credible incentive to understate its underperformance rate. The company does not present any evidence to demonstrate it is not a poor performer.</p> <p>We receive representations from several companies stating that the median and interquartile range is a more appropriate basis on which to construct the ODI reasonable range. We use the reasonable range to benchmark companies' proposed ODI rates and as a data input for setting a revised rate where a change to</p>	We set the underperformance payment rate to -£0.000989m per percentage reduction in properties from 2019-20 baseline.

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			<p>proposed outcome delivery incentive is consistent with this new measurement metric. Its expectation is that it will have around 100 properties with relevant low pressure issues, which means that rather than having an incentive rate of £956 per property, the rate will now be £956 per 1% reduction against the baseline number of properties – (with 100 properties a 1% reduction will equate to a one-property reduction).</p>	<p>the company proposal is necessary. We consider this carefully for all performance commitments where we use the reasonable range as part of our testing. As a consequence we are moving to a reasonable range defined by the median and interquartile range for low pressure, sewer collapses and sewer blockages. Where we have intervened at draft determination to set a company's ODI rate using the reasonable range we are changing our draft determination so that the rates align with our updated view of the reasonable range, defined by the median and interquartile range.</p> <p>For further details on our assessment of how we construct the reasonable range see our 'Delivering outcomes for customers policy appendix'.</p>	
Sewer Blockages PR19HDD_E3	Performance commitment level	<p>Our intervention at draft determination was to set a revised profile for the service level based on the industry maximum percentage reduction from 2019-20 to 2024-25 (16.7%), using a linear profile of reductions each year.</p> <p>Our intervention set the performance commitment levels to the following values:</p> <p>2020-21 = 283 2021-22 = 273 2022-23 = 264 2023-24 = 254 2024-25 = 244</p> <p>Units: Number of blockages</p>	<p>The company proposes retaining its performance commitment levels at:</p> <p>2020-21 = 290 2021-22 = 287 2022-23 = 283 2023-24 = 279 2024-25 = 276</p> <p>Units: Number of blockages</p> <p>It states that it is disproportionately impacted by its length of sewers and that the dataset we use to conduct horizontal analysis is not complete. It provides evidence to show that when normalised by connections rather than length, it is the third best performer (the graph uses 2018-19 normalised and 2024-25 normalised data). It also states that we considered its short sewer length when assessing pollution incidents, but have ignored it for sewer blockages. The company also states that 88% of its customers found a performance commitment level of 300 blockages to be acceptable; the company presented this to customers as being an average level of performance compared to the rest of the industry. The company considers that maintaining its historical rate of improvement (c. 6%) is appropriate.</p>	<p>Change for the final determination.</p> <p>We accept the evidence provided by the company and consider that the methodology of using blockages per 10,000 connections is more appropriate than blockages per 1,000 km of sewer, reflecting the root cause of blockages i.e. sewer misuse by customers disposing of fats, oils and non-flushable wipes. Therefore we change the method of comparative analysis for sewer blockages to be normalised by the number of connections.</p> <p>Our analysis of performance normalised by 10,000 connections for companies with the sewer blockages performance commitment places Hafren Dyfrdwy around the average level, not in the top third as it suggests. By applying this new methodology, the company's performance is in line with the calculated 'good' level of performance for 2024-25, which is around 95 blockages per 10,000 connections.</p> <p>We consider that the company provides sufficient and convincing evidence for us to revise the levels for this performance commitment back to the levels proposed by the company.</p>	<p>We revise the performance commitment levels to the following values:</p> <p>2020-21 = 290 2021-22 = 287 2022-23 = 283 2023-24 = 279 2024-25 = 276</p> <p>Units: Number of blockages</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>Help to pay when you need it</p> <p>PR19HDD_H2</p>	Performance commitment level	<p>Our intervention at draft determination was to increase the denominator for this performance commitment from 11% to 18%, in order to ensure it includes those customers who sometimes struggle to pay as well as those who always struggle to pay.</p>	<p>The company is concerned that we set the denominator in the calculation too high for this performance commitment.</p> <p>The company states: 'it puts disproportionate weighting on one piece of research, risks helping customers who do not need support as the company's outreach so far has had a low take-up rate and it means that more customers will get support but that the support for those customers will be less meaningful.'</p> <p>The company instead suggests that it simply adds the evidence of how many 'just about managing' customers (JAMs) it has in its region to its triangulation, and increase the denominator (i.e. the number of customers who struggle to pay) from 11 to 13%.</p>	<p>Change for the final determination.</p> <p>The company gives sufficient evidence that our performance commitment level puts disproportionate emphasis on one piece of evidence (acceptability testing in one of the company's areas), and that this evidence may not be an appropriate basis for such a change given it is derived from a small sample size. CCWater's Water Matters survey suggests that 8% of customers say their bill is not affordable and our cost assessment data suggests that 14% of its customers are in deprivation (based on 2017-18 data).</p> <p>The company also convincingly claims that as social tariffs are the main contributor toward achievement of this performance commitment, it would be counter-productive to spread the current resource (the company cannot raise the cross-subsidy further without customer consent) among a wider group of customers as it means that people assessed as needing a particular discount may end up with less than they need to pay their water bill.</p> <p>The company's suggestion that it is appropriate to add the new evidence to its triangulation is reasonable and will increase the population who receive affordability interventions from 11% to 13%.</p> <p>We consider the company provides sufficient and convincing evidence for us to amend the denominator used in the calculation.</p>	<p>We revise the denominator in the calculation for this performance commitment to 13%.</p> <p>We set the performance commitment levels to the following:</p> <p>2020-21 = 70 2021-22 = 71 2022-23 = 72 2023-24 = 72 2024-25 = 73</p> <p>Units: Percentage of customers</p>
<p>Effectiveness of affordability support</p> <p>PR19HDD_H3</p>	Performance commitment level and performance commitment definition.	<p>At draft determination our intervention was to set a baseline now and to target year on year improvement in performance.</p> <p>We set the performance commitment levels to:</p> <p>2020-21 = 30% 2021-22 = 35% 2022-23 = 40% 2023-24 = 45% 2024-25 = 50%</p>	<p>The company states that the factual basis for the way we set the baseline and stretch for this performance commitment is weak and uses its first month of data to show that the performance commitment level we have set is unrealistic (the company is measuring how many customers pay 12 months after finishing an affordability scheme - it currently has data for the first month of the 12.)</p> <p>The company says this is inconsistent with our approach to other innovative performance commitments in the affordability space. It adds that the performance commitment is innovative as it seeks 'to shine a light on the effectiveness that [its]</p>	<p>Change for the final determination.</p> <p>This performance commitment measures the number of customers receiving help with their bills 12 months after finishing receiving financial help from the company. In the company's April 2019 business plan, it does not set out a baseline or any improvement over the period. It states this because it does not have the historic data available to set these.</p> <p>In its representation the company cites other 'innovative' performance commitments (in particular from Wessex Water and Portsmouth Water), however we consider that these are not valid as a comparison as neither of the performance</p>	<p>We revise the performance commitment definition so that it requires the company to provide a baseline for year 2019/20 as soon as practicable and then deliver an improvement of 10% from that position over 2020-25.</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
		<p>Units: Percentage (%) improvement.</p>	<p>support offerings have over the longer term,' which no other company is doing.</p> <p>The company puts forward that although it lacks the data necessary to set performance commitment levels, in a study of 120 customers that have finished 12 months on a payment scheme, after one month 30% of these were paying their bills. The company expects this number to fall after 12 months.</p> <p>The company states it won't have a full baseline until July 2020. However, it accepts that its proposal to have 0% improvement over the 2020-25 period could look unambitious and suggests a performance commitment level of 10% improvement from baseline over the period.</p>	<p>commitments being used as comparators are in the position of having no baseline or improvement pathway. It is difficult to make comparisons with other companies as suggested by CCWater (see table 2).</p> <p>The company does give convincing evidence for why it is not able to set a baseline for the effectiveness of its affordability support. It states that it needs 24 months to pass before it can understand customer payment behaviour for the full 12 months after customers have finished affordability schemes.</p> <p>We acknowledge that as this is an innovative performance commitment as it takes an approach to affordability that has not been exactly replicated by any other company. Given this, information may not be readily available to set a baseline before final determination and that there is precedent for this in other company business plans.</p> <p>We also consider that the company's responses for the performance commitment levels that we set at draft determination are convincing, including the evidence from the study of 120 customers.</p> <p>The company agrees in its representation that the empirical evidence for setting a 10% performance commitment level is limited, but points to the innovative nature of the measure for this being the case. In the absence of robust comparative information we propose to accept the company's proposal to improve performance by 10% over the price control.</p> <p>The company suggests the improvement journey should go from 0% above baseline in year 1 to 10% above baseline in year 5.</p> <p>We consider that the company provides sufficient and convincing evidence for us to change the performance commitment to reputational only and for the performance commitment to be a 10% improvement by 2024-25 from a 2019-20 baseline.</p>	
Supporting our priority service	Performance commitment definition	Our intervention at draft determination was to reinstate the performance commitment, and to add information on what	The company's representation is in response to the wording we have used for the distribution of bottled water:	<p>Change for the final determination.</p> <p>We consider the company provides sufficient and convincing evidence for us to revise the performance commitment</p>	We revise the performance commitment definition to: 'The decision to issue bottled water alternative supplies process

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>customers during an incident</p> <p>PR19HDD_H4</p>		<p>constitutes a water supply incident and change the maximum length of time that the company must react in supplying bottled water from six hours to three hours. As a further part of the performance commitment, we introduced a measure that required the company to seek and publish the view of CCWater on the quality of the assistance the company has offered to Priority Services Register customers during an incident.</p>	<p>'The bottled water alternative supplies process should be triggered within three hours, but it does not require all of the bottled water to have been delivered within the three hours.'</p> <p>The company agrees in principle to the above wording, and states 'Industry best practice is based on companies making a decision about issuing bottled water to vulnerable customers within 3 hours with an aim to dispatch within 6 hours.' It adds that it is the company's existing policy so it is 'happy to accept this update even though it appears we would be the only company across the industry being asked to commit to this formally.' It goes on to state that the intervention appears disproportionate given the company's relatively good performance in this area.</p> <p>The company would like to make the following change, which it states is for clarity and to assist when reporting throughout the 2020-25 period:</p> <p>'The decision to issue bottled water alternative supplies process should be triggered within three hours, but it does not require all of the bottled water to have been delivered within the three hours. The company should aim to have dispatched water within 6 hours.'</p>	<p>definition. We consider that the changes proposed serve to clarify our intention at draft determination.</p>	<p>should be triggered within three hours, but it does not require all of the bottled water to have been delivered within the three hours. The company should aim to have dispatched water within 6 hours.'</p>
<p>Reducing the number of void supply points</p> <p>PR19HDD_F1</p>	<p>Performance commitment definition</p>	<p>Our intervention at draft determinations was to apply a new definition (the company proposed the definition to be 'the number of void supply points') for this performance commitment to target reductions in the proportion of household voids as a percentage of properties.</p>	<p>The company states that it has concerns about the practicality of calculating performance that could be addressed through updates to the performance commitment definition.</p> <p>The company states that the most material concern is the use of the connected property numbers in the denominator. It states that it is not clear what values we had used in calculating the percentage improvement, but there are several complexities that should be considered.</p> <p>The company's connected property forecasts include assumptions about growth. The company is concerned that if in reality it sees more growth than</p>	<p>No change for the final determination</p> <p>We acknowledge that it is important to consider the customer profile, as this could substantially differ across companies. In this case, the company states it has water only customers, waste only customers and few combined water and waste customers.</p> <p>This could result in an inaccurate benefit calculation (as the average bill and therefore the marginal benefit is different for dual and single service customers). For this reason, we amend our draft determinations ODI rate calculations to a weighted incentive rate based on the number of customers within each service (see Table 3 below).</p>	<p>N/A</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
			<p>it will hit the performance commitment level with a lower number of void properties brought into charge and if it sees less growth the inverse will be true. This will be true for all companies but the company notes that it has significantly more irregular growth profile given its small size and reduced data history from which to forecast.</p> <p>The company states it has an unusual customer profile with water only customers, waste only customers and very few combined water and waste customers. Given that the definition states that 1 property brought into charge will count as 1 irrespective of the number of services provided it is unsure what connected properties value we have used as the total connected properties.</p> <p>The company proposes that the definition should be updated to state the number of customers assumed in each year by us and then each year the company can ensure that real improvement has been made rather than simply a change in customer numbers.</p>	<p>We do not consider the company's proposal to change the definition to use the assumed (rather than realised) number of connected properties is sufficient and/or convincing.</p> <p>Our key concern with the company's proposal is that a new property being identified as a void would add one to only the numerator (as the denominator is fixed), so making the performance commitment harder to deliver. By contrast under the draft determination definition it would add one to both the numerator and denominator and so have a smaller effect. As we do not have evidence on the likelihood of a new registered property to become void, we cannot measure the materiality of this distortion. If enough new registered properties become voids, this change could result in a substantial distortion.</p> <p>Given the potential distortion that the company's proposal could have on the performance commitment, we do not consider it appropriate to adopt the company's proposal to change the methodology. However, as we acknowledge the risk of void performance commitments being affected by macroeconomic factors, we consider that it's necessary for us to make a further sector wide change to our ODI methodology (see Table 3 below).</p>	
<p>Reducing the number of void supply points</p> <p>PR19HDD_F1</p>	<p>Performance commitment definition and ODI rates</p>	<p>Our intervention at draft determination was to change the design of the ODI on this performance commitment to include both underperformance and outperformance payments.</p> <p>We set the ODI rates to:</p> <p>Underperformance: -£0.146m per 1%</p> <p>Outperformance: £0.079m per 1%</p>	<p>The company is concerned that there are a higher percentage of genuinely void properties in its region of Wales, which will make it more difficult to reduce the number of voids. It states it has no strong evidence but proposes that we mitigate the risk of high underperformance payments by updating the definition to include an exclusion that states:</p> <p>'If the company presents robust and assured evidence that the number of properties that are genuine voids means that it is not possible or disproportionately costly to achieve the target then the penalty will not apply.'</p> <p>For example if in 2020-21 the company has evidence that more than 5.94% of connected properties are proven to be empty properties then the underperformance payment will not apply. This exclusion should apply each year.</p>	<p>No change for the final determination.</p> <p>We note that we do not have independent evidence on empty properties for Wales, as the information we have only covers England. This is because the relevant dataset published by the Ministry of Housing, Communities and Local Government covers England only. As such, we use areas in England next to the company's area as a proxy and considered if the implications of this appear consistent with the rest of the industry.</p> <p>The reduction for the company is 28%, from the second highest void level in the industry. South Staffs Water, SES Water and Severn Trent Water proposed similar percentage reductions and United Utilities has accepted our proposed reduction which is higher.</p> <p>The number of actual empty properties and 'false voids' cannot be known. It is difficult in the first place to confirm if a property is</p>	N/A

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				<p>empty or not and in any case property occupation often regularly changes.</p> <p>The reason for a performance commitment on the outcome of billing is the difficulty of knowing if all possible properties are billed. It would be difficult, or perhaps impracticable, to produce convincing evidence that this was the case.</p> <p>We consider that the company’s suggested exclusion may distort this incentive and risk that companies would focus on providing evidence that voids are genuinely empty as opposed to identifying false voids.</p> <p>The company does not provide sufficient and convincing evidence for us to change our draft determination.</p>	
<p>Reducing the number of void supply points</p> <p>PR19HDD_F1</p>	Caps, collars and deadbands	No intervention at draft determination.	<p>The company states that underperformance payments disincentivise the identification of voids. It states its customers prefer this to be a reputational measure. It argues that the revised measure present it with an undue level of risk.</p> <p>The company recognises that it does appear to have a high proportion of voids as a percentage of households compared to other companies. It states that the risk arises because, at least in the immediate term, additional void properties could be found as it goes through the process of refining data and records. So, should it identify more properties in this way, then its targets immediately become more challenging. It states that a further risk is that a significant proportion of voids properties may be genuine voids and therefore do not need bringing into charge, thereby making the targets even more challenging to attain.</p> <p>The company proposes an underperformance collar for each year of the period at the current voids rate of 5.94%. It argues that this will mitigate undue risk and incentivise the right behaviours. It also proposes an outperformance cap set at 3.06% in each year of the 2020-25 period.</p>	<p>Change for the final determination.</p> <p>As we explain in the ‘Delivering outcomes for customers policy appendix’ we consider that performance commitments that measure the percentage of void properties are uncertain and all companies should have caps and collars. In the appendix we also explain how we set the level of caps and collars in the final determination and adjust the estimate of P10 and P90 performance levels accordingly.</p>	<p>We set the following underperformance collars:</p> <p>2020-21 = 5.94 2021-22 = 5.94 2022-23 = 5.94 2023-24 = 5.94 2024-25 = 5.94</p> <p>Units: Percentage (%) of properties classed as voids.</p> <p>We set the following outperformance caps:</p> <p>2020-21 = 5.44 2021-22 = 5.08 2022-23 = 4.50 2023-24 = 3.78 2024-25 = 3.06</p> <p>Units: Percentage (%) of properties classed as voids.</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>Improving reservoir resilience</p> <p>PR19HDD_B8</p>	<p>New performance commitment</p>	<p>The company proposed to adopt a bespoke, reputational only performance commitment in relation to 'source resilience'. At draft determination, we intervened to remove this performance commitment but stated that we would consider the company's revised proposal we expected it to provide for the final determinations.</p>	<p>The company accepts our intervention to reject the source resilience performance commitment as it was presented at draft determination. It however is of the strong view that there is merit in developing it further, in line with our intervention.</p> <p>The company proposes a new reputational measure called 'improving reservoir resilience'. The company states that this relates to work to deliver already identified Reservoirs Act 1975 'Measures in the Interests of Safety' which will not be carried out until the 2020-25 period.</p> <p>The company states that 100% of 'measures in the interests of safety' (within the Section 10 reports) must be corrected within the prescribed timescale, which is no longer than 3 years following the date of the inspection. The inspection due dates vary between 2019 and 2022, so all 'matters of safety' will have to be addressed by latest December 2025.</p> <p>The company states that the measure is similar to those for other companies and will be assessed against annual targets. The company argues that this measure is appropriate because the company considers reservoir safety as its top companywide risk and that this is an aspect of resilience where it has carried out the most engagement with its customers. The company also argues that it is driving a significant reduction in reservoir safety risk across the 2020-25 period, for which there is customer support.</p>	<p>Change for the final determination.</p> <p>The company provides sufficient and convincing evidence to justify its proposal for a new performance commitment. It states that reservoir safety is its highest operational risk and states that several other companies have similar measures which will allow some comparability, which we consider to be a reasonable point. The company is proposing a reputational incentive. It demonstrates that customers are broadly supportive of the measure but it does not present evidence on customer support for the incentive type. However we agree that there are clear benefits for customers in delivering its reservoir safety programme. The company will have resilient raw water supplies in the future and delivery of the reservoir safety programme will reduce the individual and societal risks presented by reservoir failure.</p> <p>The company proposes delivery milestones in each year of the period which are aligned with the reservoir safety regulatory compliance period. We consider that the company's proposal to exclude any new measures in the interests of safety including any which are identified during the 2020-25 period provides a stable performance commitment with fixed levels. We are satisfied with the proposals around assurance that the company makes.</p> <p>We do not consider that there is a material risk of non-delivery due to the requirements being legally binding. However in line with our approach at draft determinations for similar measures proposed by other companies we consider that the outcome delivery incentive should have underperformance payments to protect customers against delayed delivery. This is because under the current reservoir safety legislation the company has up to three years to implement measures and we want to incentivise early delivery. The company proposes that one of the schemes may be delivered by December 2025 leading to a percentage completion of 68.3% in 2024-25 but we do not consider this to be stretching. Based on our view of stretch, we set 81.8% completion of schemes by April 2025 (nine out of eleven schemes). We consider that in-period performance commitment levels aligned with the company's proposed milestones are appropriate and consistent with similar measures for other companies.</p>	<p>We adopt a new performance commitment, 'Improving reservoir resilience', which measures the progress the company is making in addressing the legally binding safety works raised under Section 10 of the Reservoir Act 1975 in a timely manner.</p> <p>We set the performance commitment levels to:</p> <p>2020-21 = 0% 2021-22 = 9.1% 2022-23 = 36.4% 2023-24 = 36.4% 2024-25 = 81.8%</p> <p>Units: Percentage completion (%)</p> <p>We impose in-period underperformance payments and calculate the rate based on the totex amount of the cost adjustment claim. This results in an underperformance payment rate of -£0.0032m per percentage of scheme completion.</p>

Performance commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
Number of complaints about drinking water quality PR19HDD_A2	Performance commitment definition	No intervention at draft determination.	In a query, the company raises the omission of the wording 'taste and odour' within the 'Additional detail on measurement units' section of draft determination performance commitment definition.	Change for the final determination. The purpose of the performance commitment is 'to reduce water quality contacts relating to appearance, taste and odour.' We consider that this omission is an error and we amend the wording within the 'Additional detail on measurement units' section of the performance commitment definition to include 'taste and odour'.	We amend the wording within the 'Additional detail on measurement units' section of the performance commitment definition to include 'taste and odour'.
C-MeX PR19HDD_G1	All	We set a common performance commitment for all companies regarding residential customer satisfaction.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	See 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.
D-MeX PR19HDD_G2	All	We set a common performance commitment for all companies regarding residential customer satisfaction.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	All representations from companies and other stakeholders are summarised and assessed in the 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.	See 'Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'.

Table 2: Hafren Dyfrdwy - Representations from other stakeholders

Stakeholder	Performance Commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
CCWater	All performance commitments	Performance commitment levels	N/A	CCWater notes that 'some adjustments made to Hafren Dyfrdwy's performance commitments are more stretching (e.g. sewer blockages) and reflect customer priorities (e.g. water supply interruptions, leakage and sewer flooding performance commitment levels increases).' CCWater considers that the business plan accounts for 'some of the customer evidence collected during the development of the business Plan.'	No change for the final determination. We welcome the view of CCWater. We consider the customer evidence as part of our analysis and assessment of performance commitment levels.	N/A
CCWater	Non-performance commitment specific	ODI rates	N/A	CCWater conducts additional customer research, finding that 69% of Hafren Dyfrdwy's customers found the potential impact of ODIs on their water bills over the period to be acceptable. It notes this is a lower level of acceptability than that achieved by the 'base' plan. It notes that the company's research indicates customers are not supportive of ODIs and paying more for outperformance, including that only a very small majority of customers support some of the financial incentives that the company put forward, particularly drinking water quality, internal sewer flooding, sewer blockages and lead pipe replacement. It considers this support to be insufficient and so is concerned that we continue to expect ODIs and associated outperformance incentives for the company. It notes that any customer research on the acceptability of ODI financial incentives has not taken into account the potential impact of Severn Trent Water's ODI outperformance in the 2015-20 period.	No change for the final determination. We note the results of CCWater's research, which shows that the majority of customers support the bill impacts of our draft determinations including ODIs. Whilst there is a lower level of support than for our baseline draft determination, it is still a clear majority. As discussed in our assessment of methodology representations, we assess support for outperformance payments at a performance commitment-specific level, to most accurately reflect customer preferences.	N/A
CCWater	Number of lead pipes replaced PR19HDD_A3	Performance commitment levels	We intervened at draft determination to update the definition and corresponding performance commitment	In its representation, CCWater expresses concern that the company is not being sufficiently ambitious in its performance commitment levels and would like us	No change for the final determination. In our draft determination we intervened to change the definition of the performance commitment to	N/A

Stakeholder	Performance Commitment	Type	Our intervention for the draft determination	Summary of company representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
			<p>levels for this performance commitment from 460 pipes to 230 pipes over the five years.</p>	<p>to consider whether performance commitment levels set by the company should be further tightened.</p>	<p>include replacement of both communication and supply pipes to count towards the performance commitment levels. We did this as it results in greater customer benefit and is consistent with Dŵr Cymru's approach.</p> <p>We note that CCWater does not make a similar representation on stretch of performance commitment levels for Dŵr Cymru.</p> <p>In line with the revised definition to include both supply and communication pipes, the company's performance commitment level was reduced from 460 to 230 replacements. However, our view is that this does not affect the level of stretch.</p> <p>We have previously asked the company to provide further evidence that its performance commitment levels are stretching, including benchmarking its service levels with Dŵr Cymru. The company complied with this action, and provided arguments that its performance commitment levels are stretching with regards to its specific circumstances.</p>	
CCWater	<p>Effectiveness of affordability support</p> <p>PR19HDD_H3</p>	<p>Performance commitment level and performance commitment definition.</p>	<p>At draft determination our intervention was to set a baseline now and to target year on year improvement in performance.</p> <p>We set the performance commitment levels to:</p> <p>2020-21 = 30% 2021-22 = 35% 2022-23 = 40% 2023-24 = 45% 2024-25 = 50%</p> <p>Units: Percentage (%) improvement.</p>	<p>CCWater states that the company supports our intervention to define a percentage performance commitment level for the effectiveness of the company's assistance. CCWater agrees with us that the company's 'nil' proposal was not acceptable and suggests that it considers the 'success rates' of other companies to determine appropriate performance commitment levels.</p>	<p>Change for the final determination.</p> <p>We note the comments from CCWater and consider them in conjunction with the company's representation on this performance commitment detailed in table 1 above.</p>	N/A

Table 3: Hafren Dyfrdwy - Changes to the draft determination not due to a representation

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
N/A	ODI rates	We intervened on some ODI rates at draft determination.	<p>Change for the final determination.</p> <p>For final determinations we revise some ODI rates on which we have previously intervened due to updates in the underlying data used to calculate the ODI rates. In particular, we update the data on the number of connections to reflect the latest information available. In most cases this has only a small impact on the ODI rates.</p> <p>We update all ODI rates where we calculate a ‘delay’ or ‘cost-recovery’ rate using the weighted average cost of capital and/or other regulatory parameters to reflect the values we are using in our final determination.</p> <p>We also make a small number of corrections for where we have identified errors in our draft determination calculations. The final ODI rates are specified in Hafren Dyfrdwy– Outcomes performance commitment appendix.</p> <p>In particular we amend the ‘Number of lead pips replaced’ performance commitment non-delivery underperformance rate from the draft determination value of -£0.001m to the final determination value of -£0.0011m (per number of pipe replaced), and the outperformance rate from the draft determination value of £0.001m to the final determination value of £0.0010m (per number of pipes replaced).</p>	We change ODI rates where the underlying data used to calculate the rate has been updated, or an error has been identified.
<p>Number of lead pipes replaced</p> <p>PR19HDD_A3</p>	Performance commitment definition	<p>No intervention at draft determination.</p> <p>The definition at draft determination states:</p> <p>The company owned communication pipe and customer owned supply pipe are not counted separately. Both pipes need to be replaced to count towards this measure.</p> <p>Only in the case where the company can demonstrate that customers have refused to have their supply pipes changed can the replacement of a communication pipe alone at a property count towards this measure.’</p>	<p>Change for the final determination.</p> <p>Dŵr Cymru has a very similar performance commitment, and propose revisions to the definition used in the draft determination.</p> <p>The company states that replacement of communication pipes has been more widespread than replacement of supply pipes. As a result, it anticipates cases where only supply pipes are replaced as communication pipes have already been replaced. It is noted that where communications pipes are identified to be lead-based, these will be replaced.</p> <p>As noted in our assessment for Dŵr Cymru, we support the proposed revision on the grounds that it increases the applicability of the definition to cases where communication pipes have already been replaced under a separate programme.</p>	<p>To ensure consistency with Dŵr Cymru, we change the performance commitment definition to:</p> <p>The company owned communication pipe and customer owned supply pipe are not counted separately. Where both the supply pipe and the communications pipe are replaced, this will count as one replacement, not two.</p> <p>For communication pipe only replacements: only in the case where the company can demonstrate that customers have refused to have their supply pipes changed, or where the customer supply pipe has been identified as not being made of lead, can the</p>

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
				<p>replacement of a communication pipe alone at a property count towards this measure.</p> <p>For supply pipe only replacements: Only in the case where the company can demonstrate that the communication pipe is not made of lead can the replacement of a supply pipe alone at a property count towards this measure.</p> <p>We also add wording as set out in 'Delivering outcomes for customers policy appendix' to allow innovation.</p>
<p>Number of lead pipes replaced</p> <p>PR19HDD_A3</p>	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we form our own estimates of P10 performance based on judgement. We take this approach because we do not consider that either applying our standard approach or adopting the P10 performance levels proposed by the company in its business plan submission leads to estimates which are credible for an efficient company.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 25 2021-22 = 38 2022-23 = 18 2023-24 = 18 2024-25 = 18</p> <p>Units = pipes replaced</p>
<p>Water Quality Compliance (Compliance Risk Index)</p> <p>PR19HDD_A1</p>	Caps, collars and deadbands	<p>The intervention we made at draft determinations was to set a standard deadband which all companies were expected to adopt. The deadband profile for the Compliance Risk Index (CRI):</p> <p>2020-21 = 2.00 2021-22 = 2.00 2022-23 = 1.50 2023-24 = 1.50 2024-25 = 1.50</p> <p>Unit = Compliance Risk Index Score</p>	<p>Change for the final determination.</p> <p>We amend the deadband on the CRI to a score of 2.00 throughout the period reducing the risk of underperformance payments in the last three years of the 2020-25 period. This allows more flexibility in performance to take into account the uncertainty created by the ban on the use of metaldehyde being overturned by the High Court and also aligns with the median level of current company performance.</p> <p>Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change.</p>	<p>The following is a sector wide change for the final determination.</p> <p>We set a revised standard deadband for all companies. The deadband profile for the Compliance Risk Index is:</p> <p>2020-21 = 2.00 2021-22 = 2.00 2022-23 = 2.00 2023-24 = 2.00 2024-25 = 2.00</p> <p>Unit = Compliance Risk Index Score</p>
<p>Leakage</p> <p>PR19HDD_B2</p>	Performance commitment definition	No intervention at draft determination.	Change for the final determination.	We amend the wording of the performance commitment definition to the following:

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
			.To avoid any misinterpretation regarding the value for the company's 2019-20 leakage target, we amend the performance commitment definition to clarify the requirement for all companies.	'As a minimum, if, using the PR14 calculation of leakage set out in the PR14 performance commitment, a company does not meet its 2019-20 leakage performance commitment level (specified in our PR14 final determinations), the company's actual level for 2019-20 will, for the purposes of setting the baseline for the 2020-25 period, be adjusted downwards by one third of the difference between the value derived from the PR14 2019-20 performance commitment level and the actual level for 2019-20. For PR14 performance commitments set on a three or five year average basis, we assume the 2019-20 annual performance commitment level is equal to the average level specified in the PR14 performance commitment.'
Leakage PR19HDD_B2	Caps, collars and deadbands	We did not set a collar in the draft determination.	Change for the final determination. The company does not make a representation regarding the collar for this performance commitment. We explain in the 'Delivering outcomes for customers policy appendix' that we apply caps and collars for all companies and how we set these levels. For leakage we set the collar at 5% above (i.e. worse than) the 2019-20 baseline performance commitment level for all companies (except those with early certainty, or with enhanced ODIs).	We set collar levels to: 2020-21 = -5 2021-22 = -5 2022-23 = -5 2023-24 = -5 2024-25 = -5 Units: Percentage reduction from 2019-20 baseline using 3 year average (%).
Mains Repairs PR19HDD_B5	Performance commitment level	No intervention at draft determination.	Change for the final determination. We increase the performance commitment levels for mains repairs by a reducing percentage, for all companies, in all years, making it easier to achieve. The aim is to allow all companies the flexibility to deliver the improvement in leakage reduction, allowing more flexibility in the earlier years to use proactive mains repairs to reduce leakage. Please refer to the 'Delivering outcomes for customers policy appendix' for more detail on this sector wide change.	We set the performance commitment levels to the following values: 2020-21 = 121.0 2021-22 = 118.9 2022-23 = 116.7 2023-24 = 114.6 2024-25 = 112.5 Units: Number of mains repairs per 1,000km
Mains Repairs PR19HDD_B5	ODI rates	We intervened at draft determination to set the company's underperformance ODI rate	Change for the final determination.	We change the underperformance ODI rate to -£0.007/ number per 1,000km of mains.

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
		at -£0.007m based on the average industry proposed ODI rate.	When considering the performance commitment package as a whole, we consider whether the balance of incentives for particular performance commitments is appropriate at both an industry and company level. We set all companies' underperformance rates at the normalised (per household) industry average on mains repair to provide a more balanced spread of incentives and risks across the company's performance commitments. This will ensure the company does not overly focus on mains repairs to the detriment of other performance commitments which will benefit its customers. For further details on our approach to sector wide interventions on ODI rates see our 'Delivering outcomes for customers policy appendix'.	
Unplanned Outage PR19HDD_B6	Performance commitment level	No intervention at draft determination.	<p>Change for the final determination.</p> <p>We consider that a standard performance level in 2024-25 is appropriate for this measure. We consider this an appropriate approach for unplanned outage as it recognises the current maturity of the metric and the limited historical dataset in which to set stretching levels for. A standard level for 2024-25 is not suitable for any other asset health performance commitment as this would allow deterioration of performance for many companies, which is counter to our methodology requirement for companies to improve performance.</p> <p>All companies that forecast performance (2019-20 or actual 2018-19) better than 2.34% will be set performance commitments levels at 2.34% in all years. All companies that forecast performance (2019-20 or actual 2018-19) worse than 2.34% will be set profiles from their forecast 2019-20 (or actual 2018-19) value to 2.34%. The only exception to this is Southern Water which proposes worse performance commitment levels but a significant improvement from their current levels, therefore we have allowed Southern Water a different 2024-25 level.</p> <p>As Hafren Dyfrdwy's 2019-20 forecast is better than 2.34%, we set the performance commitments levels at 2.34% in all years.</p> <p>Please refer to our 'Delivering outcomes for customers policy appendix' for further information.</p>	<p>We set the performance commitment levels to the following values:</p> <p>2020-21 = 2.34 2021-22 = 2.34 2022-23 = 2.34 2023-24 = 2.34 2024-25 = 2.34</p> <p>Units: Percentage of peak week production capacity (%)</p>
Unplanned outage PR19HDD_B6	Caps, collars and deadbands	We did not set a collar in the draft determination.	<p>Change for the final determination.</p> <p>The company does not make a representation regarding the collar for this performance commitment. We explain in the 'Delivering outcomes for customers policy appendix' that we apply caps and collars for all companies and how we set these levels. For unplanned outages we set the collar at 2 times the 2020-21 performance commitment level for all companies (except those with enhanced ODIs).</p>	<p>We set collar levels to:</p> <p>2020-21 = 4.68 2021-22 = 4.68 2022-23 = 4.68 2023-24 = 4.68 2024-25 = 4.68</p>

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
				Units: Percentage of peak week production capacity (%)
Reducing the number of void supply points PR19HDD_F1	ODI rates	<p>Our intervention at draft determination was to change the design of the ODI on this performance commitment to include both underperformance and outperformance payments.</p> <p>We set the ODI rates to:</p> <p>Underperformance: -£0.146m per 1%</p> <p>Outperformance: £0.079m per 1%</p>	<p>Change for the final determination.</p> <p>As we explain in the ‘Delivering outcomes for customers policy appendix’, we revise our methodology for performance commitments concerning ‘void properties’ (excluding Severn Trent and South West Water who have early certainty, and South Staffs Water, where we did not intervene at draft determination as it already has a low percentage of voids and is proposing to reduce them further). We remove the cost sharing factor, as there is no cost sharing for the retail price control. We are also calculate the financial incentive based on a weighted incentive rate based on the number of customers between single and dual services to more accurately align incentives to the customer benefit.</p> <p>We also apply a symmetric 50% sharing ratio to protect customers against the impact of macroeconomic factors. This is applied symmetrically to underperformance and outperformance payments. The change in methodology is due to representations from a number of companies, we consider that together the arguments and evidence provided are sufficient and convincing for us to change the voids ODI rate methodology to share the risk between the company and customers.</p>	<p>We revise ODI rates to:</p> <p>Underperformance: -£0.078m per 1%.</p> <p>Outperformance: £0.078m per 1%.</p>
Internal sewer flooding PR19HDD_E1	ODI rates	<p>We intervened at draft determination to set the outperformance rate at £0.055m per incident per 10,000 connections, using an average of the company’s stated preference and Choices valuation research.</p> <p>We also intervened to set the underperformance rate equal to the outperformance rate with an adjustment to reflect customer preferences and the average ratio of underperformance to outperformance.</p>	<p>Change for the final determination.</p> <p>When considering the performance commitment package as a whole, we consider whether the balance of incentives for particular performance commitments is appropriate at both an industry and company level. We set all companies’ underperformance rates symmetrically to outperformance rates to provide a more balanced spread of incentives and risk on internal sewer flooding. For further details on our approach to sector wide interventions on ODI rates see our ‘Delivering outcomes for customers policy appendix’.</p>	<p>We change the company’s underperformance ODI rate on this performance commitment to -£0.035m/ incident per 10,000 connections.</p>
Internal sewer flooding PR19HDD_E1	Caps, collars and deadbands	<p>At draft determination we set cap levels to:</p> <p>2020-21 = 1.17 2021-22 = 1.13 2022-23 = 1.10 2023-24 = 1.00 2024-25 = 0.93</p>	<p>Change for the final determination.</p> <p>As we explain in the ‘Delivering outcomes for customers policy appendix’, we consider that caps and collars should be applied to performance commitments which are financially material, where there is considerable uncertainty around the data or if the company has customer support for a collar.</p> <p>Caps are intended to protect customers from higher than expected outperformance payments in the event that ODI rates are not correctly specified (which could lead to</p>	<p>We set cap levels to:</p> <p>2020-21 = 1.15 2021-22 = 1.11 2022-23 = 1.06 2023-24 = 1.06 2024-25 = 1.05</p>

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
		Units: internal sewer flooding incidents per 10,000 properties.	<p>companies undertaking improvements that exceed customers' willingness to pay), and to prevent companies from focusing on some performance commitments to the neglect of others.</p> <p>The levels for the outperformance cap are based on estimates of the P90 performance, which has changed. Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p>	Units: internal sewer flooding incidents per 10,000 properties.
Sewer blockages PR19HDD_E3	ODI rates	We intervened at draft determination to change the company's underperformance rate to -£0.0029 due to the company having poor comparative performance and to ensure the rate is within the reasonable range.	<p>Change for the final determination.</p> <p>We receive representations from several companies stating that the median and interquartile range is a more appropriate basis on which to construct the ODI reasonable range. We use the reasonable range to benchmark companies' proposed ODI rates and as a data input for setting a revised rate where a change to the company proposal is necessary. We consider this carefully for all performance commitments where we use the reasonable range as part of our testing. As a consequence we move to a reasonable range defined by the median and interquartile range for low pressure, sewer collapses and sewer blockages. Where we have intervened at draft determination to set a company's ODI rate using the reasonable range we change our draft determination so that the rates align with our updated view of the reasonable range, defined by the median and interquartile range.</p> <p>For further details on our assessment of how we construct the reasonable range see our 'Delivering outcomes for customers policy appendix'.</p>	We change the underperformance payment rate to -£0.001392m per sewer blockage.
Sewer collapses PR19HDD_E5	ODI rates	We intervened at draft determination to increase the company's underperformance payment rate to -£0.002m, based on the lower bound of the reasonable range.	<p>Change for the final determination.</p> <p>We receive representations from several companies stating that the median and interquartile range is a more appropriate basis on which to construct the ODI reasonable range. We use the reasonable range to benchmark companies' proposed ODI rates and as a data input for setting a revised rate where a change to the company proposal is necessary. We consider this carefully for all performance commitments where we use the reasonable range as part of our testing. As a consequence we move to a reasonable range defined by the median and interquartile range for low pressure, sewer collapses and sewer blockages. Where we have intervened at draft determination to set a company's ODI rate using the reasonable range we change our draft determination so that the rates align with our updated view of the reasonable range, defined by the median and interquartile range.</p> <p>For further details on our assessment of how we construct the reasonable range see our 'Delivering outcomes for customers policy appendix'.</p>	We change the underperformance payment rate to -£0.001534m per collapse per 1,000km of sewer.

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
<p>Length of river water quality improved (WINEP)</p> <p>PR19HDD_C1</p>	P10 and P90 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in ‘Delivering outcomes for customers policy appendix’.</p> <p>To estimate P10 and P90 performance levels in this case, we use the company's P10 and P90 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because we do not consider that the P10 and P90 performance level estimates which the company provided in its business plan submission are credible for an efficient company.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = N/A 2021-22 = N/A 2022-23 = N/A 2023-24 = 41.4 2024-25 = N/A</p> <p>Units: Kilometres to one decimal place</p> <p>We estimate P90 performance levels as:</p> <p>2020-21 = N/A 2021-22 = N/A 2022-23 = N/A 2023-24 = 50.6 2024-25 = N/A</p> <p>Units: Kilometres to one decimal place</p>
<p>Pollution incidents</p> <p>PR19HDD_E2</p>	Caps, collars and deadbands	We did not set a collar in the draft determination.	<p>Change for the final determination.</p> <p>We explain in the ‘Delivering outcomes for customers policy appendix’ that we apply caps and collars for all companies and how we set these levels. For pollution incidents we are setting the collar at 1.5 times the 2020-21 performance commitment level for all companies (except those with early certainty, or with enhanced ODIs).</p>	<p>We set collar levels to:</p> <p>2020-21 = 207.00 2021-22 = 207.00 2022-23 = 207.00 2023-24 = 207.00 2024-25 = 207.00</p> <p>Units: incidents per 10,000km of sewer.</p>
<p>Priority services for customers in vulnerable circumstances</p> <p>PR19HDD_H1</p>	Performance commitment level	Our intervention at draft determination was to change the definition of the performance commitment by splitting the measure into ‘attempted’ (i.e. an outbound contact that has not received a response) and ‘actual’ contacts (i.e. updates to data based on contact with the customer).	<p>Change for the final determination.</p> <p>The company does not make a representation regarding the performance commitment level. However, we receive a number of representations from companies and other stakeholders. Based on the compelling evidence set out in these representations, we revise the performance commitment levels for the actual contacts element of the performance commitment.</p>	<p>The following is a sector-wide change to the final determination.</p> <p>We revise the performance commitment levels for the actual contacts to:</p> <p>2020-21 = 17.5 2021-22 = 35.0 2022-23 = 35.0 2023-24 = 35.0 2024-25 = 35.0</p>

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
				Unit: Percentage of priority services customers that the company has made actual contact with.
Improving reservoir resilience PR19HDD_B8	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in ‘Delivering outcomes for customers policy appendix’.</p> <p>To estimate P10 performance levels in this case, we use the performance commitment levels set at final determination. We take this approach because this performance commitment reflects delivery of a planned scheme, and we consider that the experience in the water industry is that planned schemes are delivered in most cases. It would be a scenario that would occur in less than 10% of cases that the company would not deliver its performance commitment.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 0.0 2021-22 = 9.1 2022-23 = 36.4 2023-24 = 36.4 2024-25 = 81.8</p> <p>Units: Percentage completion to one decimal place</p>
Treatment works compliance PR19HDD_C4	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in ‘Delivering outcomes for customers policy appendix’.</p> <p>To estimate P10 performance levels in this case, we use the company’s P10 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because P10 performance levels were not provided in the company’s April business plan submission.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 97.96 2021-22 = 97.96 2022-23 = 97.96 2023-24 = 97.96 2024-25 = 97.96</p> <p>Units: Percentage compliance, reported to two decimal places.</p>
Satisfactory sludge disposal PR19HDD_C3	P10 performance levels	N/A	<p>Change for the final determination.</p> <p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in ‘Delivering outcomes for customers policy appendix’.</p> <p>To estimate P10 performance levels in this case, we use the company’s P10 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because P10 performance levels were not provided in the company’s April business plan submission. However, we extend the company’s P10 estimate to cover all years of the 2020-25 period, because the ODI associated with this performance commitment applies to all years.</p>	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 96.20 2021-22 = 96.20 2022-23 = 96.20 2023-24 = 96.20 2024-25 = 96.20</p> <p>Units: Percentage, to two decimal places</p>
Properties at risk of receiving low pressure	P10 performance levels	N/A	Change for the final determination.	<p>We estimate P10 performance levels as:</p> <p>2020-21 = 51</p>

Performance Commitment	Type	Our intervention for the draft determination	Our assessment and rationale for the final determination decision	Decisions for the final determination
PR19HDD_B7			<p>Our approach to adjusting the estimates of P10 and P90 performance levels is set out in 'Delivering outcomes for customers policy appendix'.</p> <p>To estimate P10 performance levels in this case, we use the company's P10 performance levels that it proposed in its representations (table OC1, August 2019). We take this approach because P10 performance levels were not provided in the company's April business plan submission.</p>	<p>2021-22 = 40 2022-23 = 40 2023-24 = 40 2024-25 = 40</p> <p>Units: % reduction to zero decimal places</p>

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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