# Ofwat consultation on PR24 and Beyond: Creating tomorrow, together

Hafren Dyfrdwy response

**22 July 2021**

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WONDERFUL ON TAP

# Contents

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22 July 2021

Dear Aileen,

**Hafren Dyfrdwy's response to PR24 and Beyond: Creating Tomorrow, Together**

We welcome the chance to play our part in the development of the PR24 framework and future price reviews. We wholeheartedly support Ofwat's clear vision for the sector and are aligned with the need for us all to deliver net environmental benefits that include hitting net zero and improving the health of rivers, at the same time as continuing to deliver one of the most affordable services in the world.

Our thoughts on how the sector can deliver this vision very much chime with Ofwat's three supporting pillars – (i) innovation, (ii) new thinking and (iii) new investment. In fact, we think that this is an area where Ofwat and much of the sector will hit the ground running for PR24 given the flexibility shown on the Green Recovery to allow new investment outside of the set-piece of the price review. More broadly, we fully support your plan to continue with the outcomes and totex frameworks so that companies keep the flexibility and strong incentives needed to innovate and deliver for customers.

We particularly welcome your openness to **differences in approach** at PR24 between the nations of Wales and England, most notably the scope for a **collaborative approach** to developing Welsh companies' plans. Off the back of this, we think that **removing the need for companies to have customer challenge groups** is particularly relevant for Wales, given that the group would likely just duplicate areas that the collaborative approach will already cover. In taking forward the **collaborative approach for Wales**, we think it's worth making sure that the PR24 methodology is tuned into Wales-specific considerations – such as the Future Generations Act and devolved government – and plays a full part in the agenda for these areas.

As the smallest company in the sector by some distance – whether it's customers served, network length or even RCV – we think there is considerable value to be had from finding ways to make sure PR24 stays **proportionate for the smallest companies**. At the forefront of our minds is the affordability challenge where every £100,000 we spend is worth roughly £1 per customer. To explore practical ideas that might help here – and do so cost effectively in a way that works for customers – we could set up a small, focused working group with Ofwat and the sector's three smallest companies.

In the context of considering how best to organise **the initial assessment of plans (IAP) and draft determinations (DD)** process, we think that there are benefits from keeping the DDs separate from IAPs, such as the valuable space it gives companies to learn from Ofwat feedback ahead of the draft determination. From a proportionality perspective, we think it's worth making sure that **the IAP places appropriate weight on what matters to customers** when scoring plans and setting IAP grades. Our PR19 experience was that we received significant scrutiny even though we submitted a plan that received more totex than requested and did not change all that much from the IAP to the FD. It seems likely that this was driven by us failing a number of tests because of a low score on acceptability. Given that acceptability does not drive the building blocks, this looks to have had an outsized impact on the test results. For PR24, we suggest that it's important to have tests that are discrete and appropriately weighted in line with what matters to customers.

We very much support your main **four themes** – (i) focusing on the long-term, (ii) delivering greater environmental and social value, (iii) reflecting a clearer understanding of customers and communities, and (iv) driving improvements through efficiency and innovation. These resonate well with our desire to be a local company for local communities and add welcome emphasis on securing services for the future. To us, strengthening our sector's **focus on the long-term** is highly relevant as it will allow us to build our plans in the context of (a) long-term strategies, (b) delivering net zero and (c) establishing a steady projects pipeline with the ability to agree investment outside price reviews. In this context, we welcome the clear awareness that **future pressures on capital maintenance costs** could differ materially from the past given the need to hit net zero and use more nature-based solutions.

Even as a young company, we consider that **streamlining price reviews for companies with strong track records** will offer a powerful incentive for companies to act as responsible long-term stewards. We recognise that we can only successfully and sustainability deliver for customers by building just such a track record for ourselves. We also see a couple of opportunities to boost the value of strong track records with (i) an early and accelerated process for considering special cost claims and (ii) extra capacity to put forward bespoke performance commitments (PCs).

We recognise that having fewer PCs and ODIs at PR24 could increase the focus of the **outcomes** framework. Even if there are to be fewer bespoke ODIs in future, we recommend that they remain critical given the space they afford companies to propose innovative service improvements – and so create potential common PCs for the future.

Where **comparative ODIs** are to be used, we strongly recommend keeping an eye on the impact of normalised targets for small companies. At PR19, we saw our pollutions measure need a tailored approach as a result of normalisation challenges. We've also seen how, with small numbers, a single-unit change in performance can cause normalised scores to swing between substantial under- and out-performance. This is a particularly acute risk in waste, where we've only around 20,000 customers and a network that's under 500km long. We've also found that such swings in normalised performance are extremely hard to explain clearly to customers and stakeholders, and, where measures are penalty-only, the swings can highly skew financial performance.

Related to this, the overall effect of **incentive rates on common ODIs** at PR19 was a financial risk that was heavily skewed to the downside for us – far more so than for any other company in the sector – such that our final determination needed to give us extra protections in this area. In terms of the simplified approach planned to calculate these at PR24, it'll be important to make sure that the approach allows our rates to be set in a way that gives us a balanced package of risk and reward from the outset and recognises that rewards play a primary role in driving companies to innovate and deliver step-change service improvement for their customers. With Ofwat's plans for collaborative customer research in Wales, our hope is that this boosts the prospects of just such an outcome.

On the risk front, we think it's important to recognise the impact that extra **targeted challenges** on top of the existing one for leakage could have for us. We already face a significant challenge trying to achieve PR19's targeted challenge of cutting leakage by 15% without any extra funding – a challenge that absorbs significant resources and management focus. As a small company – and one that covers both water and waste – our concern is that having several targeted challenges at once would unduly strain our resources, overstretch management focus and impact our ability to keep delivering for customers.

Overall, we're enthusiastic about your vision of a successful water sector that you set out in your consultation as well as your openness to a collaborative approach in Wales. We see there's a lot on offer that is exciting and beneficial for customers, communities and stakeholders in Wales. We look forward to working with you constructively over the coming 18 months as you work towards your final methodology.

Yours sincerely,

Kristinn Mason
**Chief Economist**
**Hafren Dyfrdwy**

# Response to questions

## Chapter 2 – Ambitions for PR24

### Q2.1: Do you agree that the themes we have suggested for PR24 are appropriate for England and for Wales?

We welcome your four themes for PR24 and consider them to be consistent with the sustainability principles and well-being goals set out in the Well-being of Future Generations (Wales) Act. As a company serving customers in Wales, we would expect our plans for addressing the four key themes to also show that they are consistent with the principles and goals of this Act.

We support your focus on the long-term and agree that companies should place their five-year delivery plans in the context of long-term strategies that form part of our business plan submission. We think this approach is particularly relevant to Wales, not just in terms of the Act, but also Welsh Government's plans to update its Water Strategy for Wales and its Strategic Policy Statement.

### Q2.2: Do you have comments on the considerations we've identified as relevant to the design of PR24?

We provide comments on your three design considerations below.

**Providing more clarity about how you will conduct price reviews in the long term, while retaining the ability to adapt**

We welcome your approach in this consultation of providing more clarity about how you will conduct price reviews in the long term.

In many cases, it is clearly beneficial for customers for you to provide more clarity on your long-term approach. For example, we welcome your continued commitments to using an outcomes-based approach and providing an allowed return on the RCV. The benefit of these commitments is that they give companies and investors the certainty to invest in assets that will deliver improved services for customers in the long term.

**Streamlining the price review without losing the benefits of sophistication**

At PR19 Ofwat approved allowances of £51bn and we understand that a certain level of sophistication in the price review process is likely to be needed to make sure these allowances deliver the best value for customers.

One nuance that we would draw out it that with Hafren Dyfrdwy representing just £127m or a ¼% of the industry total we think a more streamlined approach would be more appropriate for us. This is an area that we've already begun exploring with Dŵr Cymru so that we can build a collaborative approach for our two companies that fully involves our highly engaged stakeholders in building and fine tuning our plans in a way that delivers for customers, communities and the environment in Wales.

One area we think streamlining should focus on is the data tables for PR24. For context, our experience of the PR19 tables was that these were a massive undertaking for a small company to fill out and then put through three rounds of assurance. It's not entirely clear to us if all the tables and data ended up being used. With this in mind, we would welcome and wholeheartedly support a ruthless focus on paring back the data tables to just the information that is absolutely essential for the price review.

**Reflecting local and national diversity in the price review, while maximising the benefits of comparability across companies**

As it stands, we think the current thinking on PR24 leans a little too far towards comparability across companies. We think that it's really important to retain more scope for companies to reflect local and national diversity at PR24, especially for companies in Wales.

We consider there should be more scope for company-specific and Wales-specific customer engagement particularly on our customers' priorities and investment schemes.

### Q2.3: How should we evaluate our progress, and how can we best develop or use appropriate metrics to do so?

Our thinking is that the most logical focus for evaluating progress in Wales is service and cost for customers, and the environment. To get a measure on the progress being made, we would suggest using companies' performance commitments in the outcomes framework. To us this would make sense, given that the price review architecture here has been developed precisely to incentivise companies to deliver. Were different metrics to evaluate progress, we see a risk that it could muddy the waters around what the industry is meant to be delivering and, in doing so, weaken the incentive for companies to deliver on their ODIs.

Thinking about other areas where Ofwat might be looking to track progress, our thought is that it should prove easier to do this the more Ofwat can be specific about what it wants to achieve on these through PR24, particularly where it can align the PCs and ODIs with those objectives. Examples were this approach may be relevant are supply-demand, river quality and net zero.

## Chapter 3 – How we regulate

### Q3.1: How can we best regulate the water sector to deliver value for customers, communities and the environment? Do you agree, or have comments on, our suggestion to maintain our 'building block' approach based on outcomes, costs and risk and return?

We strongly support you maintaining the 'building block' approach to regulation based on outcomes, costs and risk and return.

We fully welcome your commitment to retaining the **outcomes** framework in the long term. The outcomes approach has proven itself highly capable of driving step-change improvements in service performance for customers. One of the strongest aspects of the approach is the incentive created by symmetrical outperformance payments as these drive companies to innovate and deliver beyond their for customers. Given their impact, we think that it's important that all companies have material skin-in-the-game on the outperformance side as well as for underperformance. Our experience is that where the ability to earn rewards is limited, this significantly reduces the headroom to innovate and deliver extended performance improvements for customers. For small companies like ourselves, we think it's vital that Ofwat reviews the performance commitment (PC) levels for our common PCs, in order to make sure they remain appropriate given the small absolute numbers they can involve.

The **totex** approach has given companies more freedom to invest where their services to customers most need it. The flexibility that the totex approach provides will be even more relevant as we face into new challenges that require innovative approaches such as achieving net zero, improving biodiversity and managing nature's scarce water resources. We think it's important that the totex approach allows companies to propose, and Ofwat to approve, solutions that deliver the best whole-life value for customers over the long term.

We comment on the specific design of the building blocks in our responses to the chapters on outcomes, cost assessment, risk and return and the design of price controls.

We consider that Ofwat-approved **multi-AMP investments** would allow for step-change service improvements for customers, for example for water resource resilience, environmental improvements or a programme of replacing customers' supply pipes that take longer than five years to deliver efficiently. This would enable Ofwat to determine such schemes outside the price review, allowing time for a more detailed assessment of large investments without needing to stick to the price review timetable. Ofwat could then check in on cost efficiency and customer protection at later

### Q3.2: To what extent is greater co-ordination required across the sector? In what ways might we promote better co-ordination across companies and with other sectors, and how might this benefit customers?

We strongly support greater co-ordination across Wales in terms of customer engagement and developing business plans for PR24. We see this as a highly effective way for creating business plans that deliver for customers and stakeholders across Wales, reflecting their distinct preferences and priorities, and secure their backing and buy-in.

We are already exploring ways for greater company-level coordination in Wales. One example of this is the possibility of a joint stakeholder engagement process that we're currently exploring with Dŵr Cymru.

## Chapter 4 – Increasing focus on the long term

### Q4.1: What are your views on the need for greater focus in companies' regulatory business plans on how they will deliver for the long term?

We fully support your view that there is a need for greater focus on the long term – this requires action on all parts:

- Companies can and should do more to show how investments we make are delivering for the long term (and be held to account for maintaining any improvements) and take account of uncertainty; and
- Ofwat can do more to remove barriers and inconsistencies across the different strands of the methodology (which we touch on in the following questions).

We would welcome more integration between the long-term focus of the WRMPs and DWMPs with the regulatory business plan. A useful step to achieving this would be for the need for long-term schemes to be agreed in the WRMP and DWMP and the focus in the regulatory business plan and the price review being on the cost-efficient way of delivering these schemes.

### Q4.2: What should long-term strategies seek to cover and what details should we expect companies to set out in business plans? Would common requirements help us and other stakeholders to understand each company's approach?

There are pros and cons of standardising the contents of long-term strategies. Common requirements might make the strategies easier to compare and it might allow scoring or ranking of strategies which could be used to differentiate companies at PR24, which has merit. However, standardising the requirements could drive a more formulaic response, which risks missing an opportunity for innovation, creativity and ambition, which is something we want to encourage for the benefit of customers and the environment.

We think the purpose of a long-term strategy is to show the glide path and key steps that take us from current performance and resilience to the long-term ambition. But the reality is there is no single, definitive strategy that guarantees the most efficient and effective solution to sector wide and global challenges such as climate change, biodiversity or affordability. Allowing more flexibility for companies to describe their strategies and approach to adapting to uncertainty has the advantage of increasing the pool of ideas, which companies can share, discuss and then improve on.

While we are in favour allowing companies scope to innovate in their long-term strategies, we think to achieve some degree of commonality it might be reasonable to expect that all strategies should set out:

- how the company has used the existing planning frameworks and customer research to define its ambition and then the strategy for delivering that ambition.
- how the strategy will continue to deliver key service metrics (perhaps using the key common measures) in the face of **climate change**, **biodiversity** and **affordability**. Companies should then be allowed to include wider strategies if their plans include step-change improvements – eg environmental ambition, but this should not be compulsory if the investment plan is one of largely maintaining the status quo.
- what monitoring the company will do to monitor if its strategy is effective.
- how the strategy will adapt to a changing world.

It's also the case that because the long-term strategies should encompass companies' WRMPs and DWMPs and those frameworks have common requirements this will lead to a degree of commonality between long-term strategies.

### Q4.3: How would this build on the work completed in strategic planning frameworks?

The long-term strategies will build on the outputs of those planning frameworks, such as WRMPs and DWMPs, and show how we have used them to make sure we have system-wide strategies and to demonstrate either consistent assumptions across planning frameworks or to explain any deliberate differences.

### Q4.4: How can we allow such strategies and plans to adapt to new information at future reviews while continuing to hold companies to account to deliver expected benefits into the future?

We consider that Ofwat-approved multi-AMP investments would allow for step-change service improvements for customers. They would enable Ofwat to determine such schemes outside the price review, allow time for a more detailed assessment of large investments and avoid being constrained by the price review timetable.

We think that setting out the criteria for assessing multi-AMP investment would be a really positive step by Ofwat that would ensure a fairer balance of risk and would encourage long-term investment by companies for the benefit of customers and the environment. For example, the first time a company makes a case it is fair and proper that it is exposed to the full suite of tests, but for each subsequent price review the scope of that review should be reduced to reviewing cost efficiency and reviewing the PC levels to ensure costs remain efficient and the targets remain challenging. The 'need' tests should not be reopened to give companies the certainty they need to invest for the long term.

There is also merit in reconsidering the role of deadbands for a small number of PCs that track long-term performance because that better reflects the reality that there is natural variation and uncertainty. For example, the weather is going to affect measures used to track resilience to climate change and it is not always possible to predict the precise relationship between intervention and performance when there are other variables at play. This is a particularly relevant consideration for small companies, as weather-related events can have a larger proportionate effect on performance in the absence of a larger geographic area that can help average-out such impacts. Directly linking investment and performance outcomes is particularly challenging for more innovative responses to long term challenges (such as exactly how far process emissions will be reduced through activities such as covering tanks or capturing gases).

In relation to companies' long-term strategies, companies update their WRMPs and DWMPs every five years and so there is a case for updating the long-term strategies every five years as well, although there might only be minor changes at some updates.

**Q4.5: Would providing our views on comparable aspects of companies' plans in advance of business plan submission streamline the price review process?**

As a small company, we very much support being provided with Ofwat's views on comparable aspects of our plans before we submit these plans. We see this as a helpful step towards making sure that the price review process is as simple and streamlined as possible for small companies. In our case, it would avoid us having to commit resources to working out where we might need cost adjustment claims and then developing these claims, even though they might not be needed. Instead, we would know in advance whether we need to make any claims or not. And, if so, we'd only need to work on those that we know are required as part of our plan.

Our one ask in this area is that we receive these early views at least 12 months before we submit our plans (ie October 2022). This will make sure we have the time to prepare any cost adjustment claims with the same level of quality, confidence and assurance that we do for other submissions to Ofwat.

**Q4.6: Should we adopt a collaborative approach to developing Welsh companies' plans at PR24? If so, how should we go about doing this?**

We strongly support adopting a collaborative approach to developing Welsh company's plans at PR24. We are keenly aware that key stakeholders in Wales – such as Welsh Government and NRW – see themselves being highly engaged and fully involved in the process. Beyond this, we see that solid groundwork for a collaborative approach in Wales is already moving into place – most notable the Welsh Government's plans to update both its Water Strategy for Wales and its Strategic Policy Statement for water.

With such actively engaged stakeholders, we see this as a big opportunity to bring together a wider range of views that will help deliver a plan that delivers for our customers, for the environment and for Wales – and does so in a way that meets the expectations of our stakeholders, our customers and our communities.

### Q4.7: What are your views on how we could provide clarity over the long-term regulatory framework?

We strongly welcome your commitment to retaining the outcomes framework in the long term. The outcomes approach introduced at PR14 continues to drive step-change improvements in service performance for customers and there's no reason to think that it won't continue to do so over the longer-term.

We think a commitment to a **strong package of ODIs** at future price reviews will give companies the confidence to invest in service improvements knowing that they will be benefits from doing so over the long term. We see that it's critical for the approach to make sure companies have a balanced package of risk and reward from the outset – given that rewards play a primary role in driving companies to innovate and deliver step-change service improvement for their customers.

Providing guidance on your intended approach to setting ODI rates in future price reviews could be helpful by underpinning your commitment to the outcomes framework, while providing more flexibility than fixing parameters for ODIs. The main challenge is to make sure companies have confidence that there will be a strong package of ODIs at future price reviews so that they justify increasing investment in services now.

We do not support the idea of making ODIs contingent on outcomes continuing to be delivered in future period. Our view is that is not needed because any company that allows its performance to slip in future will incur higher ODI underperformance payments (or lower ODI outperformance payments) in those later years. We also see that it would blunt two of the main benefits from in-period ODIs – (i) the substantially sharper incentives on companies' management to deliver what matters to their customers, and (ii) the fairer outcome for customers, whose bills better reflect more recent service performance.

### Q4.8: Are there barriers to water companies changing how they deliver their core functions to deliver greater environmental and social value? How can we address any barriers?

We strongly support innovative solutions that deliver our core functions while providing greater environmental and social value. We see the green recovery investment that you recently approved for Severn Trent as a great example of fresh thinking in the water sector.

Turning to barriers, we think these can be addressed. We set out below three key barriers we have faced that we can work together as a sector to overcome.

A first barrier is that, as you recognise in chapter 10, there are future cost pressures on maintaining operational resilience resulting from using alternative solutions to (i) reduce carbon emissions, (ii) adjust to the impacts of climate change and (iii) move towards more nature-based solutions. These new approaches also provide more environmental and social value. We support adapting the price review process to allow efficient funding for these innovative solutions and the extra environmental and social benefits they provide. We set out more detail on how the price review could do this in our responses to the questions in Chapter 10.

The second barrier is that many of the alternatives to traditional solutions that offer greater social or environmental benefits do result in increased company risk. The main reasons why the risks are higher are:

- nature-based solutions don't always behave in exactly the same way when exposed to a resilience shock or stress. There is less understanding of how they behave in extreme conditions and are less controllable (for example due to the fact that the public can access them).
- They can take much longer to deliver (often requiring planning permission) or joined-up working with other organisations, so we have to manage risk to the delivery of our performance commitment during this time.

The third barrier is the existence of conflicting requirements that often prioritise local improvements over national. For example, reduced abstraction in one location has local environmental benefit but also a knock-on impact of a significant increase in carbon needed from replacing the lost source with a new one.

Options to address this might include:

- more cross-checking of the costs of the counterfactual – if customers are no worse-off, then it makes sense for water companies to contribute to solutions that offer wider benefits even if they aren't core functions;
- closer working through the collaborative network in wales to look at conflicting requirements and to agree PC targets; and
- more guidance on how to value wider social or environmental benefits, such as whether these should all be monetised and whether all companies need to use the same values or whether we should ask customers.

**Q4.9: Do you have any further suggestions for increasing the focus on the long term? If so, what are these?**

We suggest Ofwat could consider developing whole-life cost (WLC) or present value models in key areas, such as net zero and flood resilience, particularly where there is a degree of choice over the pace of investment.

We also consider there could be a benefit from requiring companies to provide a consistent description of their baseline position against key resilience challenges. All companies will vary on their current level of resilience for example on the path to net zero and more generally adapting to climate change risks such as flooding and this is important context when assessing future performance or investment plans.

We support Ofwat adopting multi-AMP investment vehicles, that can be agreed outside price reviews, that will give companies the certainty to invest in schemes that will deliver long-term benefits for customers and the environment.

There could be a greater role for consideration of the Well-being of Future Generations Act and how companies in Wales could track progress against the relevant well-being goals that are tracked nationally.

## Chapter 5 – Strengthening incentives

### Q5.1: Should we undertake an initial assessment of plans at PR24? If so, what areas should we focus on in this assessment?

From a proportionality perspective, we think it's worth making sure that the IAP places appropriate weight on what matters to customers when scoring plans and setting IAP grades. Our PR19 experience was that we received significant scrutiny even though we submitted a plan that received more totex than requested and did not change all that much from the IAP to the FD. It seems likely that this was driven by us failing a number of tests because of a low score on acceptability. Given that acceptability does not drive the building blocks, this looks to have had an outsized impact on the test results. For PR24, we suggest that it's important to have tests that are discrete and appropriately weighted in line with what matters to customers.

### Q5.2: Should we consider adopting a more-light touch approach at PR24 for companies with a strong track record of delivery during the PR19 price review period? If so, what factors should we consider in our assessment and why?

Although we're a young company, we fully agree and wholeheartedly support the concept of strong track record being recognised and rewarded with a lighter touch at PR24. As a local company that is committed to delivering for local people, we recognise that we can only do this successfully and sustainability by building just such a track record.

On the subject of lighter-touch approaches, as the smallest company in the sector by some distance – whether it's customers served, network length or even RCV – we think there is considerable value to be had from finding ways to make sure PR24 stays proportionate for the smallest companies. At the forefront of our minds is the affordability challenge where every £100,000 we spend is worth roughly £1 per customer. To explore practical ideas that might help here – and do so cost effectively in a way that works for customers – we could set up a small, focused working group with Ofwat and the sector's three smallest companies.

### Q5.3: Should we streamline the price review by combining different steps in the process? If so, which of the three options outlined in this paper should we consider? And are there other options we can usefully consider?

For companies in England we support retaining the clear four-step assessment process from PR19 in Figure 5.1. In particular, we think that there are benefits from keeping the DDs separate from IAPs, such as the valuable space it gives companies to learn from Ofwat feedback ahead of the draft determination. We think a condensed process with fewer steps could lead to less dialogue and understanding between companies and the regulator that, in turn, could lead to poorer outcomes for customers and the environment.

### Q5.4: Is a different approach needed for the initial business plan assessment for companies in England and in Wales?

Given devolution and the legislative differences between England and Wales, we wholeheartedly support the need for differences in approach between the two, including the IAP.

### Q5.5: What incentives should we provide for high quality plans at PR24? If we don't make use of early draft determinations, how else might we strengthen incentives to table high quality plans on first submission?

We think it is important that high quality plans are sufficiently rewarded at PR24. We see a risk that, without stronger set of fast-track incentives at PR24, companies might decide that they'll be better off not seeking fast-track rewards with an ambitious business plan because of the smaller rewards seen at PR19 relative to the CMA's decision. Our suggestion here would be to increase the size of the fast-track rewards so that there's a genuinely effective financial incentive and to look at bringing back a version the of the do-no-harm element seen at PR14 when the expectation was that fast-tracked elements of plans would be accepted in-the-round and so left substantially unchanged for the draft determination.

We've also had a look at how different regulators incentivise good-quality business plans, especially where small companies are involves and where there are distinct socio-economic differences between regions. Particularly relevant to our thinking is the approach adopted by the Essential Services Commission – the regulator in Victoria, Australian – for water companies at its price review in 2018. Called the PREMO model[1]. This saw it successfully put in place different financial and procedural incentives for quality and ambition for a water sector where there are a number of water companies similar in size to Hafren Dyfrdwy and where there are marked affordability difference between regions.

In adapting this concept in a way that could work for our sector, our idea is that quality becomes the sole deciding factor on whether a company is fast-tracked, slow-tracked or placed in significant scrutiny – with rewards provided in the form of meaningful RoRE up-lifts and maybe some procedural benefits as well. On the ambition side, we think plans could be graded across three levels – say: (i) core essentials, (ii) advanced and (iii) sector leading – with RoRE-based rewards to recognise ambition. This is even an area that companies could self-assess in the first instance, with the ambition rewards then dialled back if Ofwat has to revise the self-assessed score – giving companies real encouragement to self-assess accurately in the first place.

We see that this two-pronged approach has the potential to bring other benefits. These include driving home the message that quality is important whatever the level of ambition, while allowing companies to match the ambition of their plans with customer priorities, preferences and affordability constraints. This openness to different levels of ambition is likely to be particularly helpful given just how much affordability and socio-economic challenges can differ from one company to the next – some that we are acutely aware of given the levels of deprivation and the number of social mobility cold-spots across our patch.

### Q5.6: How might we set cost sharing rates at PR24? Should we consider an approach based on our ability to monitor companies' asset health status?

We think that the current 50:50 totex sharing approach for Hafren Dyfrdwy is working well. It provides a very simple and balanced approach that successfully manages downside risk while making sure that we have strong incentives to find and deliver cost efficiencies.

[1] https://www.esc.vic.gov.au/sites/default/files/documents/Water-Pricing-Framework-and-Approach-Final-Paper-Oct-2016.pdf

**Q5.7: Which areas should we be considering targeted challenges for at PR24, and why?**

Our experience as a small company is that targeted challenges absorb highly significant amounts of resources and management focus. If Ofwat plans to introduce more targeted challenges at PR24, then we suggest it should consult with customers to see whether they support them and in which areas they'd like to see them applied.

If we are to have new targeted challenges at PR24, especially if they are to come on top of the existing one for leakage, then it's absolutely critical to make sure companies are funded to deliver the expected improvements in performance and that the funding recognises the extra challenge for small companies to step it up alongside the bigger players. Given how targeted challenges pull in resources and management focus, there's a significant risk that we see undue strain on these in a way that impacts our overall ability to keep delivering for customers.

For us, the other key takeaway from the leakage challenge is that the targeted challenge must relate to an area under the direct control of the company. Sewer overflows might therefore be suitable, if improvements are funded and there's recognition that water companies alone do not control river water quality, with agriculture and road surface run-off also having large impacts.

An example of where a targeted challenge would not be appropriate is PCC, because companies would need to persuade and encourage another party (in this case household customers) to take action. In other words, an area where companies are one-step away from the apex of the issue. The impact of covid-19 has shown that despite the very best efforts of companies, external factors can drive very different outcomes that are far beyond the control of companies – at the very least in the short-run. If the targeted challenge were to be about improving non-household efficiency of use, this could prove even trickier as companies are effectively two-steps away from the apex. Not only would they be trying to persuade customers to become more efficient, they would in practice be trying to persuade someone else's customers.

**Q5.8: Should we use innovation specific incentive mechanisms at PR24? If so what would these be, and what would they add in addition to the other mechanisms outlined in this chapter?**

To our mind, innovation is crucial for transforming services and helping us address complex environmental challenges sustainably and cost-effectively. Even with the innovation incentives put in place at PR19 getting off to a very good start, we agree that it's a little early to judge overall success. Overall, we support the use of use innovation-specific incentive mechanisms at PR24 and that these should look to build on and learn lessons from what was done at PR19.

One way to do this would be to adopt a version of Ofgem's stratified approach to innovation. On top of a central strategically-focused innovation fund like the one we have, Ofgem also provides companies with their own dedicated innovation pot to fund smaller technical, commercial, or operational projects directly related to a company's regulated business. The advantage of this approach is that it provides more fleet-footed and more innovation-focused companies with an extra opportunity to harness innovation for the benefit of customers.

**Q5.9: In what ways might we promote the themes of EBR through PR24?**

We think that the most pragmatic way for promoting EBR is to adopt an *ex-post* approach, as this would give companies the freedom to decide how best to more forwards as ethical businesses and give them space to innovative in this area. The *ex-post* approach would then allow companies to be judged by their track record in this area, perhaps as part of the wider track-record decisions on whether or not to give the company a lighter touch price review.

## Chapter 6 – Reflecting customers' preferences

### Q6.1: What are your views on the merits of our proposals for a collaborative approach to standardised and/or nationwide customer research to inform company business plans and our determinations?

Smaller companies like Hafren Dyfrdwy face a challenge to ensure customer engagement for a price review is proportionate. To achieve robust sample sizes in research, a small company will have no choice but to engage with a relatively high proportion of customers, compared with larger water companies. This means that the cost of research per customer can be relatively high, and we need to make sure each piece of research is cost effective and as gives as much actionable insight as possible. Added to this is the fact that we cannot easily undertake research online (because the coverage of online panels is too sparse in the region) and have to cater for the different audiences in our customer base (both a significant number of water only customers and relatively few combined service customers).

We support the principle of a collaborative approach to some of the research for the price review. For smaller water and sewerage companies (such as Hafren Dyfrdwy), or in regions customers are served by different companies for their water and sewerage services, this is particularly relevant. We see that it could represent a more proportionate and cost effective way of reflecting customer preferences with timely, focused research on the issues that are material and meaningful, and that customers have genuine scope to influence.

### Q6.2: Do you have any suggestions for how we best implement the collaborative approach to customer research for the price review?

In order for a collaborative approach to be successful we believe we need to rapidly develop a common understanding of:

- what is included in the common research (and what companies will need to conduct their own local research on);
- the purpose of the research (what we will be using the outputs for in the business plans – this is critical for the research design);
- who undertakes the research and whether it's national, regional or local;
- appropriate governance, such that each company has the opportunity to influence the research design;
- the role of assurance and challenge (see Question 6.4); and
- timescales, so that companies know when results will be available to integrate into their business planning processes.

This is particularly important for a small water and sewerage company like Hafren Dyfrdwy where the collaborative research could form the majority of the research for PR24, supported by wider customer and community engagement.

At the workshop on 28 June Ofwat presented a number of topics that could form part of a collaborative approach:

- Overall current, and long term priorities
- Policy – explore whether customers want to inform our decisions
- Valuations of service improvement / deterioration and other PC/ODI parameters
- Affordability concerns
- Plan acceptability

We agree with Ofwat that understanding the end use of the research is key to determining the scope of the collaborative approach.

For example, if the aim of "Overall current and long-term priorities" is to inform the list of common PCs we feel this could be done by analysis and triangulation of existing, including PR19, insight. However, long term priorities for Wales would be an interesting research topic and could support the ongoing national work on a Water Strategy for Wales.

Whilst we accept that customers might have a view on some areas of policy (when care is taken to explain them in a simple and engaging way) we need to ensure that the research is meaningful to customers, for example through deliberative research. For a small water and sewerage company it is often not proportionate in terms of cost to have a detailed discussion on every topic with customers (and there is a limit to how much customers can cover and give meaningful input on in a research session) – national research could be a cost effective way of delving into policy areas where we would otherwise not have the budget to talk to customers about in detail.

For valuation research, we see value in a nationwide approach that has a robust sample for each company. We believe the variability in results would be reduced using a common approach and descriptions and service metrics, but will retain company specific bill levels, current service levels and potentially degree of improvement. It would be beneficial if some minor survey customisation / additional questions can be included so companies can get added value from the research, without compromising the comparability of the results. This is particularly important in terms of (i) understanding areas that may be of specific interest in Wales and (ii) for smaller companies like us, that might have fewer opportunities to run statistically representative quantitative research with customers. For example, at PR19, alongside our valuation questions on the main performance metrics we asked participants separately to rank aspects of corporate social responsibility.

One important consideration will be the methodology selected for the research. We have little online panel coverage for Hafren Dyfrdwy customers and therefore have to undertake research either face to face or on the telephone. This will affect fieldwork timescales and costs, as well as comparability with online research (if an online methodology is used for other companies). Another important consideration is the quantum of service improvement presented to customers in a typical WtP survey – for a small sewerage service such as Hafren Dyfrdwy this might be in the order of a handful of incidents. Research will also have to have the option of being undertaken in the Welsh language, so the research agency will need to be able to cater for this.

Overall affordability and acceptability of the business plan is typically the last piece of research that companies undertake, once the plan and bill levels are finalised. This requires the plan to be communicated to customers in an accessible way. It may prove tricky to make questions about the affordability of future bill profiles meaningful for customers – particularly when components such as inflation and ODI performance are being forecast – and there are many things could affect customers' circumstances over time. The timing of the research is also important – as noted above – so that we get as much value as possible out of any research, we need to make sure that we have the opportunity to respond to it. Following this up with acceptability testing post-submission can provide a helpful 'temperature check' on how well companies are proposing to meet customers' needs. But, as a smaller company, we need to consider if this is a priority research area that delivers meaningful extra benefits for customers – especially given the challenges of undertaking this type of research in a meaningful way (a challenges which is compounded by serving a highly rural area where customers are beyond the reach of digital channels or frequently choose not to engage though these).

### Q6.3: Are there aspects of negotiated settlements that could be reflected in our price review framework?

Ofwat's approach to ensuring customers are represented in price review has focused on driving companies to produce high quality insight with a clear line of sight as to how this has been responded to in business plans. And while we have seen negotiated settlements work in other contexts, given the success of Ofwat's approach to date, and the direction of its PR24 methodology, we don't believe a negotiated settlement is required to ensure customer views are represented.

We are, however, supportive of taking a more collaborative approach to business planning in Wales – and would like to strike a balance that exploits the potential for a common direction and the economies of scale and scope (ie, by creating a 'critical momentum'), while recognising at a local level, it is important that Hafren Dyfrdwy is able to have its own distinct identity that reflects the needs and experiences of the communities we serve.

Achieving this in practical terms could mean:

- Collaborative working – say along the lines of a common water vision for Wales – that considers the strategic direction our industry takes and the longer-term outcomes we want to achieve. This could be underpinned by customer research undertaken at a national (ie Wales) rather than company specific level – given the commonality between the longer term outcomes that we and Dŵr Cymru already plan to achieve, we do not believe there is a strong case to suggest that customer preferences at this level would be significantly different between the two company areas.
- Stakeholder challenge and collaboration focusing on this vision – and how it translates to a company level. As the common vision would draw together a range of different stakeholders, and will likely be underpinned by research, it would make sense for stakeholder engagement and challenge to take place at this level.
- National willingness to pay and acceptability – given Ofwat's proposals, we would expect willingness to pay, and potentially, acceptability testing undertaken nationally, but with a Hafren Dyfrdwy specific sample (reflecting differences in bills and service levels) to drive common PCs and ODIs.
- Company specific insight to drive bespoke PCs. Where there is scope to create bespoke PCs that are reflective of our circumstances and community needs, this would be underpinned by our own specific insight.

On the latter point, as emphasised in our responses to Q6.1 and Q6.2 smaller companies like Hafren Dyfrdwy face real challenges in keeping our research in proportion and cost effective for our customers. While we serve smaller populations, this doesn't usually mean that undertaking customer research is any cheaper. For example, sample sizes required to secure reasonable margins of error do not change proportionately with populations served and we're very much conscious that one of the main drivers of research costs can be the design. It does, however, mean that we have a markedly smaller customer base to spread the costs across.

The upshot is that we have to squeeze as much value as possible out of every piece of research that we do. We've explored the potential of using existing insight (PR19, our on-going tracker, digital and operational data) more effectively. We also use methods that capitalise on our community outreach activities and therefore are more engagement focused – as opposed to representative research – but nonetheless can give us important insight about the communities that we serve.

We believe this approach, beyond contributing proportionately to national research, will help us to secure the best outcomes for our customers without creating a disproportionate cost burden. We would welcome discussing with Ofwat in more detail its views on this.

### Q6.4: What are your views on our proposals for customer challenge of business plans and assurance of customer engagement?

We are very supportive of Ofwat's proposals to move to a guidance-led approach for making sure that companies' business plans undergo appropriate assurance and challenge.

In Severn Trent's response, it highlights the importance of distinguishing between assurance, challenge and stakeholder consultation. We also believe that this is an important distinction to make.

As set out above, in the context of Wales, effective challenge of plans can most efficiently be secured if stakeholders are involved in the development of a common vision, the research that underpins it, and how that then translates into each company's plan. This could involve using a Wales focused forum, to offer the same quality of challenge as a separate CCG, but do so more efficiently by avoiding duplication and focusing on areas of materiality.

The policy context in Wales also offers the opportunity for broader partnership working and collaboration. For example, the Well-being of Future Generations Act offering a point of common interest between us and Public Service Boards.

We are also supportive of the need for assurance of customer engagement – but again, as it can require significant resources – we would strongly urge that a proportionate, risk-based approach is taken. Assurance of research should carefully consider the complexity of research and its potential to impact customer outcomes. In the case of the outline model we have set out in response to Q6.3, we would expect most of this type of research to be undertaken nationally.

### Q6.5: What are your views on whether we should develop minimum standards or provide guidance in other areas?

We are supportive of Ofwat's approach of developing minimum standards, but as a smaller company would again emphasise the importance of materiality and proportionality.

We are supportive of Ofwat's draft minimum standards for high quality research (Annex 1) and we would welcome involvement in the sector-wide process of refining and agreeing these. We strongly agree that all customer research should be high-quality, meaningful, inclusive and fit-for-purpose. We concur that methodologies and samples should always be appropriate to research objectives, that participants understand both what is being asked of them and how their views will be used. We agree it's sensible for companies to check-in on customer opinion and monitor trends regularly that than just at price reviews.

We concur that customer research should be judged on its quality, rather than the number of projects undertaken or the length of reports. This is particularly important for smaller companies where the cost burden of research is spread over a relatively small number of customers. So that we all help foster genuine collaboration and innovation, we agree it would be useful for companies to share a synopsis of their customer research findings (with questionnaires, stimulus materials etc. available on request) well ahead of the business plan submission date. This would give a much wider evidence base for the sector, which would be particularly useful to us small companies and would more proportionate approach than having to publish all research. And as a smaller company, where appropriate, we would want to draw on the research of other companies and wider organisations to support our plan.

We agree that customer research findings should always provide relevant details about the methodology and sample. If Ofwat has view about the maximum acceptable margin of error for surveys and any quotas, then it would help us greatly to have this set out in the guidance and for it to be kept proportionate to the circumstances in which the research is being used. We would also welcome extra clarity on the evidence that Ofwat would expect companies to show that their research design is free from bias.

With respect to customer challenge of the delivery of commitments, the (i) strong governance, (ii) effective independent assurance, (iii) financial incentives, (iv) reputational incentives (v) transparent reporting, and (vi) regulatory oversight (from Ofwat, NRW, DWI and CCW) that are already embedded within the robust regulatory framework, have proved to be highly effective at driving performance improvements. We would welcome guidance that captures these already effective measures in a way that does not introduce new reporting burdens.

### Q6.6: How well does our proposed approach to customer engagement take appropriate account of the different regulatory frameworks in England and Wales?

As we set out in our response to Q6.3, one key benefit from Ofwat's guidance-led approach is the flexibility to account for the different policy and stakeholder contexts between Wales and England.

## Chapter 7 – Planning together for PR24

### Q7.1: How can we ensure that companies bring together the outputs of the strategic planning frameworks in the most coherent and effective way for business plans?

We would welcome more integration between the long-term focus of the WRMPs and DWMPs with the regulatory business plan. A useful step to achieving this would be for the need for long-term schemes to be agreed in the WRMP and DWMP and the focus of the price review being on establishing the cost-efficient way of delivering these schemes.

### Q7.2: What are your views of our thinking on our and companies' roles in engaging with other regulators between business plan submission and our issuing of the final determinations?

We consider that it is a company's job to engage with all our regulators as we develop our plan to make sure our proposals are delivering our statutory requirements and also to understand their views on where we are going beyond our statutory requirements to deliver additional benefits supported by our customers. While it is a matter for Ofwat's discretion, we would support you engaging with the other regulators after we have submitted our business plan to inform your price review analysis. We do think that the collaborative forum in Wales is also a useful vehicle for discussion and challenge during the assessment phase of the price review. Our experience at PR19 was that a multiparty discussion was an effective and positive way of exposing and working through areas of disagreement or uncertainty.

**Q7.3: How could we best involve a 'PR24 Challenge Panel' in the price review process to help ensure that our decisions best reflect the interests of customers, communities and the environment?**

We are supportive of engaging expert challenge on our plan to make sure that we are making the most of opportunities to deliver better outcomes for our customers and the environment – and this extends to Ofwat doing the same. We also believe that transparency, combined with the opportunity for others scrutinise and challenge decisions more generally, are crucial tenets of price reviews.

Ultimately, it should be at Ofwat's discretion as to how it engages this challenge – particularly if it chooses to do so before draft determinations – but we suggest the terms on which challenge is being requested and how Ofwat would propose to respond, should be transparent to everyone. We also suggest that Ofwat might want to engage with Ofgem on its lessons learned from its RIIO-2 Challenge Panel.

## Chapter 8 – Design and implementation of price controls

**Q8.1: Do you agree with, or have any comments on, our general approach to the design and implementation of controls, ie to retain separate controls with the same broad structure as at PR19, but with improvements to our implementation?**

We support separate price controls where they provide benefits to customers that are greater than the additional cost and complexity they bring.

We consider that because bilateral water markets will not apply in Wales you could simplify the price controls for Hafren Dyfrdwy by having only one price control for water covering water resources, raw water distribution, water treatment and treated water distribution.

We also think there's a way to further simplify the price controls by dropping the "*K*" factor from the revenue controls and setting them all as revenue controls. Ofwat already sets the retail and bioresources price control without using K factors.

**Q8.2: Do you agree with, or have any comments on, our proposals for specific parts of the value chain, ie for water resources, developer services, residential retail and business retail in Wales?**

We discuss the five parts of the value chain relevant to Hafren Dyfrdwy in each sub-section below – water resources, bioresources, developer services, residential retail and business retail for Welsh companies.

**Water resources**

We support RAPID's work to accelerate the development of new strategic infrastructure.

On the bottom of page 76 the consultation document mentions additional interventions if water companies show insufficient ambition to developing water resources. We think additional interventions are unnecessary because water companies have strong incentives to develop water resources, which are a fundamental part of their business. We would also highlight that the apparent level of ambition is likely to differ across companies depending on the extent of the climate change and population growth challenges that they are facing, and the potential for water trading more widely.

In relation to the proposals on the water resources price control, the best approach depends on what Ofwat wants to achieve. If Ofwat is concerned about the effectiveness of cost models and companies not focussing sufficiently on reducing total costs where there are synergies across the price controls Ofwat might want to consider moving back to one water price control for PR24 (covering water resources, raw water distribution, water treatment and treated water distribution). The case for a single water price control is particularly strong in Wales where bilateral water markets will not apply.

Our main concern with the proposed change to the scope of the price control is that there is no explanation of what the regulatory protection for the RCV in the new price control would be. We would like to understand more about the proposed approach through engagement over the coming months.

**Bioresources**

As a company with no indigenous capacity to treat our own sludge, we are keen to see the bioresources market develop effectively and work well.

**Developer services**

We think there are more options than you have discussed in section 8.2.3 for the regulation of developer services and we've summarised these in the table below. As the consultation has recognised site-specific and network reinforcement costs for developer services can be treated differently.

| Type of regulation for developer services | | Site-specific activities (contestable) | Network reinforcement (non-contestable) |
|---|---|---|---|
| 1) | Subject to the network plus price control and in the base econometric models. | Current approach<br>CEPA option 1 | Current approach<br>CEPA option 1<br>CEPA option 2<br>Our proposal |
| 2) | Have their own separate developer services price control and in the base econometric models. | Ofwat considering | |
| 3) | Remains appointed income, but not covered by a price control. | | |
| 4) | Excluded from the price control, regulated through charging rules and subject to a capped regulated margin, subject to their being sufficient competition in the regional market. | CEPA option 2 | |
| 5) | Excluded from the price control and regulated through charging rules. No requirement that there be sufficient competition in the regional market because the charging rules provide sufficient protection. | Our proposal | |

We consider Option 2 (a separate developer services price control and costs in the base econometric models) is unworkable. This is because water companies would be prevented by the charging rules from varying their prices to developers, which would stop companies from being able to recover their allowed revenue or forcing them to over-recover compared with their allowed revenue.

We think there are two separate questions you should consider in relation developer services:

- Is there sufficient competition for a market to determine prices?
- Where there is not sufficient competition, does the single till help to protect developers and other customers?

If the answer to the first question is yes, then this is an argument for removing the contestable element of costs from Ofwat's price controls and econometric models, because we should be able to rely on the market to determine the correct prices (with a reasonable backstop of Ofwat's charging rules).

Where the answer is "no", Ofwat would consider the second question. For the services that are not currently open to third parties, then it is reasonable for Ofwat to apply an efficiency challenge to company costs – ie, keep them within econometric models. It does not follow that the approach to these services should remain the same. We do not think the "single till" is necessary to protect developers from excessive pricing because Ofwat's charging rules already require prices to reflect costs, and the costs have already been subject to efficiency challenge. The effect of the "single till" for these services is to pass a risk relating to variances in capital contributions through the RFI. Because developer charges must match costs, their charges cannot be varied so this risk falls on our customers.

Our suggestion is that option 5 is the best for contestable developer services. We suggest that you take all contestable developer service costs (site-specific) out of the network plus price controls (ie, move from a single till to separate tills[2]) and rely on Ofwat's charging rules for regulating charges to developers. This will promote competition in developer services, allow you to simplify the price controls and to remove the DSRA reconciliation mechanism, which is only required because of the "single till".

**Residential retail**

We consider there is no clear rationale for residential retail being a non-indexed control. We note that in England, the Retail Exit Code protections for small non-households (those most like residential customers), applied an indexing control. The upshot is that for non-household retailers in England, Ofwat has acknowledged the presence of inflationary pressures and that the simplest way to deal with these was by indexing costs in line with CPIH. The logical inference that we would draw is that, if inflationary pressures are still present in a highly competitive market like non-household retail in England, then we would expect these pressure to extend right across the retail market in Wales and England.

We think a really beneficial way to simplify the retail control is to place it on the same footing as wholesale – it could then be combined within the Revenue Forecasting Incentive and we allow us to assess variances in revenue for each service as a whole. We also think that this something that can be done whether or not the retail control is indexed.

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[2] There are a number of other sources of income that are appointed but are not added to the revenue control for the purpose of the RFI; the most significant of these is bulk supplies. Ofwat deducts a forecast of third party income from the revenue requirement that has to be funded by other customers. The company then takes the risk relating to variances in this income stream between price controls.

If Ofwat did not add developer services contributions to the revenue control, they would still be taken into account as a contribution to appointed cost it is just that (i) they would not be counted in two places, and (ii) customers would not bear the risk of variances from forecast between reviews through the RFI.

For retail variances to be considered within the RFI, it would only be necessary to allocate retail revenues between water and wastewater so that they could be aggregated with other income from the service. If variances were considered in this way, there would be two side effects:

- It would convert the retail reconciliation to an in-period effect.
- Variances in retail revenue recovery would be adjusted for inflation (even if the base level of revenue in the control was not indexed).

Even if Ofwat chooses not to index residential retail, we think that the second effect is very small and should be accepted for the sake of simplicity.

At PR19, Ofwat's methodology envisaged that a separate retail price control, "…*will promote innovation and great customer service by facilitating competition for all eligible customers*…[3]" Given the policy landscape in Wales around retail competition for both household and non-household customers, there would seem to be much less of a need for companies in Wales to have a separate retail price control – to the extent that we would recommend rolling the retail and wholesale controls together. As a very small company, this would be particularly helpful simplification. In the event that such a merger is a step too far, at the very least, we would ask for our two retail controls (household and non-household) to be merged into a single control. An example of the challenges that comes with having six price controls as a small company is that even very small financial amounts can represent significant percentage differences against the price-controlled allowance.

**Business retail for Welsh companies**

Similar to our view on residential retail, we consider there to be no clear rationale for business retail having a non-indexed control. We note that in England, the Retail Exit Code protections for small non-households (those most like residential customers), applied an indexing control. The upshot is that for non-household retailers in England, Ofwat has acknowledged the presence of inflationary pressures and that the simplest way to deal with these was by indexing costs in line with CPIH. The logical inference that we would draw is that, if inflationary pressures are still present in a highly competitive market like non-household retail in England, then we would expect these pressure to extend right across the retail market in Wales and England.

Again, as for residential retail we would recommend rolling the retail and wholesale controls together. Merging the residential and business controls should not lead to an expectation that business customers using up to 50,000 cubic metres of water have the same cost to serve as residential customers. We note that for customers using up to 500m$^3$, the REC provides an indexed cost allowance that is around 50% higher than we were allowed at PR19 for customers using up to 5,000m$^3$ and more than twice our allowance for household retail. In our view, consistency is important here across both (i) household and non-household retail, and (ii) non-household retail that's in the market and out of the market.

### Q8.3: Do you agree with, or have any comments on, our proposals spanning multiple parts of the value chain, ie for major projects and future reconciliations?

We think there is a lot of merit in developing a projects pipeline that could include allowing major projects to be brought forward and funded at any time, not just at price reviews. This would enable Ofwat to determine such schemes outside the price review, allowing time for a more detailed

[3] Ofwat (2019), "Delivering Water 2020: Our final methodology for the 2019 price review", p124.

assessment of large investments and avoiding being constrained by the price review timetable. Ofwat could then check cost efficiency and customer protection at later review points, without having to revisit the approval of the project. Such an approach could hasten the delivery of long-term benefits for customers and the environment from those investments that take longer than five years to deliver efficiently.

We support you exploring whether the Infrastructure Provider could be awarded a project licence under the Specified Infrastructure Projects Regulations (SIPR) model and whether this would provide more benefits for customers than Direct Procurement for Customers (DPC).

## Chapter 9 – Outcomes

### Q9.1: What kinds of performance commitments should we include in the price review? What outcomes require financial incentives for all companies for the foreseeable future?

The outcomes regime has been a success. It has aligned the interests of companies with those of customers by incentivising improvements in service. It also encourages companies to reveal the level of improvement that is possible. The previous penalty-only regime delivered static service levels as companies only had incentives to hit targets, and to keep those targets the same. A symmetrical system of rewards and penalties has been critical in delivering this.

For a small company like us, we think it could be appropriate to have fewer performance commitments in order to allow proper focus on a few key measures. This is not an argument for aggregating a great many indicators into a broad one – this would not simplify matters. For example, if we relied on a broad measure, such as the amount of water we abstract from the environment, we would still want to know whether that was the right amount by measuring how much was lost to leakage, how much was delivered and whether customers are encouraged to use it efficiently. Rather, we think that PCs should stay connected to key indicators that are (relatively) easy to measure.

The key issue for us is measuring and calibrating incentives. Given the size of our two services – particularly wastewater – targets for some commitments are set at very low values. For example, we have a target of 1.6 internal flooding incidents which has been normalised on the basis of 10,000 connections. With only around 20,000 connections, a 100% variance from this target does not represent a trend that tells us anything about company performance – it is simply random variation when the numbers involved are so small. We've also found that such swings in normalised performance are extremely hard to explain clearly to customers and stakeholders, and, where measures are penalty-only, the swings can highly skew financial performance. We would suggest that a more limited set of PCs that primarily focus on those areas where our management has a genuine ability to influence outcomes – possibly without a financial element – might be appropriate, particularly for our wastewater service.

In terms of financial incentives, the overall effect of ODI rates on common measures at PR19 was a level of risk for us that was sufficiently heavily skewed to the downside – far more so than for any other company in the sector – such that our final determination needed to give us extra protections in this area. This has implications for the simplified approach planned for PR24, as it'll be important to make sure that the approach allows our rates to be set in a way that gives us a balanced package of risk and reward from the outset and recognises that rewards play a primary role in driving companies to innovate and deliver step-change service improvement for their customers. With Ofwat's plans for collaborative customer research in Wales, our hope is that this boosts the prospects of just such an outcome

More generally, we think that research has tended to reveal the same top customer priorities: water that is good to drink (quality), a reliable supply and wastewater being taken away safely.

**Water quality -** the DWI has only recently brought in CRI as its key measure and this is likely to remain for the foreseeable future. Severn Trent also has water quality complaints, which is a more customer-driven measure.

**Reliability of supply** is a more complex area. There are measures which describe the customer experience (interruptions, low pressure) and also indicators regarding whether the company has sufficient security of supply (risk of restrictions in a drought). Resilience measures are a related area, dealing with the risk of customer supplies being interrupted.

**Wastewater taken safely away** – the key customer-facing measures relate to sewer flooding. As the most serious service failure a customer can experience, these should remain in some form – whether separate internal and external measures as at present or some form of combined measures which takes account of consequence. Customers are also concerned about pollution events even if they do not experience these directly.

Research helps inform the types of performance commitments that have enduring importance to customers, and which should be maintained into the foreseeable future. But customer preference should not be the only thing that determines whether a financial PC should exist. There are risks to service in the future which will not be obvious to customers because they will not experience any effect from them right now. It is important that incentives are also attached to longer term measures so that they are not devalued.

**Asset health** is one example of a long-term outcome which we think should be incentivised. This is not something that will emerge from customer research about their priorities, but when questioned in focus groups customers will say that companies should ensure that their assets can continue to deliver. It is important that companies maintain their assets so that they can continue to deliver for customers into the future; this may not be apparent from service delivery measures such as the number of flooding incidents that have occurred. But measuring asset health directly is not simple – there are things that we can measure and observe, but they are lead indicators rather than being outcomes in themselves.

As discussed above, we think it is better to place a PC against the indicator rather than attempting to construct a basket of measures which comprise asset health for a service. The latter approach still involves measuring the same things but placing some kind of weighting on them to form an overall index – this would be more complex than the existing approach, even if it reduced the headline number of PCs.

**Bespoke outcome delivery incentives**

We understand and support Ofwat's desire to simplify the price control framework where possible. We also recognise that having fewer PCs and ODIs could also increase the focus of the outcomes framework. Nevertheless, they should have a continuing role where companies can demonstrate that they have customer support. National research will only take us so far because the demographics of each company are different; what may be deemed essential by one group of customers will be perceived as a luxury by others.

It's also important to recognise that bespoke PCs encourage innovation in areas such as community engagement and nature-based solutions. A number of companies had bespoke PCs in these areas – for example encouraging water efficiency, discouraging sewer misuse and improving catchment management through engagement with stakeholders. As these often do not lend themselves to common PCs and more standardisation, a reduced scope for bespoke PCs could discourage such innovations. It's also worth keeping in mind that PCs that start out as bespoke are the potential common PCs for the future.

**Longer-term measures**

Individual performance measures can be quite volatile, and there may be variations that are not down to company action. However, over time there will be trends and if Ofwat commits to keep the same indicators this helps address the need for a long-term view.

We do not believe that rewards should be contingent on the maintenance of a particular level of performance in future periods:

- Firstly, this undermines the aim of in-period ODIs. Having rewards or penalties closer to the performance which gives rise to them sharpens the incentives. Since the ownership and management of companies changes over time, it also means that the team responsible for a given level of performance are more likely to deal with the consequences.
- Secondly, if performance is not maintained, then a company will simply suffer a penalty in future periods and, in doing so, negate the effect of any reward. On a related note, it seems highly unlikely that any stakeholders would propose an arrangement where historic penalties could be negated by companies finally catching up on performance after a period of time.
- Thirdly, we have seen that the incentive regime is most effective at driving step-change improvements in service performance for customers when companies can earn material rewards. One of the most powerful aspects of the approach is the incentive created by outperformance payments as these drive companies to innovate and deliver beyond their commitments for customers. Given their impact, we think that it's important that all companies have skin-in-the-game on the outperformance side as well as for underperformance – ideally with symmetrical ODI rates. Our experience is that where the ability to earn rewards is limited or ruled out, this significantly reduces the headroom to innovate and deliver extended performance improvements for customers.

We would support the idea of applying ODIs through the RCV rather than revenue. It could be that revenue-based ODIs give the sharpest incentives, but we are not yet convinced on this given that shareholders consider their total return based on the growth as well as dividends or profits.

In our case, having RCV adjustments would have the benefit of reducing the impact of ODIs on customer bills. Our experience is that the size of our customer base means that very small absolute differences in performance go on to significantly impact charges – a particularly relevant consideration for those areas that could be better resolved over the long term. It's also worth keeping in mind that where companies have a need to spend in order to deliver improved performance, it may help that a proportion of ODIs still comes through the revenue channel – as this will make sure companies are not be deterred from delivering improvements because of constraints on cashflow.

**Q9.2: How do you think we should monitor outputs that are not clearly linked to the outcomes incentivised in the price control? Would it help to distinguish between PCs that monitor outcomes and PCDs that monitor outputs? What other options could we consider?**

We support the concept of Price Control Deliverables (PCDs). These are essentially mechanisms to deal with uncertainty, whether it is the volume required or the need for particular investments. Our view is that these should neither be treated as revenue like ODIs or neither considered part of the Return on Regulatory Equity, given the reality they are just recovering cost.

Another point which distinguishes PCDs from ODIs is that PCDs are really dealing with an output rather than an outcome. The advantage of separating them is that it avoids confusion about what they represent, and unintended interactions with mechanisms that are designed to deal with ODIs. For example, PCDs should not contribute to the overall cap on incentives, otherwise this risks the perverse consequence of a company delivering a large output but then being unable to earn the expected rewards for delivering great service.

It may also be helpful to consider how we report against PCDs. We see a need for an important nuance around the term “deliverable” given that a company could have a PCD that is designed to deal with uncertainty that has not arisen. The aim here should be to avoid having to report a “deliverable” as off-target when an uncertainty has yet to materialise.

PCDs can be flexible enough to deal with different types of output. Some could be linked to a unit of output and allow for in-period variations in volume. Others could be wholly end-of-period, linked to the delivery of particular outputs or allow for an element of funding within the control period with a true-up at the end. They do not necessarily need to be tied to a particular output – for example, they could also be framed so that they describe the outcome of a scheme (eg, a volume of water). The company might deliver then have scope to develop a more efficient alternative which delivers the same outcome was the original scheme envisaged in its business plan.

At PR14, Dee Valley had one such ODI which was linked to the delivery of the *outcomes* of the Legacy scheme rather than the specific project that the company had put forward in its business plan. The outcome was delivered using a more cost-effective alternative; in our view this is an example of the outcomes regime working in the way that it should.

We also see potential for PCDs to be set up as multi-AMP funding vehicles for those large projects that do not end neatly-in-line with the five-year cycle. This would fit well with the overall aim of taking a longer-term approach.

**Q9.3: Do you consider there are aspects of company performance where it would be better not to set expectations as part of the price control? What approaches should we consider in these cases, so that companies act in the interests of customers?**

Price controls are mostly concerned with the revenue that companies need in order to deliver the outcomes that are required of them. From this perspective, where PCs have a financial reward or penalty these need to be clearly considered within the control, because the company needs to understand the level of risk that it is taking on before it agrees to a determination.

Reputational outcomes, while still important, can be considered outside of the price review. There are many aspects of company performance that can be measured and compared without these needing to form part of the price-setting process. Companies are still motivated to improve in these areas and do measure their performance relative to their peers – the incentive to improve will remain whether these are part of the package or not.

**Q9.4: What should be our aim in setting the levels of performance commitments? Do you agree with the proposal that performance commitment levels should be set, as a starting point, at what can be achieved by an efficient company with base costs and that deviations from this are proposed in company business plans? If not what alternative proposals should we consider?**

In principle, we think it could be a good idea for Ofwat to set out its view as to the level of performance that can be delivered by an efficient company. In practice, this process could be quite complicated. Ofwat needs to avoid the construction of a "perfect company" when establishing its baseline view – in other words, a company that has Upper Quartile costs and UQ performance on all measures. In our view this happened – to some extent – at PR19, with UQ costs from econometric models being combined with a UQ level of ambition from company plans.

Any baseline should be grounded upon evidence of what at least one real company in the industry is actually delivering – although building realistic baseline PCs will be will need to extend beyond simply picking one company as the benchmark. In practice, it's likely that efficient companies will have UQ performance on some measures but not others. Our understanding here is that the service level an efficient company can achieve for a given cost vary across companies due to a number of factors, such as weather differences, raw water quality and population density. To present a realistic view, Ofwat would need to place a value on the measures where the company was not performing – that is, it would need to compensate by either:

- allowing for the extra cost of bringing all measures up to the UQ within the base cost;
- setting some targets below the level being achieved (or which could be forecast as achievable) by the benchmark company, in order to recognise that there are other aspects of performance where it needs to catch up.

Both of these approaches require some kind of assessment as to the relative value of different performance commitments. The first requires some modelling of the cost to deliver PCs, which Ofwat is considering as part of its cost assessment workstream. Balancing using the latter approach could be done using either the cost of delivery or perhaps the value that customers place on the improvement. We would be happy to work with Ofwat as it develops its approach to target setting.

When it comes to the early view of the common PCs package, timing is key,, so that we can focus our research on the gaps and avoid overlaps. If any new PCs are required, we would also need these defined so that we can begin shadow reporting. For bespoke PCs, we don't think prescriptive guidance is needed – rather it will be beneficial to allow companies the space to innovate and put forward measures that have customer support.

Given that the targets need to be available for companies to prepare their business plans, we expect that Ofwat will have to base their assumptions on data drawn from APR 22. In terms of timing, we'll need to have this by the time that the final methodology is published. The national customer research would also need to be available at this point, so that companies have the value they need to assess the risk that they are taking on, and any claim for costs to deliver unfunded improvements in performance. For context, it's worth noting that when companies undertook research for ODIs at PR19, establishing targets and values went hand-in-hand –a clear sign that these elements are all connected.

**Q9.5: What approach should we take to setting ODIs? How should we take account of marginal costs and marginal benefits in setting ODI rates? What are the risks and benefits of the approaches that we set out, or any others that you propose?**

We welcome Ofwat's efforts to simplify price setting where it can and we understand the difficulty that was presented by large variations in the industry's view of marginal cost. There was also a wide variation in company assessment of customer valuations, but if these are set using national research it should overcome this problem. Indeed, if Ofwat is setting incentive rates ahead of plan submissions, we think it is probably necessary to adopt this kind of approach to make this process manageable.

On the other hand, the framework document discusses whether performance levels can be taken into account within cost modelling. As we have discussed in response to Q9.4, it may be necessary to have a view about the incremental cost of delivering UQ performance when constructing a plausible view of what an efficient company can deliver within base costs. So, while it may be helpful to break the mechanistic link between marginal cost and incentive rates, it will be important to keep sight of the fact that improving performance has a cost. Companies will still need to have a view of this, in order to evaluate the implications of the Ofwat targets and any cost claims they may wish to make.

## Chapter 10 – Cost assessment

We welcome Ofwat's commitment to building on and refining its cost assessment process used at PR19. Econometric models have been shown to be effective for the assessment of repeating and comparable costs where the logic can be demonstrated. This needs to be supplemented by appropriate review of business cases where use of models is not suitable. Given that we are a small company we think that this is particularly important as there is a greater likelihood of being seen as an outlier relative to larger companies where there is greater opportunity to average out atypical local circumstances.

As at PR19, we look forward to constructively playing our part in this process by actively supporting the cost assessment working group. With respect to the tabled consultation questions, we make the following collated summary points.

**Q10.1: What should be the priorities for improving our approach to cost modelling and assessment?**

**Q10.2: In what areas (both historical water sector and external) can we improve the range of benchmarks we use in cost assessment?**

**Q10.5: Where can we enhance our evidence base on the relationship between costs and service?**

**Appropriately accounting for our scale when developing models and generating forecasts**

The cost assessment and modelling approaches used in price setting will logically need the ability to account for a wide range of company scales and circumstances. Our cost base (and particularly our wastewater service) is much smaller than other price-controlled companies. However, given that our historic costs and cost drivers are genuine observations, we think that they should be reflected in the process when our regulatory cost baseline is being forecasted.

Where industry-developed econometric models are to be used, our small scale relative to the majority of the other modelling observations (particularly wastewater) will increase the risk that models do not accurately predict our efficient future costs. At PR19, costs were forecasted for Severn Trent group and with an appropriate split then made between Severn Trent and Hafren Dyfrdwy. Whilst the two companies have separate costs and cost drivers, such an approach may remain pragmatic, or form a very useful cross check. Alternatively, potential scale related issues might require the use of post modelling adjustments.

**Modelling / efficiency challenge improvements**

We strongly consider that the cost:cost-driver relationships inherent within models selected for PR24 cost assessment should be:

- aligned with geographical, engineering and economic expectations;
- evidence-based; and
- remain relevant in the future.

We are particularly keen to stress how sensitive the modelled totex outcome is to the way density is accounted for. There is clear engineering logic that costs are effected by population density in a non-linear way – with elevated costs being incurred at both extremes of sparsity and population density. This can also be supported by empirical and modelling evidence. We consider that this will be particularly acute and material for us given the make-up of our supply area. Following representations at PR19, this was appropriately addressed by adding a quadratic density term. Using extra sparsity variables were also considered. Testing the effect from different methods of accounting for density had a major impact on potential totex that the econometric models forecasted for us. We recognise that this sensitivity may be unique to us, given the size and attributes of our supply area. However, it is something that we think is extremely important to keep-in-mind during the cost assessment process, particularly when considering the post-modelling adjustments.

We think that the ability of models to reflect future costs should be objectively reviewed. This should consider (i) the impact of long term external pressures on cost drivers (such as climate change), and (ii) shorter-term industry fluctuations in investment that are not likely to reflect efficiency (eg reductions in capital expenditure due to Covid-19). Econometric model performance should also be considered when defining the size of catch-up efficiency challenges.

The cost assessment approach also needs to link with the wider price review framework. We think that costs driven by legitimate variations in performance should be appropriately acknowledged. Given the likely complexity and endogeneity issues of potential modelling solutions, use of post modelling adjustments feels like a sensible and pragmatic way forward.

We welcome the idea of releasing econometric models in advance of company business plans. Alongside this, we would highlight that the timing and definitiveness of the published models is important if we’re to realise the anticipated benefits of early release.

**Q10.3: How can we take account of longer-term ambitions such as delivering net zero and increasing public value in our approach to assessing costs?**

**Q10.4: Do we need to amend our cost assessment approach to take account of nature-based solutions?**

**Q10.6: What mechanisms should we consider for the efficient funding of performance levels, set in a long-term context, that vary from those an efficient company would deliver through its base allowance?**

**Q10.7 – Is there more that we need to do to reflect future pressure on operational resilience in our approach to cost assessment?**

**Q10.8: Are the most significant challenges to the operational resilience of the sector adequately captured within current strategic planning frameworks?**

**Q10.9: How can we strengthen incentives for long-term operational resilience and improve the assessment of resilience enhancement expenditure while continuing to protect customers' interests?**

**Allowing for resilience and long-term cost requirements and incentivising innovative / sustainable delivery methods in the cost assessment approach**

Our view is that cost assessment incentives should prioritise delivering whole-life benefit to customers. We're also keenly aware that some long-term cost requirements will be hard to capture robustly in backwards-looking econometric models. Our thinking is that, where efficient costs are not likely to be allowed for in the models, these costs should be objectively identified with an alternative approach – say a targeted review of business cases supplemented by separate activity-based models where they can be generated. ODI-type incentives could also have a key role to play where modelling remedies are overly complex or impractical.

When it comes to resilience, this can cover a range of different types of expenditure. Examples of this include (i) management of high-impact low-likelihood events, (ii) responding to external hazards, and (iii) making a step change in the underlying risk associated with delivering core services. Therefore, we'd recommend a review of resilience definitions to help improve clarity and comparability, and create a better link with managing asset health and maintenance in the face of changing external stresses.

For long-term resilience and asset health requirements, we think it's desirable to have more effective linkages to external long-term planning frameworks. The upside of this would greater room to assess the efficiency of externally-validated proposals, rather than relying on judgements about the need for investment.

## Chapter 11 – Risk and return

**Q11.1: Are there areas of our risk allocation framework where mechanisms could be added, simplified or removed in a way which would benefit customers?**

We think the following changes to the risk allocation framework could benefit customers.

We support a full pass-through of **business rates** for the 2025-30 period. This would fit with broader efforts to avoid windfall gains or losses arising as a result of taxation changes and would align with the approach taken to business rates in some other regulated sectors, including energy.

We support **removing the references to a K factor in the wholesale controls** because with the development of revenue controls the K factor is no longer required.

We are suggesting removing contestable developer services from the network-plus revenue controls in order to strengthen the market in those services. Ofwat can then instead rely on its charging rules to protect entrants. This would allow for the removal of the **Developer Services Revenue Adjustment (DSRA)**, and so remove the significant complexity involved in applying it.

### Q11.2: How should we improve our use of RoRE risk ranges to provide insights into the balance of risk and reward, and improve comparability across companies?

We support the continued use of Return on Regulatory Equity (RoRE) risk ranges because it forms an important part of assessing the risk-reward balance that companies face. We also support efforts to improve the comparability of RoRE ranges across companies for PR24 by improving the consistency of the RoRE measurement approaches. Finally, we think it would be helpful to explore whether greater insight on RoRE can be achieved through the use of risk measurement tools, including looking at the merits of Monte Carlo analysis.

### Q11.3: Should we index the allowed return on equity, and if so, how ought this to be implemented?

We do not currently have a firm view on the merits of indexing the return on equity. Nevertheless, to justify introducing it, we consider that careful attention would be needed to assess the potential impacts, including increased complexity.

### Q11.4: To what extent should we place weight on a) balance sheet data; and b) index data when setting the allowed return on debt?

For PR24 – as was the case at both PR14 and PR19 – we think it will be appropriate to put some weight on both index data and data on actual debt costs.

We consider index data to have a number of positive characteristics as a basis for setting the allowed return on debt. In particular, it can provide an objective and broadly-based source of information on debt costs over time that does not rely on company-specific assessments of debt costs. At the same time, we note the concern that it may be difficult to capture the key characteristics of water bond issuance in any one index, and that this may mean there is a risk that an index-based allowance is over-generous relative to actual debt costs.

### Q11.5: Should we allow adjustments to the sector allowed return based on company size - and how should this be assessed?

We have committed to not asking for a company-specific adjustment to our allowed return based on company size.

### Q11.6: Should we make different assumptions for the PR24 notional structure compared to PR19, and how should such a change be implemented?

We disagree with the proposal to change the notional company gearing to 55% because if companies need to de-gear during AMP8 this will squeeze the investment that is needed to deliver net zero, tackle storm overflows and introduce more nature-based solutions, which goes against the wishes of our stakeholders and customers. As part of a listed company group, we think the proposal is likely to disproportionately affect the listed company model, which works so well for customers, because of our inability to rearrange debt between HoldCo and MidCo. We would like to work with you constructively on alternative solutions for financeability.

### Q11.7: Do you have any suggestions for mechanisms which could incentivise financial resilience within the price control process?

We will seek to engage constructively with any options that Ofwat seeks to develop in this area.

### Q11.8: To what extent should we further increase the share of the notional company RCV which is indexed to CPIH in our assumptions for the period 2025-30, and how should this be implemented?

We support a full transition to CPIH indexation at PR24, such that 100% of the notional company RCV is indexed to CPIH by the end of the 2025-30 period. We note that approximately 60% of the sector's RCV will be indexed to CPIH by the end of the 2024-25 financial year. We consider it appropriate for PR24 to complete the transition away from RPI, given its long-recognised weaknesses. A big plus is that full transition would also help simplify the indexing arrangements going forward.

## Chapter 12 – Next steps for PR24

### Q12.1: What are your views on the draft timetable for PR24?

We welcome the additional information you have provided about the draft timeline for PR24.

We support you providing initial views on base costs, PC levels, ODIs and financing costs ahead of business plan submission. We see that there's an important balance to strike between having the time to collect evidence and formulate initial views, and doing so in time for companies to update their business plans to reflect the information.

We suggest you **provide the initial views on base costs, PC levels, ODIs and financing costs in October 2022.** In our view this is the latest date that will allow us to make meaningful changes to our business plan to reflect your initial views.

We also suggest that **Ofwat provides the results from its national customer engagement to companies in October 2022.** This will allow companies sufficient time to include the results of the engagement into their business plans and make meaningful changes to their plans if needed.

## Appendix – Examining the boundary of the targeted control for water resources

### Q14.1: How can costs and incentives for the existing water resources control be targeted more effectively?

In relation to the proposals on the water resources price control, the best approach depends on what Ofwat wants to achieve. If Ofwat is concerned about the effectiveness of cost models and companies not focussing sufficiently on reducing total costs where there are synergies across the price controls Ofwat might want to consider moving back to a single water price control for PR24 (covering water resources, raw water distribution, water treatment and treated water distribution). The case for a single water price control is particularly strong in Wales where bilateral water markets will not apply.

Our main concern with the proposed change to the scope of the price control is that, as yet, we do not have an explanation of what the regulatory protection for the RCV in the new price control would be. We would like to understand more about the proposed approach through engagement over the coming months.

**Q14.2: Would amending the boundary to include raw water distribution or to extend it further to include water treatment improve the operation of the control? What are the issues involved?**

As we said in our answer to Q14.1, we are unsure about the motive for expanding the water resources price control. As we also noted in our answer to Q14.1, we can see a case for simplifying the water price control for PR24 by moving to one water price control.

Our main concern with the proposal to change the water price control is that, as yet, we do not have an explanation of what the regulatory protection for the RCV in the new price control would be. We would like to understand more about the proposed approach through engagement over the coming months.