

DRAFT DETERMINATION OF HAFREN DYFRDWY'S IN- PERIOD OUTCOME DELIVERY INCENTIVES FOR 2020-21

Hafren Dyfrdwy response

21 October 2021

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Steve St Pier
Director
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Packsaddle
Wrexham Road
Rhostyllen
Wrexham
Clwyd
LL14 4EH

21 October 2021

Dear Steve,

HAFREN DYFRDWY'S RESPONSE TO THE DRAFT DETERMINATION OF HAFREN DYFRDWY'S IN-PERIOD OUTCOME DELIVERY INCENTIVES (ODIs) FOR 2020-21

I welcome the opportunity to comment on your draft determination (DD) of our ODIs for 2020-21 and the sector overview document.

At Hafren Dyfrdwy we support your vision of a water sector that provides high-quality services that reflect customers' expectations, delivers environmental improvements and continues to provide one of the most affordable water services in the world. While we incurred a small ODI penalty in 2020-21 we are working hard to improve our service performance for our customers and the environment. I had the opportunity to explain our progress and plans to Jonson Cox and David Black during their recent visit to Lake Vyrnwy.

We have the follow comments on the draft determination:

Leakage

You note in the sector overview document that the majority of companies had not achieved full compliance with the PR19 common definition on leakage in 2020-21. You also asked us to quantify the impact of the non-compliant components of our leakage performance commitment.

We have previously informed you that we could not yet estimate the impact of our new unmeasured consumption monitors and whether it would make a material difference to per capita consumption (PCC) and leakage. We now have six months' data from 850 individual household monitors and have installed a further 900 meters in the last two months. It will take some time to build a stable data set and derive new per household consumption (PHC) and PCC results. In the interim we will continue to extrapolate Severn Trent Water results for Hafren Dyfrdwy.

We have undertaken sensitivity analysis recently and found that a 10-litre per property swing in unmeasured PHC has a 0.1 MI/day impact on leakage. This is less than 1% of Hafren Dyfrdwy's leakage performance. Although methodologies are different across Severn Trent Water and Hafren Dyfrdwy, we have made sure that the Hafren Dyfrdwy monitors are representative of our customer base in the region and meters have been installed on this basis. Therefore, we do not expect a significant impact on our reported leakage once our new monitors and data sets are fully up and running.

Performance sharing mechanisms

Thank you for providing clarity on the workings of the Hafren Dyfrdwy sharing mechanisms. We had a different understanding of how the sharing mechanisms work. Specifically, we consider that calculating the outperformance sharing mechanism first and then flowing this into the underperformance sharing mechanism is what is intended in the FD and is also more beneficial for customers. The difference between the two methodologies was small at £600 in 2020-21. As this is a detailed point, we would be happy to engage with your team on the precise calculations underlying the sharing mechanisms if you consider it would be helpful.

Yours sincerely,

James Jesic

Managing Director

Hafren Dyfrdwy