

# Long term delivery strategies and common reference scenarios

## Response to discussion paper from Hafren Dyfrdwy

### Executive summary

We welcome the opportunity to comment on your discussion paper on the role of long-term delivery strategies and common reference scenarios at PR24. We are supportive of the concept and agree that it could strengthen the link and increase transparency between our long term ambitions and the investments we make each planning period.

As a small company we are apprehensive about the burden and cost to customers and think that the way in which it is used, should be proportionate to the risk. This approach focuses on ensuring high quality decision making to avoid unnecessary or inefficient investment. For small companies where large investments are made infrequently, under wide consultation and considerable scrutiny, we don't believe there is a significant risk that needs to be addressed. However, we can see merit in continuously improving our planning approaches through greater focus and structure around the stress testing and understanding of the adaptive pathways. We agree that it is likely to result in greater confidence that as a sector we are responsibly planning to meet future challenges within an uncertain world. We feel it is important that our customers receive benefits that are proportionate to the costs incurred from doing the additional analysis – particularly where the scenarios are less applicable to our region.

We recognise that you are seeking ideas and comments about how best to integrate the concept into the price review process rather than the concept itself. We are responding in the spirit of this and have focused our comments around ensuring the guidance reflects policy in Wales and offering suggestions for how it could be applied at PR24 in a proportionate way.

We do not consider any of the information in this response to be commercially confidential.

### 1.0 Applicability in Wales

We are supportive of the suggestion that in Wales the vision and ambition could be developed through the 'collaborative approach in Wales' and that there could be scope to define the common scenarios differently to ensure their applicability in Wales.

We think this would be a positive step forward given the common scenarios are less relevant to the risks facing our region. This means we will have proportionately high amounts of enhancement investment (albeit low in absolute terms) that are not very sensitive to the common scenarios. The implication of this is that we will incur the administrative burden of doing the exercise but customers will receive limited benefit from the information. The areas which are likely to drive investment and our adaptive pathways include:

- Welsh Government policy and the direction that will be set out in the Strategic Priorities and Objectives Statement for Wales. We anticipate the areas driving investment are likely to centre on reducing lead pipes and over the longer term addressing risks associated with private supplies;

- Environmental ambition, with particular focus on biodiversity, river quality, protected areas and the wellbeing benefit linked to environmental improvement (driven by Well Being of Future Generations Act) – none of which are currently covered in the environmental scenario; and
- Local factors – in particular, the low population density/ rurality and the issues that creates for service areas like supply interruptions and pollution. Although we fully appreciate the fact that common scenarios are not intended to reflect local drivers.

Demand as defined as population growth is unlikely to drive material investment. It is likely that we will see increased demand as a result of the North and Mid Wales growth plans, but this will relate to transient demand driven by increased tourism which will not be reflected in the local authority population growth figures.

We are also concerned about the definition of the low climate change scenario. This is particularly concerning given the suggestion that the low scenario should be the default starting position. The water resource guideline for Wales requires either the use of RCP8.5, or the use of both RCP8.5 and RCP6.0 in an adaptive plan. Use of RCP2.6 is not permitted under the guideline for the Welsh companies.

## 2.0 Suggestions for proportionate application at PR24

There is already a clear alignment with several of the criteria within the assessment gates used by Ofwat for assessing cost adjustment claims and enhancement deep dives. We believe this is the best way to use any assessment of the quality of our long term strategies or adaptive planning. It removes duplication between tools that might otherwise be created. It also means that the quality of the submission would only be assessed for companies who are proposing material enhancement investment. Ofwat could consider supplementing this with an additional procedural incentive in terms of the level of reporting in period, based on an assessment of the quality of the case. It would be useful to reflect on the impact of the procedural incentives that formed part of the conditional allowances set at PR19, which included an enhanced regulatory reporting for some companies.

We do not think it should be used as a pre-qualifier for fast track status or as an arbitrary cost penalty. Mainly because of the degree of subjectivity and lack of definition of what good looks like. But also because “good” also means fit for purpose – both in terms of the level of investment being justified by the analysis but also in terms of the maturity of any data to enable more robust and complex computational methods. This is particularly important for small companies to ensure we are not unfairly disadvantaged for using suitably simple approaches where it is appropriate to do so. It is clear from past examples of assessment of good practice that smaller companies are less able to achieve high scores because we do not need to use the complex tools that are considered to reflect leading practice.

The document states that the adaptive plans will only be triggered at price reviews – for most investment areas we agree that 5 years is an appropriate time period to reflect changes. However we feel this new approach provides an opportunity to consider if there are a small number of areas where it is in customers interest to trigger adaptive pathways in period e.g. where there is urgency for action, where investment spans multiple AMPs or there is a clear disadvantage for delaying a decision. Given the emphasise on collaborative planning in Wales this flexibility could remove the existing barriers around misalignment of funding cycles between partners.