

October 2022

# **Draft determination of Hafren Dyfrdwy's in-period outcome delivery incentives for 2021-22**

**Ofwat**

## About this document

This document provides our draft determination on the extent to which the price controls included in our [PR19 final determinations](#) need to be adjusted to reflect Hafren Dyfrdwy's performance for the 2021–22 charging year, under [Part 3A of condition B](#) of the company's licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations).

The specific adjustments, and our reasons for these, are set out in this document and in our [Sector overview: Draft determinations of in-period outcome delivery incentives for 2021–22](#).

We also publish models related to our draft determinations on our [website](#).

We welcome your views by 21 October 2022. We will make our final determinations by 15 November 2022.

## Background

At the 2019 price review (PR19), companies' made performance commitments, or pledges, to their customers and stakeholders about the service levels they would meet to make progress towards their outcomes. Hafren Dyfrdwy's performance commitments for the 2020–25 period are set out in [PR19 final determinations: Hafren Dyfrdwy - Outcomes performance commitment appendix](#).<sup>1</sup>

Each performance commitment has an outcome delivery incentive (ODI) that provides either financial or reputational consequences for companies of outperforming or underperforming their performance commitments. Many of the financial ODIs are paid during the 2020–25 price control-period. The reason for this is to bring payments closer in time to when customers experience a given level of performance. The remaining incentives are paid at the end of the period.

ODIs act as an incentive for companies to deliver their committed levels of performance, returning funding to customers for foregone benefits if they deliver less than is expected. Companies that go beyond and deliver greater benefits than expected to customers and the environment can receive outperformance payments.

Hafren Dyfrdwy reported its performance against these performance commitments in its annual performance report (APR) in July 2022. We have considered this information and,

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<sup>1</sup> We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, in accordance with Annex 2 of the company's performance commitment appendix. Annex 2 provides for changes and corrections to be made to performance commitment definitions during the 2020–25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

where necessary, further information from companies' answers to our queries. In our draft determination we set out relevant adjustments to the company's price controls, for one or more future years, in accordance with Part 3A of Condition B of each company's licence.

We will make our final determination by 15 November 2022. These will affect Hafren Dyfrdwy's customers' bills from the 2023-24 charging year.

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' Per Capita Consumption (PCC) ODI payments for the 2020-21 to 2023-24 charging years to the end of the 2020-25 period. We set out this decision and the reasons for it in this [decision document](#) which we published after having considered stakeholder responses to our July 2021 consultation.

## Executive summary

Having assessed Hafren Dyfrdwy's performance against its performance commitments in 2021-22, the ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – a C-MeX underperformance payment of £0.046m and a D-MeX outperformance payment of £0.032m, based on the assessment of 2021-22 company performance.
- Reduction in the number of void supply points – we are intervening to ensure that Hafren Dyfrdwy reports in line with the PR19 performance commitment definition and so maintains consistent reporting against the PR19 performance commitment levels. We are therefore intervening to include an outperformance payment of £0.039m.
- Leakage - we are deferring our decision until 2023 due to uncertainty of the current methodology. This is because we expected the company to be fully compliant and use its own specific data for 2021-22 annual performance reporting, but Hafren Dyfrdwy continues to derive its unmeasured consumption from Seven Trent Water's data.

See section 1 for details of our interventions and policy decisions.

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# 1. Results of our assessment

## 1.1 Interventions and policy decisions

Table 1.1 below sets out our view of the payments due for performance commitments on which we have intervened compared to the values reported by Hafren Dyfrdwy.

**Table 1.1: Summary of interventions**

Performance commitment	Company's reported payments 2021-22 (£m)	Our draft determinations after interventions 2021-22 (£m)	Difference (£m)
Reduction in the number of void supply points	0.000	0.039	0.039

In our draft determination we are intervening on the following performance commitment:

### Reduction in the number of void supply points

We are intervening to ensure Hafren Dyfrdwy reports in line with its PR19 performance commitment definition, and so maintains consistent reporting against the PR19 performance commitment levels (PCLs). We are therefore intervening in our draft determinations to include an outperformance payment of £0.039m for void supply points performance.

Hafren Dyfrdwy has restated the PCLs for 2021-22 (and the remainder of 2020-25 period) and changed its methodology for reporting. The company states in its APR and its response to query HDD-APR-IP-001 that it found errors in its reporting methodology when setting the PR19 PCLs. The reporting errors for 2021-22 amounted to 316 properties that had a status of 'invalid service provision', which it was including<sup>2</sup>. The company explains that an invalid service provision relates to a property that has been substantially altered, demolished, or transferred to the wholesale market. It has restated the PCLs and changed its methodology to remove these types of properties from its reported performance. The company states it chose to follow the same approach taken in the 2015-2020 period, when other companies changed their Mains Bursts PCLs because of reporting methodology errors.

We have not allowed the change to the Residential Voids PCLs in our draft determination. Because the company's performance commitment levels were based on the information provided to us at PR19 and these levels therefore form part of the price control package agreed at PR19, there is a presumption that they will remain fixed for the 2020-25 period, to provide certainty for companies, customers and Ofwat. Therefore, we calculate the

<sup>2</sup> Performance is 4.93% voids reporting in line with the PR19 definition and 4.65% with the 'invalid service provision' properties removed.

company's performance in 2021-22 to be 4.93% (including the 'invalid service provision' voids) and an outperformance payment of £0.039m.

We note the company had previously said it will not claim outperformance due to its change in methodology, it is for the company to confirm in its response if it intends to do so in light of our draft determination.

We also have the following comments in relation to leakage and per capita consumption.

### **Leakage and Per Capita Consumption (PCC)**

In our 2020-21 final determination we said that it is our expectation that there should not be any components of Hafren Dyfrdwy's leakage and per capita consumption methodology that are not fully compliant when reporting 2021-22 performance.

We also said that we would closely assess any non-compliant elements in the 2021-22 APR submissions and will consider what interventions might be appropriate in light of our findings.

Hafren Dyfrdwy is reporting having achieved its leakage performance commitment level for 2021-22, without any outperformance payment. We note that for leakage and per capita consumption 2021-22 reporting Hafren Dyfrdwy continues to not be fully compliant with our PR19 common performance commitment definitions.

As a result, we are deferring our decision until 2023 due to uncertainty of the current methodology. This is because we expected the company to be fully compliant and use its own specific data for 2021-22 annual performance reporting, but Hafren Dyfrdwy continues to derive its unmeasured consumption from Seven Trent Water's data. The company told us that, until the results stabilise, the materiality of non-compliance on this component cannot be assessed. We expect the company to be reporting full compliance with the common methodology for its 2022-23 APR submission and will consider what interventions might be appropriate in light of any new information. We expect the company to report its leakage and per capita consumption performance entirely using its own data from 2022-23. Should any information be revised or restated, we expect the company to:

- clearly identify any reasons for the restatement;
- quantify the impact of any changes to data and/or assumptions on reported leakage and on the leakage baseline if applicable; and
- provide a comparison of reported performance and associated ODI payments of the two methods i.e. pre and post restatements for each reported year to date.

Our decision does not affect the ODI payment for performance reported for 2021-22 by Hafren Dyfrdwy. Should any leakage or per capita consumption information be revised or restated in future, our subsequent in-period determinations will take account of the company's relevant

performance and the adjustments we have made to the relevant price control in relation to the leakage performance commitment.

## 1.2 C-Mex and D-Mex

On 21 September we published the relative performance of all companies. Our draft determination includes a C-MeX underperformance payment of £0.046m and a D-MeX outperformance payment of £0.032m, based on our assessment of 2021-22 company performance.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

## 1.3 Payment deferrals and abatements

As set out in our [PR19 final determinations](#) and the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments on individual performance commitments. A deferral results in us delaying when the adjustment will be made to companies' revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment in the subsequent charging year.

Hafren Dyfrdwy did not request any payment deferrals or abatements. Based on our assessment of the company's performance, we do not consider any are required. As such, we do not apply any payment deferrals or abatements in our draft determination.

## 2. Impact of 2020-21 in-period ODI assessment on price controls

### 2.1 Our draft determination

In this section we outline the financial impacts of our draft determinations.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

#### **Table 2.1: Draft determination on adjustment to 2023-24 price controls as a result of performance against ODIs**

This table sets out our draft determinations on the ODI payments to be applied to price controls in the 2023-24 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2021-22;
- our draft determination on these payments after any interventions;
- bespoke adjustments, including prior year restatements, where relevant; and
- our draft determination on C-MeX and D-MeX payments.

For further details on the interventions, deferrals, abatements and bespoke adjustments, see section 1.

This draft determination on the ODI payments to be applied for Hafren Dyfrdwy is also set out in the in-period adjustments model published on our website.

Price control	Company's reported ODI payments (£m)	Interventions (£m)	ODI payments deferred from 2020-21 (£m)	Ofwat DD deferrals (£m)	Ofwat DD abatements (£m)	Bespoke adjustments (£m)	C-MeX payments (£m)	D-MeX payments (£m)	Total ODI payments to be applied to customer bills in 2023-24 (£m)
Water resources	-0.280	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.280
Water network plus	-0.086	0.000	0.000	0.000	0.000	-0.002	0.000	0.028	-0.061
Wastewater network plus (WaSCs only)	-0.019	0.000	0.000	0.000	0.000	0.000	0.000	0.004	-0.015
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.000	0.039	0.000	0.000	0.000	0.002	-0.046	0.000	-0.005
Business retail (HDD and WSH only)	-0.018	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.018
<b>Total</b>	<b>-0.403</b>	<b>0.039</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.046</b>	<b>0.032</b>	<b>-0.378</b>

**Table 2.2: Breakdown of bespoke adjustments**

This table provides a breakdown of the bespoke adjustments included in our draft determinations.

Price control	Prior year restatements (£m)	Prior year C-Mex indexation (£m)	Prior year D-Mex indexation (£m)	Prior year total (£m)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2023-24 (£m)
Water resources	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Water network plus	0.000	0.000	-0.002	-0.002	0.000	0.000	<b>-0.002</b>
Wastewater network plus (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Residential retail	0.000	0.002	0.000	0.002	0.000	0.000	<b>0.002</b>
Business retail (HDD and WSH only)	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
<b>Total</b>	<b>0.000</b>	<b>0.002</b>	<b>-0.002</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

The prior year C-Mex and prior year D-Mex values correct an error in how the C-Mex and D-Mex models applied indexation in 2020-21. Where applicable we adjust for the time value of money.

**Table 2.3: Changes to price controls (draft determinations)**

This table sets out the impact of our draft determination on the company's price controls, as set out in the in-period adjustments model published on our website. See [Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21](#) for how we apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
<b>Water resources (K factors)</b>	Previous determination	-5.24	-38.75	13.85	1.45
	Revised	-5.24	-38.75	-6.18	21.22
<b>Water network plus (K factors)</b>	Previous determination	4.42	1.30	4.45	-0.96
	Revised	4.42	1.30	3.97	-0.53
<b>Wastewater network plus (WaSCs only)</b>	Previous determination	1.50	-0.82	13.05	6.18
	Revised	1.50	-0.82	12.24	6.90
<b>Bioresources (WaSCs only)</b>	Previous determination	0.761	0.769	0.776	0.784
	Revised	0.761	0.769	0.776	0.784
<b>Residential retail (total revenue, TRt – £m, nominal prices)</b>	Previous determination	2.861	2.894	2.917	2.942
	Revised	2.861	2.894	2.910	2.942
<b>Business retail (allowed average retail cost component, rct – £, nominal prices)</b>	Previous determination – water: unmeasured and < 5 Ml/a	50.81	48.77	51.89	52.56
	Revised – water: unmeasured and < 5 Ml/a	50.81	48.77	48.75	52.56
	Previous determination – water: ≥ 5 and < 50 Ml/a	177.35	169.43	184.45	187.97
	Revised – water: ≥ 5 and < 50 Ml/a	177.35	169.43	168.68	187.97
	Previous determination – wastewater services: unmeasured supply and < 5 Ml/a	45.60	42.66	45.08	45.09
	Revised – wastewater services: unmeasured supply and < 5 Ml/a	45.60	42.66	42.07	45.09
	Previous determination – wastewater services: ≥ 5 Ml/a and < 50 Ml/a	188.19	182.65	199.48	203.84
	Revised – wastewater services: ≥ 5 Ml/a and < 50 Ml/a	188.19	182.65	182.62	203.84
	Previous determination – wastewater services: ≥50 Ml/a	60.83	59.09	63.25	64.20
	Revised – wastewater services: ≥50 Ml/a	60.83	59.09	58.98	64.20

We have based Hafren Dyfrdwy's draft determination on the data and commentary provided to us by Hafren Dyfrdwy. Should any of this information be revised or restated in future years, we will take account of adjustments we have made to the relevant price control in relation to the performance commitment(s) in question in making future in-period determinations.

### 3. Responding to this consultation

We would welcome any comments on this document. Please email them to [in-periodODIs@ofwat.gov.uk](mailto:in-periodODIs@ofwat.gov.uk) or post them to:

IPD2022 Consultation response  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

[Or Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD if that is more appropriate.]

The closing date for this consultation is **21 October 2022**. If you wish to discuss any aspect of this consultation, please contact the In-period ODI team by post or by email at [in-periodODIs@ofwat.gov.uk](mailto:in-periodODIs@ofwat.gov.uk)

We intend to publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk). Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this draft determination, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for

disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

We will publish our final determinations by **15 November 2022**, after considering representations from all stakeholders.

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