

15 November 2022

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

**Ofwat**

## About this document

This document provides notice of our final determination on the extent to which the price controls set by the [PR19 final determination](#) are 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: Final determinations of in-period outcome delivery incentives for 2021-22](#).

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

## 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 assessed the company's performance against its performance commitments and, in October 2022, consulted on our [draft determinations](#) for companies' in-period ODIs for 2021-22.

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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](#).

In our final 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 the company's licence. The results of our assessment for 2021-22 will affect Hafren Dyfrdwy's customers' bills in the 2023-24 Charging Year.

Further details regarding the responses we received, our final determinations and the adjustments that we have made are presented in sections 1 and 2, and in [Sector overview: Final determinations of in-period outcome delivery incentives for 2021-22](#).

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 the [Consultation on changes to per capita consumption performance commitments – our decision on reporting performance and ODI timing](#) 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 including a voluntary abatement of the outperformance payment of £0.039m. This is a change from our draft determinations.
- 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 determination after interventions 2021-22 (£m)	Our final determination after interventions 2021-22 (£m)	Difference between company view and our final determination (£m)
Reduction in the number of void supply points	0.000	0.039	0.039	0.039

In our final determination we are intervening on the following performance commitment(s):

### Reduction in the number of void supply points

#### Our draft determination

In our draft determination, we intervened to ensure Hafren Dyfrdwy reported in line with its PR19 performance commitment definition for void supply points performance, to ensure consistent reporting against the PR19 performance commitment levels (PCLs). As a result, we included an outperformance payment of £0.039m in the draft determination.

#### Stakeholders' responses

In the company's response, which is published on our [website](#), it said it would choose not to claim the ODI outperformance payment of £0.039m included in the draft determination.

#### Consideration of responses and final determination

Having considered stakeholders' responses on this matter, our final determination retains the intervention, but at the company's request we include the £0.039m as a voluntary abatement. We describe this in the deferrals and abatement section.

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

## Leakage and Per Capita Consumption (PCC)

### Our draft determination

In our 2020-21 final determination we said that we expected all of the components of Hafren Dyfrdwy's leakage and per capita consumption methodology to be 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 would consider what interventions might be appropriate in light of our findings.

In its 2021-22 APR submission, Hafren Dyfrdwy reported achieving its leakage performance commitment level, without any outperformance payment. However, Hafren Dyfrdwy continued to not be fully compliant with the PR19 common performance commitment definitions. This is because Hafren Dyfrdwy continued to derive its unmeasured consumption from Seven Trent Water's data. The company told us that, until the results stabilised, the materiality of non-compliance on this component could not be assessed.

As a result, in our draft determination, we said we would defer our decision until 2023 due to uncertainty of the current methodology. We said we expected the company to be reporting full compliance with the common methodology for its 2022-23 APR submission, including reporting leakage and per capita consumption performance based entirely on its own data and will consider what interventions might be appropriate in light of any new information at that time. Should any information be revised or restated, we said we expected 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 draft determination decision did 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.

### Stakeholders' responses

We did not receive any specific comments on this issue.

## Consideration of responses and final determination

Having received no stakeholder responses on this matter, our final determination on the company's performance payment for this performance commitment remains unchanged from our draft determination, above.

### 1.2 C-Mex and D-Mex

#### Our draft determination

On 21 September we published the relative performance of all companies. Our draft determination included 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.

#### Stakeholders' responses

Hafren Dyfrdwy did not comment on this issue. However, another company identified a minor technical inconsistency between the reporting of C-MeX scores in the reconciliation model and the expectation in the [RAG 4.10 guidance](#), which states that scores should be rounded to 2 decimal places.

#### Consideration of responses and final determination

To ensure the C-MeX reconciliation model operates consistently with RAG 4.10 and the [PR19 Reconciliation rulebook](#) guidance, we have updated the model to round the input scores to 2 decimal places. This has no impact on the payment values calculated by the model for Hafren Dyfrdwy and our draft determination remains unchanged for this PC.

### 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 but has requested a voluntary abatement of the outperformance payment we included in the draft determination for the reduction in the number of void supply points. Having considered the information provided to

us by Hafren Dyfrdwy, we are including the company's requested abatement of £0.039m to lessen the increase in bills for customers. Based on our assessment of the company's performance, we do not consider any deferrals are required. As such, we do not apply any payment deferrals in our final determination.



## 2. Impact of 2021-22 in-period ODI assessment on price controls

### 2.1 Our final determination

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

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

**Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2023-24 (£m)**

This table sets out the change between our draft and final determinations.

Price control	Draft determination on total ODI payments to be applied to customer bills in 2023-24 (£m)	Change between draft and final determination (£m)	Final determination on total ODI payments to be applied to customer bills in 2023-24 (£m)
Water resources	-0.280	0.000	-0.280
Water network plus	-0.061	0.000	-0.061
Wastewater network plus (WaSCs only)	-0.015	0.000	-0.015
Bioresources (WaSCs only)	0.000	0.000	0.000
Residential retail	-0.005	-0.039	-0.043
Business retail	-0.018	0.000	-0.018
<b>Total</b>	<b>-0.378</b>	<b>-0.039</b>	<b>-0.417</b>

**Table 2.2: Final determination on adjustment to 2023-24 price controls as a result of performance against ODIs**

This table sets out our final determination 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 final determination on these payments after any interventions;
- our final determination on 2022-23 deferrals and abatements;
- bespoke adjustments, including prior year restatements, where relevant; and
- our final determination on C-MeX and D-MeX payments.

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

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Price control	Company's reported ODI payments (£m)	Ofwat FD interventions (£m)	ODI payments deferred from 2020-21 (£m)	Ofwat FD deferrals (£m)	Ofwat FD abatements (£m)	Bespoke FD adjustments (£m)	C-MeX FD payments (£m)	D-MeX FD payments (£m)	Final determination on 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	<b>-0.280</b>
Water network plus	-0.086	0.000	0.000	0.000	0.000	-0.002	0.000	0.028	<b>-0.061</b>
Wastewater network plus (WaSCs only)	-0.019	0.000	0.000	0.000	0.000	0.000	0.000	0.004	<b>-0.015</b>
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Residential retail	0.000	0.039	0.000	0.000	-0.039	0.002	-0.046	0.000	<b>-0.043</b>
Business retail	-0.018	0.000	0.000	0.000	0.000	0.000	0.000	0.000	<b>-0.018</b>
<b>Total</b>	<b>-0.403</b>	<b>0.039</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.039</b>	<b>0.000</b>	<b>-0.046</b>	<b>0.032</b>	<b>-0.417</b>

**Table 2.3: Breakdown of bespoke adjustments**

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

Price control	Prior year restatements (£m)	Prior year C-Mex indexation (£m)	Prior year D-Mex indexation (£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	<b>0.000</b>
Water network plus	0.000	0.000	-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	<b>0.000</b>
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Residential retail	0.000	0.002	0.000	0.000	0.000	<b>0.002</b>
Business retail	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>

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 2.4: Changes to price controls (final determinations)**

This table sets out the impact of our final 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 2021-22](#) 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	-7.78	23.14
<b>Water network plus (K factors)</b>	Previous determination	4.42	1.30	4.45	-0.96
	Revised	4.42	1.30	3.93	-0.49
<b>Wastewater network plus (WaSCs only)</b>	Previous determination	1.50	-0.82	13.05	6.18
	Revised	1.50	-0.82	12.17	6.96
<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	48.50	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	167.42	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	41.83	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	181.27	203.84

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	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	58.64	64.20

We have based Hafren Dyfrdwy's final 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.

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