

September 2023

Draft determination of Hafren Dyfrdwy's in-period outcome delivery incentives for 2022-23

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 2022-23 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 2022-23](#).

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

We welcome your views by 18 October 2023. We will make our final determinations by 15 November 2023.

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, which is available on our [website](#).¹

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 2023. We have considered this information and, where necessary, further information from companies' answers to our queries. In our draft

¹ 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](#).

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 2023. This will affect Hafren Dyfrdwy's customers' bills from the 2024-25 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 2022-23, the ODI payments and performance are as reported by the company with the following exceptions:

- C-MeX and D-MeX – we are including a C-MeX outperformance payment of £0.032 and a D-MeX outperformance payment of £0.046, based on our assessment of 2022-23 company performance; and
- interventions on the following performance commitments:
 - Leakage – £0.071m increase in underperformance payments due to non-compliance with the reporting requirements.
 - Water supply interruptions – £0.079m increase in underperformance payments due to the company changing the way it reports its performance commitment.

See section 1 for the results of our assessment.

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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 interventions²

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Difference (£m)
Leakage	-0.031	-0.102	-0.071
Water supply interruptions	-0.414	-0.493	-0.079

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

Leakage and Per Capita Consumption (PCC)

We are intervening to increase Hafren Dyfrdwy's underperformance payments in relation to its leakage performance commitment by £0.071m. This is because of non-compliance of reporting with the common reporting requirements.

In our 2021-22 final determination, we deferred our decision until 2023 due to uncertainty of the company's 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 that we would consider what interventions might be appropriate in light of any new information at that time.

The company reported its 2022-23 performance of 4.4% reduction against the performance commitment level (PCL) of 6.4% and an underperformance payment of £0.031m.

Hafren Dyfrdwy told us that during the last 12 months, it has reviewed all areas of the reporting methodology to ensure it continues to refine its understanding of unaccounted for water. The company stated that having identified improvements, aligned with good practice, it has back cast the impacts on its historic performance to ensure its baseline is set on a like-for-like basis. The company reported that there are three components where it needs to

² interventions in relation to restatements of prior years are modelled as bespoke adjustments and included in table 2.2

undertake further work, and which are assessed as 'Amber' (availability, unmeasured consumption) or 'Red' (overall water balance).

The company's submission identified that within its water balance it continued to use unmeasured consumption data from Severn Trent Water Small Area Monitors (SAMs) with data extrapolated to align with the demographics of its own customer base. The company considers this represents an "interim" position as it gathers further data to achieve alignment with the common methodology. The company has assessed leakage and PCC using two different approaches: one using data from Severn Trent Water's SAMs; and a second using Hafren Dyfrdwy-specific Individual Household Monitor (IHM). Annual leakage (in MI/d) and PCC (in litres/person/day) numerical values have been provided for each year between 2017-18 and 2022-23 within both scenarios.

We are intervening to apply the ODI payment based on performance using Hafren Dyfrdwy specific IHM monitors, ie using Hafren Dyfrdwy's own data. This leads to a revision of the company's leakage performance to 1.1% against the PCL of 6.4% and increases the underperformance payment for 2022-23 by £0.081m from £0.031m to £0.102m.

This results in a bespoke adjustment of £0.081m with respect to the restated baseline performance for its leakage PC for 2020-21 and 2021-22. Based on the evidence provided, we consider that this adjustment is appropriate. This is because Hafren Dyfrdwy did not provide convincing evidence on the appropriateness of the continuing use of Severn Trent Water's data for the third year running. Instead, the company stated that the use of Severn Trent Water's data reflects a short-term solution whilst it builds data in Hafren Dyfrdwy. We also make an adjustment to account for the time value of money. This will be repaid to customers.

We expect all companies to be reporting full compliance with the leakage and PCC methodology. Should any leakage data be revised or restated in future, our subsequent 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.

Water supply interruptions – depth of main

We are intervening to increase Hafren Dyfrdwy's underperformance payments in relation to its water supply interruptions performance commitment by £0.079m. This is because of a restatement of 2022-23 performance and is due to a change in the way it is reporting for 2022-23 and is therefore not consistent with its reporting in the previous two years.

In its 2022-23 APR, the company states that it refined its reporting process to include an assessment of the depth of main to more accurately estimate when customers are off supply. The company states that this refinement ensures that it identifies more quickly when the network has reached an appropriate level of pressure to ensure customers are back on supply. In its response to our query (HDD-APR-IP-003) the company also states that:

- better measurement of when a customer is on / off supply doesn't change the validity of the PCL, but simply ensures they are being assessed on a fair basis with other companies, who also calculate the mains height in this way;
- the approach this year is not a methodology change, but better aligns with the specific element in reporting methodology (related to calculation of stop and start times) and drives towards consistency of reporting across the industry; and
- the approach ensures wider benefits to customers - better estimation leads to operational efficiency and better deployment of contingency measures during an incident.

In the query response the company also restated the value of the revised reporting on its water supply interruptions performance because of an error in the impact of this reporting change. The company's assurer had highlighted in its report that that the revised interpretation of the guidelines represents an elevated reporting risk. It recommended that the company clearly set out its rationale and impacts in its APR, which it has done in its APR and query responses.

In response to the company's points, we consider that:

- the company was not able to provide evidence to validate the statement that others in the sector adjust their performance for mains depth in this way;
- the performance commitment definition³ specifies that the 'start' time of an event should take into the depth of the main or property height, but this is absent from the 'stop' time. In all its correspondence, the company states the adjustment is made to the 'stop' time but quotes the 'start' time guidance. However, logically the same methodology would be applied to both the start and stop times, therefore for the purposes of this determination we assume the company applies the depth of main adjustment to both start and stop times; and
- there may be some benefits to customers with the revised interpretation of the guidelines the company has implemented, but those benefits have not been quantified. There is however a benefit to the company in being able to declare that customers are back in supply sooner than under the previous approach.

We note that, for each of the previous years, the company has reported that it is complying with the reporting requirements. If the revised approach provides a refinement to that process and potentially improves reporting it is not clear why the company was not already reporting in this way, as it suggests others already are. We recognise that improvements in data can bring benefits to customers and help to achieve compliance with the guidance. But we also said at PR19 that companies should commit that outcome delivery incentive payments will only be in relation to real performance changes and not definitional, methodological or data changes in the performance commitment.

³ [Reporting-guidance-supply-interruptions.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/reports-and-accounts/2022-23/Reporting-guidance-supply-interruptions.pdf)

In conclusion, we consider that the company is not reporting on a consistent basis compared to the previous two years, because it has not adequately demonstrated that the improved performance it reports is due to real improvements in performance rather than a consequence of the data revisions it has made.

We are intervening to add back in 43 seconds to its water supply interruptions performance. In the same query response, the company also highlighted that due to an error it had underreported by 00:01:21. Adding both those to the initial reported performance of 00:16:39 gives a revised performance figure of 00:18:43, which increases its underperformance payment by £0.079m. We will require the company to continue to report its water supply interruptions measure using its previous approach for the remainder of the 2020-2025 period.

Water supply interruptions – cattle troughs

In [IN 23/03 Expectations for monopoly company annual performance reporting 2022-23](#), we clarified that the total number of connected properties used to calculate performance for this PC should exclude cattle troughs. The company stated it had included around 1,102⁴ cattle troughs within the number of connected properties used to calculate this PC for 2020-21 and 2021-22 APR reporting,

Removing cattle troughs from the 2020-21 reported connected properties in adds 44 seconds to reported performance and adds 23 seconds to 2021-22 reported performance. There is no ODI impact for either year, as the company performance already exceeded the underperformance collar.

1.2 C-MeX and D-MeX

On 26 September 2023 we published the relative performance of all companies. Our draft determination includes a C-MeX outperformance payment of £0.032 and a D-MeX outperformance payment of £0.046, based on our assessment of 2022-23 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

⁴ Exact number clarified in a query response. The APR stated 1000 cattle troughs had been included

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.

In our [Final Determination of Hafren Dyfrdwy's in-period outcome delivery incentives for 2021-22](#), we deferred our decision on its leakage performance commitment 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 continued to derive its unmeasured consumption from Seven Trent Water's data. We have accounted for this in the way described in section 1.1.

2. Impact of 2022-23 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 2024-25 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 2024-25 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2022-23;
- 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 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)	Ofwat DD ODI payments (£m)	ODI payments deferred from 2021-22 (£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 2024-25 (£m)
Water resources	-0.167	-0.207	0.000	0.000	0.000	0.000	0.000	0.000	-0.207
Water network plus	-0.234	-0.345	0.000	0.000	0.000	-0.085	0.000	0.034	-0.395
Wastewater network plus (WaSCs only)	0.028	0.028	0.000	0.000	0.000	0.000	0.000	0.012	0.039
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential retail	0.030	0.030	0.000	0.000	0.000	0.000	0.032	0.000	0.061
Business retail	-0.012	-0.012	0.000	0.000	0.000	0.000	0.000	0.000	-0.012
Total	-0.356	-0.506	0.000	0.000	0.000	-0.085	0.032	0.046	-0.513

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)	Time value of money adjustment on prior year total (£m)	Green recovery (£m)	Total bespoke adjustments to be applied to customer bills in 2024-25 (£m)
Water resources	0.000	0.000	0.000	0.000
Water network plus	-0.082	-0.003	0.000	-0.085
Wastewater network plus (WaSCs only)	0.000	0.000	0.000	0.000
Bioresources (WaSCs only)	0.000	0.000	0.000	0.000
Residential retail	0.000	0.000	0.000	0.000
Business retail	0.000	0.000	0.000	0.000
Total	-0.082	-0.003	0.000	-0.085

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 2022-23](#) for how we apply adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Previous determination	-5.24	-38.75	-7.78	23.14
	Revised	-5.24	-38.75	-7.78	6.70
Water network plus (K factors)	Previous determination	4.42	1.30	3.93	-0.49
	Revised	4.42	1.30	3.93	-3.66
Wastewater network plus (K factors)	Previous determination	1.50	-0.82	12.17	6.96
	Revised	1.50	-0.82	12.17	8.92
Bioresources (unadjusted revenue, URt - £m, 2017-18 FYA CPIH prices)	Previous determination	0.761	0.769	0.776	0.784
	Revised	0.761	0.769	0.776	0.784
Residential retail (total revenue, TRt - £m, nominal prices)	Previous determination	2.861	2.894	2.910	2.942
	Revised	2.861	2.894	2.910	3.047
Business retail (allowed average retail cost component, rct - £, nominal prices)	Previous determination Water unmeasured and < 5 Ml/a	50.81	48.77	48.50	52.56
	Revised Water unmeasured and < 5 Ml/a	50.81	48.77	48.50	50.20
	Previous determination Water: ≥ 5 and < 50 Ml/a	177.35	169.43	167.42	187.97
	Revised Water: ≥ 5 and < 50 Ml/a	177.35	169.43	167.42	176.05
	Previous determination Wastewater services: unmeasured supply and < 5 Ml/a	45.60	42.66	41.83	45.09
	Revised Wastewater services: unmeasured supply and < 5 Ml/a	45.60	42.66	41.83	42.85
	Previous determination Wastewater services ≥ 5 Ml/a and < 50 Ml/a	188.19	182.65	181.27	203.84
	Revised Wastewater services ≥ 5 Ml/a and < 50 Ml/a	188.19	182.65	181.27	190.96
	Previous determination Wastewater services: ≥ 50 Ml/a	60.83	59.09	58.64	64.20

	Revised Wastewater services: ≥ 50 Ml/a	60.83	59.09	58.64	60.70
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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 determinations.

3. Responding to this consultation

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

IPD2023 Consultation response
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Or IPD2023 Consultation response Ofwat, 11 Westferry Circus, Canary Wharf, London, E14 4HD.

The closing date for this consultation is **18 October 2023**. 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.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this draft determination 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 overview document, 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 2023**, after considering representations from all stakeholders.

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Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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