

November 2023

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

Ofwat

## About this document

This document provides our final determination on the extent to which the price controls included in our PR19 final determinations, are 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: Final determinations of in-period outcome delivery incentives for 2022–23](#).

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

## Background

At the 2019 price review (PR19), companies made pledges to their customers and stakeholders about the service levels they would meet to make progress towards stated outcomes (performance commitments). Companies' performance commitments form a key part of the service package that they are expected to deliver. 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 to incentivise them to keep up this outperformance.

Hafren Dyfrdwy reported its performance against these performance commitments in its annual performance report (APR) in July 2023. We assessed the company's performance against its performance commitments and, in September 2023, consulted on our [draft](#)

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<sup>1</sup> We take account of performance commitments as set out in this appendix, adjusted, if relevant, in accordance with Annex 2 of the 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](#).

[determinations](#) for companies' in-period ODIs for 2022-23. We have carefully considered the [responses](#) we received relating to our draft determinations.

Our final determination sets out relevant adjustments to the company's price controls, for one or more future years. The results of our assessment for 2022-23 will affect Hafren Dyfrdwy's customers' bills in the 2024-25 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 2022-23](#).

In our [Sector overview Final determinations of in-period outcome delivery incentives for 2020-21](#) we deferred our determination of the value of companies' ODI payments for usage of water per person (known as Per Capita Consumption) 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 £0.032m and a D-MeX outperformance payment of £0.046m, 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; and
  - Water supply interruptions – we are increasing the company's reported underperformance payment by £0.052m due to the company resubmitting its performance in its response to query HDD-APR-IP-003. This is a reduction of £0.027m in the underperformance payment included in our draft determination, because we accept the company's revised reported performance.

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 interventions**

Performance commitment	Company's reported payments 2022-23 (£m)	Our draft determination after interventions 2022-23 (£m)	Our final determination after interventions 2022-23 (£m)	Difference between company view and our final determination (£m)
Leakage	-0.031	-0.102	-0.102	-0.071
Water supply interruptions	-0.414	-0.493	-0.466	-0.052

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

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

#### Our draft determination

We intervened to increase Hafren Dyfrdwy's underperformance payments in relation to its leakage performance commitment by £0.071m. This was 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.

In its 2022-23 APR, the company reported a 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 had reviewed all areas of the reporting methodology to ensure it continued to refine its understanding of unaccounted for water. The company stated that having identified improvements, aligned with good practice, it had 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 needed

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

The company's APR 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 considered that this represents an "interim" position as it gathers further data to achieve alignment with the common methodology. The company had 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 Ml/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 intervened to apply the ODI payment based on performance using Hafren Dyfrdwy specific IHM monitors, i.e. using Hafren Dyfrdwy's own data. This led to a revision of the company's leakage performance to 1.1% against the PCL of 6.4% and increased the underperformance payment for 2022–23 by £0.081m from £0.031m to £0.102m.

This resulted 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 considered that this adjustment was appropriate. This was 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 made an adjustment to account for the time value of money. This will be repaid to customers.

We said we expected 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.

## **Stakeholders' responses**

In its [consultation response](#), Hafren Dyfrdwy said that it recognises that there is a need to improve its data so that it is less reliant on data from Severn Trent. It says that it recognises that Ofwat has adjusted the underperformance payment to reflect this.

Hafren Dyfrdwy asked for confirmation on the stated underperformance payments and bespoke adjustment in our draft determination.

## **Consideration of responses and final determination**

Having considered stakeholders' responses on this matter, our final determination on the company's performance payment for this performance commitment is as stated in our draft determination. We provide the following clarification on Hafren Dyfrdwy's reported performance for its leakage performance commitment, from 2020-21 through to 2022-23.

We intervened in our draft determination to increase Hafren Dyfrdwy's underperformance payments in relation to its leakage performance commitment by £0.071m, for 2022-23. We intervened to apply the ODI payment based on performance using Hafren Dyfrdwy specific IHM monitors, i.e. using Hafren Dyfrdwy's own data. This led to a revision of the company's leakage performance to 1.1% against the PCL of 6.4% and increased the underperformance payment for 2022-23 by £0.071m, from £0.031m to £0.102m, as set out in table 1.1. This was correctly included in our modelling at our draft determination. This underperformance payment had been incorrectly stated as £0.081m in our draft determination text.

We also intervened in respect of 2020-21 and 2021-22 performance via a bespoke adjustment, to apply the ODI payment based on performance using Hafren Dyfrdwy's IHM monitors rather than Severn Trent's. This was incorrectly stated in our draft determination text as £0.081m and should have been £0.082m (excluding time value of money). This is the summation of a 2020-21 bespoke adjustment of £0.0204m (to 4d.p.), and a 2021-22 bespoke adjustment of £0.0612m (to 4d.p.) (excluding time value of money). In table 2.3 this is seen as a bespoke adjustment of £0.085m, which includes the time value of money. This was correctly included in our modelling at our draft determination.

### **1.1.2 Water supply interruptions – depth of main**

#### **Our draft determination**

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

In its 2022-23 APR, the company stated 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 stated 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 stated that:

- better measurement of when a customer is on / off supply doesn't change the validity of the PCL, but simply ensured they were being assessed on a fair basis with other companies, who also calculate the mains height in this way;
- the approach this year was not a methodology change, but better aligned 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 ensured wider benefits to customers – the company said that 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 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 did in its APR and query responses.

In response to the company's points, we considered 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 definition<sup>2</sup> 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 stated the adjustment is made to the 'stop' time but quoted the 'start' time guidance. However, logically the same methodology would be applied to both the start and stop times, therefore for the purposes of our draft determination we assumed that the company applied 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 had implemented, but those benefits had not been quantified. There was however a benefit to the company in being able to declare that customers are back in supply sooner than under the previous approach.

We noted that, for each of the previous years, the company reported that it was complying with the reporting requirements. We said that if the revised approach provided a refinement to that process and potentially improved reporting it was not clear why the company was not already reporting in this way, as it suggested others already are. We recognised 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.

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

We intervened 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

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<sup>2</sup> [Reporting-guidance-supply-interruptions.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/reports-and-publications/2022-23-reporting-guidance-supply-interruptions.pdf)



underreported by 00:01:21. Adding both those to the initial reported performance of 00:16:39 gave a revised performance figure of 00:18:43, which increased its underperformance payment by £0.079m for our draft determination. We stated that the company should continue to report its water supply interruptions measure using its previous approach for the remainder of the 2020–2025 period.

## Stakeholders' responses

In its [consultation response](#), the company stated that it does not agree with the intervention on supply interruptions.

The company provided limited new evidence but does provide more detail and clarifies previous inconsistencies in its commentary of the changed approach to demonstrate that the reported performance more accurately reflects the company's real performance.

The company also suggested it could restate the previous two years so that “the movement represented a real change in performance, but there would be limited value in doing so”. If the company was to restate previous years' performance and reported using the new method going forward, then it would have consistency of reporting.

## Consideration of responses and final determination

We agree with the company and consider there is little benefit in reviewing 2020–22 data as the financial returns for individual customers would likely be negligible and the inconsistency in reporting for 2020–22 does not have a substantive impact on determining future performance during the 2020–25 period or for PR24.

Having considered consultation responses, we now accept the company's reported performance in its 2022–23 APR. This means we are no longer intervening (and are decreasing the company's underperformance payment by £0.027m compared to the draft determination). Our final determination for this PC now aligns with the revised performance of 00:18:00 reported in its response to query HDD-APR-IP-003. This is because we now consider the company has provided sufficient evidence that the change in approach: i) aligns with the performance commitment definition; ii) reflects more accurately the company's real performance; and iii) the small inconsistency in historical reporting will not adversely impact customers.

We have the following comments relating to the water supply interruptions cattle troughs and unplanned outage performance commitments:

### 1.1.3 Water supply interruptions – cattle troughs

#### Our draft determination

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 1,102<sup>3</sup> cattle troughs within the number of connected properties used to calculate this PC for 2020-21 and 2021-22 APR reporting,

We said that removing cattle troughs from the 2020-21 reported connected properties added 44 seconds to reported performance and added 23 seconds to 2021-22 reported performance. There was no ODI impact for either year, as the company performance already exceeded the underperformance collar.

## 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 is as stated in our draft determination, above.

### 1.1.4 Unplanned outage

#### Our draft determination

We did not intervene or comment on this matter in our draft determination; nor did we receive any stakeholder comments on it.

#### Our final determination

In our [Sector overview: Final determinations of in-period outcome delivery incentives for 2022-23](#), we highlight matters identified by our review of company submissions for the unplanned outage performance commitment. In light of these matters, companies should review their approach to peak week production capacity (PWPC) against the common methodology in the PR19 reporting guidance to ensure that they are acting in compliance. Should Hafren Dyfrdwy's unplanned outage performance information be revised or restated in future, we expect the company to clearly identify any reasons for the restatement and quantify the impact of any changes to data and/or assumptions on reported unplanned outage. We will take account of adjustments we have made to the relevant price control relating to the company's unplanned outage performance in making future determinations.

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<sup>3</sup> Exact number clarified in a query response. The APR stated 1000 cattle troughs had been included.

## 1.2 C-Mex and D-Mex

### Our draft determination

On 26 September 2023 we published the relative performance of all companies. Our draft determination included a C-MeX outperformance payment of £0.032m and a D-MeX outperformance payment of £0.046m, 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.

### 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 payments for these performance commitments is as stated in our draft determination, above.

## 1.3 Payment deferrals and abatements

As set out in the [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments. 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 final 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 1.1.1.

## 2. Impact of 2022-23 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 below sets out the change between our draft and final determinations.

**Table 2.1: Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25**

Price control	Draft determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Change between draft and final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)	Final determination on total ODI payments to be applied to customer bills in 2024-25 (£m)
Water resources	-0.207	0.014	-0.193
Water network plus	-0.395	0.014	-0.382
Wastewater network plus (WaSCs only)	0.039	0.000	0.039
Bioresources (WaSCs only)	0.000	0.000	0.000
Residential retail	0.061	0.000	0.061
Business retail	-0.012	0.000	-0.012
<b>Total</b>	<b>-0.513</b>	<b>0.027</b>	<b>-0.486</b>

**Table 2.2: Final determination on adjustment to 2024-25 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 2024-25 charging year after accounting for:

- the in-period ODI payments for each company based on their performance in 2022-23;
- our final determination on these payments after any interventions;
- bespoke adjustments, including prior year restatements, where relevant; and
- our final determination on C-MeX and D-MeX payments.

For further details, 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.

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

Price control	Company's reported ODI payments (£m)	Ofwat FD ODI payments (£m)	ODI payments deferred from 2021-22 (£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 2024-25 (£m)
Water resources	-0.167	-0.193	0.000	0.000	0.000	0.000	0.000	0.000	-0.193
Water network plus	-0.234	-0.331	0.000	0.000	0.000	-0.085	0.000	0.034	-0.382
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
<b>Total</b>	<b>-0.356</b>	<b>-0.479</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-0.085</b>	<b>0.032</b>	<b>0.046</b>	<b>-0.486</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)	Time value of money adjustment on prior year total (£m)	Green economic 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
<b>Total</b>	-0.082	-0.003	0.000	-0.085

**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: Final 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	7.75
Water network plus (K factors)	Previous determination	4.42	1.30	3.93	-0.49
	Revised	4.42	1.30	3.93	-3.56
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 [customer type 1]	50.81	48.77	48.50	52.56
	Revised [customer type 1]	50.81	48.77	48.50	50.20
	Previous determination [customer type 2]	177.35	169.43	167.42	187.97
	Revised [customer type 2]	177.35	169.43	167.42	176.03
	Previous determination [customer type 3]	0.00	0.00	0.00	0.00
	Revised [customer type 3]	0.00	0.00	0.00	0.00
	Previous determination [customer type 4]	45.60	42.66	41.83	45.09
	Revised [customer type 4]	45.60	42.66	41.83	42.85
	Previous determination [customer type 5]	188.19	182.65	181.27	203.84
	Revised [customer type 5]	188.19	182.65	181.27	190.94
	Previous determination [customer type 6]	60.83	59.09	58.64	64.20
	Revised [customer type 6]	60.83	59.09	58.64	60.69



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, we may take account of this, and previous price control adjustments relating to company performance, when making future determinations.

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