

## **PR19 Business Plan Presentation Pro-forma – August 2018 update**

### **Briefing for Ofwat Non-Executive Directors and senior leadership**

As indicated in our final methodology for the 2019 price review (PR19) published in December, this pro-forma draws together high level information and key metrics from the business plan and explains the drivers behind the business plan, the key benefits for customers and the impact on customer bills.

The pro-forma has been developed to support discussion at the PR19 business plan presentations taking place during September-October 2018, and to ensure a consistent approach across companies to briefing Ofwat board members for these. The pro-forma will be provided to Ofwat Board members and senior leadership ahead of these presentations. These presentations will not form part of our initial assessment of business plans process, nor are a substitute in any way for business plans.

The presentations are scheduled for an hour, with a presentation of 15 minutes followed by up to 45 minutes for questions and discussion. These presentations provide an opportunity for companies to set out their business plans to Ofwat, including Ofwat Board members. **We do not expect companies to use this pro-forma as the basis for the presentation itself.**

For PR19, we expect companies to deliver an ambitious business plan that delivers on our four key themes of innovation, great customer service, affordability and increased resilience. We are expecting companies to challenge themselves in these areas, and this pro-forma and the business plan presentations provide an opportunity for companies to demonstrate how they are meeting this challenge.

### **Guidance on completing the pro-forma**

To support companies in completing this pro-forma, we have published guidance tables which include references to the relevant PR19 business plan tables to draw the information requested from. Where the information requested is not held in PR19 business plan tables, we have indicated where this should be drawn from by companies (for example, the PR14 final determination). The PR19 bill movement model has also been published in order to complete the bill movement waterfall chart (table 2.1).

### **Submission of pro-forma to Ofwat**

We expect companies to submit the completed pro-forma, guidance tables and PR19 bill movement model to Ofwat along with PR19 Business Plans by 5pm Monday 3 September 2018.

### **Publication of the completed pro-forma**

As outlined in our final methodology, to improve transparency we want companies to make their business plans available to us, companies, customers, stakeholders and other regulators. We therefore expect them to publish the whole of their business plans at the same time as they submit their plans to us in September 2018. We ask that companies publish their completed pro-forma, guidance tables and PR19 bill movement model alongside their business plans as well as submitting these to us on 3 September 2018.

If a company considers some information should not be published – because it is commercially sensitive information, for example – then the company will need to provide its stakeholders and us with strong, robust reasons that are specific to the information concerned.

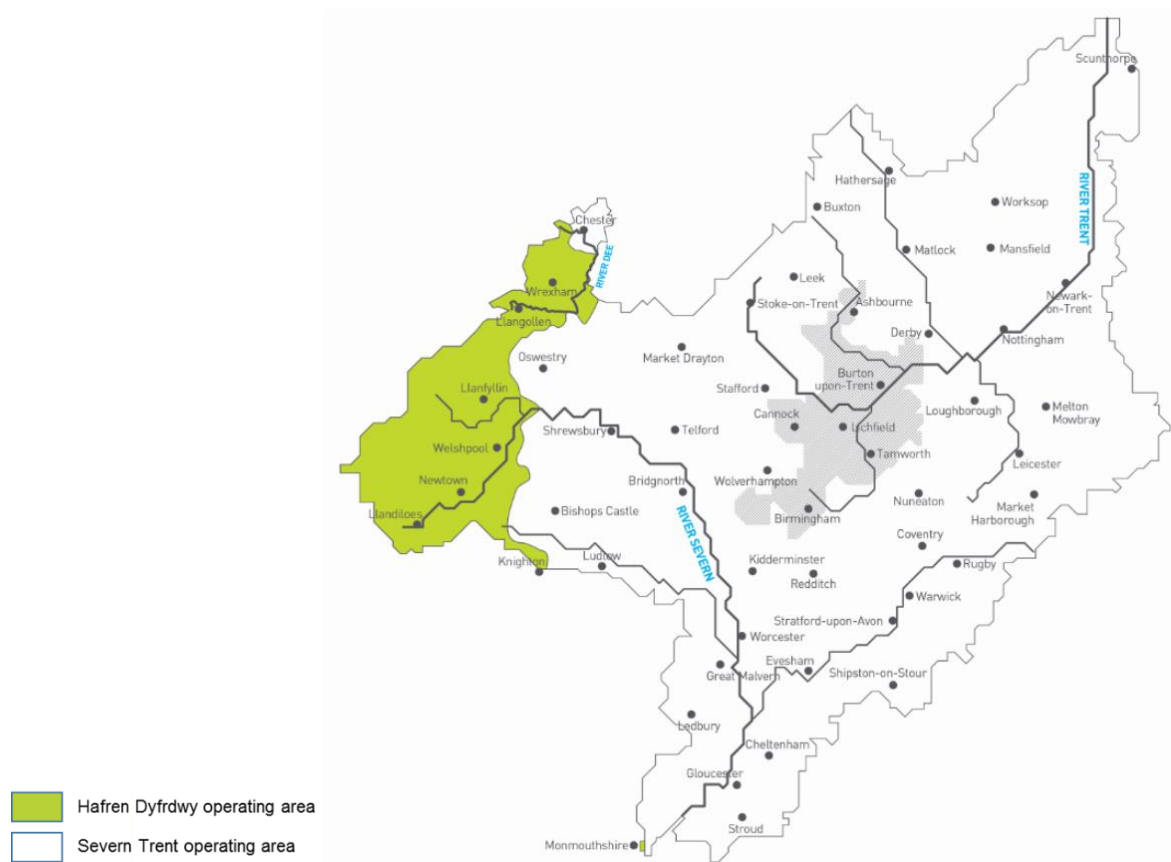
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## 1. Background

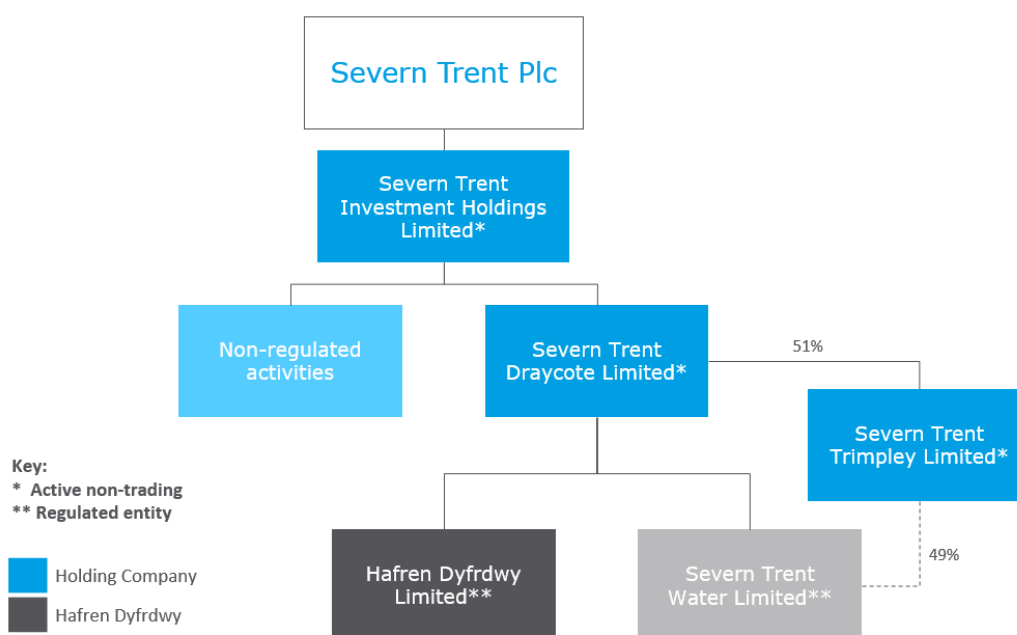
### 1.1 Company pen pic

Hafren Dyfrdwy is a water and wastewater company located in North and Mid Wales. We cover an area of 2,858 km<sup>2</sup>, serving around 95,000 household and 7000 business customers. Hafren Dyfrdwy is Welsh for Severn Dee, which are the two main rivers that serve our customers.



In February 2017, Severn Trent Water Limited (STWL) acquired the voting and non-voting ordinary share capital of Dee Valley Group plc. On 1 July 2018, modifications under section 103 of the Water Industry Act 1991 came into effect to re-align the boundaries of both licensees with the national boundaries of England and Wales.

Hafren Dyfrdwy is a regulated subsidiary of Severn Trent Plc – a publicly listed FTSE 100 company, serving in Wales. Severn Trent Plc is a public company whose ordinary shares are admitted to trading on the Main Market of the London Stock Exchange.



As of 31 August 2018

The other change to our licence since 2014 relates to retail market exit. STWL exited the non-household retail market on 1 July 2018 transferring its obligations to Water Plus Group Limited, a joint venture between Severn Trent and United Utilities. The business customers located in Wales were transferred to Hafren Dyfrdwy on 1 July 2018 to comply with policy in Wales, where there is no retail market. Dee Valley's business customers never entered into the market so they transferred to Hafren Dyfrdwy on 1 July 2018.

## 1.2 List of attendees

The following colleagues will be attending the Ofwat meeting on 18 September 2018.

Ann Beynon	Hafren Dyfrdwy non-executive director
Liv Garfield	CEO
Clare Evans	Chair of Hafren Dyfrdwy CCG
Shane Anderson	Head of Economic Regulation
Noel Hughes	Area operations lead - Wales
Kay Orsi	Regulation Manager

Biographies are provided in appendix 1.

## 2. Key business plan metrics

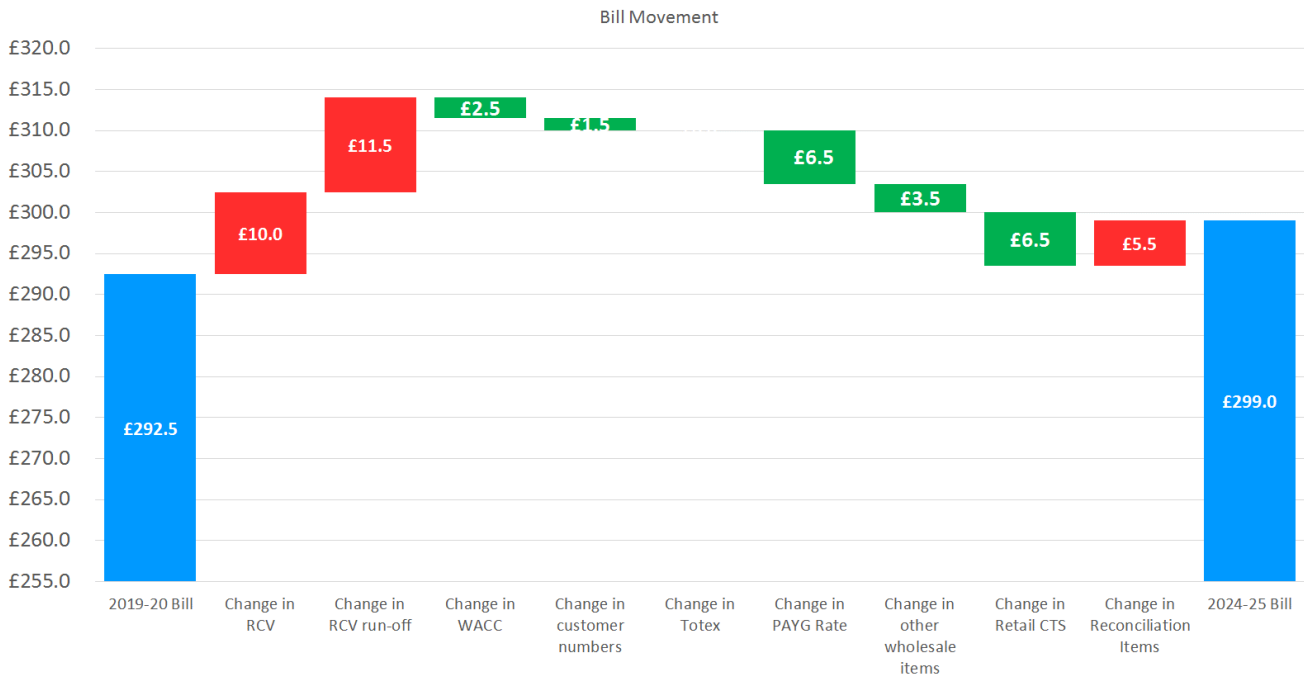
### PR19 key themes

Please set out here how you consider the approach you have taken to your business plan is consistent with the key themes for PR19 of innovation, great customer service, affordability and increased resilience. Where relevant, you may wish to additionally link this to information included elsewhere in this pro-forma [max. 300 words].

Great customer service at an affordable price while creating a healthier environment is the ultimate objective of our plan while delivering for future generations in Wales. Our plan is consistent with Ofwat’s four themes as summarised in the table below.

Key themes	Examples from across our plan	Plan reference
Great customer service	Our PC levels show that we are targeting our most ambitious improvements in the areas that matter most to customers – 35% improvement in drinking water quality complaints, 27% reduction in supply interruptions, 25% reduction in number of properties at risk of low pressure.	Outcome chapters and Appendix 2 PC and ODI rationale
	Our care and assistance team, based in Wrexham retains the local focus and dedicated service to our customers.	Outstanding experience Chapter 6.1
Affordable prices	Our bills are the lowest in Wales and 74% find our proposed bill affordable. We will do more to identify and support customers who are struggling to pay, helping 73% of struggling customers.	Outcome – lowest possible bills Chapter 6.7 and a Service for everyone Ch. 6.2
Increased resilience	Our customers expect us to plan for the future and ensure a continuous, high quality service irrespective of the circumstances.	Resilience in the round Chapter 5  Cost adjustment claims Appendix 4
	We have used robust and wide ranging information to assess risks and potential mitigation. We have been guided by the Well-being of Future Generations (Wales) Act and have formed relationships with others to secure long-term resilience for our communities. We have talked to our customers in a way that enables them to make informed choices about responding to the long term challenges.	
Innovation	We know we have a huge challenge to deliver all of the service improvements and keep our bills affordable - innovation will be at the heart of how we achieve this.	Case study on use of analytics in Outcome a service for everyone Chapter 6.2
	We will catch up and embed innovation such as use of shared services, maximising the benefit from technology and use of data (customer and asset).	Markets and innovation Chapter 7

**Table 2.1: Waterfall chart**



We are unique in the sector in terms of our relatively low absolute customer numbers, low absolute cost-base and the mix of water and wastewater customers (we have a significantly higher proportion of water customers). This means that the overall combined bill is sensitive to even relatively small movements in any of the building blocks. A further consideration, in terms of the movement from the end of AMP6 to the end of AMP7, is the absence of a waste price control set specifically for our region before AMP7.

<b>Bill movement breakdown</b>	
<b>Inputs</b>	<b>£ per customer</b>
<b>2019-20 Bill</b>	<b>292.5</b>
Changes between 2019/20 and 2024/25	
Change in RCV	10.0
Change in RCV run-off	11.5
Change in WACC	-2.5
Change in customer numbers	-1.5
Change in totex	–
Change in PAYG rate	-6.5
Change in other wholesale items	-3.5
Change in retail CTS	-6.5
Change in reconciliation items	5.0
<b>2024-25 Bill</b>	<b>299.0</b>

## **Explanation of movement in customers' bills**

We will be investing to improve the resilience of our services and the environment in Wales to deliver long-term benefits, such as:

- A 15% reduction in leakage levels.
- Upgrading critical long-life assets including dams and reservoirs.
- Undertaking the largest environmental programme for over 20 years.

This results in an increase in the combined average bill of 2.2% in real terms.

We have managed the effect of these improvements on bills through the use of Pay as you go (PAYG) and RCV run-off levers, in line with the commitments in the NAV. We are ensuring customers are no worse off as a result of the licence change.

Deferring some of the bill impact of our programme reflects the extent to which our totex requirements can be lumpy: since we are renewing key asset classes during the period, we do not expect this level of expenditure to recur in AMP8 or AMP9. Using PAYG and (in particular) RCV run-off levers allows us to dampen the effects of our improvements on bills to deliver affordable bills.

The financeability of our plan is supported by an equity injection that was made to improve financial resilience. We plan to recapitalise in 2018-19 so that it will be able to end AMP6 at 60%.

## **Customer expectations**

We have talked to around 4% of our customers in over 25 different locations, ranging from rural areas to small villages where the Welsh language is prevalent. We've used a range of techniques, from telephone surveys and face to face interviews to deliberative research and co-creation. We have analysed contacts and other research (such as the "The Wrexham we want" research which has informed the public service board's response to the Well-being of Future Generations (Wales) Act).

The key themes for customers can be summarised as:

- continue to provide a reliable day to day service and reduce service failures, which cause inconvenience and dissatisfaction (get the basics right);
- support customers when they need it, with a personal and human touch; and
- make a positive difference for the local environment and local communities.

We have only asked customers to make trade-offs or prioritise where it is meaningful to do so. For example we have not asked customers to choose between having high



quality drinking water and enhancing biodiversity. For water, our customers told us that reducing drinking water quality complaints was their highest priority, followed by improving water pressure and then reducing supply interruptions. For waste, the highest priority is reducing internal sewer flooding, but customers place a high value on the environment and in particular enhancing biodiversity. In addition to the core services, they gave us a clear message about that the things they value most from their local water company, which are:

- good career opportunities;
- using local suppliers and contractors; and
- being visible and contributing in the community.

We used this information to develop our performance commitments. We have ensured that our most stretching performance is where it matters most to our customers and we have been additionally challenging where our current comparative performance is weak. Appendix 5 below sets out the performance commitments in AMP7 and more detail is provided in Appendix 2 to our plan 'Rationale for PC levels and ODIs'.

**Table 2.2: Key business plan metrics**

<b>Metric</b>	<b>PR14 (2019-20) 31 March 2020 estimate</b>	<b>PR19 (2024-25) 31 March 2025 estimate</b>	<b>2019-20 to 2024-25 % change (leakage and PCC)</b>
Number of residential water only customers (000s)	69.832	71.504	
Number of residential wastewater only customers (000s)	4.304	4.162	
Number of residential water and wastewater customers (000s)	17.423	18.328	
Total leakage (MI per day) Based on PR19 definition, annual average	13.7	11.6	-15%
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	5.2	4.3	-17%
Leakage (litres per property per day) Based on PR19 definition, annual average	129.0	105.3	-18%
Per Capita Consumption (PCC) Based on PR19 definition, annual average	155.4	151	-3%
ODI RoRE range		+0.24% / -0.46%	

Appointee WACC (real RPI)	3.7%	2.4%	
Appointee WACC (real CPIH)	4.8%	3.4%	
Credit rating – actual financial structure	BBB+	A- / A3 <sup>1</sup>	
<b>Metric</b>	<b>PR14 (2015-2020 average)</b>	<b>PR19 (2020-25 average)</b>	
Adjusted interest cover notional	1.9	2.2	
FFO net debt notional	12.9%	14.0%	
<b>Metric</b>	<b>2017-18 actual</b>	<b>PR19 (2020-25 average)</b>	
Actual gearing	68.0%	63.1%	
Adjusted interest cover actual	1.7	2.5	
FFO net debt actual	10.1%	14.4%	

1: This is our forecasted PR19 credit rating and is subject to confirmation from credit rating agency Standard & Poor's

### Commitment to financial resilience

Our commitment to financial resilience reflects three key elements:

- reducing the level of debt held by the former Dee Valley and operate at a prudent level of debt consistent with the notional level (this compares to its gearing position at PR14 which was circa 70%);
- expand our assessment of financial viability using greater number of scenarios and applying the assessment until 2025; and
- setting a base dividend consistent with a 5% return on equity.

**Table 2.3: RCV**

<b>Control</b>	<b>1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)</b>	<b>30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)</b>	<b>% growth</b>
Water Resources RCV	56.069	49.148	-12.3%
Water Network Plus RCV	13.794	36.921	167.7%
Wastewater Network Plus RCV	0.487	9.580	1,868.1%
Bioresources RCV	0.000	0.000	–

**Table 2.4: Dividends**

<b>Metric £m</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	£1.376m	£1.946m	£0m		
<b>Outturn (nominal prices)</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Dividends (based on PR19 actual company structure)	£1.061m	£1.097m	£1.134m	£1.174m	£1.215m

### **Dividend policy**

Our policy is to declare dividends consistent with the company’s regulatory obligations and at a level which is decided each year after consideration of factors including regulatory uncertainty, ODI rewards or penalties, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

We will apply the following principles when considering the payment of dividends.

- **Dividends will be fair and balanced** – customers should be able to see and understand how our dividend policy supports them – through the sharing of outperformance and greater transparency.
- **Dividends will be transparent** – our annual performance report will explain how our dividend is consistent with our commitments.
- **Dividends should promote continued outperformance** – it is in all parties’ interests that we continue to outperform, reducing bills and improving service levels. Our dividend policy will benefit customers, employees will feel rewarded and importantly investors will continue to challenge us to deliver the best long term result.
- **Dividends will support appropriate gearing** – if for some reason we ended up geared to a higher level (which is not in our plan) we would share the financing benefits from this structure with customers.

### **3. Appendices**

## Appendix 1: Company presentation attendee biographies

Please include biographies for all company presentation attendees, including the Customer Challenge Group Chair (if attending). [Max. 100 words per attendee]

### Ann Beynon – Independent non executive board member



Ann brings extensive experience from numerous roles on Boards and high profile roles in the private and public sectors. Ann was BT's Director for Wales until July 2015, she was the Equality and Human Rights Commission's Commissioner for Wales until May 2016 and sat on its UK Board and its Audit and Risk Committee and was previously Severn Trent Water's Senior Advisor on Welsh Affairs. Ann is also a Non Executive Director of FUWIS (Farmers Union of Wales Insurance Services). Ann was awarded an OBE in the 2008 for her contribution to business and charitable services.

### Liv Garfield – CEO



Liv brings a wealth of experience managing customer service delivery, complex infrastructure and organisations in a regulated environment. Before joining Severn Trent, Liv was CEO of Openreach, part of the BT Group, where she led the commercial roll-out of fibre broadband to two-thirds of the country. She joined BT in 2002 and held the pivotal roles of Group Director of Strategy and Regulation, Managing Director Commercial and Brands, Global Services and UK Customer Services Director. From 1998 to 2002, Liv worked for Accenture as a consultant in the Communications and High Tech Market Unit, designing and implementing business change solutions.

**Shane Anderson – Head of economic regulation**



Shane brings extensive regulatory and economic experience from positions across Australia and the UK. He is responsible for leading our regulatory team at Hafren Dyfrdwy. Prior to joining Severn Trent Shane enjoy 7 years at Ofwat, including as a Director during PR14; and is on the CBI 35 under 35 committee, developing policy for the Institute.

**Noel Hughes – Area operations lead - Powys**



Noel Hughes is based in Mid Wales and has completed over 41 years' service with Severn Trent and currently manages over 200 sites across Powys. These sites range from impounding storage reservoirs, water treatment works, treated water service reservoirs and the associated booster pumping stations which supply Mid & North Powys Customers. Noel also manages Hydro Power Generation Stations associated with the impounding dams.

**Kay Orsi – Regulation manager**



Kay is a chartered mechanical engineer and has worked in the water industry for 17 years. Kay has a wealth of regulatory and engineering experience which has been drawn on to coordinate the Hafren Dyfrdwy PR19 plan. Before joining Severn Trent Kay enjoyed almost 10 years at Ofwat, holding several positions including Interim head of asset strategy during PR09 and water service lead for the cost assessment at PR14. Before that Kay spent 5 years at Thames Water in the clean water design team.

## Appendix 2: Business plan executive summary

### Serving our customers

We have listened carefully to our customers to understand what matters to them in their daily lives and probed in more detail about their expectations from their water, and where applicable, waste service provider.

We have talked to around 4000 of our customers in over 25 different locations, ranging from rural areas with a handful of customers, to small villages where the Welsh language is prevalent and the larger towns of Wrexham, Welshpool and Newtown. We've listened to our customers using a range of techniques, from telephone surveys, face to face interviews to deliberative research and co-creation.

We have also engaged with policy makers to ensure we understand the requirements and ambition in Wales. We have shared the challenges, and aligned solutions with stakeholders.

We heard that our customers want three key things from us:

1. Continue to provide a reliable day to day service and reduce service failures, which cause inconvenience and dissatisfaction (get the basics right)
2. Support customers when they need it, with a personal and human touch
3. Make a positive difference for the local environment and local communities

We have shown them how they have shaped the plan for the next five years and 85% of our customers found the overall package acceptable.

### A plan that must deliver for Wales

The Welsh Government has set a clear and bold ambition in its Water Strategy for Wales and the sustainability principles and well-being goals set out in the Well-being of Future Generations (Wales) Act which aim to achieve:

- **A prosperous Wales** - An innovative and productive society, which recognises the limits of the global environment and uses resources efficiently and which develops a skilled population in an economy which generates wealth and provides employment opportunities;
- **A resilient Wales** – A nation which maintains and enhances a biodiverse natural environment that supports resilience;
- **A healthier Wales** – A society in which people's well-being is maximised and in which choices and behaviours that benefit future health are understood;
- **A more equal Wales** – A society that enables people to fulfil their potential no matter what their background or circumstances;

- **A Wales of cohesive communities** – Attractive, viable, safe and well-connected communities;
- **A Wales of vibrant culture and thriving Welsh language** –A society that promotes and protects cultures, heritages and the Welsh language; and
- **A globally responsible Wales** –A nation which takes account of whether doing such a thing may make a positive contribution to global well-being.

These principles resonate strongly with our customers – and our plan has been guided by them.

## Unrelenting focus on the core services

We have nine customer outcomes in which we commit to deliver reliable, consistent service to our customers now and in the future. We commit to:

- Ensure water is **good to drink**
- And **always there** when customers need it
- And then **take waste away safely** everyday
- Do all of this in a way that not just protects but creates a **thriving environment**
- Whilst engaging with our communities and making a **positive difference** for the benefit of current and future generations
- Ensure customers receive an **outstanding customer experience**, which is centred around providing a personalised **service for everyone** whatever their unique needs
- Do all of this while ensuring we charge the **lowest possible bills** that are affordable for all
- We will demonstrate that we are a **company you can trust** who have controls, checks and balances in place to ensure we make the best decisions for our customers. We have made a good start in this area, ensuring that Hafren Dyfrdwy has a strong, independent board with effective non-executive input, but with the added benefit of operating within a strong group.

Our customers expect this to be true for future generations as well as customers today.

## Investing in service improvements

Our plan balances the affordability of bills with the steps needed to safeguard services and the environment for future generations. We have talked to our customers about this and across the four main investment areas where we have long term challenges between 85% and 92% of our customers either supported our



proposed action or thought we should invest more to reduce some of the risks sooner. We have also responded to customers and stakeholders and are committing to reduce leakage by 15% in the next five years.

The most significant challenge relates to our raw water and treated water reservoirs. Over the next five years we will be investing around £19 million in our dams and treated water reservoirs, which has been identified through the application of best practice risk management. Not only are the dams and reservoirs a hugely important part of providing a reliable service, they are also a big part of the landscape in Wales and we are making improvements to ensure our communities can enjoy them.

We will deliver performance that puts us in the top quarter of the industry across 65% of the comparable performance commitments, which includes service areas that are the most fundamental to our customers such as reducing drinking water quality risks and reducing internal sewer flooding. Our plan sets out ambitious improvements where we are not in the top quarter but our customers want us to be, such as reducing interruptions to supply and reducing drinking water complaints.

Our customers have told us that they want us to keep them informed with progress in delivering the outcomes and performance commitments, but also more broadly about the work we are doing to support our communities and enhance the environment. This ongoing engagement will be part of our delivery plan.

## **Investing in our community and the environment**

Over the next five years we will be investing £2.5m to improve around 22km of river water quality, which represents the largest statutory environmental programme required in this part of Wales for 20 years. We will also be enhancing biodiversity and well-being by investing almost £2m, the majority of which is planned at Lake Vyrnwy, where we have a fantastic opportunity to support Wales. The project will:

- enhance the visitor experience so that more people visit the site and stay in the surrounding area thus improving the local economy;
- restore approximately 450 hectares of upland peat bog to move the SSSI status from 'Unfavourable' to 'Favourable', which will provide greater resilience of our ecosystems; and
- enable local communities to shape the developments and develop a shared sense of ownership.

Together with our partners, we have secured £1.5m Heritage Lottery Funding that allows us to leverage 60% match funding which makes this flagship scheme more affordable to our customers.

We are also increasing our contribution to our communities through our community champion programme – an employee volunteering initiative to support community projects.

## **Improving the well-being of customers and society**

We have identified ways that we can support well-being by thinking more holistically to deliver opportunities and improvements at minimal or no extra cost. These include:

- We are partnering with Welsh government, Welsh Water and the charity City To Sea to roll out the Refill initiative, with the ambition to be the first 'refill nation'. We strongly believe that it is important for us to promote the benefits of water for hydration.
- We are members of the All Wales Water Safety Group, who promote safe use of water. We have 14 reservoirs in our region so this is an important consideration.
- We are making infrastructure improvements to improve amenities at more of our reservoirs. Benefits include promoting local economy through a local tender process for café management, improving access and awareness of the site so that they are more enjoyable and making it easy for people to take part in well-being activities.
- Supporting other local initiatives such as the Newtown Go Green consortium, which has a wide reaching scope; our involvement is around safe and enjoyable access to the river, which runs through our Mid Wales region.

We will also be taking a first step towards the Welsh Government long term ambition of a lead free Wales. In the next five years we will be protecting around 230 homes and schools by replacing the lead pipes, therefore removing the health risk that lead poses.

## **Having a voice in Wales**

As we plan for the future we also recognise that we need to give our customers a louder voice in Wales. We serve a comparatively small area that has been under represented in the past. We will champion the issues that matter to our communities and engage with policy and decision makers. We will be doing this by making sure we are active members representing the interests of our customers on groups such as:

- River Dee Consultative Committee to ensure that the issues affecting our catchments are focused on.
- The Drinking Water Inspectorate / Water Research Council (WrC) steering group for reducing lead.
- Working closer with the four Public Service Boards covering our region, who are responsible for responding to the requirements under the Well-being of Future Generations (Wales) Act.
- Working with the local resilience forums to ensure we are both forward looking but also able to respond to incidents quickly and efficiently in a joined up manner.

## **A model of operation that delivers for Hafren Dyfrdwy's customers**

We are embracing new ways of working that combine the best attributes of large and small companies to deliver more for less for our customers. This combination of cultures also means we will not require additional funding to operate as a stand-alone small company, saving our customers £6 million over the five years.

We believe that just as important as what we deliver, is how we deliver it. A recurring comment from our customers is that they take water and waste services for granted. In one respect this is reassuring, as it demonstrates that we serve our customers in a manner which means they don't have to worry about their service and can rely on us. But we believe the only way to deliver affordable solutions to the long term challenges we face is through a more collaborative approach with our customers and stakeholders. We have made a positive start and have already learned a lot about how customers want to engage with us and which topics resonate most with them; over the next five years we will be building on this foundation.

We are also targeting innovation where we have the greatest challenges. For example we will be building on the great foundation that the Dee Valley team laid when they introduced a system that gave them 100% visibility of the performance of their above ground assets. This provides a wealth of easy to analyse data and has resulted in a reduction in unplanned maintenance of around 25% in just two years. On the waste water service we are developing plans for how we can maximise the innovation that we are trialling between 2015 and 2020 at Llys Rhysnant. This approach builds treatment solutions bespoke to the local area's needs, makes the most of natural solutions (for example, reed beds) and by doing so reduces operational costs and adverse environmental impact by 40% over the 25 year life and creates a more resilient solution through the use of low/no technology waste processes.

## **Affordability**

We want our plan to be affordable for everyone and our customers will continue to have the lowest bills in Wales. Service and resilience enhancements are driving a 2.2% real bill increase on the combined water and sewage bill (in so-called CPIH terms) and we have challenged ourselves to minimise the impact of the increases. We have tested the overall acceptability of the plans and 85% of customers find it acceptable.

## **Supporting those in need**

We have set up a Care and Assistance team, based in Wrexham, who will retain a local focus and are trained to respond to customers' individual needs, both financial and non-financial.

We estimate that approximately 11% of our customers are likely to struggle to pay their bill at some point during the next five years. To manage this, our plan is to double the number of customers we offer financial support to. This ambitious target is partly driven by the need to catch up with our peers in the sector. We have worked with customers to co-design the social tariff to make the process easy and the support meaningful and tailored to the circumstances. We will be offering a range of support from short term payment breaks to longer term payment plans.

Some customers have circumstances that can make them more vulnerable and we want to ensure we recognise when our customers need our help and support them in an empathetic and respectful way. To set the foundations we have contacted around 400 customers who were on the existing priority service register to allow us to tailor the support we provide. External evidence suggests that there could be around 2,000 additional customers who might need our help and we have already made progress through targeted communications and working with others to make sure everyone who needs our help gets it.

There can be a wide range of circumstances which can lead to a customer requiring our support in the short and long-term. Our care and assistance team have been trained to identify these needs and offer appropriate support to all customers, for however long they need it.

## **Appendix 3: CCG report executive summary**

# Executive Summary

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Hafren Dyfrdwy Customer Challenge Group (CCG) brings together a wide range of organisations and businesses to challenge the Company to develop customer-supported, long-term strategic business plans which will deliver agreed commitments as well as being a good deal for the customer.

The CCG has prepared this report to provide independent challenge to Hafren Dyfrdwy and independent assurance to Ofwat on:

- the quality of a company's customer engagement; and
- the extent to which the results of their engagement are driving the company's decision making and being reflected in the company's business plan.

## Background

Dee Valley Water's acquisition by Severn Trent in April 2017 followed a five month hiatus in the work of the CCG. This led to a compressed timescale in which the CCG and company had to work and the effort of all involved in the process is commended. The restructuring needed to create the Wales-only Hafren Dyfrdwy involved splitting the former Dee Valley Water into two, and hiving off STW's Powys business from its operations in England.

Quite apart from the management and operational challenges this involves, it meant that it has been difficult - perhaps far more so than the company envisaged - to establish reliable PR14 historic bases for many of the key metrics to monitor performance of the current AMP, as well as in setting realistic and stretching targets for AMP7. The company has worked diligently to separate its AMP6 targets between Severn Trent's (ST) English and Welsh customers and it has committed itself to differentiate the service offering for its customers in Powys and Wrexham. The introduction of a three line assurance process across the HD region has been a valued development.

## CCG's Expectations of the company's customer engagement

The CCG challenged the company to meet its expectations (set out in Section 2) to ensure the research was fully representative of the area. In particular the CCG wanted to ensure the following groups were represented in the research: Welsh speakers, urban and rural customers, digitally disenfranchised customers, customers in vulnerable circumstances (financially as well as those with health and well-being issues), worst served customers (including those suffering repeat failures), non household customers and future bill payers. The company worked closely with the CCG in developing and amending research proposals which were shared with the CCG, in the majority of cases, prior to piloting/field testing.

### Specific Challenge – parity for Welsh speakers to participate in research

*The company positively responded to the CCG's challenge to ensure equality of opportunity of Welsh speakers to participate in research projects in their native tongue*

This included the introduction of a Welsh language option for all customers in key face to face interviews as well as in written surveys and questionnaires. Their commitment to ensure relevant local dialects were used was particularly applauded. The research company also recruited bilingual staff.



***The CCG is satisfied that the research undertaken extends to all these segments – and more - and as a result is representative of the area both geographically and demographically.***

The company also worked hard to ensure their research reached customers who may be rurally isolated or digitally disenfranchised (running research sessions at a very well-attended weekly sheep and cattle market for example) as well as targeting those customers with a range of vulnerabilities. The company has been open with the sampling methodology used, and it has explained any weightings that may have been applied where sample quotas had not been met. As a result, the CCG is reassured that the company has made great strides to ensure transparency as to how customers being consulted were representative of the area as a whole.

The company must be commended in its openness and transparency in developing its research proposals. Some research had taken place prior to the acquisition of Dee Valley Water and the company effectively agreed to ‘start again’ as far as was practically possible. The result was a customer engagement plan more specifically focused on the HD region with a significantly greater number of household and non household customers contacted than in PR14, some 3600 participants/respondents.

**Specific Challenge –  
equity of research approach between Powys and Wrexham**



The CCG challenged the company to adopt an approach which sought to ensure equity of approach in customer research and engagement activities between the distinct areas of Powys and Wrexham. This allowed the CCG to satisfy itself that the assurance given by the company in the licence negotiations that there would be ‘no detriment’ to any future Welsh customer of HD as a result of the licence had been honoured.

The company accepted this challenge and, once adopted, uncovered some quite significant differences in priorities, need and attitudes relating to service improvements and bill profiles which lead the company to make some discrete modifications to performance commitments and bill profiles to better reflect customer views in each area.



***The CCG believes the PR19 research programme demonstrates a much greater and deeper level of interaction with customers than in previous price review processes. It demonstrated a step change in approach.***

**Affordability and Vulnerability**

The company has undertaken several pieces of research around affordability and for customers in vulnerable circumstances. It has also set up new partnerships and relationships with relevant stakeholders and the CCG looks forward to this work moving forward. There are also clear opportunities for the two water companies operating in Wales to work together to improve performance in this regard. The CCG has been assured that these arrangements are falling in to place and this is an area for on-going monitoring.



***The CCG has specifically welcomed the company’s acceptance of the CCG’s challenge to develop impact/outcome based performance commitment measures for both affordability and vulnerability.***





The CCG noted the embryonic nature of HD specific strategies for affordability and vulnerability and the CCG looks forward to working with the company as it develops these key documents. The CCG also welcomes CCWater's challenge for the company to consider three further metrics to track *(i) customer awareness of assistance schemes, (ii) customer satisfactions of those receiving assistance, and (iii) the percentage of customers who consider their charges are affordable.*

## Research methodologies and techniques employed by the company

Given the seeming over-reliance on willingness to pay (WtP) stated preference research that characterised much of the PR14 research programmes, the CCG challenged the company to ensure that a wide range of engagement was employed.



***The CCG welcomes the development of the Customer Insight document<sup>1</sup> which provides detail on the company's research activity.***

The document was written specifically to provide a research compendium showing how all research had been undertaken and how the company had triangulated it with other sources of information. It links closely with the 'PC Target Setting'<sup>2</sup> document and when read in conjunction with each other, these documents provide a comprehensive overview of the sources of information used by the company in developing its plan. CCG comments on the main research projects are detailed in Section 3.2 of this report.

## Cost Adjustments

The company now proposes four cost adjustment claims that have been fully challenged by the CCG. Where applicable, clear and detailed evidence has been provided to the CCG of technical risk assessments undertaken by the company which have been peer reviewed for both scope and cost to ensure that they are the most cost beneficial over the long term. Specific customer research has been undertaken for all projects and each has received high levels of customer support and customer benefits have been articulated. In addition, the projects relating to reservoir safety, supply resilience and reducing lead in water have the support of the DWI and the enhancing bio-diversity and well-being project is supported by the NRW in particular.



- **Reservoir Safety:** This has a statutory driver and historical investment is seen by the company to be insufficient for the number of reservoirs across the patch (atypically large for the population served). ***The CCG agrees that the company's findings are acceptable.***



- **Supply Resilience:** HD has advised the CCG that it has an atypically large number of treated water reservoirs for the population served. ***The CCG agrees that the company's findings are acceptable.***



- **Reducing Lead in Drinking Water:** This cost adjustment reflects the appetite in Wales to reduce lead in drinking water. The CCG were keen to ensure customers knew this was not a statutory requirement and that they had a *choice* whether to contribute to a reduced lead Wales. ***The CCG agrees that the company's findings are acceptable.***

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<sup>1</sup> Section X of the Hafren Dyfrdwy Business Plan 2020-2025

<sup>2</sup> Section X of the Hafren Dyfrdwy Business Plan 2020-2025



- **Enhancing Biodiversity and Well-Being:** This area of activity will help HD to achieve the Biodiversity Duty of the Environment (Wales) Act which places a requirement on the company to enhance bio-diversity.

*The project is well developed, will be assured by NRW, and is supported in general terms.*



*However, the CCG does have some concerns about the balance of the cost of the proposal that falls upon HD customers. Much of the work undertaken will improve the 'catchment' and as such the CCG wants to be reassured that United Utilities customers are also contributing a fair share towards this project.*

## Performance Commitments

The company has, through its engagement plan, **sought the views of customers** on a range of available options and **stretch targets** for PCs where customer input is most likely to influence.



Not all performance commitments were tested with customers and neither were all ranges. The CCG challenged the company to provide a comprehensive document setting out their rationale and framework for each PC. This '**PC Target Setting**' document evidences the company's use of multiple data sources and outlines how they have balanced these factors (triangulation) when setting their proposed targets. Importantly, for each PC the company has reviewed all the publicly available information to help the CCG understand how HD compares to the rest of the industry and this is also set out in the document.

For each PC the document seeks to balance the bill level, risk exposure, performance and where there is evidence, customer support. Evidence is provided on current and comparative company performance, how future performance has been forecast, where on an industry scale (as far as is possible) the forecast performance would place the company as well as the type, impact and mechanism of the ODI to which it relates.

### Specific Performance Commitment challenges by the CCG

The ambition evidenced by the performance commitment targets were challenged by the CCG specifically in relation to the following areas:

- **environmental pollution** where more stretching targets were agreed
- **leakage reduction** where a significant shift led to commitment for the 15% reduction target
- **internal sewer flooding** where issues around repeat failures have been recognised, and
- **water supply reductions** where even tighter targets have been agreed

and the CCG is pleased to have seen positive movement on all the above areas (in Section 5) which it believes are in the best interest of customers.

In relation to **the bespoke affordability and vulnerability measures**, the Group welcomed the company's agreement to develop performance commitments that are **impact/outcome focussed** as opposed to the input focussed (eg numbers on registers) approach.

The company also **accepted the CCG's challenge to adopt introduce a Non Household Customer Measure of Experience (NHH C-MeX)** to ensure the views of its NHH customers are sought and tracked by the company.

In addition, **the company have also agreed to track external sewer flooding** and provide the information to the CCG but it will not be a formal PC.



*There is concern at the Willingness to Pay (WtP) research valuations being used to define PC targets and triggers for rewards and penalty payments. This use of the WtP was not advised to customers or to the CCG when the research was undertaken.*



*The CCG welcomes that, for the measures that are comparable across the industry proposed by the company, the company estimates that it will be within the upper quartile for at least 60% of them by the end of AMP7.*

## Outcome Delivery Incentives

Financial ODIs are being proposed for 18 of the 28 measures and the company has evidenced good customer support in general terms for the principle of the ODI framework.



The research material stated that **“Over the five year period customer water and wastewater bills will fall on average by 5% before the effect of inflation is added in<sup>3</sup>”**. This is incorrect: the combined bill will increase. If customers thought their future bill was going to reduce, it is quite possible that their opinion about additional spend for outperformance may have been influenced. *The CCG is concerned this statement may have affected responses regarding acceptance of PCs and ODIs.*



*The CCG welcomes HD’s confirmation that no outperformance payment would be made for performance that would simply be catching up with the rest of the industry, rather it would be for frontier shifting performance.*

The company has provided the CCG with detailed and logical flow chart information showing how it is applying the PR19 methodology with clear rules relating to the application of ODIs.

In initial discussions about the potential impact of ODIs on the average customer bill, the company had advised the CCG that the maximum impact would likely be in the range of +/- £1 per average bill per year over the five year period. Recent calculations provided to the CCG have increased that figure slightly (to around +£1.88 and -£3.33) but the company has suggested a likely scenario would see an average bill impact of around +£1 to - £2 per year.



In order to offer further protection to customers, particularly on top of potentially increased bills, **CCWater has challenged the company to apply a cap on rewards/penalties per year per average bill.** CCWater has noted the company’s response that, whilst it will not cap rewards, its expected impact on customers’ bills will most likely be in the region of +£1/-£2. However, the context in which the acceptability was made was potentially misleading.

## Bill Profile and Acceptability Testing



*The CCG welcomed the presentation of bill profiles within the acceptability research with and without inflation and the fact that the research included both informed and non-informed participants.*



The revised bill profiles represent a relatively significant shift from the earlier bill profiles and *the CCG welcomes the commitment of the company in reacting to the concern of the CCG and stakeholders and to the low acceptability of the bill profiles by customers.*

*However .....*

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<sup>3</sup> Questionnaire: SVT – PCs and ODIs



The revised bill profiles for 2020-2025 for HD suggest an **increase in the average combined** (water and sewerage) bill of 2.2% without inflation, rising to 11.4% with inflation. The **sewerage-only** bill is flat without inflation but rising to 8.2% with inflation. The **water-only** bill will increase by 3.6% without inflation but rising to 13.5% with inflation. Given the evidence of affordability issues in the HD area, and Wales in general, these rises are of considerable concern to the CCG.



*The CCG urges the company to ensure that acceptability testing for the revised bill profiles is repeated and extended to both Powys and Wrexham customers and to examine any differences carefully. As before, the testing should continue to be both quantitative and to include bill profiles with and without inflation.*

*It will be for Ofwat to satisfy itself that the proposals ensure 'no detriment' to any of HD's Welsh customers as a result of the licence change.*

## Innovation and Ambition

The company's response to the customer engagement appears to have driven fair and ambitious, yet balanced programme of investment. Approximately 60% of the PC targets represent a forecast UQ target which represents a good package for customers.



Due to the low number of metrics in some areas and the nature of some 'failures' being outwith direct company control (eg environmental pollutions and internal sewer flooding) the company will need to be innovative in looking at ways to educate its customers. The leakage reduction target of 15% represents a huge ambition and will likewise require some innovative approaches and perhaps use of behavioural science.

## Accounting for Past Delivery



The CCG has repeatedly sought information about the company's treatment of savings accrued as a result of the adoption of the Legacy Alternative project in AMP6. The previous DVW management had given assurances to CCWater and to the CCG that any outperformance for that project would be returned to customers and that the CCG would have had the opportunity to comment on the mechanism for return.



The CCG's view remains that those efficiencies should have come back to customers in their entirety, or at least, proposals for use of the money should have been discussed and agreed with the CCG. This remains an unresolved challenge to the company who the CCG encourages to take a customer focussed view on the matter as opposed to a technical totex-centric position.

## Assurance



The CCG had detailed sessions with the company's external third-line assurers (Black and Veatch) on three separate occasions and are reassured by their assessments. There has been little formal involvement of the Severn Trent/Hafren Dyfrdwy Board at meetings of the CCG, no doubt in part due to the new company being launched on 1 July 2018. Following sign-off of the business plan by the HD Board at its meeting of 31<sup>st</sup> August 2018 the CCG received its written assurance of a high quality business plan that customers can trust (Appendix D). The Black and Veatch report provided to the Board confirmed that its assurance supports the Board signing its assurance statement to Ofwat

## Conclusion

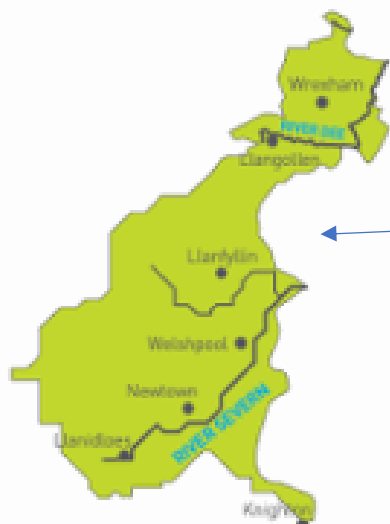
Overall, the CCG believes that the range of research undertaken by the company has been extensive and wide ranging. There is evidence of a clear thread and systematic analysis of customer research with the company demonstrating a good understanding of the range of customers views which it has considered carefully when making decisions. The company has considered the needs of customers with affordability or service vulnerabilities and the CCG is aware of an increasing uptake in the social tariff scheme already. It will be important to track the impact of such measures which the company has committed to do.

There have been several instances where changes to the company's plan as a result of customer research and further challenge by the CCG has been reflected in the plan by more stretch targets, greater importance or amendment of the bill profile and further detail in this regard provided in following sections of this report.

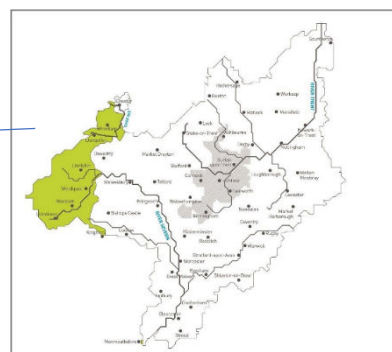
In particular the development of the **Customer Insight** document, logging all the research data used throughout the process, coupled with the **PC Target Setting** document, at the instigation of the CCG has been crucial in aiding the CCG's understanding – and moreover in evidencing – the work undertaken by the company to get it know its customers, its 'new' patch and the challenges both customers and the company faces to deliver the required service and investments at a level customers find acceptable.

The process does not stop here however, and the CCG looks forward being involved in the development of a clearly articulated strategic vision document (25 year plus) for the HD area. Such a document in to which the 2020-2025 business plan could be seen to have fit, would have aided the CCG's deliberations and would have been particularly helpful when contextualising investment. The CCG looks forward to the development of such a plan for HD over the coming months and years.

*"Hafren Dyfrdwy is Welsh for Severn Dee, the coming together of Dee Valley Water and Severn Trent to form a new water service for customers in Wales"*



New Hafren Dyfrdwy and Severn Trent regions 2018



## Appendix 4: Current operational performance

Table 4.1: PR14 Performance Commitments

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payment or underperformance penalty) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	A1	Discoloured water contacts	Yes	Yes	Yes	Yes	Yes	0.0025	0.5555
2	A2	Mean zonal compliance	No	No	No	No	No	0	0
3	A3	Delivery of the outcomes of the legacy water treatment works (major scheme)	n/a	Yes	Yes	Yes	Yes	0	0
4	A4	Delivery of the outcomes of the service reservoir water quality risk management schemes	n/a	Yes	No	Yes	Yes	0	0
5	B1	Average duration of interruptions – 3 hours or longer (planned and unplanned interruptions)	Yes	No	Yes	Yes	Yes	0.4534	0
6	B2	Sustainable economic level of leakage	Yes	No	No	Yes	Yes	-0.0379	0

<sup>1</sup> **PCL met?** - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payment or underperformance penalty) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
7	B3	Security of supply index	Yes	Yes	Yes	Yes	Yes	0	0
8	B4	Number of bursts	Yes	Yes	No	Yes	Yes	0.0046	0
9	C1	Gross operational greenhouse gas emissions	Yes	Yes	Yes	Yes	Yes	0	0
10	D1	Customers' perception based on market research	Yes	No	No	Yes	Yes	0	0
11	F1	Non-household service incentive mechanism	Yes	Yes	Yes	Yes	Yes	0	0
12	E2	Per capita consumptions and water efficiency	No	No	No	Yes	Yes	0	0
13	E1	Service incentive mechanism	Yes	Yes	Yes	Yes	Yes	0	0
14	W-A1	Number of complaints about drinking water quality	n/a	n/a	n/a	No	Yes		0
15	W-A2	Compliance with drinking water quality standards	n/a	n/a	n/a	No	No		-0.108
16	W-A3	Asset stewardship – number of sites with coliform failures	n/a	n/a	n/a	Yes	Yes		0
17	W-B1	Resource efficiency (distribution input per customers)	n/a	n/a	n/a	No	No		0
18	W-B2	Leakage	n/a	n/a	n/a	No	Yes		0
19	W-B3	Speed of response in repairing leaks	n/a	n/a	n/a	No	No		-0.123
20	W-B4	Number of minutes customers go without supply each year	n/a	n/a	n/a	Yes	Yes		-0.018
21	W-B6	Asset stewardship – mains bursts	n/a	n/a	n/a	Yes	Yes		0.0051
22	W-B7	Customers at risk of low pressure	n/a	n/a	n/a	Yes	Yes		0
23	W-B8	Restrictions on water use	n/a	n/a	n/a	Yes	Yes		0.0064

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payment or underperformance penalty) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
24	W-C1	Customers rating our services as good value for money	n/a	n/a	n/a	Yes	Yes		0.0079
25	W-D2	Asset stewardship – environmental compliance	n/a	n/a	n/a	Yes	Yes		0.0014
26	W-E1	Size of our carbon footprint	n/a	n/a	n/a	No	Yes		0
27	W-F1	Improved understanding of our services through education	n/a	n/a	n/a	Yes	Yes		-0.0075
28	S-A1	Number of internal sewer flooding incidents	n/a	n/a	n/a	Yes	Yes		0
29	S-A2	Number of external sewer flooding incidents	n/a	n/a	n/a	Yes	Yes		0.0856
30	S-A3	Partnership working	n/a	n/a	n/a	Yes	Yes		1.068
31	S-A4	Asset stewardship – blockages	n/a	n/a	n/a	Yes	Yes		0
32	S-A5	Statutory obligations (Section 101A schemes)	n/a	n/a	n/a	Yes	Yes		0
33	S-B1	Customers rating our services as good value for money	n/a	n/a	n/a	Yes	Yes		0
34	S-C2	The number of category 3 pollution incidents	n/a	n/a	n/a	Yes	Yes		0.001
35	S-C3	Asset stewardship – environmental compliance	n/a	n/a	n/a	Yes	Yes		0.1617
36	S-C5	Sustainable sewage treatment	n/a	n/a	n/a	Yes	Yes		0
37	S-C6	Serious pollution incidents	n/a	n/a	n/a	Yes	Yes		0
38	S-C8	The number of category 4 pollution incidents	n/a	n/a	n/a	Yes	Yes		0
39	S-D1	Size of our carbon footprint	n/a	n/a	n/a	Yes	Yes		0
40	S-E1	Improved understanding of our services through education	n/a	n/a	n/a	Yes	Yes		-0.0015



No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payment or underperformance penalty) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
41	R-A1	Customer satisfaction with their service (based on a survey)	n/a	n/a	n/a	Yes	Yes		0
42	R-A2	Customers' experience of dealing with us (based on Ofwat's SIM)	n/a	n/a	n/a	No	n/a		0
43	R-B1	Number of customers helped by a review of their tariff and water usage and/or supported by our social fund	n/a	n/a	n/a	Yes	Yes		0
44	R-B2	% of customers who do not pay	n/a	n/a	n/a	Yes	Yes		0
<b>Total cumulative financial ODI</b>								<b>0.4201</b>	<b>1.6346</b>
SVE waste ODIs total (uncapped)									1.3148
Other ODIs total									0.3198
SVE waste ODIs (with proposed capping)									0.0330
<b>Total cumulative financial ODI (with proposed uncapping)</b>									<b>0.3528</b>

Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance

SIM Performance	2015-16	2016-17	2017-18
Total annual SIM score (out of 100)	83	86	87

## Appendix 5: PR19 proposed performance commitments

**Table 5.1: Common Performance Commitments**

No.	ID (eg W-A1)	Common performance commitment	2019-20 forecast actual performance level	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI
1	G1	<b>C-MeX</b> – customer measure of experience (score)	N/A	Upper Quartile	Out and under	In-period
2	G2	<b>D-MeX</b> – developer services measure of experience (score)	N/A	Upper Quartile	Out and under	In-period
3	A1	<b>Water quality compliance</b> – the DWI's Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	1.71	0	NFI	N/A
4	B1	<b>Water supply interruptions</b> – average supply interruption greater than 3 hours (minutes per property)	00:19:47	00:13:00	Out and under	In-period
5	B5	<b>Mains bursts</b> – number of water mains bursts per 1,000 kilometres of total length of mains	126.33	110.27	Out and under	In-period
6	B6	<b>Unplanned outage</b> – proportion of unplanned outage of the total company production capacity (%)	stable	stable	NFI	N/A
7	B2	<b>Leakage</b> – megalitres per day (MI/d), three-year average	13.66	11.56	Out and under	In-period
8	B3	<b>Per capita consumption</b> – average amount of water used by each person that lives in a household property (litres per person per day)	155.4	151	NFI	N/A

No.	ID (eg W-A1)	Common performance commitment	2019-20 forecast actual performance level	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI
9	B4	<b>Risk of severe restrictions in a drought</b> – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought	0%	0%	NFI	N/A
10	C4	<b>Treatment works compliance</b> – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	100	100	Under	In-period
11	E1	<b>Internal sewer flooding</b> – number of incidents per year per 10,000 connection (sewerage companies only)	1.74	1.22	Out and under	End of period
12	E5	<b>Sewer collapses</b> – number per 1,000 kilometres of sewer (sewerage companies only)	8.15	8	Out and under	End of period
13	E2	<b>Pollution incidents</b> – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	158	116	Out and under	In-period
14	E4	<b>Risk of sewer flooding in a storm</b> – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	6.64	6.64	NFI	N/A

## Appendix 6: Expenditure

**Table 6.1: Totex**

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	117	97
Water resources (£m)	2017-18 FYA (CPIH deflated)		18
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	10	21
Bio resources (£m)	2017-18 FYA (CPIH deflated)		4
Residential retail costs	Outturn (nominal prices)	13	13

NOTE: PR14 only contains 1<sup>3</sup>/<sub>4</sub> years of waste costs from the date of the NAV change

**Table 6.2: Direct Procurement for Customers (DPC) proposals**

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)

We are not proposing any DPC schemes. We have reviewed potential schemes but none trigger the materiality threshold.

## Appendix 7: Trust, confidence and assurance

Please explain how the company's full Board has demonstrated that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.

Please explain how the company's full Board has assured themselves that the business plan will enable trust and confidence, including how the company's Board has taken account of the decisions Ofwat set out in its decisions for PR19 business plans to [put the sector in balance](#).

### **Lowest bills, better service and a healthier environment – a plan to serve our customers**

Our Board sought to ensure the 'bigger picture' has always been considered in its decision making. We believe we manage financial risk prudently and are even-handed in how we share outperformance returns with customers and shareholders; we pay our taxes fully and on time; we pay dividends and executive salaries that are reasonable, sustainable and linked to delivery of customer outcomes; we avoid complex offshore financial vehicles. And, we publish this information annually.

Within our plan, we've given a rounded view of how we're managing risks. For example:

- we're committed to broadly maintaining gearing at the notional level and moved to a seven-year viability statement to evidence our financial resilience;
- we're focusing on skills development, succession planning with fair and balanced decision making, to support corporate resilience;
- we're taking advantage of our size to test innovation – we're small enough that suppliers can afford to put their technology into our systems, but big enough to prove it works; and
- we're only proposing to invest where there is sufficient compelling evidence that now is the optimum time. We're using external assurance as a critical part of this process – including areas such as our cyber security plans (to ensure we met our obligations under the National Information and Security regulations) and our draft Water Resource Management Plan.

Our approach to assurance is the result of sustained and continuous work to build a robust assurance framework – used for all our performance reporting.

We're also clear that no matter how good, assurance by itself is not infallible. So we complement our framework with a set of values ('doing the right thing') that encourages all our people to raise concerns. For example, our latest APR added a £29.4k penalty to reflect our own investigation findings that in 2016/17 we'd actually missed the target which we'd reported as achieved. We' identified differences between changes in total leakage levels that were inconsistent with the levels of leakage per property per day.

We've developed a bespoke risk-based approach to assurance for our plan. Using Ofwat's methodology building blocks, our framework determined areas of greatest risk by reviewing operational, financial and customer impact - enabling proportionate application of our three lines assurance model. This framework guided our Audit Committee and Board throughout, allowing them to challenge delivery, monitor risk mitigation and ultimately evidence their assurance statement.