



REGULATORY REPORTING 2020/21

Risks, Strengths and Weaknesses in regulatory reporting and our assurance plan



1. Introduction from our Managing Director, James Jesic

At Hafren Dyfrdwy, we are first and foremost driven by our purpose – ‘Taking care of one of life’s essentials’- focussed on the delivery of outcomes for the benefit of our customers, wider society as well as our shareholders.

The Welsh Government has set a clear and bold ambition in its Water Strategy for Wales and the sustainability principles and goals set out in the Well-being of Future Generations (Wales) Act. We are in full support of this and understand the urgency of responding and adapting to climate change and the scale of the long-term environmental challenges we face as a sector. As we enter AMP7, we are already underway with delivering our bold ambitions to make positive contributions to the environment, deliver tangible improvements for our customers, while ensuring bills remain affordable.



This document covers our assessment of our risks, strengths and weaknesses that could affect our regulatory reporting this year. It includes a breadth of areas which are driven by our customers and our regulators, as well as our own internal review. The data we provide in our publications provide transparent insight into our performance for our customers and stakeholders. It is also critical information to direct and drive future improvements across the sector. With that in mind, the assurance process we apply to the information and data we publish is vital to ensure that it can be trusted by all.

A key part of our Audit Committee’s role is to assist the Board by establishing, reviewing and monitoring the Company’s internal control framework, including the internal and external audit and assurance processes and outputs. This document is governed by the Audit Committee. It provides transparent oversight of our intended assurance plan which responds to our assessment of risks, strengths and weaknesses in relation to regulatory reporting, and has been reviewed and approved by the Committee prior to publication.

A handwritten signature in black ink, appearing to read 'James Jesic', written in a cursive style.

We always welcome feedback on how we are focussing our assurance to best meet our customers’ needs. If you’d like to share your views on this plan, you can contact us via email or in writing at:

compliance.assurance@severntrent.co.uk

Group Compliance Team
Group Compliance and Assurance, General Counsel
Severn Trent Centre
2 St John’s Street
Coventry
CV1 2LZ

2. About us

We're one of the 11 regulated water and sewerage companies in England and Wales. We provide water and waste water services to customers in North East Wales, from Wrexham and Bretton in the north to Llanidloes and Knighton in the south. The Company was launched as Hafren Dyfrdwy on 1 July 2018 for customers in Wales who were previously in Severn Trent Water Limited and Dee Valley Water Limited. This aligned our operations around the England - Wales border with national boundaries. Hafren Dyfrdwy provides both water and waste water services to customers in Wales, providing clarity to the market in the region. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve.

Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most. **Providing accurate, clear and understandable information which can be trusted by our stakeholders is important to us.**

Ownership

Hafren Dyfrdwy is a subsidiary of Severn Trent Water Limited which is the principal subsidiary of Severn Trent Plc.

Our Purpose and Values

We believe that if we are united by a clear social purpose we will deliver better outcomes for all our stakeholders - our customers, our colleagues, our investors, the society we live in and the environment we depend on. So at Hafren Dyfrdwy, we are first and foremost driven by our purpose **"Taking care of one of life's essentials"** and we're guided by our values:

- Having courage
- Embracing curiosity
- Showing care
- Taking pride



FIND OUT MORE

You can find out more about the ownership structure of HD within the Severn Trent Group here:

<https://www.severntrent.com/about-us/our-businesses/>

3. The Purpose of this document

Background

Ofwat published the Company Monitoring Framework (CMF) in 2015 to ensure that customers and wider stakeholders can trust the information that water companies publish. Over the last five years it has focussed on ensuring that data we publish is accurate, and that customer and stakeholder views are taken into consideration.

In August 2019 Ofwat confirmed that formal CMF assessments would no longer take place. We think informing our customers and wider stakeholders is important- to improve the engagement we have already established, and to continue to deliver transparency around our performance reporting. For that reason, we plan to continue with our Risks, strengths and weaknesses statement this year.

Overview of the Company Monitoring Framework (CMF) cycle

We have established governance processes and a robust assurance framework which we apply to our regulatory reporting. This is explained in greater detail in section 5.

During the autumn we carry out a mid- year internal risk assessment of our regulatory, statutory and legal duties and obligations. This process is known as our Licence to Operate and is explained further in section 6. This assessment is an essential component of how we assess our highest areas of risk in order to apply the right level of assurance to the information we are reporting.

In addition to our Licence to Operate, we also consider relevant risks which are identified through our Enterprise Risk Management (ERM) system, as well as broader horizon scanning activities to understand what external factors and anticipated future changes might impact our assurance plan. This is explained in greater detail in section 6. We also review customer and wider stakeholder feedback not only from this year, but the themes we have been presented with over the last five years. This is explained in greater detail in section 4.

After publication of our Risks, strengths and weaknesses statement and assurance plan, we may make some final adjustments to the plan. If any material changes are made we will republish the plan.

We complete our year-end Licence to Operate assessments in April. This enables responsible managers, senior management and directors to review our duties and obligations and confirm if we have any non-compliances that need to be reported to our regulator. If we have any instances of non- compliance, we make sure we are open and transparent and report them in our APR (published in July) as part of our Board’s signed Risk and compliance statement. We work throughout the year to track and manage any issues until closure and report progress through the relevant Steering Groups and Committees.



? ANNUAL PERFORMANCE REPORT (APR)

Includes information about whether we’ve achieved our performance commitments in a given year, and our financial performance – based on the accounting conventions in Ofwat’s regulatory accounting guidelines.

4. How stakeholder engagement has influenced our plan

Out AMP6 customer and stakeholder engagement

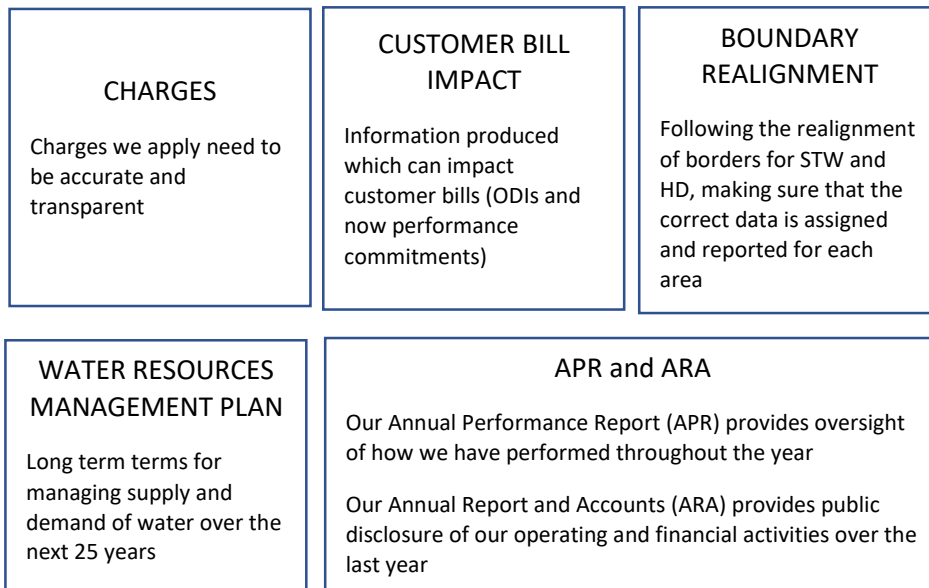
We have received feedback on our planned assurance activities for a number of years, which we use to help shape our final assurance plans.

During AMP6 we held targeted focus groups to understand which areas customers wanted us to target our assurance plan. We also carried out extensive engagement as part of our wider customer engagement programme for our AMP7 five year plan. Throughout our AMP6 and AMP7 business plan engagement there were five areas that were consistently important to our customers and stakeholders. These remain relevant today and will be included in our 2020/21 assurance plan.

AMP: Asset Management Period – this refers to Ofwat’s 5 year planning period. For example, we are currently in year 1 of AMP7.

PR19 (Price Review 2019): Every five years we publish our proposals for the next five year period. Ofwat reviews this and decides whether our plans are suitable.

Performance Commitment (PC) – the level of performance we have committed to deliver either annually or during the five-year period covered by business plans that started in 2020.



Regular customer engagement

We have been engaging with our household and non-household customers since 2017 using a customer tracker survey. We track customer views and experience in the following areas:



Our last wave of results indicated small improvements in the following areas:

Trust in drinking water	↑	Satisfaction	↑
Reputation	↑	HD awareness	↑

We have used the customer tracker quantitative data and feedback to shortlist themes which will help to shape our assurance plan.

ENVIRONMENTAL ISSUES

Environmental issues and controls in local areas are a key focus for many of our customers. Our remit and contribution to the environment is key, and Welsh legislation looks to us to go further and actively enhance the environment.

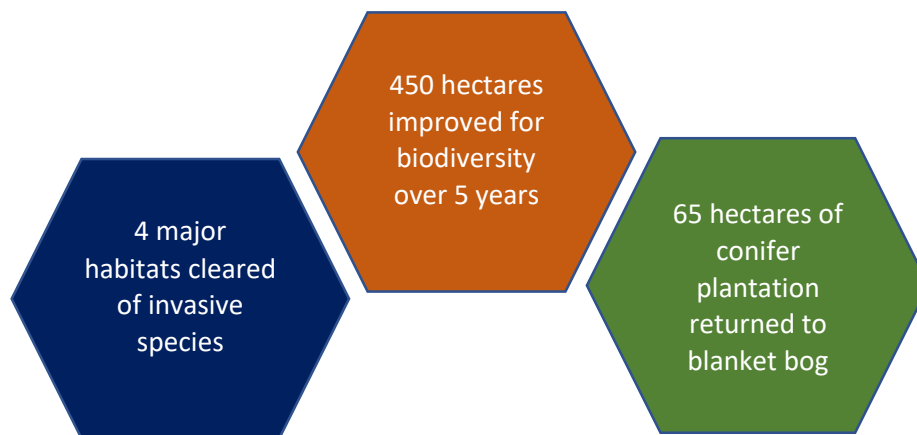
Ecosystems

Climate change

Habitat and biodiversity

Pollution

As the only waste & water company wholly in Wales, Hafren Dyfrdwy can bring a unique perspective to helping deliver Welsh Government's environmental vision. We are excited about playing our part in creating a better future for Wales. Some of our planned activities for AMP7 include:



Find out more here: https://www.hdcymru.co.uk/content/dam/hdcymru/wonderful-water/S6%20compliance%20report%20for%20Welsh%20Gov_Dec%202019.pdf

TRUST AND SATISFACTION

Some of the key themes that relate to trust and satisfaction are directly linked to the Performance Commitments we have agreed as part of our five year plan. Our performance in these areas will be reported as part of our Annual Performance Report (APR). Some of our commitments have financial incentives applied and can impact our customer bills.

Focus on keeping bills low and affordable

Fixing leaks quickly

Water quality

Trust to deliver continuous water and future service

IMPACTS OF COVID 19

The ongoing impact of Covid19 is significant and the pandemic has impacted everyday life as we know it. We know that our customers, both household and non- household will be impacted in different ways and while our customer survey tracker does not specifically reference Covid19, we understand that the impact of Covid19 is already having an impact on our economy and is set to continue for the foreseeable future.

Focus on keeping bills low and affordable

Keeping water and waste services available

Supporting colleagues and communities

At the time of writing we are waiting for the results of the first wave of our new AMP7 non-household customer survey. This will include a new addition relating to tracking of feedback to customer satisfaction with customer account handing (one of our Outcome Delivery Incentives). If any material changes are noted that could impact our assurance plan, we will ensure that these are considered in our final plan.

The first wave of our new AMP7 household customer tracker survey will take place next month.

Regulator engagement

We believe we have a positive and constructive relationship with Ofwat and aspire to maintain this through regular meetings and correspondence. Prior to the cessation of the CMF assessments being issued, we received feedback for areas of focus and improvement from Ofwat which we have incorporated into our processes and reporting.

Ofwat, NRW, DWI: These are our regulators for economic, environmental and drinking water compliance

The accuracy and completeness of data and information we provide to our regulators remains pivotal to us - we fully support and contribute to Ofwat's strategy to transform industry performance, and the submission and publication of accurate and complete data is key to helping Ofwat do this.

We have continued to develop open and honest conversations with NRW and DWI. As a socially responsible company with a strong focus on environmental performance, we are planning the largest statutory environmental programme in our part of Wales for over 20 years, improving 22km of river. We are committed to Future Wales and have an ambitious five-year plan which is already underway.

5. Our assurance framework for regulatory reporting

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach we use comes from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies.

Our established framework is underpinned by four main principles which, provides consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our Company and the environment we operate in.

- **Robust assurance** – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- **Ownership and accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective governance** – provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee.
- **Transparency and public accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

Robust Assurance

We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators; or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, may be targeted with first or second line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate assurance spend.



Our three lines of assurance

First line activities are embedded within the teams that are responsible for reporting the data so that colleagues, with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are conducted by a separate team that does not report into the same senior manager to ensure a level of independent checking is conducted. For elements of our APR, additional second line reviews are undertaken within the same directorate to ensure that we maintain a strong level of expertise and understanding of the source data.

Third line activities are carried out by internal or external providers depending on the specialisation required. The expertise can be divided into the following categories:

- Engineering/technical - where assurance requires an expert engineering / water industry technical background.
- Regulatory - where challenge is required around the methodology used and assumptions against our regulatory requirements.
- Data integrity and consistency – understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.
- Financial - used for areas requiring specific financial expertise, such as pensions and tax.
- Model integrity - where a complex financial model is used and requires specialist external expertise to test and challenge.

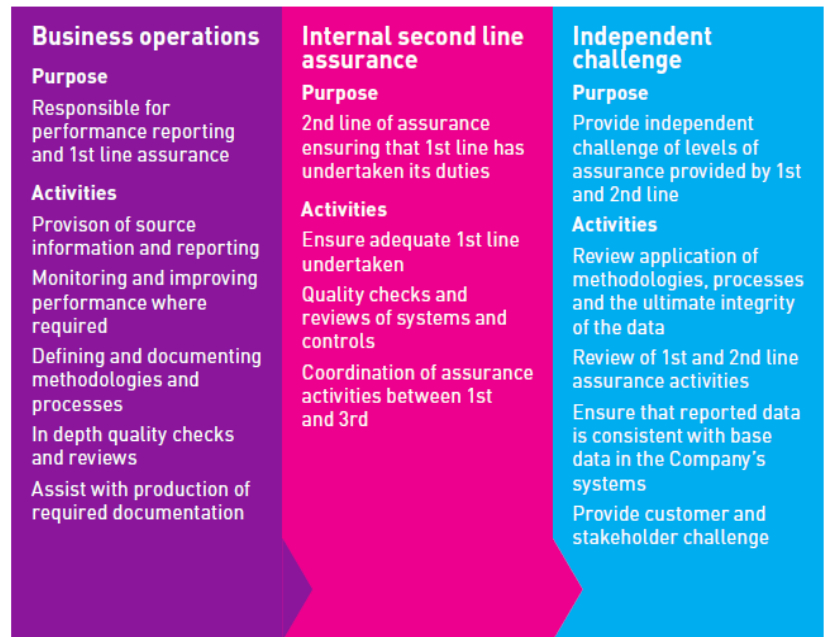
The majority of our third line assurance is provided by the following:

- Jacobs - typically review non-financial operational performance processes and data. Also responsible for cost allocation activities and financial reporting processes.
- Deloitte – our financial auditors who mainly examine our statutory accounts.
- Internal Audit - used for financial data, process and other ad-hoc assurance.

AMP7 Assurance Map

Our updated AMP7 assurance map is aligned to our outcomes outlined in our AMP7 business plan. We also include oversight of broader requirements to provide a better line of sight for our Board.

Under the headings of the map, we outlined key activities (and child layers of these activities), taking into account areas covered in the AMP6 map, our external publications and key regulatory areas. We then tested these headings by mapping Licence to Operate (L2O) and Enterprise Risk Management (ERM) against them. Any outputs from the assurance map are included in our assurance plan.



Governance and Accountability

Our risk-based approach to assurance underpins our governance and assurance processes. We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided. Our regulatory, statutory and legal obligations in our appointed business are assigned to managers, senior managers and directors. These managers are responsible for ensuring compliance with our regulatory duties and raising potential risks or issues of non-compliance. This is explained in more detail in section 6.

We have a strong history of good governance and internal controls to meet our statutory requirements under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing Rules, Disclosure Guidance and Transparency Rules, and the company's annual and ongoing regulatory reporting.

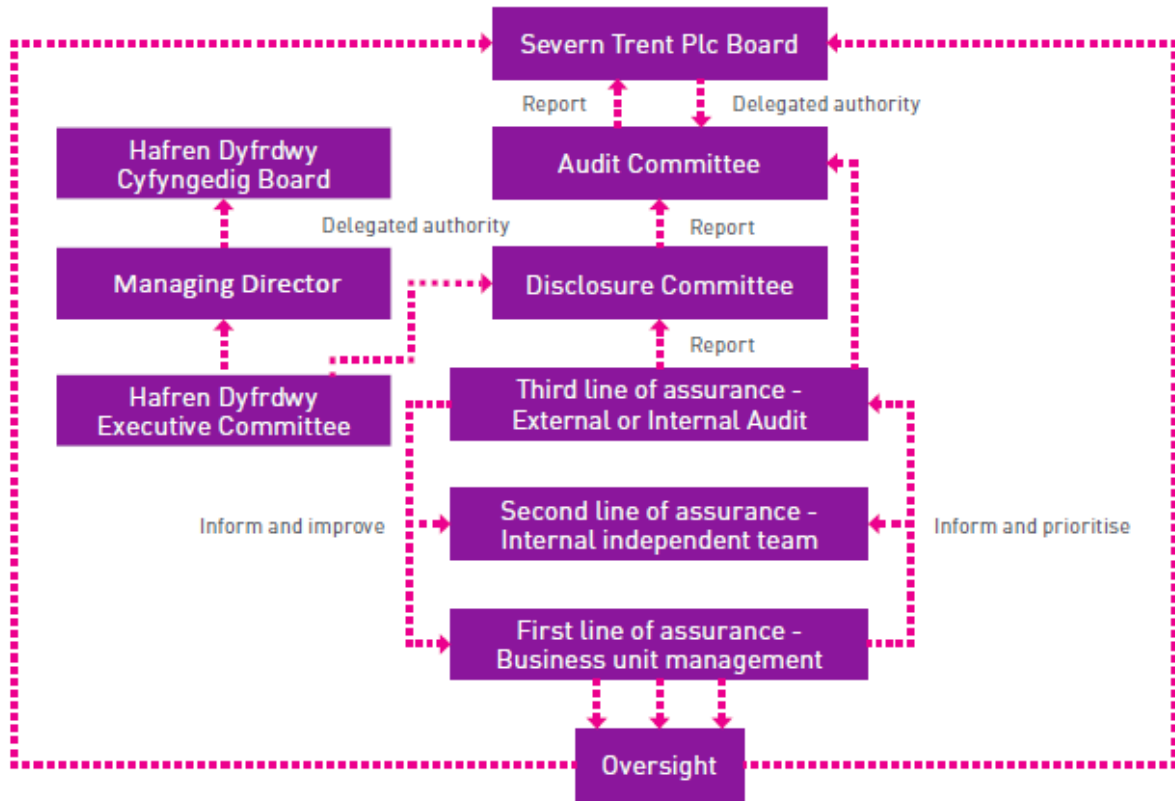
The Hafren Dyfrdwy Board is supported by the Severn Trent Plc Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and their respective Committees. In line with the 2018 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Board regularly reviews the Terms of Reference of each Committee. The Governance Framework is also subject to periodic review to ensure that it remains appropriate. The Disclosure Committee oversees the reporting obligations of the Group, considering the materiality, accuracy, reliability and timeliness of information disclosed, and review the level of assurance received.

Our Governance and assurance frameworks work together and are built on high standard processes to enable confidence in the information and data we report in our ARA and APR. The below provides an overview of how our frameworks interact to ensure that all levels of the business have an oversight and understanding of the assurance processes we implement. The effectiveness of the controls over reporting are monitored by the Audit Committee, which receives regular reports of the assurance conducted by the External Auditors.

Hafren Dyfrdwy is an operating subsidiary of the FTSE100 company Severn Trent Plc.

We provide a detailed overview of our governance framework, the Committees that report to our Board and the reviews that are undertaken in our 'Board, governance and compliance' chapter in our APR

<https://www.hdcymru.co.uk/content/dam/hdcymru/regulatory-documents/HD-annual-performance-report-2020.pdf>



Notable changes since publishing our APR: New HD Board appointments



We are really pleased to announce two new appointments to the HD Board. James Jesic as the Managing Director and Helen Miles as the Chief Financial Officer of Hafren Dyfrdwy. They have taken on these additional responsibilities alongside their existing Severn Trent roles as Directors of the new Customer Operations and Capital Delivery and Commercial teams.

Helen oversaw the integration of the old Dee Valley business into the broader Severn Trent Group, and James has been actively involved in building our AMP7 plan across Wales. Both officially joined the Board on 15 July 2020.



6. Identifying our risks and weaknesses

We use a number of tools to undertake assessment of areas where we may have;

- A risk to the accuracy and reliability of the information and data we report.
- Emerging risks that can be identified through internal assessment and horizon scanning.
- Where we have an opportunity to develop our assurance plans to the themes that are important to customers and wider stakeholders. This enables focus on customer led requirements.

Licence to Operate

We use the wealth of expertise within the business to assess our statutory and regulatory obligations relating to provision of water and wastewater. We call this assessment 'licence to operate' and was introduced to Hafren Dyfrdwy during AMP6. We monitor over 120 legislations, which are underpinned by over 1500 reporting lines. Licence to operate is a two-stage process that operates through the mid and year-end of the annual regulatory cycle.

We ask our responsible managers to complete a risk assessment of their regulatory and statutory obligations twice a year. This involves assessing the following five categories as either low, medium low, medium high or high risk, which we use to indicate likelihood:

Purpose	Does the responsible manager understand the purpose of the duty and what their obligations are?
Process	Has the responsible manager ensured that there is an adequate process in place to comply with our obligation and is this documented?
RACI	Is it clear which employees are responsible for which part of the process?
Competency	Are employees suitably trained and is there a clear skill matrix defined?
Controls	Are there measures in place to monitor performance and is regular quality checking undertaken?

Once this assessment has been completed, centrally the Compliance team, and other subject matter experts such as the Legal team, assess the impact of non-compliance in this area using six factors:

Customer service impact	Would there be a negative impact on customers?
Environmental impact	Could we damage the environment if we didn't comply?
Health and safety	Could someone be hurt as a result?
Regulatory impact	Is this a key industry or regulatory measure of prime importance?
Financial impact	Could there be a financial penalty or fine? Would investors lose confidence in us?
Competition	Does the duty or obligation interact with competition law?

Our total risk exposure is based on the combined score of the likelihood of a non-compliance and the score for the impact of a non-compliance. This creates a simple way to compare one risk factor to another. Our highest areas of risk may require focus in our assurance plan. If management action is needed the mid-year gives us the opportunity to put mitigation/improvement plans in place prior to our year-end reporting of performance.

Enterprise Risk Management (ERM)

Risk is all about uncertainty and our goal is to identify risk, minimise the threats and maximise the opportunities for the benefit of our customers, shareholders, employees, supply partners and the environment.

We use an established ERM process to assess and manage our significant risks. The process is controlled by the Central ERM team and underpinned by a standardised methodology to ensure consistency. ERM champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Criteria are used to consider the likelihood of occurrence and potential financial and reputational impacts.

Emerging risk

We continually identify and monitor emerging risks through our network of ERM co-ordinators, ERM champions and risk owners and through cross-functional workshops at all levels of the organisation using tools such as horizon scanning and PESTLE analysis. This culminates with an emerging risk horizon map reported annually to the Audit Committee and Board. We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage. Emerging risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose.

High profile industry issues

Industry wide issues are an emerging landscape and can often receive significant media coverage. We also take into consideration challenges that other water companies like us have faced or continue to face to understand what we can learn and improve on. These issues will often be at the forefront of customers' minds so it's important we are transparent with our performance in these areas of growing interest.

FIND OUT MORE

You can find out more about our ERM system, the Board accountability, and the types of Group wide risks we report on page 57 of the ST plc ARA <https://www.severntrent.com/content/dam/stw-plc/shareholder-resources/ara-annual-report-2020.pdf>

7. Outputs of assessment

Licence to operate

In this year's assessment, the following areas were highlighted as high risk:

PR19 Performance Commitments

We are now in the first year of AMP7 and are ready to start reporting on our PR19 performance commitments (outside of shadow).

Although we started auditing these last year to make sure we have the right processes in place to report accurate information and data, they are a high focus area to both our customers, stakeholders, regulators and investors.

Water Quality Regulations 2000/ Water Industry Act

We have made lots of improvements on our water safety plans, our risk assessment plans, sampling plans, and our focus on treatment of raw water. With lots of work already completed over the last year, our internal assessment ensures a continued focus in these areas.

WELL BEING OF FUTURE GENERATIONS ACT 2015 (WALES)

The Well-being of Future Generations Act requires public bodies in Wales to think about the long-term impact of their decisions, to work better with people, communities and each other, and to prevent persistent problems such as poverty, health inequalities and climate change.

Our final determination allows Hafren Dyfrdwy £15.6 million to invest in improvements to service, resilience and the environment. Part of this allowance is £2.8 million for the implementation of the Reservoirs Act 1975, the Environment Act 2016 and the Well-being of Future Generations (Wales) Act 2015. This is a key area of focus for us this AMP.

RAG 2 and RAG 5

RAG 5 contains guidelines for applying transfer pricing rules on transactions with associate companies and the non-appointed business.

We have a number of controls in place to ensure that we apply the requirements as set out by Ofwat. Cost allocation activities within our Finance team are part of our established third line assurance processes. This area remains a focus for us with the introduction of new price controls this year, and to make sure that we allocate the correct costs to the correct areas of the Severn Trent Group. This is really important as Hafren Dyfrdwy is a subsidiary of

RAG 2 contains guidelines for the classification of costs across the price controls.

Severn Trent Water Limited which is the principal subsidiary of Severn Trent Plc.

Wider engagement, risk analysis and horizon scanning

The Group Compliance and Assurance team review our broader ERM system as well as engaging across the business to support submissions which are deemed to require assurance prior to publication. These may be publications that require Board statements, new delivery requirements, or areas which are subject to regulatory change. We also consider industry wide issues which are identified through the year. The outputs of the review are summarised below.

BESPOKE PERFORMANCE COMMITMENTS FOR AMP7

We have committed to a number of unique performance commitments:

11% increase in the percentage of struggling to pay customers supported through tailored schemes by 2024-25

- 6% reduction in sewer blockages by 2024- 25
- 230 lead pipes replaced. Including both communication and supply pipes consistent with Welsh Government priorities

COMMON PERFORMANCE COMMITMENTS FOR AMP7

We have a number of common performance commitments:

At least 15% leakage reduction from PR14 performance commitment levels.³

- 4.2% reduction in per capita consumption by 2024-25
- 39% reduction in pollution incidents by 2024-25 to 974 incidents per 10,000km of the wastewater sewer
- 23% reduction in internal sewer flooding incidents by 2024-25 to 1.34 incidents per 10,000 connections
- 58% reduction in water supply interruption incidents by 2024-25 to 5 minutes

RESILIENCE

National Environment Programme (NEP)	We are investing £6.5 million to improve the environment by efficiently delivering our obligations as set out in the National Environment Programme (NEP). We have a duty to enhance and protect our environment for today and the future.
Dams and Reservoirs	Highlighted as the highest regulatory risk through ERM, we have secured investment to delivery safety and resilience improvements to reservoirs over AMP7 which will mitigate this risk in the future. We will use a number of governance and reporting mechanisms to track progress.

INDUSTRY ISSUES

Protecting rivers	There is growing concern over the quality of our river water, which is being significantly impacted by man made pollution, and we have seen media coverage of devastating impacts of pollution incidents impacting fish and river ecosystems.
Drought	There has been a lot of press coverage this year relating to the risk we face in the UK of severe drought in as little as 20 years. We have our Water Resource Management Plans to provide oversight of our long term plans to tackle issues like these .
Leakage	The combined effects of population growth and climate change are set to significantly impact water supply over the next 25 years. A key requirement to help stem supply issues is a focus on reducing leakage. We have stretching targets to reduce leakage in AMP7.
Carbon neutral	The water industry is the first to commit to carbon neutrality by 2030 and we have lots of plans in place on how we will deliver it. From electric fleets to renewable energy sources, and planting over a million trees in the next 5 years.

Our Assurance Plan

8. Our assurance plan

Our assurance plan is grouped into two areas, **core assurance activities** and **focussed assurance activities**. Our **core assurance activities** are published documents which form part of our core regulatory reporting cycle. These documents are subject to our risk based three lines of assurance and governance processes. Our **focussed assurance activities** are shaped by the customer engagement (section 4) our internal assessments (section 7) and environmental themes which are highlighted in both assessments.

Both areas of activities are interlinked with the themes presented throughout this document. We use the below key to highlight where the assurance plan is influenced and shaped both directly and indirectly by customer, environment and internal/ external assessment:

CUSTOMER AND STAKEHOLDER PRIORITY	WE ARE BEING TRANSPARENT WITH AREAS THAT ARE IMPORTANT TO OUR CUSTOMERS
ENVIRONMENT	A FOCUS ON ENVIRONMENTAL PERFORMANCE, SUSTAINABLE SOLUTIONS FOR TODAY AND THE FUTURE
LICENCE TO OPERATE/ INTERNAL ASSESSMENT/ INDUSTRY ISSUE	INFORMATION RELATING TO REGULATORY COMPLIANCE THAT HAVE BEEN IDENTIFIED AS HIGH RISK

Core areas

ANNUAL PERFORMANCE REPORT (APR)



This report is the principal way that we will document our annual performance and hold ourselves publicly to account. Ofwat consulted with us earlier this year and it is likely that there will be some changes to the information we report on. This should be available prior to us publishing our final assurance plan and further information will be provided then.

It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.

In addition, some of our PCs have a financial reward or penalty associated so customer bills will be directly affected by our performance.

PLANNED ASSURANCE:

- On an annual basis all performance data is subject to assurance. In addition, using a risk based approach, some of our measures are also subject to half year assurance to get early sight of any potential risk areas, which we can address prior to year-end.
- Data and methodology are subject to three lines of assurance with our financial auditor performing third line assurance for financial reporting, and our regulatory technical auditor or Internal Audit performing third line assurance for non- financial data.

ANNUAL REPORT AND ACCOUNTS (ARA)



We have a statutory obligation to ensure that our financial accounts are prepared in accordance with the relevant financial reporting framework and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.

PLANNED ASSURANCE:

- The methodology and data are subject to three lines of assurance with our financial auditor performing third line assurance.
- The Methodology and data of our RORE calculations is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.

CHARGES



Charges including draft wholesale charges, final charges and access prices - We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are within our revenue cap and compliant with Ofwat's charging rules. The charges process is split into two parts:

- Draft - Since the non-household retail market opened, we have been required to publish draft wholesale charges in October to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage.
- Final - In January, companies are required to publish all of their proposed charges for the next financial year i.e. non-household and household, retail and wholesale and non-primary charges.

PLANNED ASSURANCE:

- The methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Model assurance undertaken by specialists, Numeritas.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.
- Engagement with customers and Customer Challenge Groups to ensure bill impacts are understood (particular where these are greater than 5%).

New Connections Charges- Our developer services customers want the ability to accurately predict what their costs will be when they build and connect a property to our network. Therefore, it's important then we publish our annual charges for new connections that they are accurate, easy to understand and cost reflective. Furthermore new connections charges are subject to competition law and is an area of focus for Ofwat. To ensure we meet these requirements, we have put in place a comprehensive set of third line assurance checks.

PLANNED ASSURANCE:

- The data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.

- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.
- Engagement with developer services customers.

COMPETITIVE MARKETS

Market Performance Standards (MPS) and Operational Performance Standards (OPS)- On a monthly basis, we are required to submit a number of key performance indicators to the market operator, MOSL, which then publishes the information on its website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. Failure to meet OPS and MPS SLAs will also result in a financial penalty.

PLANNED ASSURANCE:

- Audit performing third line assurance on OPS
- Performance reviewed on a quarterly basis at Disclosure Committee.

Market Information- To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication.

PLANNED ASSURANCE:

- The data and methodology is assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.

NRW AND DWI REPORTING

We take our role and its impact on the environment and drinking water seriously. It is important that information we share with NRW and/ or DWI is accurate and reflective of our performance. If we fail to meet our environmental commitments or drinking water standards we could reduce the level of trust our customers place in us, and we could also face financial penalties. We provide our planned submissions to Disclosure Committee for oversight in the new year and apply the same approach to assurance on any ad hoc requests from our regulators in the same manner.

PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.

Focus areas

We have taken into consideration the themes that are of importance to our customers and stakeholders, environmental issues, and internal/ industry wide assessment. These all link to the areas highlighted throughout this document.

PR19 PERFORMANCE COMMITMENTS



Our performance commitments are of critical importance to our customers and wider stakeholders. They are directly linked to our performance of the operational services we provide to customers, the impact we have on the environment, and many of them have financial incentives applied to them which can directly impact customer bills. Some of our PCs are new for AMP7 and therefore the data we use will require scrutiny through our assurance framework to ensure it is accurate and reliable.

PLANNED ASSURANCE:

- The data and methodology is assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.

WATER QUALITY



Water quality is a priority for our customers. In Powys we hit 100% on the Drinking Water Inspectorate's measures of water quality last year. In Wrexham our water quality performance was slightly worse with a mean zonal compliance score of 99.92% and a small year on year increase in drinking water complaints. We have plans in place to drive further improvements this year.

PLANNED ASSURANCE:

- Where data is provided to DWI as part of our Performance Commitments, the data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Other areas, including our safety plan, are assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.
- Submissions reviewed at Disclosure Committee.

COST ALLOCATION



Cost allocation and a focus on our boundary realignment with STW is important to our customers and wider stakeholders, demonstrated in the feedback to our previous assurance plans so we continue to focus assurance in this area.

Cost allocation activities within our finance team are part of our established third line assurance annual processes. While we have made a big improvement in this area, we continue to ensure that our processes are thoroughly documented within both Hafren Dyfrdwy and other entities in the Severn Trent Group.

This area remains a focus for us with the introduction of new price controls this year, and to make sure that we allocate the correct costs to the correct areas of the Severn Trent Group.

PLANNED ASSURANCE:

- Cost allocation data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Our updated RAG5 compliance Framework is subject to three lines of assurance with an external auditor completing third line assurance.
- We have established controls including licence to operate and ERM.
- Our RAG5 Steering Committee are responsible for overseeing RAG5 compliance and reporting directly to the Disclosure Committee.
- RAG 5 is monitored through ERM.

DEPARTURES FROM COMPLIANCE IN OUR APR

In our Annual Performance Report (APR) for financial year 2019/20 we highlighted three departures from compliance, of which two remain open. We have actions in place for both, but these areas remain of focus until their closure.

- (1) Non- financial-Cost Assessment Tables (RAG 4): 4R.24 Total measure of sludge produced, treated by third party sludge service provider 4): 4R.32 Total measure of intersiting 'work' done by tanker 4): 4R.35 Total measure of intersiting 'work' done by tanker
- (2) Non- financial-Cost Assessment Tables (RAG 4): Number of combined, settled and emergency sewer overflows

PLANNED ASSURANCE:

- The data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Action plans are monitored and tracked through to completion by the Group Compliance team.

DAMS AND RESERVOIRS

We are monitoring Group level compliance risk against the Dams and reservoirs Safety Act through our ERM and Licence to Operate processes. We have secured funding to deliver improvements to our reservoirs during AMP7 and these improvements will mitigate identified risk. We will also report progress in our APR.

PLANNED ASSURANCE:

- The risk is managed and monitored through our ERM reporting process.
- The risk will be reviewed in November 2020 by the Strategic Risk Forum.
- Our risks are reported and reviewed by our Board.
- We have planned assurance in line with our APR reporting (detailed above).