



# Hafren Dyfrdwy Annual Performance Report 2018

Year ended 31 March 2018

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# About us

In February 2017, Dee Valley Water became part of the Severn Trent group. Earlier this year, Ofwat approval was received to align the boundaries of Severn Trent and Dee Valley Water to the national boundaries of Wales and England. In line with this approval, we launched our new name, Hafren Dyfrdwy on 1 July 2018. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve.

We want to make our services as amazing as water itself so we've come together to create something which will ensure all our customers in Wales can enjoy wonderful water for generations to come.

This document covers the year ending 31 March 2018. As such, we are reporting performance for the previous Dee Valley Water business which supplied 59 million litres of drinking water each day to around 128,000 customers in northwest Wales, Cheshire and the surrounding areas.

# About the Annual Performance Report

This document is produced annually to ensure our customers and stakeholders can clearly see how we've performed. Providing accurate, clear and understandable information which can be trusted by our stakeholders is important to us. We've included information about:

- how we've done in meeting our targets for delivering outcomes ('performance commitments');
- the rewards and penalties ('outcome delivery incentives') generated where we've exceeded the service levels customers expect or not delivered the level of service we committed to; and
- in areas where we have not performed well, the action we're taking to put things right.

We've also provided information on costs and our financial performance and provided a compliance statement and a data assurance summary.

# Responding to Ofwat's queries

## Responding to Ofwat's queries

Following publication of our Annual Performance Report in July 2018, we received a number of queries from Ofwat. This process is used to ensure that the regulator understands the details behind our data, allows them to ask for additional information or commentary where it is needed or for them to highlight inconsistencies that they have identified.

We have received 14 queries in total, they focused on inconsistencies within our data returns or requesting additional information and commentary.

## Updating this report

We updated this report in August 2018 to include comparative performance across the industry. We also took this opportunity to include:

- update the document to correct minor inconsistencies; and
- a statement from our Board about how we are delivering services for everyone who depends on our services

We have also updated the published documents on our website where inconsistencies were identified between published data and the information we submitted to Ofwat directly.

# Our performance for 2017/18





# Our performance for 2017/18

Code	Description	Unit	Actual performance (with target in brackets)		Outperformance payment/ (underperformance penalty)
			2016/17	2017/18	
A1	Discoloured Water Contacts	Number per 1,000 customers	1.07 (1.90)	0.91 (1.01)	£0.0025m
A2	Mean zonal compliance	Percentage	99.99% (100%)	99.97% (100%)	Nil
A3	Delivery of the outcome of the Legacy treatment works major scheme	Scheme completion	Pass (milestone)	Complete (Complete)	Nil
A4	Delivery of the outcomes of the service reservoir water quality risk management scheme	Scheme completion	Pass (Nil)	Pass (Nil)	N/A
B1	Supply interruptions	Hours/property /year	0.35 (0.24)	0.07 (0.20)	£0.0209m
B2	Sustainable economic level of leakage*	Litres /property /day	96.5 (90.8)	92.5 (90.8)	(£0.0085m)
B3	Security of supply index	Percentage	100 (100)	100 (100)	N/A
B4	Number of bursts	Number	209 (234)	243 (222)	Nil
C1	Gross operational greenhouse gas emissions	Tonnes carbon dioxide or equivalent	8385 (9762)	7709 (9752)	N/A
D1	Customers' perception based on market research	Percentage	77% (Improved)	73% (Improved)	N/A
E1	Per capita consumption and water efficiency	Litres /person/day	135.21 (130.45)	136.57 (129.44)	Nil
E2	Service incentive mechanism	Score	85.94 (80)	86.5 (80)	Ofwat methodology
F1	Non-household service incentive mechanism	Score	90.43 (80)	94.0 (80)	Ofwat methodology
Total outperformance payment					£0.0149m

\* Underperformance payment of £(0.0294)m also applies for 2016/17 performance

# Our performance for 2017/18 (continued)

## A1: Discoloured water contacts

We have continued our strong performance of improvement in the number of drinking water contacts we receive. This year our water quality teams have targeted areas of the network for ice-pigging to remove the build-up of silt deposit accumulation from the network. Alongside this we have undertaken an intensive programme of high velocity flushing in over 160km of our network.

During the year the Legacy treatment works has also been taken out of supply. Whilst this occurred too late in the reporting year to have an impact on the number of contacts we have reported, we expect the number of contacts in future to reduce as we have removed a key source of manganese from the supply network. To complement this we are expecting to undertake 250km of high velocity flushing in the Legacy zone during 2018.

## A2: Mean zonal compliance

This is another strong area of performance although compliance for the year has dipped slightly to 99.97% from the exceptional performance in the previous year.

Looking more broadly at water quality, we achieved our best ever performance on the Compliance Risk Index with an industry leading score of zero. This was delivered through investment at our water treatment works and a sustained high intensity inspection programme at distribution service reservoirs leading to no regulatory failures at assets during 2017. We'll continue following this successful approach.

## A3 – Completion of the outcome of the Legacy treatment works major scheme

Customers are now enjoying higher quality water, thanks to the completion of a complex scheme to close the Legacy treatment works and instead supply water from a more resilient and efficient facility.

Constructed in the 1920s, the works at Legacy on the outskirts of Wrexham was licensed to abstract water and treat it through a series of pressure filters and chlorination plants before being held in a 350,000 gallon tank. However, despite regular upgrades, the facility was nearing the end of its useful life and some customers were experiencing occasional discolouration problems as a result of the manganese in the treatment process.

In March 2018, following several years of hard work by the team at Hafren Dyfrdwy, a project to transfer the raw water to Llywn Onn was completed – including a new distribution water pipe – and the Legacy treatment works was finally closed.

The completion of the work secures delivery of the obligation we agreed with Ofwat to improve water quality in the Legacy water treatment zone, and in doing so, underlines the benefits for customers of an outcome-based regulatory framework.

## A4 - Delivery of the outcomes of the service reservoir water quality risk management scheme

Our commitment requires the delivery of the outcomes of the service reservoir (SR) water quality risk management schemes by the end of 2019-20. The required work is the replacement of Llwyn Onn treated water tank, Sugn-y-Pwll service reservoir and Berwyn service reservoir. In addition we need to replace the roof membranes at eight service reservoirs. Whilst eight sites were named in our business plan, these can be substituted as our inspection programme identifies the most at risk reservoirs.

The Llwyn Onn treated water tank is being replaced by two new SRs on the same site. The first was completed in December 2017, allowing the decommissioning of the existing tank. Work has begun on the second, which is programmed to be completed by October 2018.

Construction at Sugn-y-Pwll will allow the existing tank to be disconnected and the new service reservoir to be commissioned well in advance of the 2020 completion date. Similarly, the Berwyn service reservoir at Llangollen, will be commissioned during 2019 ahead of the obligation date.

Our programme of roof inspections is also on track to complete this AMP which will ensure that all reservoirs have been tested within the last 10 years. Based on the findings we will install the new membranes at the eight sites required to meet the obligation.

# Our performance for 2017/18 (continued)

## B1: Supply Interruptions

Despite the difficult operating conditions experienced across the sector this year, and an increase in our burst numbers, we are reporting a significant improvement in the number of hours the average property was without water.

One major change this year has been the integration and alignment of our network control function with that of Severn Trent Water. This has enabled a greater level of centralised control alongside knowledge sharing and increasing the resilience of our incident control functions.

But we firmly believe that prevention is better than the cure and have ensured that all network shut downs and maintenance tasks that were planned for the year have been carried out. As part of this process a 'plan B' is always in place to ensure we minimise the impact on our customers at all times.

Alongside this we have a continual programme of education and training for our front-line operatives to ensure consistency of our response.

## B2 – Leakage

Last year, we reported that leakage had deteriorated due to an increase in mains bursts and a major interruption on a strategic main in Wrexham. While the outturn position had remained within expected levels for the performance commitment, total leakage, as measured in million litres per day, was higher than assumed in the Water Resource Management Plan (11.31 ML/d compared to 10.17 ML/d). We said we would investigate the reasons for this during 2017/18.

We have reviewed the position and as a result, we believe the actuals reported for the performance commitment should be restated. Actual performance has been normalised using total properties whereas the target has used household properties only. Results for both 2015/16 and 2016/17 need to be restated. Critically, this means we did not achieve our performance commitment last year and a £29.4k penalty should be retrospectively applied. We have provided further details in the next section.

In terms of 2017/18 performance, we've had no significant bursts and have seen a commensurate improvement in our leakage performance. Operating conditions across the year were moderate which contributed to us being ahead of the curve over the winter period. This allowed us to absorb the impact of the 'Beast from the East' weather event which saw a noticeable increase in the level of leakage.

However, despite the improvement, we have not achieved the target and will incur an £8.5k underperformance penalty.

We will continue to increase the number of permanent and temporary loggers to give us a better understanding of where and when water is being lost from our network. This investment should enable us to achieve our target leakage level in future.

## B3 – Security of supply index

We maintained our performance of 100% security of supply, primarily due to the level of resource resilience available on the River Dee.



# Our performance for 2017/18 (continued)

## B4 – Number of bursts

For the second year running we have seen an increase in the number of bursts on our network. There are two key drivers of this increase:

- The freeze/thaw event in March 2018 lead to an increase in pipe bursts over a short period
- Removing the Legacy treatment works from the supply network led to a small number of localised pipe bursts as the new system was optimally configured.

Looking forward, our mains replacement programme accelerates over the next two years which should help prevent burst pipes.

## C1 – Gross operational greenhouse gas emissions

The strong improvement in greenhouse gas emissions achieved this year can be attributed partly to a change in the grid electricity conversion factor and partly to improvements in the efficiency of our operations, both in terms of electricity use and fuel/chemical use across our sites.

## D1 – Customers' perception based on market research

A survey was conducted in 2015/16 to assess satisfaction with our service and establish a baseline target of 80% for the 'value for money' component.

Customer satisfaction and trust measures within the survey this year scored highly and in line with other metrics produced by CCWater and Ofwat's Service

Incentive Mechanism. Despite this, our performance against our baseline target for 'value for money' has declined for the second year running.

As we continue to integrate our processes with Severn Trent, and establish the new licensee from the 1st July, we will continue to seek new opportunities to engage with our customers in relation to their bills. In particular we will consider:

- How the design of the bill can influence customers understanding of charges and their perception of value
- Which communication channels are most effective for the particular message we need to convey
- How our education programme influences our customers' perception of us.

## E2 – Per capita consumption and water efficiency

Unfortunately we have seen a further deterioration this year despite our ongoing programme of activity to promote water efficiency.

We continue to offer meter installations as part of our free optant programme alongside a small programme of selective metering.

Our schools education programme continues to target our youngest and most receptive customers as we promote the efficient use of water. Integrating this activity with the Severn Trent approach is helping us learn lessons and identify best proactive approaches.

Despite missing the target we are determined that our efforts to drive down per capita consumption will allow us to return to target by the end of the 2015-20 period.

## E1/F1 – Service incentive mechanism/ Non-household service incentive mechanism

We have delivered another strong year-on-year improvement in this area. Improvements in our training and processes identified in previous years have helped continue this trend. Our real time feedback system, Rant & Rave, also continues to help us identify and resolve customer service issues, primarily complaints and unwanted contacts.



# Transparent reporting

## Our leakage performance

Last year we reported that leakage had increased but remained within expected levels for the performance commitment which expressed leakage as litres per property per day. However, total leakage, as measured in million litres per day, was higher than assumed in the Water Resource Management Plan (11.31 ML/d compared to 10.17 ML/d). We committed to investigating the reasons for this during 2017/18.

Having reviewed the position, we have concluded that the performance commitment in the 2014 Final Determination was based on household properties only, while actual performance had been calculated based on all properties (household and non-household) in both 2015/16 and 2016/17.

Restating performance for 2015/16 still results in the target being achieved; however, restating performance for 2016/17 results in the target being missed rather than achieved. This underperformance generates a penalty of £29.4k which we will return to customers as part of our assessment of 2015-20 performance.

## Changes in reported leakage performance for 2015/16 and 2016/17:

Year	Actual performance as reported	Actual performance updated	Position against target of 90.8 litres per property per day	(Underperformance penalty)
2015/16	78.4	85.0	Target achieved – no change	N/A
2016/17	89.0	96.5	Target missed but was reported as achieved	(£0.0294m)

We have discussed the findings with the assurers, Black & Veatch, and explained the position to the Customer Challenge Group. We know there is a need to further improve data and processes, particularly around property and customer numbers.

While we will now be reporting that we have not achieved our committed performance level, we remain in the top-third for leakage performance in the sector and will continue to invest to return within target levels for the remainder of the 2015-20 period.

## Legacy Water treatment works

The 2014 Final Determination for Dee Valley Water included a commitment to make improvements at the Legacy treatment works in line with a successful special cost factor claim. This commitment was due to be completed by 31st March 2018.

In summer 2015, the Dee Valley team presented an alternative option to Ofwat. The alternative solution involved diverting flows to Llwyn Onn treatment works and decommissioning, rather than upgrading, the Legacy treatment works. This approach provided a system rather than an asset solution, delivering the intended outcomes (addressing discolouration issues at Legacy, reinforcing the network, improving the reliability at Llwyn Onn and Boughton works and improving overall resilience) at a lower overall whole life cost.

Construction of this alternative solution was completed early in 2018, and the Legacy treatment works has not been in operational use from 8 March 2018. The solution was agreed with the Drinking

Water Inspectorate, Welsh Government and the Dee Valley Customer Challenge Group before construction began. However, whilst it was discussed with Ofwat, a formal submission to update the Final Determination was not made.

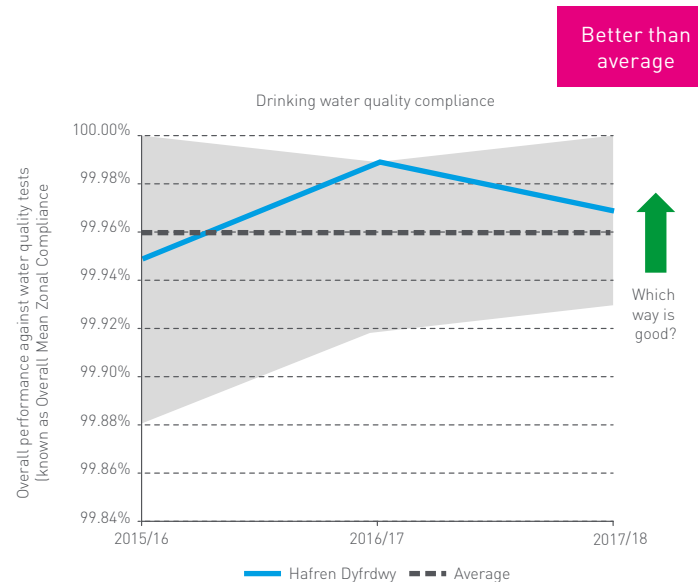
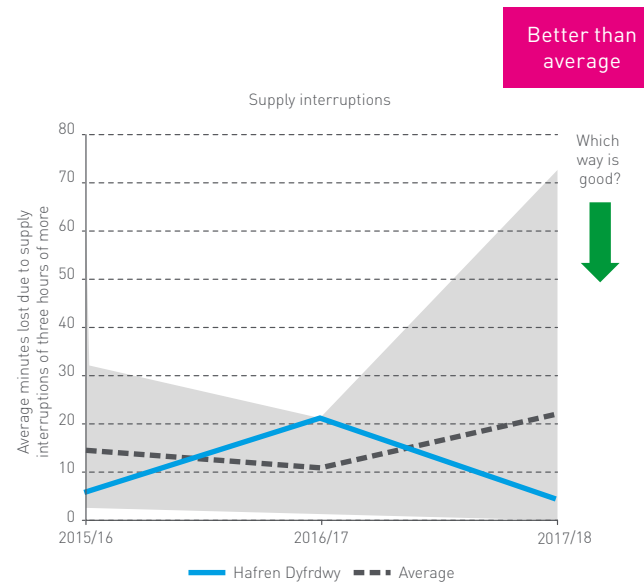
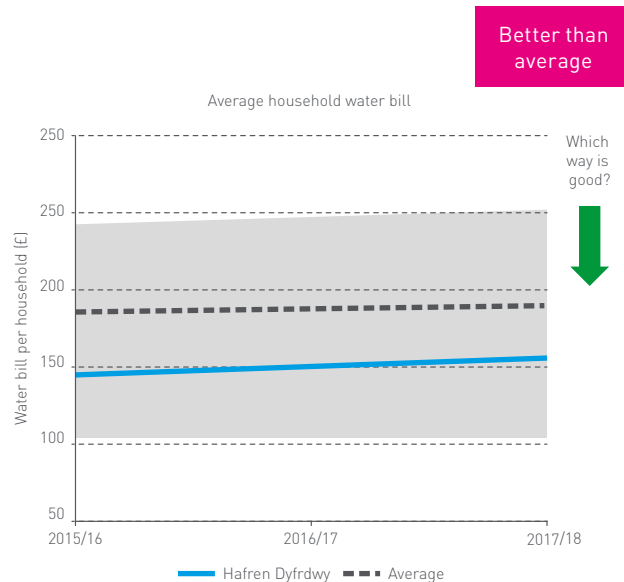
We provided an update to Ofwat in March 2018. We have reported successful completion of the scheme in this Annual Performance Report and can confirm that penalties for timing delays and/or non-delivery of the scheme will not apply. We will provide the technical evidence to demonstrate that the final solution offers a better overall level of service for our customers in a more cost-effective way in the Past Performance section of our PR19 submission, which will be submitted to Ofwat on 3 September 2018.



# How our service compared to other water companies

Because our household customers can't shop around for a water supplier, you told us it can be difficult to tell whether our performance is good or not.

Not all of our commitments are comparable to other companies because they're tailored to our customers' needs. Here's some areas of performance you can compare. The charts are based on comparing the ten water and sewerage companies serving England and Wales – the shaded area shows the range of performance for each measure.

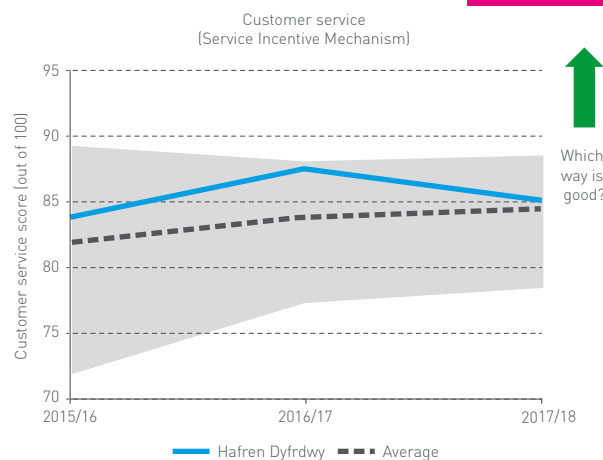


**You can find out more about how we compare to other companies at [discoverwater.co.uk](http://discoverwater.co.uk) -**

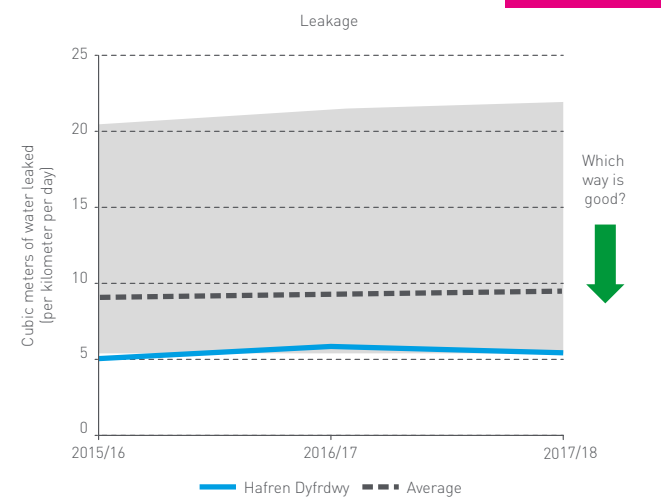
where we took comparative data for this report from. The Discover Water website brings together information about water companies in England and Wales into one place. Information is provided by water companies, with oversight from our regulators, the UK and Welsh Governments and the Consumer Council for Water.

Ofwat, our economic regulator, is working with companies to make sure that in some areas there is more consistency about how we all measure our performance. This means that we'll be able to compare more areas in the future (and that some of the above comparisons could change).

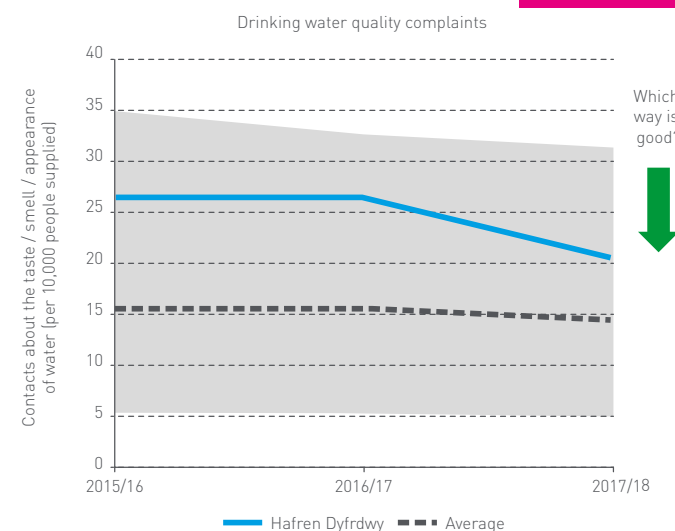
# Discover Water.co.uk



Better than average



Better than average



Worse than average

# Views on our performance from our Customer Challenge Group

Our Customer Challenge Group (CCG) forms an important role in the wider assurance of our performance. In November 2017, we provided a six-monthly update on performance, focussing on delivery of the Legacy alternative scheme and service reservoir programme. We asked the CCG to comment and challenge on delivery of our commitments and whether we were appropriately monitoring improvement activity. The CCG challenged how benefits of the Legacy alternative scheme would be tracked (through performance on discolouration and through meeting statutory drinking water requirements) and requested that the information be used to context 2020-25 performance commitment proposals - we have responded to this challenge. The CCG did not raise any further issues on our current performance.

We presented the 2017/18 results to the CCG in July 2018. Below is a summary of their comments.

The CCG were reassured by the additional rigour and assurance that has been carried out to ensure the performance is reported accurately and transparently. They reviewed performance and found both the trend and comparison to the committed levels encouraging, including the way in which the company were able to respond to the UK-wide freeze thaw event in March 2018. The CCG were disappointed with the deterioration in mean zonal compliance but were encouraged to see a marked improvement in the Compliance Risk Index. They recognised that achieving zero failures in 2017 reflected the activity and investment that has taken place, and noted the need for this to be sustained to continue performing at this high level. The CCG also challenged the latest customer service scores (SIM) and whilst the overall score is broadly comparable to the previous year, they have sought more detail and reassurance that an action plan is in place to ensure that service improvements will be made.



# Improving the way we report our performance

The company monitoring framework is a tool used by Ofwat to challenge companies to provide information for customers and stakeholders that is reliable, timely, appropriate to the audience, and for companies to be transparent with customers and stakeholders about the data assurance they put in place. Having information that is easy to understand and navigate provides transparency and helps everyone build trust and confidence in water.

Last year, Ofwat found there were minor concerns in the way we reported information that stakeholders needed to understand our progress on delivering the outcomes that customers should expect. We've worked hard to address the concerns and summarised the action we've taken in the following table:

Area	Ofwat's concern	Action we've taken
Reliable, timely and appropriate information	... although it [a quantitative measure based on written complaints, escalations, and Consumer Council for Water investigations] was not relevant to the assessment this year, we expect Dee Valley Water to report its non-household SIM in line with this measure in all future Annual Performance Reports until SIM is replaced by the new customer experience measure.	Our performance commitment for SIM is in-line with the latest guidance as required for this year.
Transparent and accessible information	The company's previous APR (2016) is available on its website, although an area for improvement would be to make it available in the same place as the 2017 report. We have a concern that the 'Annual Performance Report 2016-17' says that in addition to the report, the company will produce a summary report for customers in early August to provide a performance overview, and it will also ensure that a Welsh language performance summary is made available. During our assessment we were unable to find these summaries on the company website.	We've provided links in this report to make it easier to navigate to previous reports and the Welsh language performance summary (this is accessible through the Welsh language website). We've also provided a Welsh language performance summary for Severn Trent Water to aid transition to 2018/19 reporting.
Wider assurance	Publishing an easily accessible summary of the CCG's comments would provide customers and other stakeholders with additional transparency around the wider assurance that the company has put in place.	We have provided progress updates throughout the year and shared our results with the CCG. We've included a new section in this report to summarise their comments.

Ofwat's full Company Monitoring Framework assessment for Hafren Dyfrdwy (under the name Dee Valley Water) is available [here](#).

# Delivering services for everyone

Our Annual Performance Report explains how we're delivering against target levels agreed across our 13 performance commitments. We've grouped these into five areas, with each assigned a red, amber or green status to make it easier for customers and stakeholders to understand our overall performance so they can hold us to account. We have also provided information on the factors that have driven our performance and our future plans, which have been developed through our internal governance processes. In early 2018, the Strategic Leaders accountable for delivery presented their plans at our weekly Loopcells (cross company Executive level meetings to review and challenge performance and delivery plans). This approach ensured that we could be confident that the level of ambition we'd set was appropriately stretching and aligned to resources required to deliver the plans.

This process ensures the plans presented to our Board are robust. The Board is responsible to all stakeholders, including the Company's shareholders, for the approval and delivery of the Company's strategic objectives. It makes sure that the necessary financial, technical and human resources are in place for the Company to meet its objectives. The Board leads the Company, supported within a framework of practical and effective controls which enable risk to be assessed and managed.

Responsibility for the development and implementation of the Company's strategy and overall commercial objectives is delegated to the Chief Executive who is supported by the Severn Trent Executive Committee ('STEC') – the group overseeing the development of our performance plans as described earlier. A summary of the Board's activities during the year is set out in the corporate governance report Company's Annual Report and Accounts. This includes a discussion of the Board's consideration of key stakeholders whose interests are taken into account in its decision making, and a summary of the processes by which the Board assesses and manages conflicts of interest.

The Annual Report and Accounts contains a review of the company's performance during the year.

The Board has overall accountability for ensuring that risk is effectively managed across the Group, supported in this regard by the Audit Committee of Severn Trent Plc. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy. The Annual Report and Accounts contains a summary of the Board's approach to risk management, and sets out a detailed summary of the process by which the

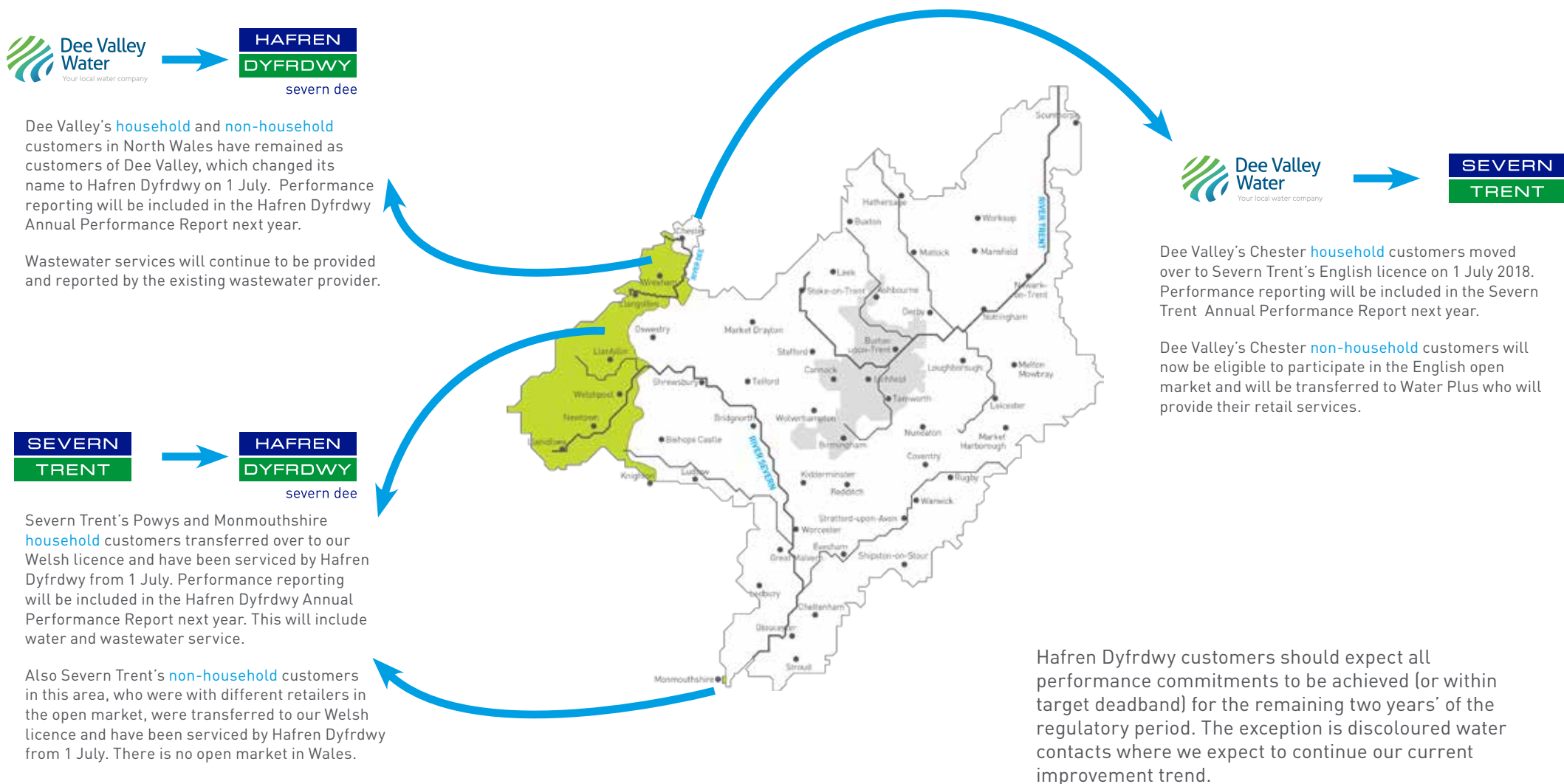
Board has assessed the long term prospects of the Company, taking into account the Company's ongoing review of its strategy, future funding needs, and the likelihood of risks and uncertainties which could affect the Company's future viability materialising.

The remuneration of directors and senior managers of the Company is overseen by the Remuneration Committee of Severn Trent Plc. The Committee addresses the need to balance risk and reward, and monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The Committee believes that the Company's incentive schemes are appropriately managed, and that the choice of performance measures and targets does not encourage undue risk taking by the Executives, so that the long term performance of the business is not compromised by the pursuit of short term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall Company performance. These are explained in detail in the Remuneration Report in the Severn Trent Plc Annual Report and Accounts.

# Outlook for the remainder of the 2015-20 regulatory period

As part of the alignment of the boundaries of Severn Trent and Dee Valley Water to the national boundaries of Wales and England, we have agreed with Ofwat how performance commitment levels and ODIs should be allocated between the two companies. Full details can be found [here](#). The approach has also been shared with the CCG.

The diagram below shows how customers have moved between the two companies and how performance will be reported next year:



# Useful links

## **Hafren Dyfrdwy performance:**

[Link to 2015/16 Annual Performance Report](#)

[Link to 2016/17 Annual Performance Report – Welsh language summary](#)

[Link to 2016/17 Annual Performance Report](#)

[Link to 2017/18 Annual Performance Report – Welsh language summary](#)

[Link to 2017/18 Annual Performance Report](#)

## **Severn Trent Water Performance**

[Link to 2015/16 Annual Performance Report](#)

[Link to 2016/17 Annual Performance Report](#)

[Link to 2017/18 Annual Performance Report – Welsh language summary](#)

[Link to 2017/18 Annual Performance Report](#)

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