



The voice for water consumers
Llais defnyddwyr dŵr

**CCW's response to
Ofwat's 2025-30 Draft Price Determination
for Hafren Dyfrdwy**

28 August 2024

1. Introduction

The Consumer Council for Water (CCW) is the statutory consumer organisation representing household and non-household water and sewerage consumers in England and Wales. We welcome the opportunity to respond to Ofwat's Draft Determination for Hafren Dyfrdwy.

2. Executive Summary

Overall view

Overall, we find this a balanced approach to Hafren Dyfrdwy's Business Plan submission. However, we are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions.

We are assured that due to Ofwat's efficiency challenges customers will not pay more than is necessary for the service they receive and are not charged twice for work which should have already been delivered.

We recognise that in order to improve service performance for customers and the environment, the draft determination has to balance delivering for customers and the environment efficiently whilst securing the capital investment that is required to make this happen.

Where customers need to pay more to invest in service or environmental improvements, it is vital that customers see Hafren Dyfrdwy deliver the commitments in its price determination. Hafren Dyfrdwy must also demonstrate to customers that the outcomes they see are tangibly better than now in terms of service performance and environmental improvements.

Customer trust in the sector has declined in CCW's annual Water Matters surveys¹, and Ofwat's recent research² has found that only 38% trust their water company to provide them with good value for money. Additionally, joint research between CCW and Ofwat shows that less than a quarter (23%) of people trust their water company to do what's right for the environment³.

¹ [Water Matters 2024 - CCW](#) shows significant shifts across nearly every metric that we use to measure people's views. In many cases, these were the lowest scores recorded in the thirteen years of Water Matters.

² [Wave Five of Ofwat's Cost of Living research](#) (undertaken in March)

³ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

The outputs of PR24 must be a strong lever for Hafren Dyfrdwy to address these worrying trends. We want all companies to demonstrate a culture of transparency and regularly update customers on their progress against this in order to improve customer satisfaction and trust.

We are disappointed that it has not been possible to understand how customer preferences have been considered in Ofwat's decisions. Although the overview documents are an improvement on previous years, they should be improved further so that customers can see the targets companies should meet each year compared to current performance, and the expenditure they have been allowed to deliver these improvements.

CCW recognises that Ofwat grades water companies' business plans to incentivise them to deliver strong evidence and propose efficient costs. CCW believes companies already have enough incentives through actual delivery of their plans. We want to see business plans assessed so that companies are penalised for poorly evidenced plans rather than rewarded for the basic company responsibility to write a decent business plan. Although Ofwat has measures to claw back money if plans are not delivered, CCW does not believe there should be a financial reward taken out of bill payers' pockets for merely writing a robust business plan.

What we support and why

- Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.
- The rejection of the Wrexham ring main scheme as we agree this should be funded from base costs.
- The stretching targets for the reduction in greenhouse gases to support the drive to net zero and the challenge of climate change.
- The introduction of a performance commitment for storm overflow monitor uptime to ensure environmental data is robust.
- Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher. This protects customers from the risk of paying too much 'up front'.

- The reduction of notional gearing to 55%⁴ as higher leveraged capital structures have risks for customers.
- The move to encourage more companies to have an equity listing⁵, as it allows for greater transparency and governance in the company's financial structure.
- The introduction of B-MeX to incentivise better customer service for business customers.
- The use of Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering.
- The absolute zero target for the serious pollution incidents PC and the proposed introduction of a new measure for serious water supply interruptions.

What we have concerns with and want to see in the Final Determination

- As no clear target for storm overflow spills has been set, we expect Ofwat to work with Welsh stakeholders and have regard to Welsh Government policy in setting a clear and challenging target in the Final Determination, ensuring that the most harmful spill sites are prioritised. The Draft Determination does not include any cost allocation for this, so any enhancement cost allowance must be carefully considered in the context of past performance.
- There should be greater ambition in reducing instances of internal sewer flooding.
- The Draft Determination is unclear on the consequence of not lifting all customers out of water poverty by 2030. Affordability is a key priority for the industry. In its final determination, Ofwat should ensure that Hafren Dyfrdwy (and the industry) aims to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty⁶.
- We fully support the concept of C-MeX. However, we are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components. This is a missed opportunity to incentivise a reduction in customer complaints.

⁴ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

⁵ In the same way that FTSE index companies have listed equity

⁶ [Water industry reaffirms pledge to work in the public interest | Water UK](#)

We do support the inclusion of the other measures of customer experience in C-MeX. This includes the increased weighting on customer contact surveys and use of cross sector comparators.

- We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations and would like to see it reinstated. The principle of this mechanism should act as an extra safeguard against financial windfalls and an added incentive to reduce high risk gearing.
- We wish to see further detail on how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.
- Proposed enhanced Outcome Delivery Incentive (ODI) rates, which could see customers paying more for areas of service they may view as a company's basic responsibility.

3. Our detailed comments

Customer acceptability and affordability

CCW is delivering research to test the package of bill changes, service improvements and investments in the Draft Determination for customer acceptability and affordability.

We will be using surveys to test the Determination with a sample of around 500 Hafren' household customers, and will conduct in-depth interviews with a small sample of non-household customers.

The household customer surveys will follow the same CCW and Ofwat guidance companies used for testing their business plans with household customers. This will ensure there is consistency and comparability in the results from the business plan testing.

Our research will provide a definitive measure of customers' views of the Draft Determination and how Ofwat's decisions have impacted customer views.

While the results are not available in time for this response (as discussed and agreed with Ofwat), when Hafren tested its business plan in 2023, it revealed only 12% of customers found the plan affordable, while 72% found the package of improvements acceptable.⁷

⁷ Pages 50 and 57: [hdd07-annex-2-customer-engagement-challenge-and-assurance.pdf \(hdcymru.co.uk\)](https://www.hdcymru.co.uk/hdd07-annex-2-customer-engagement-challenge-and-assurance.pdf)

The current research we are undertaking will show whether the interventions Ofwat has made to increase the ambition of what Hafren needs to achieve (and at a lower price) are more acceptable and affordable for customers.

We will provide the results of the research to Ofwat in September 2024, as the results are not available in time for inclusion in this consultation response.

Any likely further increases to bill changes after the draft determinations should be tested in line with the PR24 Acceptability and Affordability research guidance⁸.

Bill profile

The Draft Determination proposes an increase of 32% on the average combined water and wastewater bill from 2024-5 to 2029-30⁹. This increases to 44% over 2025-30 when forecast inflation is taken into account¹⁰.

This is the second highest percentage increase across England and Wales, but is substantially lower than the increase proposed by Hafren Dyfrdwy in its revised Business Plan from spring 2024¹¹.

We welcome Ofwat's challenge to the company's proposed costs, as customers should be assured that allowed expenditure is efficient and any poorly evidenced investment is challenged.

Although there has been some movement in the bill profile compared to the business plan¹², there is still a larger increase in the early years. We would question if the profile could be smoother. Otherwise this may create greater affordability pressure for some customers at the beginning of the price control period.

⁸ [Guidance-Acceptability-and-affordability-of-PR24-business-plans.pdf \(ofwat.gov.uk\)](#).

⁹ Page 4: [Overview-of-Hafren-Dyfrdwys-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#) Ofwat doc -

¹⁰ Based on Office of Budget Responsibility economic forecast March 2024

¹¹ [Key facts and data from water company plans - Ofwat](#)

¹² <https://www.hdcymru.co.uk/content/dam/hdcymru/about-us/pr24/hdd16-data-tables.xlsb> (tab RR14) and <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (tab RR14)

Affordability support

Affordability support for the period 2025-30 is disappointing. The company's research showed that although the majority supported what the bill rises will deliver, only 12% of customers found them affordable.¹³

Hafren Dyfrdwy forecasts that a large number of its customers (19%) will, even after implementation of its affordability measures, remain in water poverty by the end of 2030¹⁴. Current plans will extend help to 8.2% of customers, but that may only be about 50% of those who may require help.

We acknowledge that the current range of affordability support was well received by customers.¹⁵ We are disappointed to note that Ofwat has not challenged the company on the fact that it does not expect to have eradicated water poverty by 2030. In its 'Welsh Government priorities, and our 2024 price review Draft Determinations' document, Ofwat states that Welsh companies have promised to end water poverty by 2030, and that they are expected meet that commitment. We want to see a final determination and company plans go further to fully address water poverty as this is likely to increase, given the larger than average forecast bill rises.

We believe that company owners should make direct contributions to funding their social tariff. The company has demonstrated poor ambition on affordability. Its shareholders plan to contribute £0.29 million, split between hardship funds and matched payments for customers repaying debts¹⁶. This is a disappointingly low amount that will mean many customers in the company's area will struggle to afford their bill.

We would also like Ofwat to clarify whether the £0.29m company funding is specifically committed from shareholders and not from cost-to-serve allowances. We would welcome Ofwat being clear about this in the final determination, and ensuring company commitments can be compared and tracked on a like-for-like basis.

¹³ Pages 50 and 57: [hdd07-annex-2-customer-engagement-challenge-and-assurance.pdf \(hdcymru.co.uk\)](#)

¹⁴Page 2: [PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

¹⁵ [hafren-dyfrdwy-annex-2-customer-engagement-challenge-and-assurance.pdf](#)

¹⁶ Page 2: [PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

Costs and financing

Cost efficiency challenge

Ofwat reduced Hafren's proposed totex by 14% (£36m), to £226m¹⁷. We expect Ofwat to remove any poorly evidenced expenditure, inefficient costs and any proposed activities that have been funded previously.

The average 'pay as you go' cost recovery rate for Hafren has been reduced from the company's proposed 77% to 67.6%¹⁸. This puts more of the cost recovery in future years, reflecting the long-term benefits of the planned work. Much of the investment delivers benefits in the long term so we agree that the recovery of these costs should also be spread over the long term.

A large amount of the reduction in the total expenditure allowance was associated with two major projects, the Wrexham ring main and improving interruptions to supply and reservoir safety.

CCW agrees that Wrexham main improvements should be funded out of base costs and the challenge to the reservoir work.

Energy costs

We support Ofwat's proposal to set assumed energy costs at a baseline reflecting the Government's industrial use index, and 'true up' at PR29 if companies' actual costs are lower or higher.

This protects customers from paying too much up front for what is a significant base cost driver (approx. 15% of base costs are for energy) in what is a volatile wholesale energy market. Ofwat's use of the Government index should also incentivise companies to achieve cost efficient deals from their suppliers.

Assumed Rate of Return and Weighted Average Cost of Capital

Ofwat has increased the allowed rate of return to 3.72% (compared to the 3.23% initial view in the final methodology)¹⁹. We recognise that with a high cost investment programme, an increase in equity financing cost assumptions (in the Weighted Average Cost of Capital) is the main driver of the increase in allowed returns as equity needs to increase if the enhancement investment is to be delivered in a financially sustainable way.

¹⁷ Page 3: [Overview-of-Hafren-Dyfrdwys-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

¹⁸ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (tab RR11)

¹⁹ Page 9: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

The bill impact this can lead to is a concern for CCW given customer affordability pressures, but its effect has been mitigated by the totex efficiency challenges Ofwat has applied.

Ofwat's Draft Determinations make a case that the increase in the assumed cost of equity should retain investment, help address risks associated with highly geared companies²⁰, as well as reflecting market conditions.

In this context, we support the reduction of notional gearing to 55%²¹ as higher leveraged capital structures have risks for customers.

A lower notional gearing assumption increases the weight of the more expensive equity component in Ofwat's notional capital structure, while a higher cost of equity directly increases the cost associated with equity financing.

Together, these factors can lead to higher allowed returns and may appear to be giving some assistance to less financially resilient companies that may have a greater challenge in raising the required equity.

If customers are being asked to pay more to secure the financing needed, it is essential that companies deliver the improvements set out in the Draft Determinations and customers see tangible improvements in their local environment and the service they receive.

Ofwat must also provide assurance that the company can deliver efficiently and demonstrate to customers that they will see and experience improvements in return for paying higher costs to enable this investment.

In an uncertain economic climate, we also do not wish to see a return to the level of financing windfalls in the past when companies were able to raise capital at a lower cost than assumed²².

For the Final Determinations Ofwat needs to consider both the need to attract finance to allow companies to deliver for customers and the environment, and safeguard against risk of high outperformance caused by unexpected changes to inflation, interest rates or other factors by ensuring customers receive a share of any possible windfalls in the future.

²⁰ Page 16 of Ofwat's Financial Resilience Monitoring Report 2022-23 shows that 11 companies are above the notional gearing level.

²¹ Page 7: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²² For example, the financing windfalls highlighted in the National Audit Office review of economic regulation in the water sector (2015) see [here](#)

Supporting new equity issuance

Given the significant increase in investment in this price review, we agree with Ofwat's position that companies must demonstrate that their chosen option for raising finance is in the best interest of customers and the environment²³.

Gearing Outperformance Sharing Mechanism

We are disappointed that Ofwat has withdrawn the Gearing Outperformance Sharing Mechanism in its Draft Determinations²⁴. While Ofwat has not had to 'activate' the mechanism since price controls were set at PR19, it may give the impression that Ofwat changed the rules part way through the price control and that if there had been any outperformance since 2020, this would not have been shared with customers as a 'true up' at this price review.

We acknowledge that two thirds of the £4.6 billion equity injected into the sector since 2021 has been to strengthen financial resilience and reduce gearing²⁵.

The presence of the sharing mechanism coupled with the notional gearing of 55% may help discourage excessive gearing by reducing the financial incentives for companies to take on high levels of debt, and therefore adds to the range of options Ofwat has to protect financial resilience. Ofwat should reintroduce this mechanism, calibrated to account for changes in forecast inflation that were unforeseen when it was last set at PR19.

Customers should also benefit from the lower costs associated with high gearing, especially since they bear some of the risks if a highly geared company encounters financial difficulties.

Cost sharing rates

We accept Hafren's standard cost sharing rate of 50/50 for any future out- or under-performance, given the company's 'standard' categorisation in Ofwat's quality assessment of the business plan.

Customer influence

Ofwat's comments on Hafren Dyfrdwy's specific engagement is limited to seven lines, stating that it is "*broadly in line with our minimum expectations*" but commenting that an individual reviewer conducted the challenge, providing a lower level of challenge than Ofwat's standards outline²⁶.

²³ Page 71: [PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf \(ofwat.gov.uk\)](#)

²⁴ [PR24-draft-determinations-Aligning-Risk-and-Return-Appendix-1.pdf \(ofwat.gov.uk\)](#) page 68

²⁵ Confirmed in separate correspondence from Ofwat to CCW.

²⁶ [PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

Outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the level of customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations.

In the main ‘*Delivering Outcomes for Customers and the Environment*’ document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

There is also a line in the ‘Your Water Your Say’ report that suggests a larger suite of evidence has been considered:

“Evidence from ‘Your water, your say’ surveys forms part of the suite of evidence of customers’ and stakeholders’ views that we have considered for our Draft Determination”.

However, we cannot find the larger suite of evidence in the supporting published documents which suggests that Ofwat have not adequately considered customers views in developing the Draft Determinations.

This is particularly disappointing considering the requirements placed on companies in relation to transparency about the use, or otherwise, of evidence from customer engagement in its decision making. In its 2022 position paper “*PR24 and beyond: Customer engagement policy*” Ofwat stated in its section on board assurance of customer engagement under the Transparent heading that “*companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case.*”²⁷

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future investment. However, the lack of information about how Ofwat has considered this evidence could lead companies to question whether the extensive engagement they carried out was worthwhile.

Customer experience

C-MeX

We support the Customer Experience measure (C-MeX) to measure and incentivise improvements in customer satisfaction with both contacts and non-contacts through the use of surveys and cross-sector comparators. We support the increase in the financial value of this incentive for 2025-30, so it

²⁷ [Ofwat PR24 and beyond Customer engagement policy – a position paper February 2022 Page 11](#)

is comparable to other ODIs, and the greater weighting in the satisfaction of customers who have had reason to contact the company.

Ofwat's move to set C-MeX targets based on the UKCSI all-sector upper quartile as a benchmark for a company's customer satisfaction should see every company incentivised to improve to a level comparative with customer satisfaction with other sectors.

However, the Draft Determinations lacks specific annual targets for companies, to show the level of stretch needed from current C-MeX targets to reach the UKCSI benchmark, so we would like Ofwat to confirm that it will consult CCW further on this.

We are disappointed that, after extensive engagement with Ofwat, an additional metric to measure customer complaint volumes is not part of the range of C-MeX components.

Our annual complaints reports²⁸ show a continued increase in customer complaints in the last three years. High volumes of complaints are evidence of a poor experience by many customers and can be an indicator of more fundamental problems.

Measures of customer satisfaction alone may not adequately incentivise companies to resolve customer issues first time to prevent complaints and address the causes of complaints. As such, we want to see 25% of the value of C-MeX based on a measure of the volume of complaints a company receives.

Ofwat raises concerns in the Draft Determinations about the reliability and accuracy of complaint data as reported by companies, as the basis of its decision to exclude a complaints volume metric. However we have demonstrated to Ofwat how CCW has delivered greater consistency in data reporting through the development of our guidance to companies, and new complaint assessments. Including telephone and other complaints (in addition to written complaints) in our data suite means a full picture is possible of company performance. After a shadow period, we first published this information in our 2023 complaints report²⁹. By the start of the 2025 period, we will have three years of complaints information, which includes telephone and other ways to contact. Written complaints data has, of course, been reported on for many years.

The Draft Determination also says that Ofwat has ongoing concerns about data quality across all PCs, and commits to greater scrutiny to ensure data is robust and can be trusted. We fail to see how complaints data quality represents a greater risk of data inconsistency than other data sources, and would like Ofwat to reconsider including a complaints volume metric in C-MeX. Otherwise this is a missed opportunity to address the trend of rising complaints to incentivise poor performing

²⁸ [Household customer complaints report 2023 - CCW](#)

²⁹ [Household customer complaints report 2023 - CCW](#)

companies to improve, because complaints volumes can be seen as evidence of the wider decline in customers' trust with the sector.

Alternatively, Ofwat could consider a separate performance commitment on the volume of complaints. Ofwat could signal its intention to include this from 2026 onwards in the Final Determination, if it needs time to develop targets for each company.

Business customer experience

We support the introduction of B-MeX Wales to incentivise companies to deliver a better customer service experience for business customers. We are pleased to see the associated rewards and penalties align with the value of other ODIs.

We agree with the 50/50 split in B-MeX Wales for the contact and non-contact surveys, and the 50/50 split between billing and operational contacts to mirror C-MeX. We also support an absolute target given as this is a new regulatory measure³⁰.

We don't support the caps and collars on the ODI for B-MeX Wales. This was not applied with BR-MeX England and its restrictions on penalties and rewards may weaken the incentive, especially as companies in Wales deliver the retail and wholesale functions for customers.

Operational incidents

The household and business customer experience measures for England and Wales no longer include a proposal to include a separate component for non-contact operational incidents due to concerns over how to define the scope of customers and survey them.

We recognise that this is a risk, but suggest that the proposed new common PC for serious supply interruptions may mitigate this. As well as measuring the volume and frequency of 12 hour+ incidents, we suggest that this should be an opportunity to survey customers' experiences as part of this. In this way it will also be a measure of customers' experiences with the companies in the context of longer supply interruptions.

Statutory investment programme

We recognise that the environment and drinking water quality programmes are driven by legislation. But customers have been clear³¹ that they wish to see lower pollution, healthier rivers and waterways, and the company combating climate change. So have the Welsh Government (in their

³⁰ Companies in Wales did have a bespoke version of it in the past.

³¹ [hdd03-2025-30-hafren-dyfrdwy-main-business-plan.pdf \(hdcymru.co.uk\)](#) pages 41 and 42

Strategic Objectives and Priorities Statement)³², National Resources Wales (NRW)³³ and the Wales PR24 Forum³⁴.

Storm overflows

We encourage Ofwat to ensure that the number of spills agreed in the Final Determination is sufficiently challenging to meet customer expectations, and that the company must prioritise investment on the basis of potential to cause harm.

The Draft Determination does not include any cost allocation for this, so any enhancement cost allowance should be carefully considered in the context of past performance and affordability. Any likely further increases to bill changes after the draft determinations should be tested in line with the PR24 Acceptability and Affordability research guidance³⁵.

We want to see assurance from Hafren that its delivery of the storm overflow spill reduction programme is prioritising the spills that cause most frequent harm to rivers and bathing water. Such a prioritisation plan should be transparent to customers so they can be assured that the worst storm overflows are subject to improvements first. Prioritising harmful spills would be more effective use of customers' money on something that they care about. It would also help align with the Wales PR24 Forum strategic steers. We also think Ofwat should consider a 'gated' approach to storm overflow mitigation investment.

We support the requirement for companies to report data on when event duration monitors are working, along with total spills per total number of storm overflows. This should incentivise timely maintenance of monitors. We are also pleased to see a PCD for storm overflow monitoring up-time, as customers have clearly said that river, sea and lake water quality is important to them. Without reliable data collection, progress in improving our environmental water quality will be more difficult to assess.

Nature based solutions

We welcome increased allowances for the company to use nature based approaches to some of the solutions needed to improve environmental standards and reduce pollution. Our research shows

³² [Welsh Government Strategic Priorities and Objectives Statement for Ofwat \(SPS\)](#), places important on the delivery of sustainable management of natural resources solutions aligned with the Environment Act (Wales) 2016 amongst other environmental and river pollution reduction priorities.

³³ [Natural Resources Wales: Term of Government remit letter 2022 to 2026](#), Welsh Minister of Climate Change, Julie James.

³⁴ Wales PR24 Forum Strategic steers, [How will your money be spent on water in Wales - CCW](#).

³⁵ [Guidance-Acceptability-and-affordability-of-PR24-business-plans.pdf \(ofwat.gov.uk\)](#).

that customers broadly support nature based solutions as they can be more sustainable in the long term³⁶.

Our recent research³⁷ on river quality also shows that people have become more concerned about supporting nature and no longer relying entirely on built solutions. Protecting and restoring biodiversity is a generally well supported concept, and a high priority for customers who see the wider benefits of working with nature.

It is important for companies to trial new approaches to identify and share successful new innovations that may be lower cost and more sustainable in the long term.

Drinking Water Quality programme

Lead

We support investment in reducing lead pipes as this addresses both water quality and a public health risk. Hafren Dyfrdwy estimates that it has around 24,000 properties with supplies passing through lead pipes³⁸. So we welcome the company's lead replacement programme and recognise that customers supported it^{39,40}.

CCW is pleased to see that Ofwat accepted Hafren Dyfrdwy's bespoke performance commitment on lead acknowledging the Wales Price Review Forum ambition and steer for a lead-free Wales. We think that Ofwat has made decisions that could help pave the way towards the delivery a lead-free Wales.

We also expect the company could manage replacing additional lead pipes more efficiently through its mains replacement activity. Digging up for mains replacement could help companies identify lead in pipes they own and contact customer to test the water for lead at home, targeting pipe replacement on their and customer assets more effectively.

Security and Emergency Measures (SEMD)

Water supply security is a primary statutory responsibility for companies. We support setting a common security (SEMD) non-delivery PCD to protect customers. Failure to deliver in this area is failing customers who expect their companies to deliver resilient services. The PCD covers both

³⁶ [Keen to go Green? Customer preferences and priorities for waste water solutions - CCW](#)

³⁷ [Customer Spotlight: People's views and experiences of water 2024 - CCW](#)

³⁸ [hafren-dyfrdwy-main-business-plan.pdf](#)

³⁹ [hafren-dyfrdwy-main-business-plan.pdf](#)

⁴⁰ [hdd11-annex-6-outcomes.pdf \(hdcymru.co.uk\)](#)

physical security and emergency planning, which are both key aspects of ensuring these essential services are resilient.

Customer protections

We support the combination of Performance Commitment penalties, Price Control Deliverables and other protections in place to remunerate customers in the event of failure or delay in delivering

Water resources and demand management

Hafren Dyfrdwy is not in a water-stressed area and is currently in a position of surplus. We welcome Ofwat's award of £0.5m to improve management of water demand through customer awareness education and water efficiency measures⁴¹.

Water Resource Management Plan (WRMP)

We note that Ofwat has identified minor discrepancies between the company business plan and the latest version of the WRMP. CCW will look to understand more about the company's plan when the final WRMP is published in the summer.

Company research shows that customers place a priority on the security of their supplies⁴², so we support the twin track approach in the WRMP of increasing and maximising availability of water supplies, whilst also reducing the demand for water through reduced consumption and leakage. The Company has issued updates that ensures it is now aligned with the National Environment Programme (NEP).

We also agree with the added protection/resilience it potentially provides for flexibility (for example, if demand reduction isn't delivering, supply schemes can be fast tracked and vice versa). This will be needed if companies' limited control over how their customers choose to use water (particularly during droughts and reference the huge peaks in demand during 2022) means there are limits on how far they can go with demand management.

We support the added protection for customers through the use of PCDs to incentivise delivery, which also avoids the risk of companies benefitting from external factors such as more favourable weather conditions etc. or other contributing risk factors changing.

⁴¹ Page 9: [Overview-of-Hafren-Dyfrdwys-PR24-draft-determination.pdf \(ofwat.gov.uk\)](#)

⁴² [hdd03-2025-30-hafren-dyfrdwy-main-business-plan.pdf \(hdcymru.co.uk\)](#) pages 41 and 42

Smart meters

Whilst customers had mixed views on smart meters in the company's research⁴³, we are pleased to see 15,300 meters will be upgraded with 2,100 new smart meters installed. This will help with demonstrating the value of water, driving more efficient use and a reduction in per capita consumption⁴⁴.

CCW wants further clarity about how the smart metering programme will help reduce household and business demand, and the expectations this investment implies for leakage reduction and tariff development.

While it is positive to see that Ofwat has provided minimum expectations about what companies should consider (i.e. optimal technologies, rather than low cost and reduced functionality), and the frequency for data to be collected, more detail is required to show how this will be rolled out, as the Draft Determination shows that Ofwat has challenged the company's proposed costs but not how the programme will be prioritised and delivered.

We have called for universal smart metering for businesses to give customers better information and control over their usage. However, Ofwat appears to have set a single unit cost for metering to cover household and non-household. This seems likely to lead to companies avoiding large meters or those where installation is difficult as they would not be cost effective to tackle and would result in less money to deliver the rest of the programme.

There is an issue with long unread meters in the non-household retail market, often due to their inaccessible location. Replacing these meters could be costly but failing to do so, and choosing simpler installations instead, would fail to address a major issue for non-household customers.

Water Efficiency Fund

CCW supports the aims of Ofwat's proposed Water Efficiency Fund - we agree there is an urgent need for a new approach to increase the focus on demand management.

We have submitted responses to both of Ofwat's consultations⁴⁵.

⁴³ Page 4: [hafren-dyfrdwy-annex-2-customer-engagement-challenge-and-assurance.pdf](#)

⁴⁴ Page 16: [PR24-draft-determinations-Total-expenditure-allowances-by-company.pdf \(ofwat.gov.uk\)](#)

⁴⁵ Our latest response is here - [CCW response to Scoping the Water Efficiency Fund: Second Ofwat Consultation - CCW](#)

Performance Commitments and Outcome Delivery Incentives

Performance Commitments (PCs) need show evidence of significant improvements on current performance for a range of measures that matter to both customers and the environment.

As such, we welcome Ofwat's challenges to the company's PC targets to deliver more stretching improvements than it proposed in areas we highlighted in our assessment of the business plan⁴⁶.

The PCs are more stretching in most cases, but not all. The PC's for sewer collapses and unplanned outages of treatment works are not as stretching as the company proposed in its business plan^{47 48}. We would like to understand how Ofwat reached the figures in its draft determination.

Greenhouse Gas Emissions/Net Zero

We welcome the especially stretching targets for greenhouse gas emissions in line with Welsh Government's interim and final net zero emission targets by 2050. The company is also targeting net zero operational emissions by 2030, which we support.

We support the ambition for 35% reduction in emissions across water and wastewater ⁴⁹activities. The final determination needs to be clear with customers on what progress will be made to 2030, and that it is a sufficient milestone to fully achieving net zero 2050.

We have noticed that the CHG reduction targets are greater for water activities than wastewater. CCW would like to see more clarity on why this is the case.

We are pleased that Ofwat has allowed a net zero funding allowance⁵⁰ for Digital Twin in combination with nitrous oxide containment, to help the company on its net zero journey, in line with Hafren's ambition and Welsh Government's objective to reach Net Zero by 2050.

Interruptions to Supply

We also welcome the stretching target for interruptions to supply. The company's research⁵¹ revealed that customers placed the highest priority on reducing supply interruptions, so we support this stretch target.

⁴⁶ Water supply interruptions, drinking water quality contacts, internal sewer flooding, PCC, total pollution incidents, river water quality

⁴⁷ Page 119: [hafren-dyfrdwy-main-business-plan.pdf](#)

⁴⁸ [Key-Dataset-1-V2.xlsb \(live.com\)](#)

⁴⁹ [Overview of Hafren Dyfrdwy's PR24 draft determination - Ofwat](#)

⁵⁰ <https://www.ofwat.gov.uk/wp-content/uploads/2024/08/Key-Dataset-2-V3.xlsb> (wastewater enhancement allowance)

⁵¹ Page 46: [hafren-dyfrdwy-annex-2-customer-engagement-challenge-and-assurance.pdf](#)

Serious Supply Interruptions

We support Ofwat's proposal for a new 2025-30 PC to track serious supply interruptions (of 12 hours or more). This should provide added transparency of company performance and an added incentive for companies to reduce lengthy supply interruptions which can have considerable impacts on businesses and households.

Leakage

Leakage reduction is a customer priority. As such we welcome companies' efforts to continue to reduce leakage as it helps to improve the resilience of water resources, to protect the environment and also supports companies in reducing their GHG emissions from treating and pumping water.

The scale of investment to reduce leakage is higher at PR24 than it was at PR19, so there needs to be clear correlation between the allowance given and the level of ambition in the company's leakage reduction PC.

For Hafren Dyfrdwy, the 13% absolute target for leakage reduction against the 2024-25 baseline will see the company in the mid-quartile of performance by 2029-30. However, its research shows customers feel substantially emotive and negative about leakage and want to see it prioritised⁵².

Sewer flooding

The target of 15% reduction is higher than the 13% applied to companies elsewhere, but is still lower than the equivalent target set at PR19 and needs to be increased.

While we accept trade-offs have been made to protect customer affordability in the light of a high cost environment programme, Ofwat's joint research with CCW⁵³ clearly shows the impact sewer flooding can have on households, businesses and communities, so this should be more challenging with relative targets and related investment and base costs applied to better incentivise the comparatively poor performers.

We support Ofwat's exclusion of exceptional weather in the sewer flooding PC design as including it may disincentivise companies from addressing sewer flooding risks in periods of prolonged/heavy rainfall.

Drinking Water Quality customer contacts

⁵² Page 4: [hafren-dyfrdwy-annex-2-customer-engagement-challenge-and-assurance.pdf](#)

⁵³ [Customer experiences of sewer flooding - CCW](#)

We think the aspiration to respond to customer concerns on water quality in Wales is important, particularly if there are persistent issues for specific customers and communities. We welcome the more stretching target Ofwat has set for this PC in comparison to the company's submission^{54,55}

Hafren historically has a high level of customer contacts on water quality⁵⁶. Its business plan proposal was to drive customer contact down by a further 8%⁵⁷. We note that Ofwat's draft determination makes no expenditure allowance for contact reduction about taste, odour and colour. CCW's analysis shows that the target could be more ambitious.

We are aware that some companies have challenged the use of the Drinking Water Quality customer contact PC as they rely on customer contacts to alert them to drinking water taste, odour and appearance issues, which they otherwise may not know about. In this context, it may lead to companies discouraging customer contacts.

However, a high level of drinking water quality customer contacts can be viewed as evidence of the level of drinking water quality issues affecting customers (as customers are most likely to contact a company only if there is a problem), so we support this PC to give transparency and incentivise companies to address customer issues effectively.

Ofwat could develop a separate metric in this PC to track repeated contacts from the same customer and/or location, so there is greater distinction between overall contacts and those where the company has failed to respond effectively. This could be of particular importance in the case of water companies in Wales, where levels of contact about water quality have been persistently high.

Outcome Delivery Incentives

Outcome Delivery Incentives (ODIs) should drive companies to improve in areas of service where they are currently comparatively poor and/or where robust evidence shows customers want to see improvement.

In this context CCW supports:

- ODI rates that are proportionate to the size of the company's regulated capital value, so incentives are sufficiently strong to prevent failure but not disproportionate to the allowances needed to deliver customer supported investment.

⁵⁴ Figure 2.5.1: [hafren-dyfrdwy-main-business-plan.pdf](#)

⁵⁵ [Key-Dataset-1-V2.xlsx \(live.com\)](#)

⁵⁶ Discover Water data- Taste [DiscoverWater \(en-GB\)](#) and Odour [DiscoverWater \(en-GB\)](#)

⁵⁷ [hafren-dyfrdwy-main-business-plan.pdf](#)

- The top-down approach to setting rates with alignment to evidence of customer valuations of levels of priority for different areas of service. This means the eight PCs that more directly affect customers⁵⁸ have a higher value, which we support.
- The removal of caps and collars for more established PCs, with an aggregate sharing mechanism in place to ensure any higher rewards for outperformance beyond PC targets are shared with customers. Established PCs have more historical performance data to inform target setting which means more confidence in the level of stretch and ambition set, so the protections from caps and collars are not needed to mitigate against uncertainty.
- The new reporting methodology Ofwat proposes, which will provide greater transparency, accuracy and assurance on how companies are performing.

We do not support the use of enhanced ODI rates for six PCs⁵⁹ to provide additional outperformance payments to higher performing companies. Even with the aggregate sharing mechanism in place, customer will still be asked to pay higher rewards than under rather 'standard' rates in this scenario.

While this may encourage companies to go further and set the bar higher for others to follow, asking customers to pay more for an area of company performance that customers may regard as a basic responsibility by companies does not justify bigger rewards.

Long term context

The five-year package of investment and PC targets should act as a milestone towards delivering a longer-term set of outcomes. It is disappointing that Hafren Dyfrdwy did not develop core and alternative pathways in line with Ofwat guidance, only giving details of investments up to 2030⁶⁰.

It is not clear to us how this five-year package of investment and PC targets acts as a milestone towards delivering a longer-term set of outcomes that may expose future generations to bear a greater burden. Hafren has shown in its submission where it has mapped the plan to Welsh Government's Well-being of Future Generations Act⁶¹.

⁵⁸ Water supply interruptions, Customer contacts about water quality, Leakage, Per capita consumption, internal sewer flooding, External sewer flooding, total pollution incidents, Storm overflows – these PCs have ODI rates of +/- 0.6% of RoRE (compared to +/- 0.5% for 'standard' ODIs).

⁵⁹ Water supply interruptions; leakage; per capita consumption (PCC); internal sewer flooding; external sewer flooding; and total pollution incidents

⁶⁰ [PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/wp-content/uploads/2024/04/PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf)

⁶¹ [hdd08-annex-3-long-term-delivery-strategy.pdf \(hdcymru.co.uk\)](https://www.hdcymru.co.uk/wp-content/uploads/2024/08/hdd08-annex-3-long-term-delivery-strategy.pdf)

Enquiries

Enquiries about this consultation should be addressed to:

John Vinson

Head of Company Engagement

CCW

john.vinson@CCwater.org.uk

07918 608396