

Draft Determination Representations

WSH.DD.00.5

Miscellaneous action responses

30 August 2019

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1. Action WSH.OC.A.22 - Risk of Flooding in a Severe Storm

The draft determination interventions log contains three actions in relation to the calculation approach for this measure.

We are required to confirm:

- i) using the updated parameters in the catchment vulnerability assessment; (and setting out any additional criteria that they intend to use);
- ii) reporting the extent to which they use 2d or simpler modelling; and
- iii) adopting FEH13 rainfall as standard and, if not, when it expects to do so.

Our response to these questions is

- i) We plan to adopt the updated parameters as proposed in full for reporting in our Annual Performance Report in 2020.
- ii) We use 2d flood routing in all the catchments that we have modelled.
- iii) FEH13 is currently being incorporated into DCWW's hydraulic modelling standards and will be standard for all modelling work from the start of AMP7. However existing models will be updated in line with FEH13 only as they are upgraded for normal business purposes. It is likely that by the end of AMP7 there will be some models that are yet to be upgraded. This delay is due to the significant resource implications of making the upgrades.

2. Action WSH.OC.A.21 – Risk of severe restrictions in a drought PC

Action Ref WSH.OC.A.21

The company should provide a full set of intermediate calculations (at a zonal level), for the underlying the risk calculation (both baseline levels and performance commitment).

Response

Within our recently published Final WRMP19 and draft Drought Plan 2020 we have utilised advanced stochastic analysis to identify those WRZs where the population may be at risk of having severe supply side measures implemented during a 1:200 year drought event. If system capability during a 1:200 year drought $< DD+TH+OA$ then the zone is at risk.

We test this using our simulation models by setting demand equal to dry year demand plus Target Headroom plus Outage Allowance and then check that we would not breach level 4 drought curves or stream flows, the point at which we would implement severe restrictions. Following this approach means we do not explicitly calculate the supply capability (DO) but test that our capability is at least $DD+TH+OA$. We, therefore do not use an S/D balance calculation sheet as this would only show a zero balance for zones that pass the test, or flag that the zone has insufficient water resource. Our approach demonstrates that for 21 of our WRZs, during a 1:200 year drought our supply capability (DO) is $> OA+DD+TH$ and for three WRZs (Tywyn Aberdyfi, Pembrokeshire, Vowchurch) our supply capability (DO) is $< OA+DD+TH$ during a 1:200 year drought. We then use our calculation sheet to report the % population at risk. The calculation sheet can be found in Supporting Appendices 6, Ft1 calculations.

The company should confirm that their performance commitment levels are reflective of their water resources management plan position. This should include the potential that it will have access to drought orders and permits.

Response

We confirm that our performance commitment levels are reflective of our water resources management plan. The three zones that are at risk of a drought are all identified for investment in our water resources management plan. Two of these have a forecast supply demand deficit so investment is included primarily to address these and as per guidance from Natural Resources Wales, we have not included the benefits of any drought permits or drought orders within our assessment of drought risk. For the remaining zone there is no potential to use drought orders or permits to remedy the drought risk as the root cause of the risk relates to loss of water in the source.

2.1. Action 3

The company should confirm which programmes of work will impact their risk profile forecasts.

Response

The three projects in our plan that impact on our risk profile forecasts are:

- Pembrokeshire water resource zone
- Tywyn Aberdyfi water resource zone and
- Vowchurch resilience

It is forecast that all three will be delivered by 2022/23 meaning that our risk will drop to 0%.

3. Action WSH.CE.A4 – Whitbourne WTW Metaldehyde

In the DD the following action has been raised: Company to provide evidence to confirm DWI agreement with its submitted plans / revised undertakings.

We have not received formal notification from DWI in relation to this, as no undertakings are required. However, the minutes of one of our regular liaison meetings (from April 2019) includes the following statement:

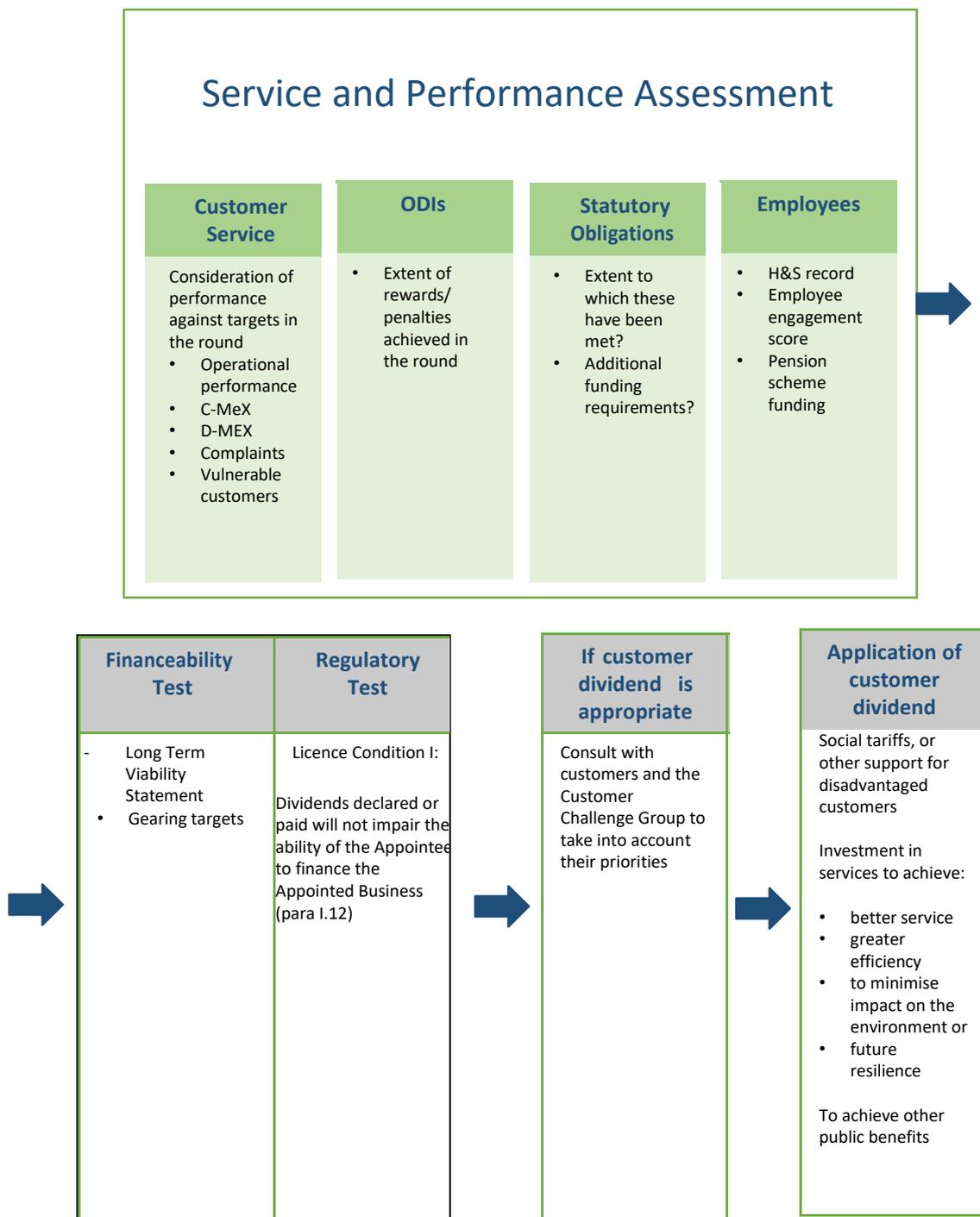
Whitbourne WTW Metaldehyde:

DWI happy with the data sent. No additional data required. DWI working through all companies' submission, a letter will be issued with decision when this is complete. No undertaking required for Metaldehyde.

4. Action WSH.CA.A2 – Dividend policy

Ofwat has said it expects us to demonstrate that our dividend policy takes into account obligations and commitments to customers and other stakeholders, including performance in relation to delivery against the final determination.

The flow chart below seeks to formalise the process we already apply in practice, to “return of value” assessment – both as to whether it is appropriate to make a distribution and as to how that return of value should be applied.



5. Action WSH.CA.A3 – Executive pay

We have already responded to Ofwat on Executive pay, noting that we fully meet the principles set out in its guidance “Putting the sector in balance: position statement”: we publish our remuneration policy every year in our Remuneration Report as part of the Annual Report and Accounts, and ensure that the policy is put to Glas Members for approval every three years, or earlier in the event of any changes.

In the Draft Determination, Ofwat specifically refers to Welsh Water as an example of “best practice” in remuneration, noting that:

- Emphasis on excellent customer service: 100% of our incentives for performance related executive pay are directly linked to delivery for customers (together with Anglian Water);
- Stretching targets: incentives are calibrated across the prior year’s performance and against the performance of other companies, in order to incentivise sector-leading performance.

Ofwat has asked us to confirm that our executive pay policy for AMP7 demonstrates a substantial link to performance delivery for customers through 2020-2025 and is underpinned by targets that are stretching. We can confirm that our targets will be set by reference to the final determination, our Business Plan, past performance and comparative performance.

Ofwat also advocates a commitment from the company to “continually assess performance targets to ensure targets will continue to be stretching throughout 2020-25”. We can confirm that the Remuneration Committee of the Board, whose Members are all Non-Executive Directors, chaired by Anna Walker C.B., sets stretching annual targets for Annual Variable Pay by reference to current and target performance. In addition, Long Term Variable Pay targets are set on the basis that they are very likely to continue to be stretching throughout the five-year period, and the Remuneration Committee has already taken a decision to review executive employment contracts to ensure that, in line with the 2018 Corporate Governance Code, there is scope for the Committee to exercise discretion when authorising remuneration outcomes: “taking account of company and individual performance, and wider circumstances” (Principle R, 2018 Corporate Governance Code).