August 2026

Notification of the PR24 cost change process draft determination for Dŵr Cymru Cyfyngedig

Ofwat

Roch Cheroux
Chief Executive Officer
Dŵr Cymru Cyfyngedig
Pentwyn Road
Nelson
Treharris
Mid Glamorgan

Dear Roch

Cost change draft determination 2026

13 August 2026

I enclose in Appendix 1, the cost change draft determination by the Water Services Regulation Authority (Ofwat).

This draft determination is published on our website. We also publish the following documents, which support our cost change draft determination for Dŵr Cymru:

- Cost change draft determinations 2026 - Sector Overview;
- Cost Change draft determinations 2026 – Price control deliverables appendix;
- Cost Change draft determinations 2026 – Asset health cross cutting issues appendix;
- Cost change draft determinations 2026 – Asset health PCDs; and the
- Cost change draft determinations 2026 model and asset health model

I enclose the following additional information relevant to our decisions within the appendices of this document:

Appendix 2: Our draft determination on how Dŵr Cymru's expenditure allowances are funded

Appendix 3: Our detailed assessment of, and decision on, Dŵr Cymru's submitted claims.

Dŵr Cymru should ensure that it reads all the information referred to above before responding to this consultation. The closing date for responding to this draft determination consultation is 24 September 2026. Dŵr Cymru has published its cost change submission on its website. We include a link to this publication on our website.

Yours sincerely,

Helen Campbell
Executive Director, Delivery

Appendix 1: Cost change draft determination

In Dŵr Cymru's 2026 cost change submission, we received one claim in the following cost area:

- Asset health – gravity sewers inspections

Table 1 below provides a summary of our draft determination total cost change expenditure allowance compared to the cost change expenditure you requested in your submission. We explain our decisions in Appendix 4 of this document.

Table 1: Breakdown of the difference between Dŵr Cymru's view and Ofwat view of costs (£million, 2022-23 FYA CPIH prices)

	2025-30 period	2030-35 period
Company total cost change claim	0.808	0.000
Ofwat 'insufficient evidence of need' or 'out of scope of cost change process' assessment[1]	0.000	0.000
Company total 'in scope' cost change claim[2]	0.808	0.000
Ofwat 'best option' challenge[3]	0.000	0.000
Ofwat efficiency challenge[4]	0.000	0.000
Ofwat draft determination cost change allowance	0.840[5]	0.000

Our draft determinations include price control deliverables (PCDs) to hold Dŵr Cymru to account for delivery. Our approach to PCDs is set out in the Cost Change Draft Determinations 2026 – Price control deliverables appendix.

The impact of our draft determinations for revenue and regulatory capital value (RCV) adjustments by price control are set out in tables 2 and 3 below.

[1] There are no such costs for Dŵr Cymru.
[2] The company's total eligible cost claim that demonstrates the need for the required step change in investment and is within the scope of the cost areas.
[3] Our review of the company's evidence of optioneering and associated cost benefit analysis and that the options put forward are the best option for customers.
[4] Our review of the company's evidence of efficient unit costs and associated methodology.
[5] Includes a small increase for the company's estimate of 'what base buys' (implicit allowance).

Table 2: Dŵr Cymru's draft determination revenue adjustments by price control and when they apply (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Total
Total in-period revenue adjustment for 2027-28	0.000	0.000	0.000	0.000	0.000
Total in-period revenue adjustment for 2028-29	0.000	0.000	0.000	0.000	0.000
Total in-period revenue adjustment for 2029-30	0.000	0.000	0.000	0.000	0.000
Total end of period revenue adjustment at PR29	0.000	0.000	0.944	0.000	0.944

Table 3: Dŵr Cymru's draft determination RCV adjustments by price control (£million, 2022-23 FYA CPIH prices)

	Water resources	Water network plus	Waste-water network plus	Bio-resources	Total
Total end of period RCV adjustment at PR29	0.000	0.000	0.000	0.000	0.000

Since our draft determination does not include any in-period revenue adjustments resulting from the cost change process, there are no changes to the company's last determined price controls or customer bills.[6]

[6] For Dŵr Cymru, the last determined priced controls are those updated for the 2025 blind year reconciliation.

Appendix 2: Our draft determinations on Dŵr Cymru how we fund expenditure allowances

Dŵr Cymru did not request in-period funding in its cost change submission. Therefore, we set out in this draft determination that funding of the additional expenditure allowances over the period to 31 March 2030 will be provided through an adjustment to revenues over the 2030-35 period.

As part of the cost change process, we assess progress by companies in delivering their existing investment programme. We set out our assessment of delivery for Dŵr Cymru.

A2.1 Delivery assessment

2025-30 delivery

We reviewed the company's May 2026 delivery plan update. On balance, we consider that the company has not provided sufficient and convincing evidence that it remains on track to deliver its PR24 commitments by the end of 2025-30 period. We provide a summary of our assessment below for water and wastewater.

Water

In its May 2026 delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for water:

- The company reported meeting nearly all of its interim milestones (94%) in 2025-26.
- The company spent most of its water PCD allowances in 2025-26 and is forecasting to slightly overspend PCD allowances by the end of the 2025-30 period.
- The company is forecasting to have 76% of capital schemes in construction or delivered by the end of 2027-28.
- The company remains confident that it will deliver all of its PCD outputs by the end of the 2025-30 period.

However, the company is only expecting to have released around 57% of its capital schemes to the supply chain by the end of 2026-27. This is below the sector average and so we are concerned that this could lead to slippage later in the period.

Wastewater

In its May 2026 delivery plan update, the company showed the following positive indicators in relation to 2025-30 delivery progress for wastewater:

- The company showed good progress in relation to wastewater price control deliverable (PCD) outputs, delivering significantly more than baseline target in 2025-26 (see section below on delivery in 2025-26).
- The company reported meeting nearly all of its interim milestones (98%) in 2025-26.

However, there are still some indicators that raise significant concerns in relation to the company's delivery forecasts for the 2025-30 period:

- The company underspent its wastewater PCD allowances in 2025-26 by 66%, suggesting there may be some slippage in the delivery plan.
- The company is not forecasting to use all its PCD allowances by the end the 2025-30 period. It explained that the forecast underspend reflects contingency funding that has not yet been allocated to PCD areas and that this will be allocated as delivery progresses through the 2025-30 period.
- The company is forecasting slippage in delivery for some growth at sewage treatment works schemes into the 2030-25 period.
- Although the company is forecasting to have 65% of capital schemes in construction or delivered by the end of 2027-28, it is only expecting to have released less than 40% of these schemes to the supply chain by the end of 2026-27. This is significantly below the sector average and so we are concerned that this could lead to further slippage later in the 2025-30 period.
- The company explained that there is still significant uncertainty in relation to its National Environment Programme (NEP) requirements and that this uncertainty will not dissipate until the end of 2026.

Delivery in 2025-26

Based on its May 2026 delivery plan update, the company has failed to demonstrate that it is not behind delivery in 2025-26:

- On water, the company reported delivering 23% less PCD outputs (in value terms) in 2025-26 compared to baseline target.
- On wastewater, the company reported delivering 59% more PCD outputs (in value terms) in 2025-26 compared to baseline target.

A2.2 Financeability assessment

Dŵr Cymru did not request in-period funding within its cost change submission. As such, we have not assessed financeability for the company. If the company requests in-period funding as part of a future cost change process, we will assess its financeability at that stage along with the other factors relevant to in-period funding set out in the cost change draft determinations sector overview.

Appendix 3: Our assessment of and decision on Dŵr Cymru submitted claims

This appendix sets out our detailed assessment of, and decision on each of the company's 2026 cost change claims. It should be read alongside the documents specified in the first page of this draft determination.

A3.1 Asset health

3.1.1 Gravity Sewer Inspections

Assessment criteria	Assessment	Decision
Approach and Robust and Efficient Costs	**Decision summary – Pass** The company has provided sufficient and convincing evidence that its sampling approach is appropriate and that its costs are efficient. We therefore propose to provide the full allowance. The company submitted a higher survey submission driven by the physical constraints associated with sampling. Its minimum cohort sampling requirements resulted in a total proposed inspection of 194.5km, 15.5km more than the required 179km.[7] We propose to allow the additional length of 15.5km as this is due to minimum cohort sampling requirements. Additionally, Dŵr Cymru had estimated 'what base buys' (implicit allowance) as £0.032 million. For gravity sewer inspections, we concluded that what base buys should be zero because the representative inspection programmes funded through the cost change process are additional to business-as-usual inspection activities, such as the inspection of known high-risk sewers. Hence, we have added the 'what base buys' to the allowance. [8]	**Pass**

[7] Dŵr Cymru, 'Cost change submission – proactive gravity sewer inspections', May 2026, page 7

[8] Further detail can be found in the 'Cost Change Draft Determinations 2026 – Asset health cross cutting issues appendix'

Customer Protection	**Decision –Some gaps** The company provides sufficient and convincing evidence that customers will be protected if the company under-delivers against the investment although non delivery rates were missing from the proposal. **Company Evidence** - The company proposes a price control deliverable (PCD) for the investment funded by the requested additional allowance. The additional allowance will fund a programme of random and representative inspections covering 0.5% of the company's gravity sewer network. The company proposes a single PCD for gravity sewer inspections. The company did not provide non-delivery PCD rate for scheme delivery. **Our assessment** - The company's proposed non-delivery PCD is broadly in line with our expectations, as set out in the asset health guidance document and aligns to the approach set out in the PR24 Final Determination. If the company under delivers, the funding will be returned to customers. In response to its draft determination, the company should include a non-delivery PCD rate.	**Some gaps**

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

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