August 2026

Notification of the PR24 cost change process draft determination for Hafren Dyfrdwy Cyfyngedig

Ofwat

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Dear James

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 Hafren Dyfrdwy:

- Cost change draft determinations 2026 – Sector Overview;
- Cost change draft determinations 2026 – Asset health cross cutting issues appendix;
- Cost change draft determinations 2026 – Price control deliverables (PCD) 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 Hafren Dyfrdwy's expenditure allowances are funded

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

Hafren Dyfrdwy 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. Hafren Dyfrdwy 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 Hafren Dyfrdwy'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 3 of this document.

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

	2025-30 period	2030-35 period
Company total cost change claim	0.032	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]	0.032	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	0.032	0.000

Our draft determinations include price control deliverables (PCDs) to hold Hafren Dyfrdwy 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 Hafren Dyfrdwy.
[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.

Table 2: Hafren Dyfrdwy'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	0.036	0.000	0.036

Table 3: Hafren Dyfrdwy'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.[5]

[5] For Hafren Dyfrdwy, the last determined price controls are those updated for the 2025 blind year reconciliation.

Appendix 2: Our decisions on how we fund Hafren Dyfrdwy's expenditure allowances

Hafren Dyfrdwy did not request in-period funding in its cost change submission. Therefore, we set out in this draft determination that any 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 over the 2025-30 period for Hafren Dyfrdwy.

A2.1 Delivery assessment

2025-30 delivery

We reviewed the company's May 2026 delivery plan update. On balance, we consider that the company provides sufficient and convincing evidence to demonstrate 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 mostly positive indicators in relation to 2025-30 delivery progress for water:

- The company showed good progress in relation to water price control deliverables (PCD) outputs, delivering more than the baseline target in 2025-26 (see section below on delivery in 2025-26)
- The company reported meeting all of its interim milestones in 2025-26.
- The company is expecting to release a significant proportion (91%) of its capital projects to the supply chain by the end of 2026-27.
- The company is forecasting to have 91% of capital schemes in construction or delivered by the end of 2027-28. This should provide the company with sufficient headroom to respond to unforeseen events and manage any delivery risks.
- The company remains confident that it will deliver all of its PCD outputs by the end of the 2025-30 period.

However, the company underspent its water PCD allowances by 66% in 2025-26. This suggests there may be some slippage in the delivery plan. The company is however expecting to catch-up with allowances by 2027-28 and overspend them by the end of the 2025-30 period.

Wastewater

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

- The company reported meeting all of its interim milestones in 2025-26.
- The company spent nearly all of its year 1 wastewater PCD allowances in 2025-26.
- The company is expecting to release a significant proportion (78%) of its capital projects to the supply chain by the end of 2026-27.
- The company is forecasting to have all its capital projects in construction or delivered by the end of 2027-28. This should provide the company with sufficient headroom to respond to unforeseen events and manage any delivery risks.
- The company remains confident that it will deliver all of its PCD outputs by the end of 2025-30 period.

However, the company reported that it did not deliver any wastewater PCD outputs in 2025-26, although we recognise that the vast majority of these are due to be delivered later in the 2025-30 period.

Delivery in 2025-26

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

- On water, the company reported delivering 7% more PCD outputs (in value terms) in 2025-26 compared to its baseline target.
- On wastewater, the company reported delivering no wastewater related PCD outputs in 2025-26. However, this is against a very low PCD baseline target for 2025-26 of £0.1 million. We consider this difference to be immaterial.

A2.2 Financeability assessment

Hafren Dyfrdwy 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 Hafren Dyfrdwy 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.

A 3.1 Asset health

3.1.1 Gravity sewers 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 propose to provide the full allowance. Due to the relatively shorter lengths of the company's sewers, we agreed that they could undertake their sample sizing by combining their lengths with Severn Trent's, provided that it did not consider there were any geographically specific factors driving condition.	**Pass**
Customer Protection	**Decision – Adequate**. The company provides sufficient and convincing evidence that customers will be protected if the company under-delivers against the investment. **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. This PCD consists of three sub-elements to ensure delivery of the following activities, those are: mapped sewers (vitrified clay cohort and not vitrified) and unmapped sewers. The company a provided separate non-delivery PCD rate for mapped and unmapped sewers.	**Adequate**

Assessment criteria	Assessment	Decision
	Our assessment – The company's proposed non-delivery PCD is 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.	

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

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