Anglian Water: Direct procurement for customers detailed actions

In your business plan "PR19 Our Plan 2020-2025" you identified and assessed the following schemes for their suitability for Direct Procurement for Customers (DPC):

- the South Lincolnshire Reservoir
- the Elsham Transfer and Treatment scheme
- the North Fenland to Ely Transfer and Treatment scheme, and,
- the Smart Metering programme

We have reviewed your technical ("discreteness") assessment and value for money analysis of these schemes. From our review we require you to carry out with regards to each scheme as follows:

Scheme	Action	Action Reference
South Lincolnshire Reservoir.	No further DPC action is required on this scheme.	N/A
Elsham Transfer and Treatment scheme.	• A summary of the key elements of the proposed Elsham Transfer and Treatment scheme. This should include all of the relevant scheme information including but not limited to the key deliverables. • A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Anglian Water. • An economic analysis of the scheme including a Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify any additional benefit to customers of progressing this scheme outside of DPC.	ANH.CMI.A5
North Fenland to Ely Transfer and Treatment scheme.	• A summary of the key elements of the proposed North Fenland to Ely Transfer and Treatment scheme. This should include all of the relevant scheme information including but not limited to the key deliverables.	ANH.CMI.A6

Scheme	Action	Action Reference
	• A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Anglian Water. • A revised economic analysis of the scheme including a new Net Present Value analysis using the standardised assumptions provided in Table A. This analysis should clearly identify the any additional benefit to customers of progressing this scheme outside of DPC.	
Smart Metering programme.	No action is required on this project.	N/A

In addition, in our review of Anglian Water's plan we identified a number of schemes which appear to be geographically and/or functionally linked. Due to a lack of information in Anglian Water's business plan submission, we were unable to review the detail for each of these schemes and their suitability for DPC. The schemes that we identified were:

- WRMP19-SHB2a - Pyewipe Water Reuse for Non-potable use

- WRMP19 SHB2b - Transfer from Pyewipe to non-potable network

We require Anglian Water to supply us with the following information:

Scheme	Action	Action Reference
Pyewipe Water Reuse for Non-potable use	• A summary of the key elements of the proposed Pyewipe Water Reuse for Non-potable use scheme. This should include all of the relevant scheme information including but not limited to key deliverables. • A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Anglian Water. • A summary of the timeline to increase the output from 6 Ml/d to 20Ml/d as per Anglian Water's plan (pg. 67).	ANH.CMI.A7

Transfer from Pyewipe to non-potable network scheme	• A summary of the key elements of the proposed Transfer from Pyewipe to non-potable network scheme. This should include all of the relevant scheme information including but not limited to the key deliverables. • A summary of the projected scheme costs clearly identifying the costs for each phase of the scheme by year. These should clearly identify the incremental costs to Anglian Water.	ANH.CMI.A8
Pyewipe – other	• Please explain why linking the two Pyewipe schemes into a single DPC scheme was not contemplated. • An economic analysis of a combined Pyewipe Water Reuse for Non-potable use scheme and Transfer from Pyewipe to non-potable network scheme including a new Net Present Value analysis using the standardised assumptions provided in Table A • This analysis should clearly identify any additional benefit to customers of progressing these schemes outside of DPC.	ANH.CMI.A9

Table A – Standard assumptions for the NPV analysis of Direct Procurement for Customer schemes

The business case submissions from the water companies as part of the Price Review 2019 had thirteen economic assessments of schemes that were considered technically suitable for Direct Procurement for Customers (DPC). There were significant differences in the assumptions used to identify the NPV differential for the DPC case (factual) and in-house (counterfactual). The table below sets out a set of assumptions and range of sensitivities that should be used in the event that companies do not have any specific market information for the relevant scheme.

Area	Item	DPC (Factual) Assumptions	In-house (Counterfactual) Assumptions
Customer Payments	Value	Determined by CAP contract payments and Appointee costs	Determined by Allowed Revenues from PR framework
	Timing	From first payment by customers which would usually be expected after asset completion. If improved contractual terms are identified with earlier payments then these should be considered.	From first payment by customers which would usually be when the appointee starts collecting from customers as per its business plan 'allowed revenue' profile.
Contract period	Length	Mid-case 25 years, Lower-case 20 years, Upper-case 50 years	Not needed

Area	Item	DPC (Factual) Assumptions	In-house (Counterfactual) Assumptions
PV Calculation	Period	From the start of the customer payments until the end of the asset life (or until there is no difference in asset value, maintenance and finance costs).	
	Discount rate	Discount rate of 3.5% real decreasing overtime (Based on HM Treasury Green Book Supplementary Guidance: discounting (3.5% 0-30 years, 3.0% 31-75 years, 2.5% 76-125 years)	
Indexation		CPIH	CPIH
Asset Depreciation	Method	Straight line or as per companies policy for asset type, the treatment should be consistent between DPC and in-house deliver.	
	Depreciation Rate	Mid-case - As per company policy for this asset type Lowercase +25% faster company policy rate	As per company policy for this asset type
Financing Costs	Cost of debt	Construction: forward Libor 6m swap + 220bsp –240bsp Operation: forward Gilt / Libor 6m swap + 120bsp –140bsp RCV bullet repayment: forward Gilt / Libor 6m swap + 120bsp –140bsp	As per company business plan
	Cost of equity	Equity IRR (Real) 8% (Upper case 7%, lower case 10%)	As per company business plan

Area	Item	DPC (Factual) Assumptions	In-house (Counterfactual) Assumptions
	Gearing	Mid case 85% (Upper case 90%, lower case 80%) after asset completion.	As per company business plan or Ofwat notional of 60%.
	Assumptions	Given the ranges available above, please provide explanation justifying your selections made	N/A
Cost differentials	Capex efficiency saving	Mid case 10% (Uppercase +15%, lowercase 5%)	In-house is base case
	Opex efficiency saving	Mid case 10% (Uppercase +15%, lowercase 5%)	In-house is base case
	Additional Bidder Costs	Additional bidder costs of 2% of capital spend, (Upper case 1%, lowercase 3%)	In-house is base case
	Procurement	Procurement costs of 1% of capital spend, (Uppercase 0.5%, Lowercase 2%)	In-house is base case
	Management	Contract management costs £150k per annum. (Lowercase £300k per annum for high operational interaction schemes)	In-house is base case

Area	Item	DPC (Factual) Assumptions	In-house (Counterfactual) Assumptions
Terminal Value	Assumptions	Please disclose clearly any assumptions about terminal value	N/A