

April 2019

Trust in water

**PR19 draft determinations:  
South West Water – Cost efficiency  
draft determination appendix**

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# 1. Wholesale water activities

## 1.1 Enhancement

The tables below summarises the adjustments we made to the level of enhancement capex for the water resources and network plus water price controls. Specific areas of material disallowance, including investment considered to be within our base allowance, are shown.

**Table 1: Material disallowances of enhancement costs for the water resources price control 2020-25 (£ million of 2017-18)**

Area of enhancement	Company requested capex	Our allowance
Total for all enhancement capex	13.8	7.7
<b>Material areas of disallowance in enhancement capex (£ million)</b>		
A large proportion of the gap between South West Water's requested capex and our allowance is covered by a cost allowance in the network plus price control (circa £7.8m). In the network plus price control we made an allowance against South West Water's enhancement freeform line catchment management, part of which was submitted in the water resources control. We will consider this further in our final determination.		

**Table 2: Material disallowances of enhancement costs for the water network plus price control 2020-25 (£ million of 2017-18)**

Area of enhancement	Company requested capex	Our allowance
Total for all enhancement capex	240.4	173.0
<b>Material areas of disallowance in enhancement capex (£ million)</b>		
Investment to address raw water deterioration		-17.9
Resilience		-18.4
Investment in enhancement freeform line Clean Water service other within base allowance		-16.8
New developments and new connections		-8.6
Leakage expenditure in SDB		-7.1
Isles of Scilly water projects (excluding water resources)		-1.6

## 1.2 Transition expenditure

Table 3 sets out the expenditure we allowed in wholesale water controls under the transition programme. The transition programme allows companies to bring forward planned investment from 2020-25 to 2019-20, where it is efficient to do so. Although the expenditure would be incurred in 2019-20, for the purpose of cost performance incentives it is considered as expenditure incurred in the following regulatory period (2020-25).

The purpose of the transition programme is to make more efficient use of resources and minimise whole life costs, where it is efficient to bring forward an investment and to enable statutory deadlines early in the next regulatory period to be met.

**Table 3: Allowed transition expenditure in wholesale water price controls 2019-20 (£ million of 2019-20)**

Description of expenditure	Company requested expenditure		Our allowed expenditure		Rationale
	Water Resources	Water Network Plus	Water Resources	Water Network Plus	
Knapp Mill new water treatment works	-	1.1	-	-	The company did not provide sufficient evidence to justify its proposed solution and why it would be efficient to bring this activity forward
Investment related to taking over operation of water services to the Isles of Scilly	0.013	0.253	0.013	0.253	Early start would facilitate the company in taking reasonable steps to prepare for taking over services to the islands

## 2. Wholesale wastewater activities

### 2.1 Enhancement

The tables below summarise the adjustments we made to the level of enhancement capex for the network plus wastewater and bioresources price controls. Specific areas of material disallowance, including investment considered to be within our base allowance, are shown.

**Table 4: Material disallowances of enhancement costs for the wastewater network plus price control 2020-25 (£ million of 2017-18)**

Area of enhancement	Company requested capex	Our allowance
Total for all enhancement capex	262.3	250.4
<b>Material areas of disallowance in enhancement capex (£ million)</b>		
Investment in enhancement freeform line <i>Maintaining the serviceability of sewage pumping stations</i> considered within our base allowance		-7.9
Isle of Scilly wastewater projects (excluding bioresources)		-1.0
Resilience		-1.0

**Table 5: Material disallowances of enhancement costs for the bioresources price control 2020-25 (£ million of 2017-18)**

Area of enhancement	Company requested capex	Our allowance
Total for all enhancement capex	7.5	1.8
<b>Material areas of disallowance in enhancement capex (£ million)</b>		
Sludge growth		-5.2
Isle of Scilly wastewater projects (bioresources)		-0.4

### 2.2 Transition expenditure

Table 6 sets out the expenditure we allowed in wholesale wastewater controls under the transition programme. See section 1.2 for detail about the transition programme.

**Table 6: Allowed transition expenditure in wholesale wastewater controls 2019-20 (£ million of 2019-20)**

Description of expenditure	Company requested expenditure		Our allowed expenditure		Rationale
	Wastewater Network Plus	Bioresources	Wastewater Network Plus	Bioresources	
WINEP Programme	1.36	-	1.36	-	Early start for schemes with early delivery dates in the next price control period
Investment related to taking over operation of wastewater services to the Isles of Scilly	0.27	-	0.27	-	Early start will allow the company to take reasonable steps to prepare for taking over services to the islands

### 3. Cost adjustment claims

Table 7 summaries our consideration and allowances for the cost adjustment claims submitted by the company. These claims cover both base and enhancement expenditure for the wholesale water and wholesale wastewater services.

**Table 7: Cost adjustment claims and our allowed totex adjustments, 2020-25 (£ million of 2017-18)**

Description of Claim	Value of company claim	Our allowed adjustment	Rationale for decision
Isles of Scilly. Claim relates to taking over operation and enhancement of water & wastewater services to the islands.	41.3	34.4	We accept the validity of this claim. We allowed in full the company's view of opex cost. We did not accept the full extent of the up-lifts SWB applied to capex costs, on optimism bias for example, as SWB did not provide sufficient justification.
Knapp Mill new water treatment works. Atypical expenditure related to the replacement of the current Knapp Mill water treatment works.	72.6	29.0	We accept the need for this investment but we consider that our multi-AMP modelled allowance adequately funds companies for long-term capital maintenance. Therefore, we consider that a significant part of the claim's costs are included in our allowance for base expenditure. In addition the company did not fully evidence the robustness of their preferred solution nor did they fully evidence that their costs were efficient. We made an adjustment to the value of the claims to take account of these concerns.
Alderney new water treatment. Atypical expenditure related to the replacement of the current Alderney water treatment works.	38.3	15.3	Rationale is as for Knapp Mill new water treatment works given above.
Total for all claims	152.2	78.7	

## 4. WINEP uncertainty mechanism

Our totex allowance to companies includes an allowance for environmental obligations set out in the Water Industry National Environment Programme (WINEP). Some of the requirements in WINEP are not expected to be confirmed until December 2021 at the earliest, after we make our final determinations in December 2019. Unconfirmed requirements in WINEP are known as 'amber' schemes.

Where we made an allowance for amber schemes, we use a mechanism to adjust our totex for schemes which are later confirmed as not required.

Table 8 sets out the adjustments we will make for each scheme in South West Water's WINEP programme that is currently unconfirmed, if the scheme is not confirmed as required for the period 2020-25. We will make the adjustments at the end of the control period or earlier. Our adjustments are based on the company's capex estimates.

**Table 8: WINEP uncertainty mechanism – cost adjustments for unconfirmed WINEP schemes included in our draft determination (£ million of 2017-18)**

Unique ID	Scheme name	Our allowed adjustment
7SW200085	Belstone Sticklepath STW	0.27
7SW200133	Bolham Weir	0.03
7SW200138	Bow STW	1.28
7SW200145	Bradworthy STW	0.19
7SW200163	Bridgerule STW	0.31
7SW200264	Christow STW	1.23
7SW200274	Chudleigh STW	1.54
7SW200278	Chulmleigh STW	1.23
7SW200286	Churchinford STW	0.33
7SW200318	Cowsic	0.04
7SW200319	Crediton (Lords Meadow) STW	2.11
7SW200330	Dart at Littlehempston	0.04
7SW200368	Dunkeswell STW	1.37
7SW200412	Exe at Sawdust Pool	0.04
7SW1000041	Fernworthy – Fishbank Release	0.01

<b>Unique ID</b>	<b>Scheme name</b>	<b>Our allowed adjustment</b>
7SW200454	Fraddon STW	1.05
7SW300188	Fraddon STW SO	0.21
7SW200459	Frogpool STW	0.63
7SW200545	Hemyock STW	0.26
7SW200567	Holsworthy (Derriton) STW	1.80
7SW200591	Isles of Scilly SAC Investigation	0.08
7SW200593	Isles of Scilly STW improvement - St Mary's	7.39
7SW200602	Kenn & Kennford STW	0.54
7SW200604	Kennal	0.03
7SW200606	Kilkhampton STW	0.82
7SW200633	Lanner St Day STW	2.74
7SW200634	Lanner St Day STW	2.04
7SW200682	Lopwell Dam Intake	0.04
7SW200788	North Bridge Intake	0.04
7SW200789	North Bridge Intake 1	0.04
7SW200790	North Bridge Intake 2	0.04
7SW200822	Offwell STW	0.41
7SW200861	Pelynt STW (CIP2 T1)	1.87
7SW200949	River Bray at Leehamford	0.04
7SW200955	River Tavy at Tavy Cleave	0.04
7SW201006	South Molton STW	2.22
7SW200453	St Columb Road SPS EO	0.50
7SW201147	Teign Village STW	0.91
7SW201235	West Dart	0.04
7SW201243	Willand STW	0.59
7SW201246	Wilmington STW	0.46
7SW201251	Winkleigh STW	0.59
7SW201263	Witheridge STW	0.23

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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