

April 2019

Trust in water

**PR19 draft determinations:
United Utilities – 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 does not include the £25.7m allowed to develop strategic water resource schemes.

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 | 23.583 | 23.583 |
| Material areas of disallowance in enhancement capex (£ million) | | |
| No disallowances | | |

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 | 358.986 | 284.087 |
| Material areas of disallowance in enhancement capex (£ million) | | |
| Supply-demand balance schemes | | -40.001 |
| Resilience | | -28.280 |
| Metering | | -5.977 |

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 | Value of company claim | | Our allowed expenditure | | Rationale |
|---|------------------------|--------------------|-------------------------|--------------------|---|
| | Water Resources | Water Network Plus | Water Resources | Water Network Plus | |
| Manchester & Pennines Resilience scheme | - | 19.6 | - | 19.6 | Early investment enables risk related to the Manchester & Pennines Resilience scheme to be more effectively managed |

2. Wholesale wastewater activities

2.1 Enhancement

The tables below summarises 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 | 864.6 | 832.9 |
| Material areas of disallowance in enhancement capex (£ million) | | |
| Transferred private sewers and pumping stations | | -30.101 |

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 | 0.000 | 0.000 |
| Material areas of disallowance in enhancement capex (£ million) | | |
| No disallowances | | |

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 | 9.4 | - | 9.4 | - | Early start for schemes with early delivery dates in the next price control period |
| Maintaining the long term capability of the assets (non-infra) | 0.8 | - | - | - | The company did not present clear evidence for the need for this transitional investment |

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 |
|---|------------------------|------------------------|--|
| Impact of extreme deprivation and average bills | 74.3 | - | Claim rejected as our retail cost assessment models account for deprivation. |
| Manchester & Pennine resilience | 72.7 | 57.4 | Enhancement investment works to replace the sections of the Haweswater aqueduct currently in a poor condition is provided. We further accept that there is a need to progress plans to manage the condition of the remainder of the Haweswater aqueduct. However, we challenge the costs of this programme as the company did not present robust evidence that the costs were efficient. |
| Combination of exogenous factors impacting surface water runoff | 87.7 | - | We do not accept this claim because the company did not presented sufficient evidence that increasing surface run-off in their supply region this results in a more expensive suite of assets and thus higher costs. |
| Keeping Our Reservoirs Resilient | 51.2 | - | We accept that the company has a greater number of water supply reservoirs and these are aged. However the company has not provided sufficient evidence regarding their proposed interventions required to maintain these risks at an acceptable level and thus magnitude of any adjustment in base cost. |
| Distance to Landbank | 32.2 | - | We do not accept this claim as the costs are to a significant extent under management control. In addition the company did not |

| Description of Claim | Value of company claim | Our allowed adjustment | Rationale for decision |
|-----------------------------|-------------------------------|-------------------------------|--|
| | | | provide sufficient evidence that the cost benchmarking used efficient costs. |
| Total for all claims | 318.1 | 57.4 | |

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 unit rates, and for certain schemes, the scheme-specific costs, on which such adjustments will be made at the end of the control period for each scheme in United Utilities' WINEP programme that is currently unconfirmed. Our adjustments are based on the company's capex estimate.

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

| | Scheme category / name | Company's capex unit rate | Our allowed capex unit rate |
|--|--|---------------------------|-----------------------------|
| P removal schemes (Cost drivers WFD_IMPg, WFD_IMPm, U_IMP2) | | | |
| | WwTW size band 1-3 | £4,237 per p.e. | £3,973 per p.e. |
| | WwTW size band 4 (proposed limit =>1mg/l P) | £428 per p.e. | £402 per p.e. |
| | WwTW size band 4 (proposed limit <1mg/l P) | £814 per p.e. | £763 per p.e. |
| | WwTW size band 5 (proposed limit =>1mg/l P) | £159 per p.e. | £149 per p.e. |
| | WwTW size band 5 (proposed limit <1mg/l P) | £349 per p.e. | £328 per p.e. |
| | WwTW size band 6 (proposed limit =>1mg/l P) | £37 per p.e. | £35 per p.e. |
| | WwTW size band 6 (proposed limit <1mg/l P) | £108 per p.e. | £101 per p.e. |
| Network storage schemes (Cost driver WFD_IMPg) | | | |
| | Storage requirement: 0 – 500m ³ | £5,882 per m ³ | £4,530 per m ³ |
| | Storage requirement: 501 – 1,000m ³ | £3,334 per m ³ | £2,567 per m ³ |
| | Storage requirement: 1,001 – 5,000m ³ | £1,876 per m ³ | £1,445 per m ³ |
| | Storage requirement: >5,000m ³ | £965 per m ³ | £743 per m ³ |
| Enhancing storm tank capacity schemes (Cost driver WFD_IMPg) | | | |
| | Storage requirement: 0 – 500m ³ | £5,882 per m ³ | 5,428 per m ³ |

| | Scheme category / name | Company's capex unit rate | Our allowed capex unit rate |
|--|--|----------------------------------|------------------------------------|
| | Storage requirement: 501 – 1,000m ³ | £3,334 per m ³ | £3,076 per m ³ |
| | Storage requirement: 1,001 – 5,000m ³ | £1,876 per m ³ | £1,731 per m ³ |
| | Storage requirement: >5,000m ³ | £965 per m ³ | £890 per m ³ |
| Sanitary parameter removal schemes (Cost driver WFD_IMPg) | | | |
| | Audley WwTW | £2,175,523 | £2,175,523 |
| | Burnley WwTW | £3,836,271 | £3,836,271 |
| | Glossop WwTW | £1,616,116 | £1,616,116 |
| | Helsby WwTW | £8,553 | £8,553 |
| | Mossley WwTW | £5,010,791 | £2,505,396 |
| | Rossendale WwTW | £298,830 | £298,830 |
| | Saddleworth WwTW | £1,885,875 | £1,885,875 |
| | Worsley WwTW | £259,721 | £259,721 |
| Flow to full treatment schemes (Cost driver WFD_IMPg) | | | |
| | Burnley WwTW | £3,836,271 | £3,836,271 |
| | Mossley WwTW | £2,505,395 | £2,505,395 |
| Water resources schemes (Cost drivers SSSI_IMP, WFD_IMP_WRHMWB, WFD_INV_WRHMWB) | | | |
| | Removal of weir at Blea Water | £600,000 | £600,000 |
| | Implementation of flow changes at Clowbridge Reservoir | £76,000 | £76,000 |
| | Continuation and final implementation of adaptive management improvements at Castleshaw and Fernilee Reservoir | £186,000 | £186,000 |
| | Mitigation measures to minimise the impact of Stocks Reservoir on the River Hodder | £30,000 | £30,000 |
| | Readycon Dean Reservoir: Continuation and final Implementation of AMP6 flow changes | £50,000 | £50,000 |

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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