

April 2019

Trust in water

**PR19 draft determinations:  
United Utilities – Securing cost  
efficiency actions and interventions**

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## PR19 draft determinations: United Utilities - Securing cost efficiency actions and interventions

Following our initial assessment of plans, we categorised two types of actions for fast-track companies:

- agreed actions that fast-track companies committed to implement to ensure that their plans meet the threshold for fast-track status; and
- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery).

Table 1 below sets out the agreed and required actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'UW' denotes the company United Utilities Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote agreed or required actions.

Table 2 below sets out any further interventions that are not resulting from an action, which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix 'UW' denotes the company United Utilities Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key of these acronyms. Intervention numbers are preceded with a 'C'.

For all other documents related to the United Utilities Water draft determination, please see the [draft determinations webpage](#).

**Table 1: United Utilities' response to required actions and interventions for draft determinations**

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing cost efficiency	<b>UW.CE.A 1</b>	Agreed	For actions on cost efficiency thresholds, see data tables below.	10am, 11 February 2019	UW accepts the outcome of our view of efficient costs at the initial assessment stage.	No intervention required	N/A
	<b>UW.CE.A 2</b>	Agreed	The company should retain its performance commitment in relation to Thirlmere scheme delivery - Based on the requested carryover spend to complete this project it is suggested that the current performance	10am, 11 February 2019	Response within 'PR19 draft determinations: United Utilities - Delivering outcomes for customers actions and interventions'.		

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
			commitment with a financial outcome delivery incentive for scheme delivery is continued until the scheme is 100% complete.				
	<b>UUW.CE.A 3</b>	Agreed	<p>Strategic regional solution development - We have identified from the plans that at least one strategic supply solution is required over the next 5-15 years to secure drought resilience in the south-east. The strategic regional solution development allocation is to allow the delivery of consistent and transparent investigations, planning and development of strategic options with the overall aim of optimum solutions being construction ready by 2025. The company's allocation is made on the basis of having clear deliverables and customer protection for the gated delivery of the development of the River Severn-River Thames transfer scheme. The following actions are required to ensure the efficient delivery of this programme:</p> <ul style="list-style-type: none"> <li>• In conjunction with the other companies involved, jointly propose methods for collaborative working including setting up the joint working group for individual schemes, and how consistent assumptions and decisions will be made within these groups and between them.</li> <li>• Provide more detail on the gated process, the deliverables, timings and expenditure allocations at each gate</li> <li>• Propose ODI-type mechanisms to allow allocated funding to be recovered by customers in the event of the scheme not progressing through each gate and for the non-delivery or late delivery of outputs.</li> </ul>	N/A	The company accepts the action.	No intervention required at this stage. The company has committed to provide the information for review by 1 April, and due to the collaborative element of this action will align to the slow track determination deadlines.	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	<b>UUW.CE.A 4</b>	Required	In principle, we consider United Utilities Water's proposals for cost adjustment mechanisms for unconfirmed environmental requirements to be appropriate. However, for P removal schemes we note its proposed use of different p.e. figures from those set out in WINEP3. We require the company to provide the p.e. data it has used for each of the 53 Amber WFD schemes listed in WINEP3 as requiring P removal and to explain why these differ to the dataset used to populate WINEP3.	10am, 11 February 2019	The company has complied with the request and provided p.e. figures for 53 WFD-driven P removal schemes and p.e. figures at an additional 4 STWs where a P removal requirement is driven by the UWWTD. The differences between these figures and those listed in WINEP3 is explained.	We find the explanation of the differences between the two sets of p.e. data acceptable. The data provided will enable us to operate the unit cost adjustment mechanism for uncertain WINEP schemes, if required.	No intervention required. <sup>1</sup>

**Table 2: Further interventions for draft determinations**

Intervention reference	Our assessment and rationale	Interventions
<b>UUW.CE.C1</b>	We propose to intervene on the transitional expenditure relating to enhancement table WS10 entry 'Maintaining the long term capability of the assets ~ non-infra' as the company did not provide sufficient evidence to justify bringing this activity forward.	We are not allowing the transitional expenditure given on Business plan table WS10 Line 48.
<b>UUW.CE.C2</b>	We consider that the proportion of developer services expenditure that is assumed recoverable from developers should be the same across all companies unless there is specific evidence in the company business plans to the contrary.  <b>Water</b>  New developments: Company business plan forecasts suggest an industry average recovery rate for new developments of 48%. Six companies (including all 3 fast track companies) are forecasting a negative infrastructure charge as	We are intervening to use our forecast of the proportion of developer services expenditure that is assumed recoverable from developers:  <b>Water</b>  New developments: 66%  New connections: 100%

<sup>1</sup> Owing to changes in the list of 'Amber' schemes in the version of WINEP released on 29 March 2019, a query has been raised seeking further p.e. data for P removal schemes at three sites.

Intervention reference	Our assessment and rationale	Interventions
	<p>the income offset is greater in absolute terms than the infrastructure charge. In 2020 new charging rules for developer services (England only) mean that the income offset is now applied to the infrastructure charge. We said in Charging Rules for New Connection Services (December 2018) that in the transition to the new charges regime, that companies should take reasonable steps to ensure that the existing balance of charges between developers and other customers prior to the implementation of the new rules should be broadly maintained. For the purposes of determining an appropriate industry position, we have capped the amount of income offset such that it cannot exceed the infrastructure charge for the 6 companies This is because we do not recognise this as being consistent with the balance of charges under the pre-2020 regime. This gives a revised average rate of 66% which we have applied.</p> <p>New connections: We expect recovery rates for new connections to be around 100%. Most companies have forecast close to this amount. However the industry data is skewed by United Utilities, who forecast a low recovery rate, arguing that this is because they are not allowed to recover some overheads. We are not aware of any valid reason why these costs cannot be fully recovered, and no other companies have used this argument. We therefore assume 100% cost recovery for new connections.</p> <p>Diversions: Our expectation is that diversion activities are fully recoverable by companies. We will apply a 100% assumption for diversions recovery rates.</p> <p><b>Wastewater</b></p> <p>New developments: Our expectation, based on previous price reviews, is that recovery rates for wastewater should be close to 100%. Of the 11 WaSCs, 8 state that they will recover 100%. Company business plans forecasts suggest an industry average of 84%. United Utilities is an outlying company but have not provided convincing evidence to support a recovery rate of less than 100%. We therefore assume a recovery rate of 100% which is in line with other companies.</p> <p>Diversions: Our expectation is that diversion activities are fully recoverable by companies. We will apply a 100% assumption for diversions recovery rates.</p>	<p>Diversions: 100%</p> <p><b>Wastewater</b></p> <p>New developments: 100%</p> <p>Diversions: 100%</p>
UUW.CE.C3	<p>Our adjustments to base and enhancement expenditure will impact operating and capital expenditure differently. We therefore propose to adjust the opex and capex split in each control to reflect the adjustments agreed with the company to base and enhancement expenditure in each control. In base</p>	<p>We are intervening by adjusting the opex/capex split in each control to reflect the adjustments we have agreed with the company to base and enhancement expenditure.</p>

Intervention reference	Our assessment and rationale	Interventions
	<p>expenditure, we retain the opex and capex expenditure splits provided by the company in its submission. We assume all enhancement expenditure we allow is capex expenditure.</p>	
<p><b>UUW.CE.C4</b></p>	<p>Our adjustments will impact different programmes within totex differently. The five-year profile of expenditure provided in the company submission by United Utilities is reasonable and therefore we propose to profile our totex allowance over the five-year period based on this profile.</p>	<p>We are intervening to apply United Utilities' five-year totex profile to our totex allowance.</p>

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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