

July 2019

Trust in water

# PR19 draft determinations

**Anglian Water – Targeted controls, markets  
and innovation actions and interventions**

## PR19 Draft Determinations: Anglian Water – Targeted controls, markets and innovation actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised 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 ‘ANH’ denotes the company Anglian Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Actions whose numbers are preceded with an ‘A’ denote required actions and actions whose numbers are preceded with a ‘B’ denote advised 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 ‘ANH’ denotes the company Anglian Water. The central acronym references the test area where the action has been identified, please see the ‘PR19 draft determinations: Glossary’ for a key to these acronyms. Intervention numbers are preceded with a ‘C’.

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

**Table 1: Anglian Water’s 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
Targeted controls, markets and innovation	ANH.CMI.A1	Required	The company’s plan does not provide sufficient explanation for the sludge production volume forecasts. The company should provide further evidence around how the sludge volume forecast was calculated, including any assumptions made or adjustments to model outputs.	1 April 2019	The company response states that sludge production in 2017/18 was significantly lower than forecast and down on previous years. It suggests a number of combined factors, such as impacts of weather, received flows to wastewater treatment together with seasonal factors and available sludge treatment capacity. Provisional data for 2018/19 indicates that the sludge production has increased.	No intervention required.  The company adequately explains the difference between years 2017/18 and 2018/19.	N/A

	ANH.CMI.A2	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced, particularly where cost lines are partly incremental and partly fixed. We are also intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis to avoid setting revenue controls that may distort the development of trades. We will set out our view in the draft determinations based on the updated tables Bio1, Bio3 and Bio4. We will treat the funding of the 2020 RCV (run-off, returns and tax) as fixed for these purposes, along with revenues to recover local authority rates; some fees; and a proportion of direct and indirect costs of bioresources treatment and transport.	1 April 2019	We issued an industry query response in March 2019 setting out further details about the broad approach to be followed consistent with the methodology that would be applied to the fast track companies. Anglian Water sets out its approach, along with other companies and we have reviewed this evidence.	Intervention required.  We are intervening because our assessment of the companies' business plans revealed an inconsistent approach between companies in their calculation of the bioresources revenue requirements to recover fixed and variable costs. This resulted in a wide range of suggested splits between the fixed and variable revenue component. As with fast track companies, a consistent approach to the fixed/variable split is essential to ensure that the company is correctly remunerated by our modified average revenue control for outturn sludge volumes that differ from its original forecasts.	We are intervening to set the level of the split between fixed and variable costs. Our detailed approach is set out in 'Our methodology for the classification of bioresources costs'.
	ANH.CMI.A3	Required	The company should provide a commitment to provide a detailed work programme by end August 2019 to assure us that the company will deliver appropriate drainage and wastewater management plans. The programme should ensure that the company can prepare and consult on its first drainage and wastewater management plan no later than the summer of 2022 to enable revised plans to be prepared in early 2023 to inform PR24 business plans.	1 April 2019	The company has provided a commitment in its 1 April 2019 submission.	No intervention required.	N/A
	ANH.CMI.A4	Required	The company has provided a bid assessment framework that has many elements of good practice but where we have identified specific concerns. These include, but is not limited to, areas where the process outlined for the assessment of third party bids appears to favour the assessment of in-house options without justification. The company should make a change to the bid assessment framework document in response to our feedback published in the associated information notice, including addressing the issue of potential discrimination.	15 July 2019	The deadline for the updated bid assessment framework document was 15 July 2019. We have not yet analysed the submissions.	N/A	N/A
	ANH.CMI.A5	Required	<b>Elsham Transfer and Treatment scheme.</b> 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.	1 April 2019	The company provided a revised assessment of its projects with regards to DPC. It did not identify any more projects that met the threshold.  The Company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer & Pyewipe	Action needed.  The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable.	Anglian Water are to reassess the Elsham Transfer and Treatment scheme for suitability based on market testing prior to procurement. We expect Anglian Water to

			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.		Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment & Transfer scheme. However, the three Pyewipe schemes have been confirmed as technically able to be bundled into a single scheme. This combined scheme would meet the threshold..	Efficiencies have a material impact on the result of the VfM. If in-house efficiencies are not achieved then the DPC delivery route will result in greater VfM for customers. The Company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer & Pyewipe Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment & Transfer scheme. The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable. Efficiencies have a material impact on the result of the VfM. If in-house efficiencies are not achieved then the DPC delivery route will result in greater VfM for customers.	undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to receive the best value.
	ANH.CMI.A6	Required	<p><b>North Fenland to Ely Transfer and Treatment scheme.</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	1 April 2019	<p>The company provided a summary of the scheme including the North Fenland WTW and transfer elements. A projected set of costs by year and type was provided at a high level and an NPV analysis comparing the DPC versus in-house delivery. The company's analysis indicated that in-house was slightly better value using NPV based on the assumptions.</p> <p>The company rejected the scheme for based on the VfM analysis.</p>	<p>Action needed.</p> <p>The company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer &amp; Pyewipe Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment &amp; Transfer scheme. The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable. Efficiencies have a material impact on the result of the VfM. If in-house efficiencies</p>	<p>We expect Anglian Water to undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to receive the best value.</p>

						are not achieved then the DPC delivery route will result in greater VfM for customers.	
	ANH.CMI.A7	Required	<p><b>Pyewipe Water Reuse for Non-potable use</b></p> <p>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.</p> <p>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.</p> <p>A summary of the timeline to increase the output from 6 MI/d to 20MI/d as per Anglian Water's plan (pg. 67).</p>	1 April 2019	The company has not revised its threshold analysis from the original submission. However, the three Pyewipe schemes have been confirmed as technically able to be bundled into a single scheme. This combined scheme would meet the threshold. This had been further analysed in the technical and VfM sections.	<p>Action needed.</p> <p>The company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer &amp; Pyewipe Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment &amp; Transfer scheme. The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable. Efficiencies have a material impact on the result of the VfM. If in-house efficiencies are not achieved then the DPC delivery route will result in greater VfM for customers.</p>	We expect Anglian Water to undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to receive the best value.
	ANH.CMI.A8	Required	<p><b>Transfer from Pyewipe to non-potable network scheme</b></p> <p>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.</p> <p>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.</p>	1 April 2019	The company provided a summary of Pyewipe Reuse scheme including the work specification and a process diagram. A projected set of costs by year and type was provided at a high level. The response identified that the additional output was required before the start of the AMP9.	<p>Action needed.</p> <p>The company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer &amp; Pyewipe Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment &amp; Transfer scheme. The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable.</p>	We expect Anglian Water to undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to

						Efficiencies have a material impact on the result of the VfM. If in-house efficiencies are not achieved then the DPC delivery route will result in greater VfM for customers.	receive the best value.
	ANH.CMI.A9	Required	<p><b>Pyewipe – other</b></p> <p>Please explain why linking the two Pyewipe schemes into a single DPC scheme was not contemplated.</p> <p>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</p> <p>This analysis should clearly identify any additional benefit to customers of progressing these schemes outside of DPC.</p>	1 April 2019	The company provided a summary of Pyewipe Reuse Non-potable transfer scheme including the work specification and a process diagram. A projected set of costs by year and type was provided at a high level.	<p>Action needed.</p> <p>The company's VfM analysis indicates that DPC is expected to offer worse value for money than the counterfactual for North Fenland Transfer &amp; Pyewipe Treatment and Transfer projects but will generate a £0.3m benefit to consumers in the Elsham Treatment &amp; Transfer scheme. The analysis has sufficient evidence to identify most of the key areas of difference between the two options. However, there is not enough information available to justify whether the in-house capex efficiencies are reasonable. Efficiencies have a material impact on the result of the VfM. If in-house efficiencies are not achieved then the DPC delivery route will result in greater VfM for customers.</p>	We expect Anglian Water to undertake further work to review detailed costs and commitments to ensure delivery is via the most efficient route, and to re-assess delivery via DPC if there are significant changes to these schemes or the value for money assessment, to ensure that customers continue to receive the best value.
	ANH.CMI.A10	Required	The company should explain how it will work together with neighbouring companies to explore strategic water resource options and knowledge sharing on demand-side measures with regional planning groups	1 April 2019	<p>The company has provided a helpful response. For example, the response covered:</p> <ul style="list-style-type: none"> <li>engagement with neighbouring companies on a bilateral basis and as part of regional groups in general; and</li> <li>both supply and demand side approaches.</li> </ul> <p>However, we consider that potential alternatives to the interconnection programme may have been identified if Anglian Water had undertaken additional engagement with neighbouring companies.</p>	No intervention required.	N/A

	ANH.CMI.B1-2	Advised	<p>The company should provide further information on potential bioresources trades with other companies.</p> <p>The company should consider how it can collaborate with other companies to maximise the opportunities for research to address common challenges (eg leakage detection, water efficiency and wastewater treatment processes) rather than companies progressing research independently.</p>	1 April 2019	<p>Anglian Water makes it clear it supports developing the market to facilitate trading with WASCs and third parties.</p> <p>The company does appear to be collaborating with a range of other organisations including the creation of Anglian Water Innovation Lab in partnership with Allia Future Business Centre, the University of East Anglia to create a centre for Water Studies, United Utilities to develop a proposal for UKWIR on common industry standard definitions. However, there is little evidence of outputs from these ventures or investing significant resources and/or time in collaborating on shared challenges to come up with innovative solutions. There is no evidence of what resources have been invested in collaborative projects.</p>	<p>No intervention required.</p> <p>We remain concerned that the company is not maximising the opportunities available from collaborating to address common challenges. We will promote innovation in the sector as part of our on-going work on innovation.</p>	N/A
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**Table 2: Further interventions for draft determinations**

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	N/A

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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