

July 2019

Trust in water

PR19 draft determinations

**Bristol Water – Securing cost efficiency
actions and interventions**

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PR19 Draft Determinations: Bristol Water – Securing cost efficiency 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 'BRL' denotes the company Bristol 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 'BRL' denotes the company Bristol 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 Bristol Water draft determination, please see the [draft determinations webpage](#).

Table 1: Bristol 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
Securing cost efficiency	BRL.CE.A1	Required	We have provided our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: the need for investment is not compelling; or there is no need for a cost adjustment claim beyond our existing cost baseline.	1 April 2019	Bristol Water responds to the initial assessment of its plan by reducing its costs overall. In particular it reduces its wholesale water base costs. But its enhancement proposals increase, particularly in the areas of new development and addressing raw water deterioration. It also changes its enhancement proposals for meeting the supply demand balance and metering. The company withdrew one of its cost adjustment claims submitted at initial assessment of plans and retained three claims for the purchase of water from the Canal and River Trust, water treatment complexity and water network age	Intervention required. The company has considered many of the issues raised by the cost gap at the initial assessment of plans through providing further evidence and challenging our approach to setting cost allowances. However a considerable gap remains between our view of efficient costs and the company's plan costs. The company's retail costs are efficient.	We provide our view of efficient costs for the company along with our reasoning. We expect the company to continue to address areas of inefficiency and lack of evidence.

					and materials, which we rejected at IAP. We note in its initial assessment of plans response the company stated that the treatment complexity and network age claims did not have new evidence but were resubmitted as potentially relevant for Ofwat's further analysis.		
	BRL.CE.A2	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	1 April 2019	The company has revised its submission in relation to metaldehyde treatment. The company has removed £0.074m over 2020-25 for product substitution costs to farmers.	No intervention required for draft determination but further action needed by the company. We accept the revisions and assess the revised expenditure.	The company needs to provide evidence to confirm the DWI agrees with its submitted plans/ revised undertakings and that no metaldehyde specific treatment or product substitution costs are included in the requested allowance.
	Advised actions	Advised	No advised actions	N/A			

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
<p>We explain our approach to cost assessment, including the allowances we set for each control, assumption on revenue recovery from grants and contributions, opex-capex split and totex profiling, in 'Securing cost efficiency technical appendix'. We set out other company specific interventions, and the allowances we set for each control, in section 3 of the company's draft determination summary and its cost efficiency appendix.</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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