

July 2019

Trust in water

# PR19 draft determinations

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

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## PR19 Draft Determinations: Northumbrian 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 ‘NES’ denotes the company Northumbrian 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 ‘NES’ denotes the company Northumbrian 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 Northumbrian Water draft determination, please see the [draft determinations webpage](#).

**Table 1: Northumbrian 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	NES.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	The company proposes total expenditure levels significantly higher than the company has incurred historically and requests more than in its September 2018 business plan. For enhancement expenditure, the company proposes significant investment in resilience and provides additional evidence. The company does not submit any cost adjustment claims at DD.	Intervention required. The company’s costs are greater than our efficient view, particularly in the water network plus, wastewater network plus and residential retail price controls. The company’s proposed enhancement expenditure in resilience is insufficiently evidenced. We have not fully considered some of the additional evidence which was supplied to us in July 2019 but will do so for the final determination. No intervention is required for cost adjustment claims.	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.

	NES.CE.A2	Required	The company has included 71 Amber schemes which are costed at £128m or about 70% of all WINEP investment. However, it is not possible to reconcile the cost or scheme numbers with figures in Table 2 and Table 5 in Appendix 3.9. The company should advise the costs included for each Amber scheme and the lines in tables WS2 and WWS2 to which these costs (capex and opex) have been allocated. Secondly, we note the company's proposal that any initial spend made prior to a decision not to proceed with a scheme should be accounted for in any adjustment, however the company should clarify what it is doing to minimise the possibility of abortive expenditure and why this risk could not be eliminated with appropriate scheduling.	1 April 2019	Northumbrian Water has provided the forecast costs (capex and opex) for each 'Amber' scheme in the WINEP programme and indicated the lines within tables WS2 and WWS2 to which these costs are allocated. To minimise and potentially eliminate abortive spend the company commits to working closely with the EA to optimise the management and communication of regulatory requirements. Scheduling will consider the relative certainty of candidate schemes and balance this against deliverability and supply chain constraints.	No intervention required.	N/A
	NES.CE.A3	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 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 £1m 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.	Company to provide evidence to confirm DWI agreement 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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