

July 2019

Trust in water

# PR19 draft determinations

## **Bristol Water – Cost efficiency draft determination appendix**

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## **1. Wholesale water activities**

### **1.1 Enhancement**

The tables below summarise the adjustments we make to set the efficient level of enhancement totex for the water resources and network plus water price controls. Where appropriate, we reallocate enhancement expenditure between enhancement activities. In the table, we present the company requested cost for each activity where we made a material challenge, after any reallocation that we may have done. Our disallowances to company enhancement proposals include a challenge on the need to invest, on the efficiency of the proposals or on the classification of the expenditure as enhancement (in which case we consider that the expenditure is covered by our base allowance). For draft determinations we make an adjustment to the enhancement allowances to account for an implicit allowance for enhancement opex included within our base models. We set out our method of estimating the opex implicit allowance in 'Securing cost efficiency technical appendix'. Costs for new developments, new connections and addressing low pressure are now considered within wholesale water base ("totex plus") econometric models. We show details of specific areas of material disallowance or efficiency challenge in the table below and we provide details in our published feeder models.

**Table 1: Material disallowances of and efficiency challenges to enhancement costs for the water resources price control 2020-25 (£ million of 2017-18)**

<b>Area of enhancement</b>	<b>Company requested totex</b>	<b>Ofwat view of requested totex after reallocations</b>	<b>Our allowance</b>
All Enhancement totex	5.4	6.8	5.3
<b>Material areas of disallowance and efficiency challenge in enhancement totex (£ million)</b>	<b>Ofwat view of requested totex after reallocations</b>	<b>Our allowance</b>	
WINEP / NEP ~ Making ecological improvements at abstractions	1.8	1.6	
WINEP / NEP ~ Drinking Water Protected Areas	1.5	1.3	

Note: Our enhancement totex allowance is net of an implicit allowance for enhancement opex. We have not netted off an implicit allowance for enhancement opex from our allowances for the individual enhancement lines.

**Table 2: Material disallowances of and efficiency challenges to enhancement costs for the water network plus price control 2020-25 (£ million of 2017-18).**

<b>Area of enhancement</b>	<b>Company requested totex</b>	<b>Ofwat view of requested totex after reallocations</b>	<b>Our allowance</b>
All Enhancement totex	29.1	27.7	16.3
<b>Material areas of disallowance and efficiency challenge in enhancement totex (£ million)</b>	<b>Ofwat view of requested totex after reallocations</b>	<b>Our allowance</b>	
Resilience	12.0	5.7	
Supply and demand side enhancements: Total	4.2	2.4	
SEMD and non-SEMD	0.6	0.0	

Note: Our enhancement totex allowance is net of an implicit allowance for enhancement opex. We have not netted off an implicit allowance for enhancement opex from our allowances for the individual enhancement lines.

## **1.2 Transition expenditure**

Bristol Water does not request any expenditure under the transition programme.

## 2. Cost adjustment claims

Table 3 summarises our consideration and allowances for the cost adjustment claims submitted by the company. We give further details in our published cost adjustment claim feeder model for Bristol Water. In its resubmitted plan Bristol Water withdrew one of its cost adjustment claims from its original plan, for prevailing wages in the Bristol area, and retained three cost claims for the purchase of water from the Canal and River Trust, water network age and materials and water treatment complexity.

**Table 3: 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
Purchase of water from the Canal and River Trust	9.4	0.0	<p>We assessed this claim incorrectly at the initial assessment of plans, because we wrongly assumed it was for abstraction charges and therefore treated it as an unmodelled base cost. However, as the claim relates specifically to the company's raw water purchase, for draft determination we carry out a detailed analysis of the cost adjustment claim submission and our allowance.</p> <p>We consider that the purchase of water from the Canal and River Trust represents the most efficient source of supply and that alternatives would be more expensive. We also consider that the company benefits from economies of scale from obtaining 45% of its supply from a single source and that there is little different between this arrangement and other bulk supply arrangements.</p>

			Therefore we consider that our modelled base cost allowance includes a sufficient allowance to meet the current Canal and River Trust costs.
Age and material of water distribution network	12.3	0.0	<p>Bristol Water submitted this claim in its original business plan and we did not include an allowance for it in at the initial assessment of plans. The company included it in its revised business plan but did not provide any further evidence to support the claim.</p> <p>We therefore do not include an allowance for it in Bristol Water's draft determination.</p>
Water treatment complexity	6.0	0.0	<p>Bristol Water submitted this claim in its original business plan and we did not include an allowance for it in at the initial assessment of plans. The company included it in its revised business plan but did not provide any further evidence to support the claim.</p> <p>We therefore do not include an allowance for it in Bristol Water's draft determination.</p>



### 3. WINEP uncertainty mechanism

Our totex allowance for 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 make an allowance for amber schemes, we use a mechanism to adjust our totex for schemes which are later confirmed as not required.

Table 4 sets out the adjustments we will make for the single scheme in Bristol Water’s WINEP programme that is currently unconfirmed, if the scheme is not confirmed as required for the period 2020-25. We will make the adjustment at the end of the control period. Our unit rate is based on the company’s totex estimate as adjusted by our company specific efficiency factor.

**Table 4: WINEP uncertainty mechanism – cost adjustments for unconfirmed WINEP schemes included in our draft determination (£ million in 2017-18 prices)**

Unique ID	Scheme category / name	Company’s totex unit rate	Our allowed totex unit rate
WINEP/NEP ~ Eels Regulations (measures at intakes)			
7BW300015	Chew Valley Lake eel passage	None proposed	£0.374m per scheme

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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