

July 2019

Trust in water

PR19 draft determinations

**Hafren Dyfrdwy – Cost efficiency draft
determination appendix**

PR19 draft determinations: Hafren Dyfrdwy - Cost efficiency draft determination appendix

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 ("botex 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)

Area of enhancement	Company requested totex	Ofwat view of requested totex after reallocations	Our allowance
All Enhancement totex	5.5	10.5	6.9
Material areas of disallowance and efficiency challenge in enhancement totex (£ million)	Ofwat view of requested totex after reallocations	Our allowance	
Reservoir Act (Reservoir Safety) (freeform)	3.9	2.3	
Environment (Wales) Act and Well-being of Future Generations (Wales) Act (freeform)	1.1	0.6	
WINEP / NEP ~ Making ecological improvements at abstractions	0.8	0.5	
WINEP / NEP ~ Eels Regulations	4.2	3.4	

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).

Area of enhancement	Company requested totex	Ofwat view of requested totex after reallocations	Our allowance
All Enhancement totex	12.4	7.4	5.1
Material areas of disallowance and efficiency challenge in enhancement totex (£ million)	Ofwat view of requested totex after reallocations	Our allowance	
Resilience	1.7	0.5	
Improving taste / odour / colour	1.6	1.2	

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

Hafren Dyfrdwy does not request any expenditure under the transition programme.

2 Wholesale wastewater activities

2.1 Enhancement

The tables below summarise the adjustments we make to set the efficient level of enhancement totex for the wastewater network plus and bioresources 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 (“botex 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.

In the case of Hafren Dyfrdwy we allow for the entire amount of wastewater enhancement activities requested by the company.

Table 3: Material disallowances of and efficiency challenges to enhancement costs for the wastewater network plus price control 2020-25 (£ million of 2017-18)

Area of enhancement	Company requested totex	Ofwat view of requested totex after reallocations	Our allowance
All Enhancement totex	2.7	2.7	2.6
Material areas of disallowance in enhancement totex (£ million)	Ofwat view of requested totex after reallocations	Our allowance	
-	-	-	

Note: Our enhancement totex allowance is net of an implicit allowance for enhancement opex.

Table 4: Material disallowances of and efficiency challenges to enhancement costs for the bioresources price control 2020-25 (£ million of 2017-18)

Area of enhancement	Company requested totex	Ofwat view of requested totex after reallocations	Our allowance
All Enhancement totex	0.0	0.0	0.0
Material areas of disallowance and efficiency challenge in enhancement totex (£ million)	Ofwat view of requested totex after reallocations	Our allowance	
-	-	-	

2.2 Transition expenditure

Hafren Dyfrdwy does not request any expenditure under the transition programme.

3 Cost adjustment claims

Table 5 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 Hafren Dyfrdwy. In its resubmitted plan Hafren Dyfrdwy withdrew one of its cost adjustment claims from its original plan. The remaining claims are for enhancement expenditure for the water resources and the water network plus price controls.

Table 5: 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
Reducing lead in water networks	2.9	2.9	We provide the full allowance to enable the company to progress strategies to meet the Welsh Government's Water strategy for Wales, 'Reducing Lead in Wales' from 10ug/l to 5ug/l.
Enhancing biodiversity and well-being in water resources	1.9	0.9	We apply a 50% challenge on need for the wellbeing act to make the allowance. We allocate 34% of our allowance to the ecological improvements enhancement line (business table WS 2, line 1) and 64% to Environment (Wales) Act (business table WS2 line 25).
Maintaining reservoir safety	4.3	2.8	We do not increase our allowance, based on an overall totex view. The company is getting more than it requests overall in the Water Resources price control and we have made a reasonable allowance for this claim already. However we note that the company did present good evidence.

4 WINEP uncertainty mechanism

Our totex allowance for companies includes an allowance for environmental obligations set out in the National Environment Programme (NEP) issued by Natural Resources Wales. Some of the requirements in the NEP are not expected to be confirmed until December 2021 at the earliest, which is after we make our final determinations in December 2019. Unconfirmed requirements in the NEP 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 6 sets out the adjustments we will make for each scheme in Hafren Dyfrdwy’s NEP that is currently unconfirmed, if the scheme is confirmed as not required for the period 2020-25. We will make the adjustments at the end of the control period. Our adjustments are based on the company’s totex estimates as adjusted by our company specific efficiency factor or, in the case of wastewater schemes, our programme wide efficiency challenge.

Table 6: NEP uncertainty mechanism – cost adjustments for unconfirmed NEP 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 ~ Nutrients (P removal) at ASPs or filter bed STWs			

7CST0107, 7CST0111, 7CST0123, 7CST0126	CHURCH STOKE STW, GUILSFIELD STW, MONTGOMERY STW, NEWTOWN (DOLFOR LOCK) STW	None proposed	N/A (Customer protection afforded by performance commitment and associated ODI)
WINEP/NEP ~ Investigations (wastewater)			
7CST0137, 7CST0139, 7CST0142	Various	None proposed	£0.012m per investigation
WINEP/NEP ~ Event duration monitoring			
7CST0138	EDM improvements	None proposed	£0.038m
WINEP/NEP ~ Conservation drivers			
7CST0141	Implementation of quick win measures identified by the site audit/investigation	None proposed	£0.105m
WINEP/NEP ~ Invasive non-native species			
7CST0140	Addressing issues with INNS, including provision of support to community project where complementary to STW/DVW activities	None proposed	£0.075m

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