

December 2019

PR19 final determinations

**Bristol Water – Cost efficiency
final determination appendix**

PR19 final determinations: Bristol Water – Cost efficiency final determination appendix

About this document

This document is a cost efficiency appendix to 'PR19 final determinations: Bristol Water final determination'. This document provides further details of the company specific issues related to cost allowances and is structured as follows:

- Section 1 provides a summary of our decisions on the company's cost adjustment claims;
- Section 2 provides a summary of our decisions on the company's enhancement proposals, by enhancement area;
- Section 3 provides our decision on costs proposed by the company under the transition programme;
- Section 4 provides our decision on unit cost adjustments related to the WINEP uncertainty mechanism.

Further information on our assessment and our approach can be found in the 'Securing cost efficiency technical appendix' and the various excel feeder models that we have published.

1. Cost adjustment claims

Table 1 summarises our consideration and allowances for the cost adjustment claims submitted by the company. For completion we include all claims that were part of our draft determination decisions, as well as additional or revised claims the company submitted in its representation to the draft determination. We give further details in our published cost adjustment claim feeder model for Bristol Water.

Table 1: 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	8.6	5.9	Bristol Water makes a claim for a base cost adjustment of £8.6 million related to the purchase of water resources from the Canal and River Trust. We rejected this claim at the draft determination. Having considered the representation evidence, we make a partial allowance for this claim of £5.9 million. See 'Bristol Water – cost efficiency additional information' for further details.
Age and material of water distribution network	12.3	0.0	Bristol Water submitted this claim in its September 2018 business plan, claiming it incurs higher capital maintenance expenditure than other companies due to the age and lower quality of its distribution network. We rejected this claim at the initial assessment of plans and the company has not raised substantive issues in its representation. We therefore do not include an allowance for it in Bristol Water's final determination.
Water treatment complexity	6.0	0.0	Bristol Water submitted this claim in its September 2018 business plan, claiming it has higher treatment costs than other companies. We rejected this claim at the initial assessment of plans and the company has not raised substantive issues in its representation. We therefore do not include an allowance for it in Bristol Water's final determination.

2. Enhancement assessments

Our approach to assessing enhancement expenditure is detailed in our publication ‘Securing cost efficiency technical appendix’. We generally assess enhancement expenditure separately for each enhancement category, as defined by the individual enhancement cost lines in company business plan tables. We assess multiple lines together where there is a potential for costs to be apportioned differently by companies and where there is some synergy between programmes.

Our preferred method of assessment is benchmarking analysis. Where the investment area does not lend itself to statistical modelling we rely more on the evidence provided by companies in their business plans. We follow a risk-based process of having a lighter touch (‘shallow dive’) assessment for low materiality costs and a more thorough assessment of the evidence (‘deep dive’) of high materiality costs.

Tables 2 summarizes our consideration and allowances for the enhancement expenditure cost lines submitted by the company. We give further details in our published enhancement feeder models for Bristol Water.

Table 2: Assessments of water enhancement expenditure, 2020-25 (£ million of 2017-18)

Enhancement cost	Company view in August 2019 business plan (after reallocations)	Our final determination allowance	Rationale for decision
Meeting lead standards	0.3	0.3	We use a benchmark model to make allowances for these costs. Bristol Water is more efficient than our benchmarks and we allow the full amount requested.
Supply and demand side enhancements: Total	4.8	4.8	We allow enhancement costs for leakage reduction in full because the company’s performance commitment levels start beyond the forecast upper quartile threshold and the leakage unit rate is lower than the median. See ‘Bristol Water final determination’ for further information.
Investment to address raw water deterioration	1.6	1.4	We use our shallow dive approach to assess this expenditure and apply the company shallow dive efficiency factor to set an efficient allowance.

Metering (excluding new connections) for meters requested by optants, customers and businesses	9.4	9.4	We use a unit cost model to make allowances for these costs. Bristol Water is more efficient than our benchmark and we allow the requested costs.
Resilience	12.0	8.1	We use our deep dive approach and challenge the need and/or optioneering of the proposed investments. See 'Bristol Water final determination' for further information.
Security	0.1	0.1	We use a deep dive approach to set security allowances for the company. We allow the full amount requested by the company in its August 2019 representation as it provides sufficient and convincing evidence to demonstrate its efficient costs, and the expenditure it requests is below our benchmark.
Total clean water WINEP	4.9	4.5	We use a shallow dive approach to set allowances, applying the company shallow dive efficiency factor only, for the ecological improvements at abstractions, eels regulations, invasive non-native species, drinking water protected areas and water framework directive measures programmes. We allow the requested investments for water investigations based on the low materiality of the programme as determined at the initial assessment of plans.
Aggregated free form lines	2.3	1.3	Bristol Water requests £1.4m for expenditure related to catchment management for Water Framework Directive water body status, sites of special scientific interest (SSSI) and algae control. We apply the company shallow dive efficiency challenge and allow the company £1.3m to carry out this expenditure. The remaining £0.9 million the company requests relates to Strategic Regional Water Development and we assess it under the strategic regional solution enhancement feeder model. See 'Strategic water resources technical appendix' for further information.
Total water enhancement	35.5	29.9	

3. Transition expenditure

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

4. 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, which is 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 3 sets out the adjustment we will make for the one scheme in Bristol Water’s WINEP programme 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 estimate (after reallocations) for its Eels Regulations programme as adjusted by our company specific efficiency factor.

Table 3: WINEP uncertainty mechanism – cost adjustments for unconfirmed WINEP schemes included in our final determination (£ million in 2017-18 prices)

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

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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