

December 2019

# PR19 final determinations

**Dŵr Cymru – Cost efficiency additional  
information appendix**

## **PR19 final determinations: Dŵr Cymru - Cost efficiency additional information appendix**

# **Dŵr Cymru network water quality and acceptability of water costs**

## **1 Our draft determination**

In its September 2018 business plan Dŵr Cymru submitted a cost adjustment claim for £118 million, as part of its taste odour and colour enhancement proposals, to improve the acceptability of water received by its customers. The company claimed that it has a unique set of operating conditions that drive additional costs, such as: soft water with high levels of manganese; prevalence of unlined iron and oversized trunk mains; network failures; and large seasonal flow variations. We rejected the arguments on unique circumstance, but made a partial allowance of £29 million alongside a more stretching performance commitment in the taste odour and colour enhancement line.

For draft determinations Dŵr Cymru submitted this claim again with a reduced taste odour colour enhancement line cost of £27.2 million and added an associated freeform enhancement line, 'network water quality' (new legal obligations) with a £90.7 million cost. The total cost of enhancement work identified by the company to address the acceptability of water remained £118 million. Dŵr Cymru submitted additional clarifications to justify why some of the costs were outside of management control and therefore not costs to 'catch up' with industry performance. We increased our allowance to £59.2 million against the £118 million requested.

## **2 Stakeholder representations**

Dŵr Cymru makes representations on our draft determination decision relating to its network water quality proposals.

Dŵr Cymru acknowledges that it is one of the worst performers in the industry for acceptability of water and that significant improvement in performance is required to prevent Drinking Water Inspectorate enforcement action associated with 17 notices. The company is forecasting 2.4 contacts per thousand population for acceptability of water in 2019-20 and states that the £118 million investment across the two lines is required to reduce this level to 2.0 at 2025. Dŵr Cymru identifies customer support to reduce acceptability of water complaints down to between 2.4 and 2.0 per thousand population. This performance level is less than our target of 1.58 contacts per thousand population in 2025, which we apply to other companies.

### 3 Our assessment, reasons and final decision

For final determinations, we set a total allowance of £96.9 million and apply the following performance commitments:

- Satisfactory delivery of Drinking Water Inspectorate notices for network water quality projects in 17 zones.
- Reduction of acceptability of water complaints to 1.58/1000 population.

We assess the network quality freeform line (£90.7 million) and the proposals under the taste odour and colour line (£27.2 million) separately.

For the network water quality freeform line Dŵr Cymru identifies costs of £90.7 million to address the Drinking Water Inspectorate (DWI) notices in 17 water supply zones. We conduct a top down assessment of the needs and costs and apply a 5% deep dive company efficiency challenge to reflect the uncertainty of solution costs to set an allowance of £86.2 million for this.

The company is required by the DWI to make these improvements and provides a clear plan for how it is going to do so. We continue to intervene to set a more stretching performance commitment than the company proposes, and the company will return costs to customers if it does not meet this commitment. We do not expect the company to make further enhancement proposals to maintain the improvement in customer contacts in future price reviews.

In the taste odour and colour line Dŵr Cymru identifies costs of £27.2 million to address a variety of issues. We follow a bottom up approach to assess these costs at programme and scheme levels.

Dŵr Cymru allocates its worst served customers programme to the taste odour colour enhancement category. This comprises network rehabilitation and replacement schemes and includes some that are not considered to be cost beneficial so we apply a 20% challenge to the programme costs.

We consider zonal studies and modelling to be base activities and make no enhancement allowance. We expect all companies to carry out these activities.

We accept that schemes are required at water treatment works to reduce the amount of manganese entering the water supply network. We consider individual schemes and:

- Allow the costs for the Cefn Llan and process optimisation schemes.

- Find insufficient evidence to justify why Dŵr Cymru chooses its intervention option for Alaw and Pendine and so we allow the cost of the least cost option the company provides in its evidence.
- Consider the company provides insufficient evidence for the need for schemes at Alwen, Cefn Dryscoed and Pen y Cefn. We make no allowance for these.

We apply a 5% deep dive company efficiency challenge to the scheme costs we allow and set an overall allowance of £10.7 million for the programmes that Dŵr Cymru allocates to the taste odour colour category of expenditure.

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

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

December 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk).

