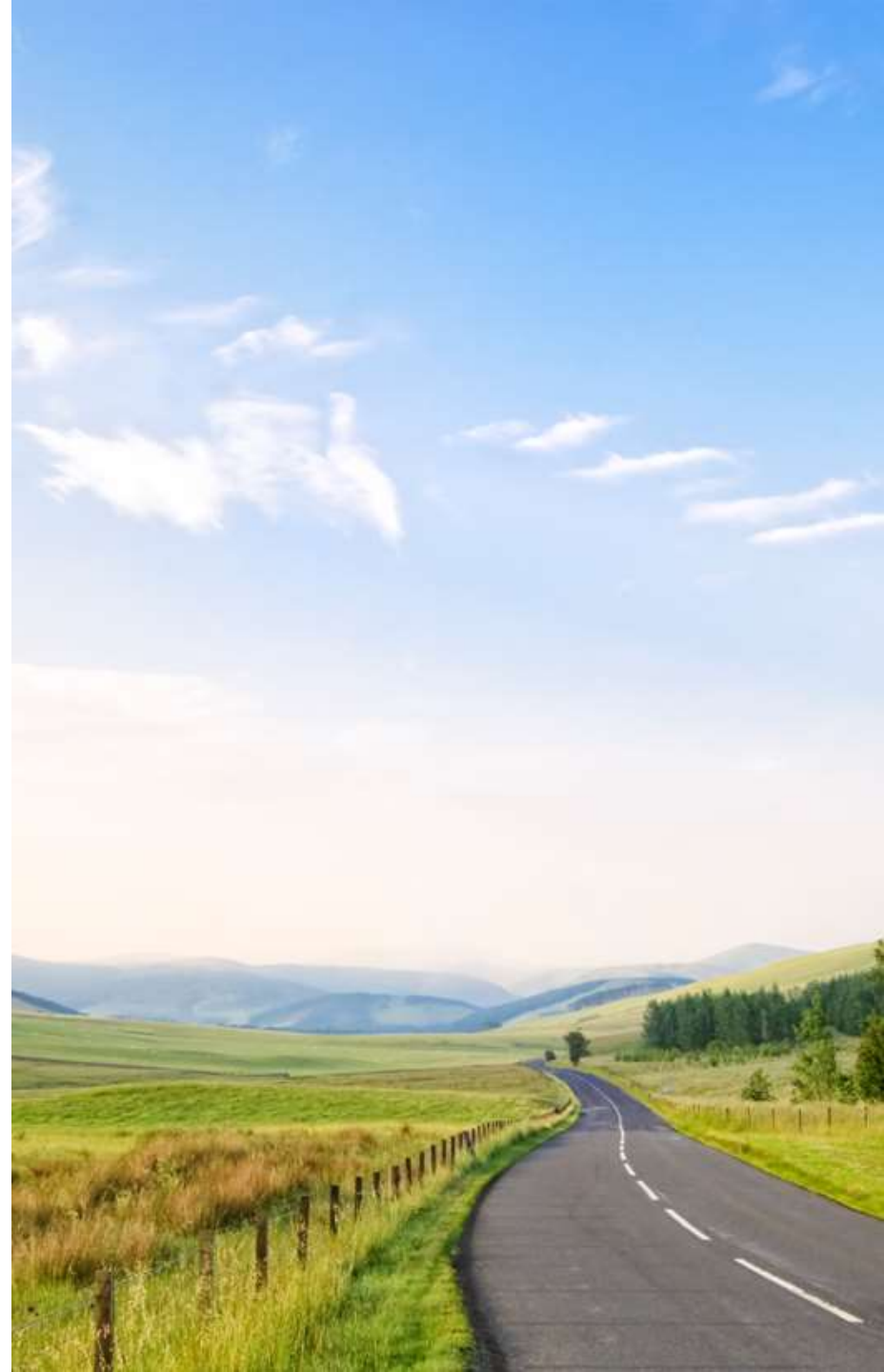


Bioresources energy review

Findings and recommendations

Jacobs

Challenging today.
Reinventing tomorrow.



Agenda

- Welcome
- The need for this work
- Principles
- Approach
- Findings
- Recommendations
- Overheads and next steps (Ofwat)
- Questions

This presentation is being recorded



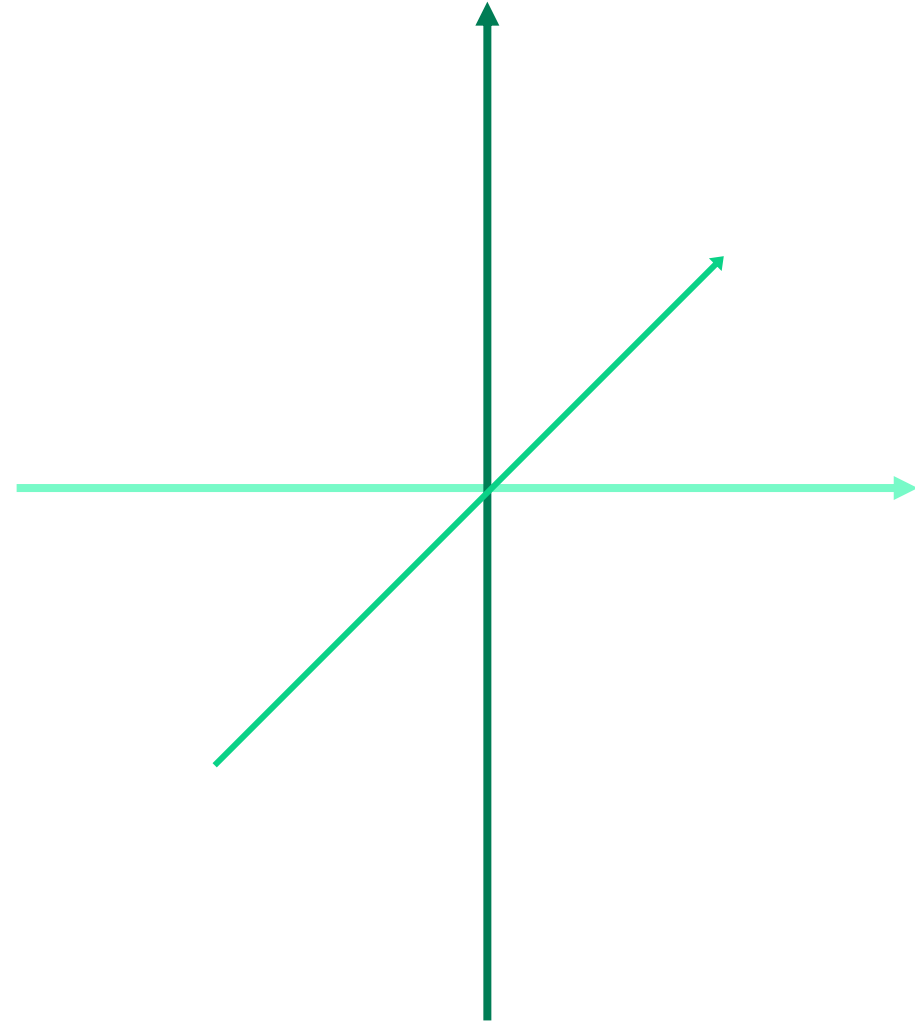
The need for this work

Three main axes of possible variation:

Measurement vs estimation

Charging vs allocation

Price



Measurement is better than estimation
– but only where cost-effective

Bioresources should be thought of
as an independent energy supplier

The price should be at market rates

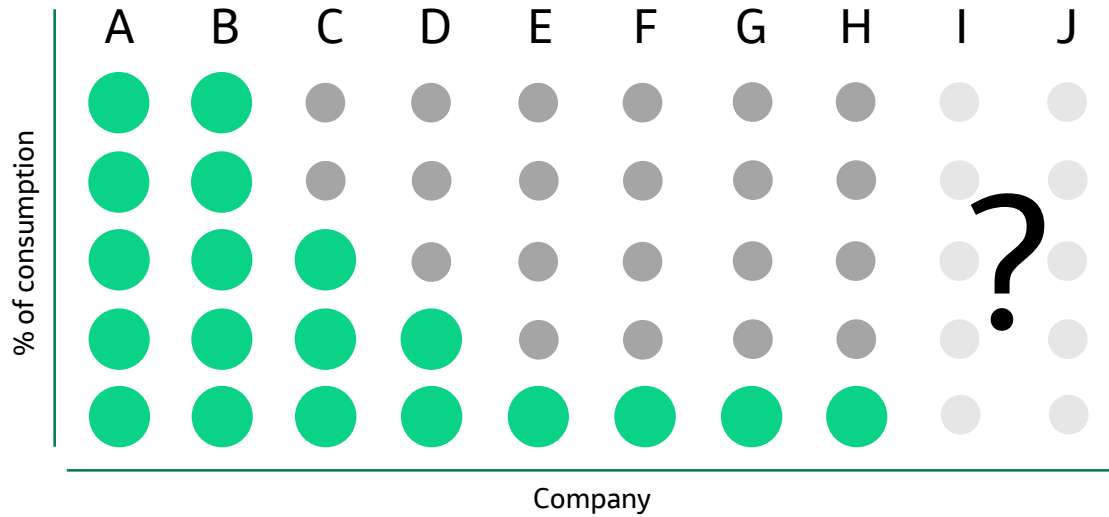


Approach

1. Create principles
2. Survey
3. Follow-up call
4. Analysis & recommendations

Findings - submetering

How much Bioresources electricity consumption is submetered?



= up to 20% of electrical consumption submetered at least hourly

- *Electricity generation: ~100% metered*
- *Biomethane: ~100% metered, 100% exported*
- *Heat: Not metered, not much exported*
- *Other energy types: Non-material at this time*

Findings - accounting

What happens to generated electricity not exported?



Used by Bioresources preferentially, then N+ if any left



Allocated between Bioresources and N+



Other

How is the value of electricity used by N+ accounted for?



N+ buys it from Bioresources



N+ counts it as a saving



Other

How is the value of biomethane exported accounted for?



Shared with N+



Retained by Bioresources

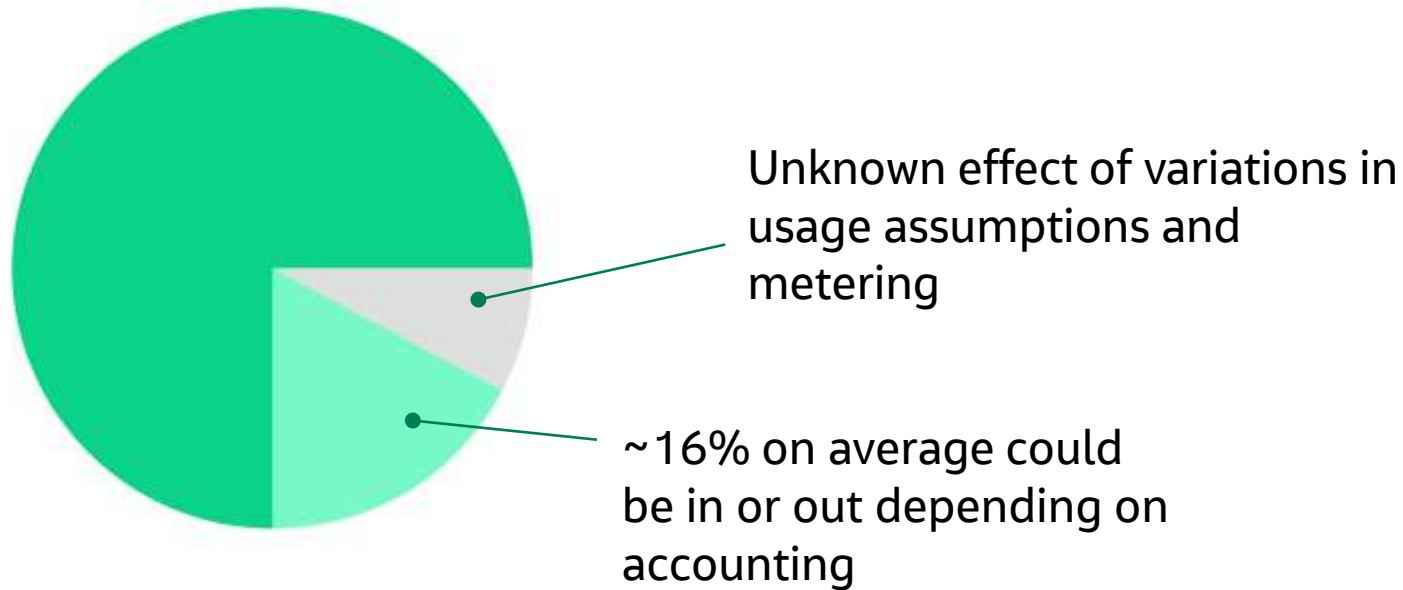


Not applicable

= = 1 respondent

Findings – potential variation in apparent company efficiency

Annual Bioresources gross opex



£550,000

is the average annual revenue from one generating site

£7,000,000

is the average difference this could make each year per company

Recommendations (summary)

- At least ~80% of Bioresources consumption should be submetered
- Bioresources consumption should be considered 'parasitic'
- Exports should be measured per site to reflect physical transfers
- Submetering on non-generation sites not needed
- Exported energy should be sold to Network+
- Price should be market-tested and reflect what would be charged in a competitive market

Detail in our report – to be published.

Overheads and next steps

Ofwat



- Jacobs have also produced a report for Ofwat on how companies are allocating overheads in bioresources.
- The report finds that there are a wide variety of approaches to allocating overheads in bioresources, particularly with reference to General and Support (G&S) expenditure. For example, one category of G&S expenditure has 9 different cost drivers assigned to it by the 11 WaSCs surveyed, leading to a 15% variation in the cost allocated by companies.
- RAG 2 currently gives guidance for allocating overheads between retail and wholesale activities, such as specifying cost drivers that should be used when allocating G&S expenditure.
- We consider that there is value in applying these measures to bioresources and more broadly, including in developer services and the split between base and enhancement costs. We are minded to add this revised guidance to RAG 2 for completeness and transparency purposes.

Overhead costs

Our accounting separation guidance (see box below) used a '1/9ths' rule for the allocation some of the regulation costs across the price control units and upstream services.

We now propose to modify this allocation based on the relative size of the business units. This will give an allocation to developers services and to reduce that for bioresources. We propose to include this guidance in RAG2.

	Current	Proposed
Retail	1/9	1/10
Water resources	1/9	1/10
Water network+	3/9	3/10
Wastewater network+	2/9	3/10
Bioresources	2/9	1/10
Developer services	-	1/10

AS table guidance:

Other business activities

The main cost included in "Other business activities" will be the cost of the Regulation department. The Ofwat licence fee should be split equally between the nine business units. The remainder of the cost of the regulation department should be allocated across business units by reference to the following hierarchy:

1. Management's estimate of team time spent in connection with each business and business unit.
2. Number of full time equivalents (FTEs) in each business unit.

We will consult on applying these measures shortly.



Next steps

- We will consult on both the energy and overheads issues separately, and distinctly from the main RAGs consultation.
- Both issues will be consulted on shortly, with the energy consultation earmarked for the latter half of June. Final decisions will be published alongside the 2021-22 RAGs later in the year.
- Jacobs' findings on both issues will be published alongside the energy consultation in June.

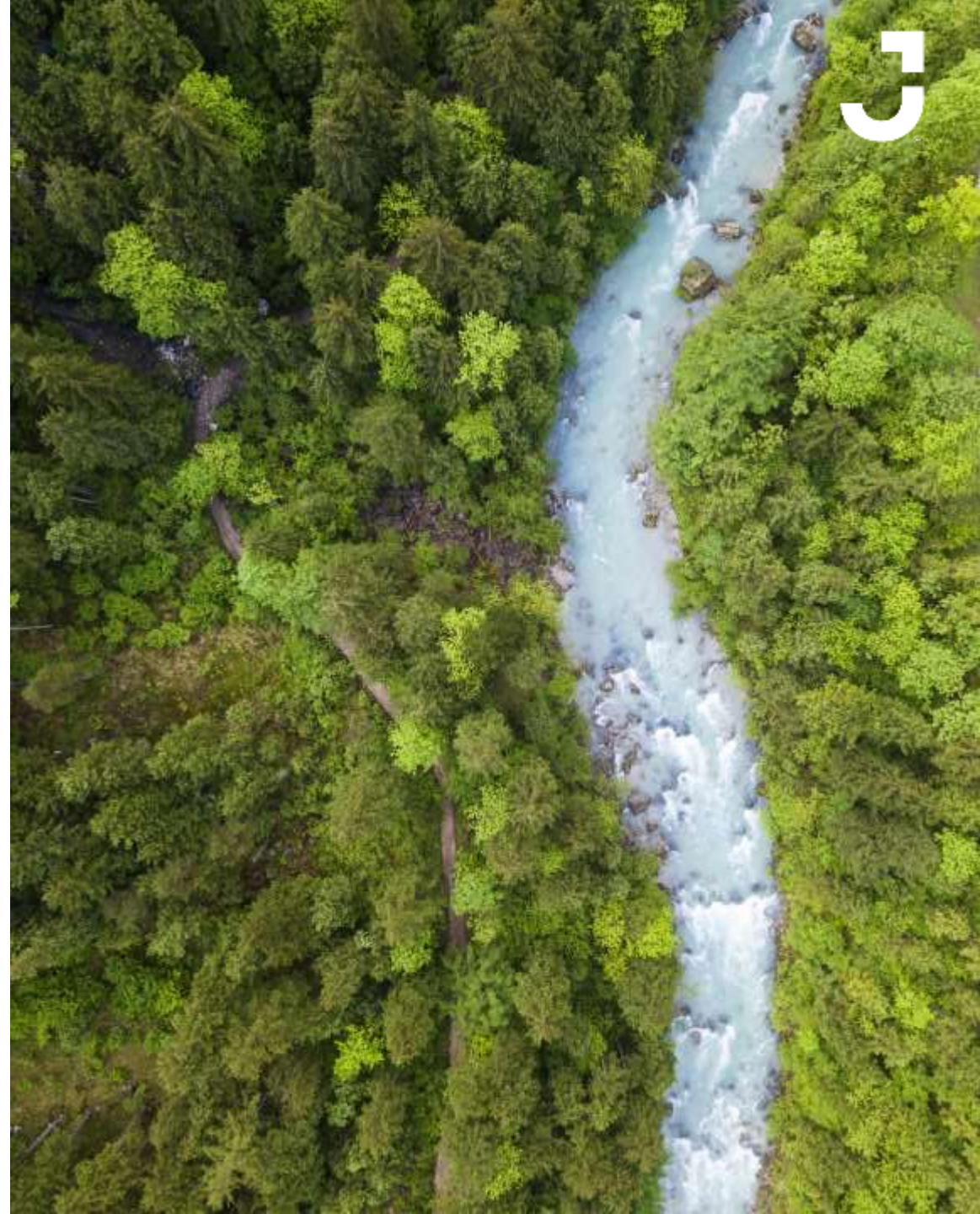


Questions and areas for discussion

- Over to you

Summary recommendations for reference:

- At least ~80% of Bioresources consumption should be submetered
- Bioresources consumption should be considered 'parasitic'
- Exports should be measured per site to reflect physical transfers
- Submetering on non-generation sites not needed
- Exported energy should be sold to Network+
- Price should be market-tested and reflect what would be charged in a competitive market
- (No recommendation on price – could be import tariff, export tariff, something else)



Thank you for your participation

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