

Ofwat consultation: Appendix 4 – Bioresources control and supplementary document

Hafren Dyfrdwy response

16 September 2022

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Our response

We welcome the opportunity to comment on Ofwat's proposals for the bioresources control at PR24.

We are supportive of Ofwat's aim to try and harness the market to provide value across the bioresources chain. We have recently successfully tendered all bioresources-related activity to a third-party. Illustrating the benefits of markets, the competitive tender process made sure we secured the best value across price, response times and carbon footprint.

We do not own a bioresources asset base, so please note that we will not be submitting a return for the data request: [Bioresources control: New Depreciation and Net Modern Equivalent Asset Value approach](#).

Our bioresources business has no RCV / MEAV and had £3.8m of allowed revenue at PR19. Our bioresources business is a clear outlier given its size and scale. Logically, it would not be sensible to include it as a separate observation when constructing econometric models given that our size, scale and nature of bioresources business is highly likely to result in significant outlier effects. We therefore support the pragmatic way Ofwat has retained the PR19 approach that used aggregated data with Severn Trent in its econometric modelling. We suggest Ofwat retains this approach for PR24 and then split the cost allowance in proportion to the two business plan submissions, in a way that reflects the makeup of our business.

We have reservations that Ofwat's proposals thus far are not sufficiently developed for companies to have confidence in the proposed approach for AMP8 given data quality, the poor predictive value of the econometric models and the challenges of Farming Rules for Water and the Industrial Emissions Directive on future bioresources costs. We urge Ofwat to give more consideration to how its preferred approach will be practically implemented given these challenges.