

Commentary on developer services data request post draft determinations

Wessex Water

August 2019

Document revisions

Version No	Description	Author	Approved By	Date
1	Data table commentary template	S. Hogan-Smith	D.Peacock	Jan 2018
2	Commentary added	A.Miles	M.Greenfield	Aug 2019
3				

1. Commentary overview

This commentary highlights any key assumptions and significant changes in year on year performance:

Details	
Table Number	Developer services data enquiry
Table Title	
Table Line(s)	All
Table Owner	
Table Compiler(s)	
Table Data Originator(s)	(Name – Data Source)
Table Internal Reviewer	
Table Auditor	Mott MacDonald

2. Commentary

It is important to note that we feel that insufficient time and clarity have been provided by Ofwat to complete this data request with the level of accuracy and confidence that we would like or that we would expect in such an important submission.

The request is ambiguous in many areas and little extra clarity was provided through the revision to the table or through the conference call led by Ofwat.

We believe there are a number of real risks associated with this table. Not least that there are a number of ways that companies could interpret some of the requirements that is likely to lead to different companies taking very different approaches and a real lack of comparability between companies.

The reason for the request has also not been made sufficiently clear. We are concerned that the data may be used for the developer services reconciliation but do not believe it collects enough information to do so as a very significant portion of our developer costs are not related to any line in the table.

One of the major issues with the table is that it seeks historical and forecast values for categorisations that have never been recorded before. A significant number of uncertain assumptions have been made to complete these lines.

We have committed significant resource to completing this task, including more time from our technical auditor than we have used on any other table due to the complexities, uncertainties and ambiguity of the requirements.

We would be happy to work with Ofwat in designing and/or completing a more reasonable and useful data request but note the significant limitations with the current version.

Section A1 – Diversions Expenditure

- i. There are no Diversions other than S185 or NRSWA and so line 3 equals zero
- ii. Developer Services (DS) charges in 16/17 onwards have been apportioned over water and waste
- iii. We calculated a split between NRSWA and S185s by looking at the last 3 years. This was 74% of costs were from NRSWA schemes, and 26% by S185s. However, this was skewed by one very large project, and without that the split would have been 25% of costs were from NRSWA schemes and 75% from S185 schemes. In the interests of reporting actual information we kept this large project in our calculation but believe it is an important point to note that without this large project our results would have been very different.
- iv. The forecast for AMP7 is based on data we have collected for previous years and our view for the current financial year, deflated to 2017/18 prices using CPIH.

Section A2 – Diversions income

- i. There are no Diversions other than S185 or NRSWA and so line 7 equals zero
- ii. We have used the same % splits on income as costs, as diversions are fully rechargeable
- iii. The forecast for diversion income in each year of AMP7 is assumed to be the same as the forecast for 2019/20. The values have not been deflated.

Section B – Connections volume data

- i. For lines 9-11 we have assumed a 1-to-1 ratio for properties to connections as our systems do not record connections. Previous years come from annual returns, and future numbers come from WS3 (Supply) & WWS3 (Waste)
- ii. Line 12 comes from our GIS system, which shows when a main was laid into a NAV site. Forecast for future years is based on an average of the previous years.
- iii. Line 14 is assumed to be all properties connected on self lay sites as an SLP will be doing that work
- iv. Line 15 is assumed to be properties connected on developer sites, as they will do all excavation and reinstatement, and Wessex will just do the pipelaying and connection
- v. Line 16 is assumed to be the remainder of properties connected, where Wessex Water does the vast majority of the contestable work.

Section C – Properties volume data

- i. For lines 18-20 previous years come from annual returns, and future numbers come from WS3 (Supply) & WWS3 (Waste)
- ii. Line 21-23 is based on connection dates provided from the only NAV in our region.
- iii. Line 25 is assumed to be all properties connected on self lay sites as an SLP will be doing that work
- iv. Line 26 is assumed to be properties connected on developer sites, as they will do all excavation and reinstatement, and Wessex will just do the pipelaying and connection
- v. Line 27 is assumed to be the remainder of properties connected, where Wessex Water does the vast majority of the contestable work.

Section D – Total Cost of contestable activities

- i. Line 29 has a negative value for 2017/18 as a result of an accounting correction.
- ii. Line 29-31 are the cost of connections and contestable requisition activity
- iii. For waste, all connections are completed where over 75% of the contestable activities are completed by the developer/customer and so lines 30 and 31 are zero. This is because Wessex only does the final connection for junction connections, without any excavation or reinstatement, and will only inspect for other connections.
- iv. For water there is a mix between the three lines
- v. For lines 32-35 all asset payments are made to sites where most of the contestable work is completed by an SLP or developer. Asset payments taper off from 2020 due to their removal, however we have allowed for previous agreements to reach their maturity, hence there are asset value payments after 2020.

- vi. Historical Asset Value payments come from regulatory report 2015 table 35

Section E – App 28 data

- i. Line 36 Infrastructure charge receipts (s146) – Values for 2015/16 onwards are as per line 8 of App28 (Water) and Line 24 (Waste). Prior years is actual expenditure as accounted in our financial records.
- ii. Line 37 Requisitioned mains (s43, s55 & s56) – these values match table App28, line 9 (Water) and line 25 (Waste). We do not have a record of values for 2011/12 to 2014/15 so have left these blank.

General assumptions and points of note

- i. There are a number of costs related to Developer Services activity which are not shown in the table. As the costs are not included in the table but are an important part of developer services expenditure, and we believe should be included in developer services reconciliation of costs, we have provided these costs in the attached appendix.
 - a. The main costs not included are as follows:
 - i. Remainder of capex not reported elsewhere in the table. The capex relates to non contestable activities including requisitions and network reinforcement. This has been calculated on the basis of total capex on New Development previously reported minus the capex already reported in this data request.
 - ii. Mapping. These are staff costs forecast using an inflation assumption of 2% increase per year. These costs have been split between wastewater and water supply based on the total capex in each of these areas.
 - iii. Operational costs for adoption of new assets
 - iv. Operational costs for buildovers
 - v. Step changes in operating costs for running new assets such as the adoption of private sewage pumping stations.

Appendix of other costs

Price base (£m):

- 2011/12 to 2019/20 at outturn (nominal)
- 2020/21 to 2024/25 at 2017/18 CPIH deflated

Wastewater	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Other capex including requisitions and network reinforcement for non contestable activities	0.925	2.263	2.243	1.142	0.514	0.555	0.961	3.333	7.661	2.506	2.506	2.506	2.506	2.506
Mapping cost (Opex)	0.012	0.018	0.025	0.023	0.010	0.016	0.033	0.024	0.035	0.030	0.030	0.031	0.032	0.032
Adoption costs (Opex)	0.395	0.335	0.548	0.373	0.543	0.335	0.378	0.405	0.447	0.404	0.412	0.420	0.429	0.437
Buildover costs (Opex)	0.040	0.109	0.120	0.273	0.356	0.329	0.382	0.434	0.466	0.434	0.442	0.451	0.460	0.469
New operating costs for running of new assets (Opex)	0.113	0.098	0.118	0.188	0.020	0.520	0.134	0.046	0.095	0.811	0.700	0.700	0.700	0.700
Total	1.485	2.823	3.054	1.999	1.443	1.755	1.888	4.242	8.704	4.185	4.09	4.108	4.127	4.144

Water	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Other capex including requisitions and network reinforcement for non contestable activities	1.257	0.881	0.664	1.564	4.690	2.103	0.648	1.601	0.079	0.680	0.680	0.680	0.680	0.680
Mapping cost (Opex)	0.024	0.018	0.012	0.015	0.029	0.024	0.008	0.017	0.007	0.013	0.013	0.013	0.014	0.014
New operating costs for running of new assets (Opex)	0.000	0.000	0.000	0.000	0.000	0.000	0.012	0.000	0.009	0.000	0.000	0.000	0.000	0.000
Total	1.281	0.899	0.676	1.579	4.719	2.127	0.668	1.618	0.095	0.693	0.693	0.693	0.694	0.694