

Annual Performance Report 2017 - 18

Part 2 – Price Control and Additional Segmental Reporting





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2A – Segmental income statement for the year ended 31 March 2018

Ref	Retail		Water resources £m	Water network+ £m	Wholesale		Sludge £m	Wastewater total £m	Total £m	
	Household £m	Non-household £m			Water total £m	Wastewater network+ £m				
Revenue - price control	44.502	8.637		287.774	287.774	388.716		388.716	729.629	
Revenue - non price control	-	-		17.037	17.037	0.676		0.676	17.713	
	44.502	8.637		304.811	304.811	389.392		389.392	747.342	
Operating expenditure	2B/2C	(53.496)	(5.176)	(39.637)	(167.597)	(207.234)	(119.964)	(18.364)	(138.328)	(404.234)
Depreciation - tangible fixed assets	2D	(0.446)	(0.049)	(5.153)	(112.316)	(117.469)	(124.659)	(14.971)	(139.630)	(257.594)
Amortisation - intangible fixed assets		(5.015)	(0.643)	(0.513)	(7.847)	(8.360)	(6.129)	(1.416)	(7.545)	(21.563)
Other operating income		-	-	-	0.810	0.810	0.991	-	0.991	1.801
Operating (loss)/profit before recharges		(14.455)	2.769			(27.442)		104.880	65.752	
Recharges from other segments		(0.172)	(0.013)	(1.178)	(0.534)	(1.712)	(8.600)	(2.332)	(10.932)	(12.829)
Recharges to other segments		0.193	0.015	-	11.859	11.859	0.753	0.009	0.762	12.829
Operating (loss)/profit		(14.434)	2.771			(17.295)		94.710	65.752	
Surface water drainage rebates									0.181	

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.07, 'Guideline for classification of costs across the price controls'.

The tables presented in Parts 2 and 4 of the Annual Performance Report have been prepared in accordance with our Accounting Separation Methodology Statement which can be found at www.dwrcymru.com. The methodology statement explains the bases for the allocation of operating and capital expenditure, and has been updated to reflect the latest RAG requirements. Wherever possible, direct costs and assets have been attributed directly to price controls. Where this has not been possible, appropriate cost allocation drivers have been applied as described in the methodology. Material changes to our approach compared to the previous year are documented in the methodology statement.

Significant year-on-year totex movements

Water Resources: £20m increase (52%); £14m in capex and infrastructure renewals, and £4m third party costs for dam safety and resilience.

Water Network+: £14m increase (5%); £17m in infrastructure renewals (zonal study programme) and leakage costs, partially offset by new connections income of £4m reported within grants and contributions (previously reported as revenue).

Sludge: £23m increase (70%); £19m capex to deliver our sludge strategy for AMP6.



2B – Totex analysis for the year ended 31 March 2018 – wholesale water and wastewater

	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	Total £m
Operating expenditure					
Power	4.369	18.720	25.392	1.122	49.603
Income treated as negative expenditure	(4.408)	(2.332)	(0.605)	(2.663)	(10.008)
Abstraction charges/discharge consents	8.576	0.267	5.006	-	13.849
Bulk supply/bulk discharge	0.125	0.828	-	-	0.953
Other operating expenditure – renewals expensed in year (infrastructure)	15.319	45.741	26.000	-	87.060
Other operating expenditure – excluding renewals	7.390	88.194	54.731	19.368	169.683
Local authority and Cumulo rates	0.746	14.152	9.370	0.537	24.805
Total operating expenditure excluding third party services	32.117	165.570	119.894	18.364	335.945
Third party services	7.520	2.027	0.070	-	9.617
Total operating expenditure¹	39.637	167.597	119.964	18.364	345.562
Capital expenditure					
Maintaining the long term capability of the assets - infra	(0.543)	22.588	10.812	-	32.857
Maintaining the long term capability of the assets – non infra	10.830	68.404	69.729	36.833	185.796
Other capital expenditure – infra	1.294	15.080	28.038	-	44.412
Other capital expenditure – non infra	8.109	21.318	35.078	0.044	64.549
Infrastructure network reinforcement	-	0.501	3.038	-	3.539
Total gross capital expenditure excluding third party services	19.690	127.891	146.695	36.877	331.153
Third party services	0.012	0.567	0.047	-	0.626
Total gross capital expenditure	19.702	128.458	146.742	36.877	331.779
Grants and contributions	-	12.208	8.693	-	20.901
Totex	59.339	283.847	258.013	55.241	656.440
Cash expenditure					
Pension deficit recovery payments	0.200	3.268	2.134	0.401	6.003
Totex including cash items	59.539	287.115	260.147	55.642	662.443

A comparison of wholesale totex against Ofwat's Final Determination is reported in Table 4B, which is located in Part 4.

¹ Reconciliation of wholesale operating expenditure to total wholesale operating expenditure:

	£m
Opex – water (2A)	207.234
Opex – wastewater (2A)	138.328
	345.562



2C – Operating cost analysis for the year ended 31 March 2018 – retail

	Ref	Household £m	Non- household £m	Total £m
Operating expenditure				
Customer services	4F	12.660	2.259	14.919
Debt management	4F	7.498	0.729	8.227
Doubtful debts	4F	21.575	0.523	22.098
Meter reading	4F	1.755	0.378	2.133
Services to developers		-	0.270	0.270
Other operating expenditure	4F	10.008	1.017	11.025
Total operating expenditure excluding third party services		53.496	5.176	58.672
Third party services operating expenditure	4F	-	-	-
Total operating expenditure		53.496	5.176	58.672
Depreciation – tangible fixed assets	4F	0.446	0.049	0.495
Amortisation – intangible fixed assets	4F	5.015	0.643	5.658
Total operating costs		58.957	5.868	64.825
Debt written off		31.231	1.538	32.769

The differences between the values reported for total operating costs and the retail revenues allowed in price limits are as follows:

	Household £m	Non- household £m	Total £m
Final determination revenue allowance	54.3	8.7	63.0
Actual operating costs	59.0	5.9	64.9
Difference	4.7	(2.8)	1.9

The table above shows the difference in costs incurred by the business and retail costs allowed in price limits for 2015-20. The differences are due to :

- Whilst we have delivered improvements to our web services, these have seen online transactions grow by 30-40% across different services; in response we have invested in other service improvements (such as reducing email response times to 12 hours and the introduction of account management services for non-household customers) which require investment over and above the costs allowed in the FD.
- At the same time, whilst we have reduced the cost of our debt management activities in the year and have introduced greater sanctions for non-payment, we have a high proportion of customers in low income groups with high levels of personal debt.
- We support more than 100,000 customers with help in paying their bills. However, identifying and engaging with these customers is a costly activity and our Board took the decision to fund this from reserves. These costs, which amount to £0.94m, were not included in our allowed revenues at PR14.
- Initiatives established in prior years have generated improvements in collections performance throughout 2017/18. These initiatives have resulted in a 5% reduction in doubtful debts year-on-year, from £23m in 2016/17 to £22m in 2017/18.
- Finally, our retail costs include depreciation totalling £3m on assets acquired before 1 April 2015. These costs are included in the wholesale RCV and were not part of the PR14 cost base.



2D – Historic cost analysis of fixed assets for the year ended 31 March 2018 – wholesale and retail

	Wholesale				Retail		Total £m
	Water resources	Water network+	Wastewater network+	Sludge	Household	Non- household	
	£m	£m	£m	£m	£m	£m	
Cost							
At 1 April 2017	165.366	2,826.458	2,984.909	294.315	56.585	8.427	6,336.060
Disposals	-	(2.966)	(3.625)	-	-	-	(6.591)
Additions	17.849	106.607	125.260	32.940	0.377	0.063	283.096
Adjustments ¹	-	21.500	-	-	-	-	21.500
Assets adopted at nil cost	-	-	35.182	-	-	-	35.182
At 31 March 2018	183.215	2,951.599	3,141.726	327.255	56.962	8.490	6,669.247
Depreciation							
At 1 April 2017	(25.979)	(665.115)	(508.282)	(100.619)	(11.814)	(1.916)	(1,313.725)
Disposals	-	2.633	3.219	-	-	-	5.852
Adjustments ¹	3.337	47.242	81.432	4.917	-	-	136.928
Charge for year	(5.153)	(112.316)	(124.659)	(14.971)	(0.446)	(0.049)	(257.594)
At 31 March 2018	(27.795)	(727.556)	(548.290)	(110.673)	(12.260)	(1.965)	(1,428.539)
Net book values²							
At 31 March 2018	155.420	2,224.043	2,593.436	216.582	44.702	6.525	5,240.708
At 1 April 2017	139.387	2,161.343	2,476.627	193.696	44.771	6.511	5,022.335
Depreciation charge for year							
Principal services	(5.153)	(112.316)	(124.659)	(14.971)	(0.446)	(0.049)	(257.594)
Third party services	-	-	-	-	-	-	-
Total	(5.153)	(112.316)	(124.659)	(14.971)	(0.446)	(0.049)	(257.594)

¹ Adjustments: the company has revalued its asset base as at 31 March 2018; for further details see 'Property, plant and equipment' in the Accounting policies section of Part 4 (Notes to the regulatory accounts).

² The net book value at 31 March 2018 includes £278.5m in respect of assets in the course of construction.



2E – Analysis of capital contributions and land sales for the year ended 31 March 2018 – wholesale

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
Grants and contributions – water				
Connection charges (s45)	3.860	-	0.433	4.293
Infrastructure charge receipts (s146)	-	-	4.287	4.287
Requisitioned mains (s43, s55 & s56)	-	-	0.246	0.246
Diversions (s185)	3.269	-	-	3.269
Other contributions (non-price control)	-	-	0.113	0.113
Total	7.129	-	5.079	12.208
Value of adopted assets		-		-
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	-	4.191	4.191
Requisitioned sewers (s100)	-	-	1.782	1.782
Other contributions (price control)	0.537	-	-	0.537
Diversions (s185)	0.893	-	-	0.893
Other contributions (non-price control)	0.929	-	0.361	1.290
Total	2.359	-	6.334	8.693
Value of adopted assets		35.182		35.182
Movements in capitalised grants and contributions				
		Water £m	Wastewater £m	Total £m
Brought forward		-	0.019	0.019
Capitalised in the year		-	-	-
Amortisation (income statement)		-	(0.001)	(0.001)
Carried forward		-	0.018	0.018
Land sales				
		Water £m	Wastewater £m	Total £m
Proceeds from disposals of protected land		0.503	0.024	0.527



2F – Household revenues by customer type for the year ended 31 March 2018

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	(000s)	£
Unmeasured water-only customer	10.391	0.722	11.113	52.845	14
Unmeasured wastewater-only customer	14.576	0.535	15.111	50.986	10
Unmeasured water and wastewater customer	324.650	16.257	340.907	672.826	24
Measured water-only customer	3.235	0.683	3.918	28.211	24
Measured wastewater-only customer	14.552	1.969	16.521	82.233	24
Measured water and wastewater customer	147.360	24.336	171.696	505.302	48
Total	514.764	44.502	559.266	1,392.403	32

The retail revenue recovered in the year was below that allowed in the Revenue Control reflecting revenue reductions associated with the provision of affordability tariffs and prior year adjustments.



2G – Non-household water revenues by customer type for the year ended 31 March 2018

	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average non-household retail revenue per connection
	£m	£m	£m	(000s)	£
Non-default tariffs					
Total non-default tariffs	24.117	0.229	24.346	0.113	2,027
Default tariffs					
<50 MI Water	59.789	4.082	63.871	100.865	40
Water supplies 50 MI and over	-	-	-	-	-
Total default tariffs	59.789	4.082	63.871	100.865	40
Total	83.906	4.311	88.217	100.978	43
				Number of customers	Average non-household retail revenue per customer
				(000s)	£
Revenue per customer				¹ 100.973	43

¹ The difference of five between the number of customers relates to customers billed by other retailers.



2H – Non-household wastewater revenues by customer type for the year ended 31 March 2018

	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average non-household retail revenue per connection
	£m	£m	£m	(000s)	£
Non-default tariffs					
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Sewerage	77.820	4.269	82.089	73.469	58
Total default tariffs	77.820	4,269	82.089	73.469	58
Total	77.820	4.269	82.089	73.469	58
				Number of customers	Average non-household retail revenue per customer
				(000s)	£
Revenue per customer				73.469	58



2I – Revenue analysis and wholesale control reconciliation for the year ended 31 March 2018

	Household £m	Non- household £m	Total £m
Wholesale charge – water			
Unmeasured	142.690	2.079	144.769
Measured	61.178	74.118	135.296
Third party revenue	-	7.709	7.709
Total	203.868	83.906	287.774
Wholesale charge – wastewater			
Unmeasured	206.928	2.703	209.631
Measured	103.968	75.117	179.085
Third party revenue	-	-	-
Total	310.896	77.820	388.716
Wholesale total¹	514.764	161.726	676.490
Retail revenue			
Unmeasured	17.514	0.675	18.189
Measured	26.988	7.905	34.893
Other third party revenue	-	0.057	0.057
Retail total^{1,2}	44.502	8.637	53.139
Third party revenue – non-price control			
Bulk supplies - water			15.343
Bulk supplies - wastewater			0.035
Other third party revenue			1.375
Principal services – non price control			
Other appointed revenue			0.960
Total appointed revenue			747.342

¹ Revenue reconciliation

		Wholesale £m	Retail £m
Household	2F	514.764	44.502
Non household water	2G	83.906	4.311
Non household waste	2H	77.820	4.269
		676.490	53.082
New connections		-	0.057
		676.490	53.139

² Retail reconciliation

		Non- household £m
Non household water	2G	4.311
Non household waste	2H	4.269
Developer services		0.057
		8.637



2I – Revenue analysis and wholesale control reconciliation for the year ended 31 March 2018 (continued)

		Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control		287.774	388.716	676.490
Grants and contributions ¹	2E	8.826	6.510	15.336
Total revenue governed by wholesale price control		296.600	395.226	691.826
Amount assumed in wholesale determination		295.563	391.398	686.961
Adjustment for in period ODI revenue		-	-	-
Adjustment for WRFIM		(3.467)	(3.420)	(6.887)
Total assumed revenue		292.096	387.978	680.074
Difference		4.504	7.248	11.752

The difference between the total revenue governed by the revenue control and the total assumed revenue is £11.8m, which is below the +/- 2% WRFIM (Wholesale Revenue Forecasting Incentive Mechanism) flexibility threshold. This over-recovery will be included in the calculation of wholesale charges for 2019/20 and will result in a reduction to allowed charges.

Variances arose in the wholesale revenue from households as the number of meter optants was lower than expected, due to optants moving onto social tariffs instead of meters (12,373 – Table 4Q in Part 4).

Variances arose in the wholesale revenue from non-households wastewater due to under-forecasting of trade effluent.

Grants and contributions are higher than forecast due to large diameter new connections and their associated infrastructure charges (391 – Table 4Q in Part 4).

¹ Grants and contributions are revenues from new connections, requisitions and infrastructure charges which have connected in the year

Wholesale income reconciliation				
	Budget £m	Actual £m	Variance £m	Variance %
Household	511	515	4	0.8%
Non-household				
Water <50Ml	60	60	-	(0.3%)
Water >50Ml (inc non-pot)	24	24	0	1.8%
Waste	74	78	4	4.1%
Non-household total	158	162	4	2.1%
Grants and contributions	11	15	4	38.7%
Total	680	692	12	1.7%



2J – Infrastructure network reinforcement costs for the year ended 31 March 2018

	Network reinforcement capex £m	On site/ site-specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.501	3.395
Pumping and storage facilities	-	-
Other	-	-
Total	0.501	3.395
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	1.514	1.772
Surface water only systems	-	-
Pumping and storage facilities	1.524	-
Total	3.038	1.772

We have included in this table the costs associated with the network reinforcement of new developments but have also endeavoured to report costs for the onsite/site specific capex (which includes requisitions less costs included in the network reinforcement capex column).