

Draft Determination Representations

WSH.DD.CE.2

Loughor Estuary

30 August 2019

1. Ofwat's Draft determination

Our April business plan treated all Loughor estuary costs as PR19 transition expenditure. Ofwat rejected this treatment and allowed only cost from 2019-20 as transition expenditure in its Draft Determination of price control (£20.867 million).

Ofwat also changed the Sewerage actual totex in the PR14 wholesale total expenditure outperformance sharing mechanism to reflect annual actual totex on the Loughor estuary in 2016-17, 2017-18 and 2018-19.

The table below shows the amounts allowed in the Draft Determination.

2017-18 CPIH deflated prices £ million	2016/17	2017/18	2018/19	2019/20	Total
Loughor expenditure forecast April Business Plan	4.418	18.162	30.875	20.867	74.322
Allowed in Draft determination	2.177	9.298	16.212	20.867	48.554
Gap	2.241	8.864	14.663	0.000	25.768

2. Our response to the draft determination.

Our position relating to the expenditure incurred on delivering the output of the Loughor estuary schemes has not changed from the IAP. The Loughor estuary project was required to meet a new legal requirement. Delivery of the project could not have been delayed until 2019 without significant risk of infraction fines on the Welsh Government and severe consequences for our customers. We maintain that Ofwat should allow the expenditure in full.

Since the business plan was submitted we have revised the profile of expenditure for Loughor to take account of the actual expenditure reported in APR19 and the reforecast 2019-20 expenditure. The latest profile is shown in the table below.

2017-18 CPIH deflated prices £ million	2016/17	2017/18	2018/19	2019/20	Total
Loughor expenditure forecast August Business Plan	4.418	18.162	18.366	32.870	73.816

We have updated the business plan tables submitted in April for the latest expenditure forecast. To enable us to run the financial model with what we believe to be the right level of allowed revenue we have adjusted the inputs in two ways:

- i. The revised 2019-20 expenditure forecast of £32.870m (17/18 CPIH prices) has been included as transition in 2020-21 in WWS1, WWS2 and WWS10 in the appropriate price base; and
- ii. For the other four years, we have transformed the expenditure actually incurred, by dividing it by the wastewater sharing rate (50.6%), to ensure that the RCV and revenue adjustments are calculated to give full recognition of the expenditure incurred in these years in the RCV and Revenue feeder models and associated tables. The table below shows the results of our transformation as they are entered into table WWS15 line 9. This change affects the values included in the RCV and Revenue feeder models and associated business plan tables.

Outturn prices £ million	2016/17	2017/18	2018/19
Actual expenditure	4.303	18.162	18.844
Expenditure included in WWS15	8.504	35.893	37.247