

IAP Response

Ref B2.WSH.CMI.A2

Bioresources Revenue

1 April 2019

WSH.CMI.A2 Bioresources Revenue

Nature of Adjustment (Summarise how you have responded to this action)

The forecasts used to complete table WWS1 have been analysed for costs that could be considered variable with respect to changes in sludge volumes.

- Manpower, Transport, Outsourced costs are apportioned 80% fixed and 20% variable, reflecting the fact that, whilst these costs are generally fixed at a given level of treatment, there are some costs that would increase or be avoidable at the margin for example overtime;
- Power has been analysed and the fixed element (the Daily and DUOS charge) has been identified, the rest is considered variable;
- Bought in services has been analysed and apportioned between fixed and variable elements: 15% fixed and 85% variable. This weighting has been calculated from the component services where we have assessed the fixed elements to be: 100% of property costs, 25% of fees, 10% of maintenance. The other costs, have been split roughly 50:50 reflecting variable costs for vehicle, plant and skip hire and fixed costs relating to grounds and building maintenance which will not vary annually with the volume of sludge; and
- Chemicals and potable water costs are considered 100% variable.

This gives the split of costs shown in the table below:

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | £m | £m | £m | £m | £m | £m |
| Bioresources (inc G&S) | 11.5 | 10.9 | 10.7 | 10.7 | 10.6 | 10.8 |
| Power (Fixed charge) | (0.6) | (0.8) | (0.8) | (0.9) | (1.0) | (1.0) |
| Bought in services | 0.9 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 |
| Principal use | 1.3 | 2.0 | 2.2 | 2.4 | 2.4 | 2.3 |
| Fixed Opex | 13.0 | 12.8 | 12.8 | 12.8 | 12.6 | 12.6 |
| Capital expenditure | 30.9 | 10.6 | 10.2 | 10.3 | 9.8 | 8.9 |
| Fixed Totex | 43.8 | 23.4 | 23.0 | 23.2 | 22.4 | 21.6 |
| Variable elements | | | | | | |
| Bioresources (inc G&S) | 1.9 | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 |
| Chemicals & water | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Bought in services | 4.3 | 3.6 | 3.7 | 3.8 | 3.9 | 4.0 |
| NEP (Opex from capex) | - | - | 0.0 | 0.1 | 0.2 | 0.3 |
| Gross variable total | 7.3 | 6.2 | 6.4 | 6.6 | 6.7 | 7.0 |
| Power | (2.8) | (3.7) | (3.9) | (4.0) | (4.2) | (4.2) |
| Variable Totex | 4.5 | 2.5 | 2.6 | 2.5 | 2.5 | 2.7 |
| Totex | 48.3 | 25.9 | 25.5 | 25.7 | 25.0 | 24.3 |
| Sludge produced (ttds pa) | 72.6 | 73.4 | 74.2 | 75.1 | 75.9 | 76.8 |

For the completion of line H31, it is considered reasonable to assume that the capital costs and capital expenditure elements of totex are invariant to marginal changes to sludge volumes from the forecasts used to set the revenue control therefore the fixed element to be input is the revenue

requirement calculated in line G29 minus the variable totex calculated in the table above. This is appropriate as we are using the natural PAYG rate.

| Line | Definition | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2020-25 |
|-----------|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| 29 | Total revenue ~ wholesale wastewater bioresources control less Variable Totex | 36.912 | 35.101 | 34.933 | 34.804 | 34.387 | 34.358 | 173.584 |
| | | <u>-4.489</u> | <u>-2.508</u> | <u>-2.567</u> | <u>-2.531</u> | <u>-2.522</u> | <u>-2.716</u> | <u>-12.844</u> |
| 30 | Wholesale wastewater bioresources revenue to cover fixed costs | 32.423 | 32.593 | 32.366 | 32.273 | 31.865 | 31.642 | 160.739 |
| | Variable revenue as a proportion of Total Revenue | | 7% | 7% | 7% | 7% | 8% | 7% |