

# Annual Performance Report 2018-19

## Part 2 – Price control and other segmental reporting





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This part disaggregates revenue and costs further than Part 1, to allow stakeholders to review our performance against Ofwat’s Final Determination.



## 2A – Segmental income statement for the year ended 31 March 2019

|                                                       | Ref   | Retail          |                     | Water resources<br>£m | Water network+<br>£m | Wholesale         |                           | Sludge<br>£m | Wastewater total<br>£m | Total<br>£m      |
|-------------------------------------------------------|-------|-----------------|---------------------|-----------------------|----------------------|-------------------|---------------------------|--------------|------------------------|------------------|
|                                                       |       | Household<br>£m | Non-household<br>£m |                       |                      | Water total<br>£m | Wastewater network+<br>£m |              |                        |                  |
| Revenue - price control                               |       | 48.719          | 8.269               |                       | 301.099              | <b>301.099</b>    | 397.559                   |              | <b>397.559</b>         | <b>755.646</b>   |
| Revenue - non price control                           |       | -               | -                   |                       | 17.864               | <b>17.864</b>     | 0.043                     |              | <b>0.043</b>           | <b>17.907</b>    |
|                                                       |       | <b>48.719</b>   | <b>8.269</b>        |                       | <b>318.963</b>       | <b>318.963</b>    | <b>397.602</b>            |              | <b>397.602</b>         | <b>773.553</b>   |
| Operating expenditure                                 | 2B/2C | (50.669)        | (5.311)             | (32.032)              | (186.679)            | <b>(218.711)</b>  | (122.918)                 | (19.322)     | <b>(142.240)</b>       | <b>(416.931)</b> |
| Depreciation - tangible fixed assets                  | 2D    | (0.554)         | (0.041)             | (6.741)               | (118.670)            | <b>(125.411)</b>  | (132.709)                 | (17.525)     | <b>(150.234)</b>       | <b>(276.240)</b> |
| Amortisation - intangible fixed assets                |       | (5.057)         | (0.514)             | (0.369)               | (7.440)              | <b>(7.809)</b>    | (4.664)                   | (1.056)      | <b>(5.720)</b>         | <b>(19.100)</b>  |
| Other operating income                                |       | -               | -                   | -                     | 0.105                | <b>0.105</b>      | 0.129                     | -            | <b>0.129</b>           | <b>0.234</b>     |
| <b>Operating (loss)/profit before recharges</b>       |       | <b>(7.561)</b>  | <b>2.403</b>        |                       |                      | <b>(32.863)</b>   |                           |              | <b>99.537</b>          | <b>61.516</b>    |
| <b>Recharges in respect of 'principal use' assets</b> |       |                 |                     |                       |                      |                   |                           |              |                        |                  |
| Recharges from other segments                         |       | (0.291)         | (0.020)             | (0.269)               | (0.849)              | <b>(1.118)</b>    | (2.890)                   | (0.585)      | <b>(3.475)</b>         | <b>(4.904)</b>   |
| Recharges to other segments                           |       | 0.037           | 0.002               | -                     | 4.489                | <b>4.489</b>      | 0.376                     | -            | <b>0.376</b>           | <b>4.904</b>     |
| <b>Operating (loss)/profit</b>                        |       | <b>(7.815)</b>  | <b>2.385</b>        |                       |                      | <b>(29.492)</b>   |                           |              | <b>96.438</b>          | <b>61.516</b>    |
| Surface water drainage rebates                        |       |                 |                     |                       |                      |                   |                           |              |                        | <b>0.092</b>     |

### 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 Methodology Statement which can be found at [www.dwrcymru.com](http://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 Statement. Any material changes to our approach compared to the previous year are documented in the Methodology Statement.



## 2B – Totex analysis for the year ended 31 March 2019 – wholesale water and wastewater

|                                                                          | Water<br>resources<br>£m | Water<br>network+<br>£m | Wastewater<br>network+<br>£m | Sludge<br>£m  | Total<br>£m    |
|--------------------------------------------------------------------------|--------------------------|-------------------------|------------------------------|---------------|----------------|
| <b>Operating expenditure</b>                                             |                          |                         |                              |               |                |
| Power                                                                    | 4.973                    | 22.590                  | 26.315                       | 1.701         | 55.579         |
| Income treated as negative expenditure                                   | (3.522)                  | (2.937)                 | (0.677)                      | (2.485)       | (9.621)        |
| Abstraction charges/discharge consents                                   | 8.654                    | 0.280                   | 5.058                        | -             | 13.992         |
| Bulk supply/bulk discharge                                               | 0.099                    | 0.725                   | -                            | -             | 0.824          |
| Other operating expenditure – renewals expensed in year (infrastructure) | 9.469                    | 49.493                  | 29.614                       | -             | 88.576         |
| Other operating expenditure – excluding renewals                         | 7.626                    | 99.726                  | 55.414                       | 19.772        | 182.538        |
| Local authority and cumulo rates                                         | 0.790                    | 14.692                  | 6.538                        | 0.334         | 22.354         |
| <b>Total operating expenditure excluding third party services</b>        | <b>28.089</b>            | <b>184.569</b>          | <b>122.262</b>               | <b>19.322</b> | <b>354.242</b> |
| Third party services                                                     | 3.943                    | 2.110                   | 0.656                        | -             | 6.709          |
| <b>Total operating expenditure<sup>1</sup></b>                           | <b>32.032</b>            | <b>186.679</b>          | <b>122.918</b>               | <b>19.322</b> | <b>360.951</b> |
| <b>Capital expenditure</b>                                               |                          |                         |                              |               |                |
| Maintaining the long-term capability of the assets - infra               | 2.399                    | 16.556                  | 11.986                       | -             | 30.941         |
| Maintaining the long-term capability of the assets – non-infra           | 4.451                    | 61.604                  | 82.637                       | 52.997        | 201.689        |
| Other capital expenditure – infra                                        | 13.364                   | 20.813                  | 36.450                       | -             | 70.627         |
| Other capital expenditure – non-infra                                    | 16.270                   | 12.310                  | 29.424                       | 4.043         | 62.047         |
| Infrastructure network reinforcement                                     | -                        | 0.923                   | 1.606                        | -             | 2.529          |
| <b>Total gross capital expenditure excluding third party services</b>    | <b>36.484</b>            | <b>112.206</b>          | <b>162.103</b>               | <b>57.040</b> | <b>367.833</b> |
| Third party services                                                     | 3.833                    | 0.482                   | 0.358                        | -             | 4.673          |
| <b>Total gross capital expenditure</b>                                   | <b>40.317</b>            | <b>112.688</b>          | <b>162.461</b>               | <b>57.040</b> | <b>372.506</b> |
| Grants and contributions                                                 | 3.442                    | 12.041                  | 8.584                        | -             | 24.067         |
| <b>Totex</b>                                                             | <b>68.907</b>            | <b>287.326</b>          | <b>276.795</b>               | <b>76.362</b> | <b>709.390</b> |
| <b>Cash expenditure</b>                                                  |                          |                         |                              |               |                |
| Pension deficit recovery payments                                        | 0.200                    | 3.263                   | 2.132                        | 0.400         | 5.995          |
| <b>Totex including cash items</b>                                        | <b>69.107</b>            | <b>290.589</b>          | <b>278.927</b>               | <b>76.762</b> | <b>715.385</b> |

<sup>1</sup> Reconciliation of total wholesale operating expenditure to Table 2A:

|                   | £m             |
|-------------------|----------------|
| Opex – water      | 218.711        |
| Opex – wastewater | 142.240        |
|                   | <b>360.951</b> |

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

### Significant year-on-year totex movements are as follows:

**Water resources:** £10m increase (16%); £11m in capex and renewals expensed in the year (infrastructure) relating to work on our dam safety programme, £1m increase in power and £1m lower income relating to reduction in hydro generation income due to lower reservoir levels<sup>2</sup>. This is offset by third party income reported in grants and contribution of £3m which relates to reimbursement of capital costs as part of our section 20 National Resources Wales operating agreement.

**Water Network+:** £3m increase (1%); £18m decrease in water treatment capital spend offset by increase in atypical costs due to adverse weather<sup>3</sup> of £13m, increased power costs £2m, employment and hired and bought in services increases in water treatment of £3m and in treated water distribution £2m.

**Waste Network+:** £19m increase (7%); £2m adverse weather cost, £4m additional renewals expensed in the year in sewage collection and £16m of increased capex spends of which £14m relates to increased spend on maintaining the long-term capability of the asset base is offset by rates refund of £2m relating to Swansea WwTw.

**Sludge:** £21m increase (38%); £20m capex to deliver our sludge strategy for AMP6<sup>2</sup>.

Further details can be found in the Accounting Methodology statement section 2.4.

<sup>2</sup>This is linked to Part 3 MOS C2 Carbon Footprint.

<sup>3</sup>See Page 4 of Overview document: Customer Acceptability.

Above documents are available on our website at [www.dwrcymru.com](http://www.dwrcymru.com).



## 2C – Operating cost analysis for the year ended 31 March 2019 – retail

|                                                                   | Ref | Household<br>£m | Non-<br>household<br>£m | Total<br>£m   |
|-------------------------------------------------------------------|-----|-----------------|-------------------------|---------------|
| <b>Operating expenditure</b>                                      |     |                 |                         |               |
| Customer services                                                 | 4F  | 13.361          | 2.320                   | <b>15.681</b> |
| Debt management                                                   | 4F  | 6.714           | 0.677                   | <b>7.391</b>  |
| Doubtful debts                                                    | 4F  | 20.113          | 0.884                   | <b>20.997</b> |
| Meter reading                                                     | 4F  | 1.828           | 0.485                   | <b>2.313</b>  |
| Services to developers                                            |     | -               | 0.195                   | <b>0.195</b>  |
| Other operating expenditure                                       | 4F  | 8.653           | 0.750                   | <b>9.403</b>  |
| <b>Total operating expenditure excluding third party services</b> |     | <b>50.669</b>   | <b>5.311</b>            | <b>55.980</b> |
| Third party services operating expenditure                        | 4F  | -               | -                       | -             |
| <b>Total operating expenditure</b>                                |     | <b>50.669</b>   | <b>5.311</b>            | <b>55.980</b> |
| Depreciation – tangible fixed assets                              | 4F  | 0.554           | 0.041                   | <b>0.595</b>  |
| Amortisation – intangible fixed assets                            | 4F  | 5.057           | 0.514                   | <b>5.571</b>  |
| <b>Total operating costs</b>                                      |     | <b>56.280</b>   | <b>5.866</b>            | <b>62.146</b> |
| Debt written off                                                  |     | 24.178          | 0.922                   | <b>25.100</b> |

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

|                        | Household<br>£m | Non-<br>household<br>£m | Total<br>£m |
|------------------------|-----------------|-------------------------|-------------|
| Final determination    | 46.7            | 6.2                     | 52.9        |
| Actual operating costs | 56.3            | 5.9                     | 62.2        |
| Difference             | 9.6             | (0.3)                   | 9.3         |

The table 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, which has seen online transactions grow by 30-40% across different services, 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 required investment over and above the costs allowed in the FD.
- Debt management costs continue to fall and can be attributed to procurement of debt collection agencies and payment processing contracts as well as the net benefit from charging order activity in the prior year which is offset against the cost of legal action.
- Metered customers have increased during the year resulting in cost increases of 8%. Future planned innovations in this area will help manage further cost increases
- We continue to support customers with help in paying their bills (see section 3 Performance summary MOS E2) . However, identifying and engaging with these customers is a costly activity which continues to be funded out of our reserves as directed by the Board. These costs, which amount to £0.9m, were not included in our allowed revenues at PR14.
- Our customer base continues to be over represented in low income groups with high levels of personal debt. This requires significant effort in terms of recovery activity, above that allowed in the FD.
- Initiatives established in prior years have generated improvements in collections performance throughout 2018/19. These initiatives have resulted in a 5% reduction in doubtful debts year-on-year, from £22m in 2017/18 to £21m in 2018/19.
- Storm Emma impacted our response rates in the contact centre. The recovery plan of this resulted in additional costs in customer service of £0.8m.
- 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 tangible fixed assets for the year ended 31 March 2019 – wholesale and retail

|                                       | Wholesale                |                         |                              |                  | Retail          |                         | Total<br>£m        |
|---------------------------------------|--------------------------|-------------------------|------------------------------|------------------|-----------------|-------------------------|--------------------|
|                                       | Water<br>resources<br>£m | Water<br>network+<br>£m | Wastewater<br>network+<br>£m | Sludge<br>£m     | Household<br>£m | Non-<br>household<br>£m |                    |
| <b>Cost or valuation</b>              |                          |                         |                              |                  |                 |                         |                    |
| At 1 April 2018                       | 183.215                  | 2,951.599               | 3,141.726                    | 327.255          | 56.962          | 8.490                   | <b>6,669.247</b>   |
| Disposals                             | (0.022)                  | (1.622)                 | (1.796)                      | (0.510)          | -               | -                       | <b>(3.950)</b>     |
| Additions                             | 35.341                   | 93.253                  | 139.279                      | 53.483           | 0.102           | 0.034                   | <b>321.492</b>     |
| Adjustments-revaluation <sup>1</sup>  | -                        | 4.100                   | -                            | -                | -               | -                       | <b>4.100</b>       |
| Adjustments-reallocation <sup>2</sup> | 0.500                    | (0.500)                 | (3.762)                      | 3.762            | -               | -                       | -                  |
| Assets adopted at nil cost            | -                        | -                       | 37.446                       | -                | -               | -                       | <b>37.446</b>      |
| <b>At 31 March 2019</b>               | <b>219.034</b>           | <b>3,046.830</b>        | <b>3,312.893</b>             | <b>383.990</b>   | <b>57.064</b>   | <b>8.524</b>            | <b>7,028.335</b>   |
| <b>Depreciation</b>                   |                          |                         |                              |                  |                 |                         |                    |
| At 1 April 2018                       | (27.795)                 | (727.556)               | (548.290)                    | (110.673)        | (12.260)        | (1.965)                 | <b>(1,428.539)</b> |
| Disposals                             | 0.036                    | 1.283                   | 0.609                        | 1.004            | -               | -                       | <b>2.932</b>       |
| Adjustments-revaluation <sup>1</sup>  | 2.324                    | 52.506                  | 70.749                       | 2.521            | -               | -                       | <b>128.100</b>     |
| Charge for year                       | (6.741)                  | (118.670)               | (132.709)                    | (17.525)         | (0.554)         | (0.041)                 | <b>(276.240)</b>   |
| <b>At 31 March 2019</b>               | <b>(32.176)</b>          | <b>(792.437)</b>        | <b>(609.641)</b>             | <b>(124.673)</b> | <b>(12.814)</b> | <b>(2.006)</b>          | <b>(1,573.747)</b> |
| <b>Net book values<sup>3</sup></b>    |                          |                         |                              |                  |                 |                         |                    |
| <b>At 31 March 2019</b>               | <b>186.858</b>           | <b>2,254.393</b>        | <b>2,703.252</b>             | <b>259.317</b>   | <b>44.250</b>   | <b>6.518</b>            | <b>5,454.588</b>   |
| At 1 April 2018                       | 155.420                  | 2,224.043               | 2,593.436                    | 216.582          | 44.702          | 6.525                   | <b>5,240.708</b>   |
| <b>Depreciation charge for year</b>   |                          |                         |                              |                  |                 |                         |                    |
| Principal services                    | (6.732)                  | (118.653)               | (132.709)                    | (17.525)         | (0.554)         | (0.041)                 | <b>(276.214)</b>   |
| Third party services                  | (0.009)                  | (0.017)                 | -                            | -                | -               | -                       | <b>(0.026)</b>     |
| <b>Total</b>                          | <b>(6.741)</b>           | <b>(118.670)</b>        | <b>(132.709)</b>             | <b>(17.525)</b>  | <b>(0.554)</b>  | <b>(0.041)</b>          | <b>(276.240)</b>   |

<sup>1</sup> Adjustments: the Company has revalued its asset base as at 31 March 2019; for further details see 'Property, plant and equipment' in the accounting policies section of Part 4 (Notes to the regulatory accounts).

The revaluation in the year amounts to £132.2m and is included in table 2D as follows:

|                           | £m             |
|---------------------------|----------------|
| <b>Cost or valuation</b>  |                |
| Adjustments - revaluation | 4.100          |
| <b>Depreciation</b>       |                |
| Adjustments - revaluation | 128.099        |
|                           | <u>132.199</u> |

<sup>2</sup> Adjustments: this related to reallocation of transport vehicles from water network+ to water resources and waste water network+ to sludge.

<sup>3</sup> The net book value at 31 March 2019 includes £285.8m in respect of assets in the course of construction, £270.6m adopted assets and £1,433m revaluation.

This table excludes intangible assets with net book value of £167.7m



## 2E – Analysis of ‘grants and contributions’ and land sales for the year ended 31 March 2019 – wholesale

<sup>1</sup> Movements in capitalised grants and contributions do not include assets adopted at nil cost.

|                                                                      | Fully recognised in income statement<br>£m | Capitalised and amortised (in income statement)<br>£m | Fully netted off capex<br>£m | Total<br>£m    |
|----------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------|------------------------------|----------------|
| <b>Grants and contributions – water</b>                              |                                            |                                                       |                              |                |
| Connection charges                                                   | 4.153                                      | -                                                     | 0.821                        | <b>4.974</b>   |
| Infrastructure charge receipts                                       | -                                          | -                                                     | 4.090                        | <b>4.090</b>   |
| Requisitioned mains                                                  | -                                          | -                                                     | 0.703                        | <b>0.703</b>   |
| Other contributions (price control)                                  | -                                          | -                                                     | (0.043)                      | <b>(0.043)</b> |
| Diversions                                                           | 2.234                                      | -                                                     | -                            | <b>2.234</b>   |
| Other contributions (non-price control)                              | 2.545                                      | -                                                     | 0.980                        | <b>3.525</b>   |
| <b>Total</b>                                                         | <b>8.932</b>                               | -                                                     | <b>6.551</b>                 | <b>15.483</b>  |
| Value of adopted assets                                              | -                                          | -                                                     | -                            | -              |
| <b>Grants and contributions - wastewater</b>                         |                                            |                                                       |                              |                |
| Infrastructure charge receipts                                       | -                                          | -                                                     | 3.832                        | <b>3.832</b>   |
| Requisitioned sewers                                                 | -                                          | -                                                     | 2.024                        | <b>2.024</b>   |
| Other contributions (price control)                                  | 0.597                                      | -                                                     | 1.231                        | <b>1.828</b>   |
| Diversions                                                           | 0.568                                      | -                                                     | -                            | <b>0.568</b>   |
| Other contributions (non-price control)                              | -                                          | -                                                     | 0.332                        | <b>0.332</b>   |
| <b>Total</b>                                                         | <b>1.165</b>                               | -                                                     | <b>7.419</b>                 | <b>8.584</b>   |
| Value of adopted assets                                              | -                                          | 37.446                                                | -                            | <b>37.446</b>  |
| <b>Movements in capitalised grants and contributions<sup>1</sup></b> |                                            |                                                       |                              |                |
|                                                                      | <b>Water<br/>£m</b>                        | <b>Wastewater<br/>£m</b>                              | <b>Total<br/>£m</b>          |                |
| Brought forward                                                      | -                                          | (0.019)                                               | <b>(0.019)</b>               |                |
| Capitalised in the year                                              | -                                          | -                                                     | -                            |                |
| Amortisation (in income statement)                                   | -                                          | 0.001                                                 | <b>0.001</b>                 |                |
| Carried forward ( Table 1C)                                          | -                                          | <b>(0.018)</b>                                        | <b>(0.018)</b>               |                |
| <b>Land sales</b>                                                    |                                            |                                                       |                              |                |
|                                                                      | <b>Water<br/>£m</b>                        | <b>Wastewater<br/>£m</b>                              | <b>Total<br/>£m</b>          |                |
| Proceeds from disposals of protected land                            | 0.360                                      | 0.024                                                 | <b>0.384</b>                 |                |



## 2F – Household revenues by customer type for the year ended 31 March 2019

|                                          | Wholesale charges revenue<br>£m | Retail revenue <sup>1</sup><br>£m | Total revenue<br>£m | Number of customers<br>(000s) | Average household retail revenue per customer<br>£ |
|------------------------------------------|---------------------------------|-----------------------------------|---------------------|-------------------------------|----------------------------------------------------|
| Unmeasured water only customer           | 10.544                          | 0.725                             | 11.269              | 52.615                        | 14                                                 |
| Unmeasured wastewater only customer      | 14.228                          | 0.592                             | 14.820              | 48.694                        | 12                                                 |
| Unmeasured water and wastewater customer | 326.473                         | 17.181                            | 343.654             | 662.762                       | 26                                                 |
| Measured water only customer             | 3.561                           | 0.746                             | 4.307               | 29.165                        | 26                                                 |
| Measured wastewater only customer        | 15.038                          | 2.192                             | 17.230              | 83.247                        | 26                                                 |
| Measured water and wastewater customer   | 159.076                         | 27.283                            | 186.359             | 525.460                       | 52                                                 |
| <b>Total</b>                             | <b>528.920</b>                  | <b>48.719</b>                     | <b>577.639</b>      | <b>1,401.943</b>              | <b>35</b>                                          |

<sup>1</sup>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 tariff type for the year ended 31 March 2019

|                               | Wholesale charges revenue<br>£m | Retail revenue<br>£m | Total revenue<br>£m | Number of connections <sup>1</sup><br>000s | Average non-household retail revenue per connection<br>£ |
|-------------------------------|---------------------------------|----------------------|---------------------|--------------------------------------------|----------------------------------------------------------|
| <b>Default tariffs</b>        |                                 |                      |                     |                                            |                                                          |
| Water suppliers under 50 MI   | 65.187                          | 3.967                | 69.154              | 100.104                                    | 40                                                       |
| Water supplies 50 MI and over | -                               | -                    | -                   | -                                          | -                                                        |
| <b>Total default tariffs</b>  | <b>65.187</b>                   | <b>3.967</b>         | <b>69.154</b>       | <b>100.104</b>                             | <b>40</b>                                                |
| <b>Non-default tariffs</b>    |                                 |                      |                     |                                            |                                                          |
| Total non-default tariffs     | 24.831                          | 0.239                | 25.070              | 0.109                                      | 2,193                                                    |
| <b>Total</b>                  | <b>90.018</b>                   | <b>4.206</b>         | <b>94.224</b>       | <b>100.213</b>                             | <b>42</b>                                                |

<sup>1</sup> The difference of five between the total number of connections and the number of customers relates to customers billed by other retailers.

|                             | Number of customers <sup>1</sup><br>000s | Average non-household retail revenue per customer<br>£ |
|-----------------------------|------------------------------------------|--------------------------------------------------------|
| <b>Revenue per customer</b> | 100.208                                  | 42                                                     |



## 2H – Non-household wastewater revenues by tariff type for the year ended 31 March 2019

|                            | Wholesale charges revenue<br>£m | Retail revenue<br>£m | Total revenue<br>£m | Number of connections<br>000s | Average non-household retail revenue per connection<br>£ |
|----------------------------|---------------------------------|----------------------|---------------------|-------------------------------|----------------------------------------------------------|
| <b>Default tariffs</b>     |                                 |                      |                     |                               |                                                          |
| Sewerage                   | 79.720                          | 3.997                | 83.717              | 73.547                        | 54                                                       |
| Total default tariffs      | 79.720                          | 3.997                | 83.717              | 73.547                        | 54                                                       |
| <b>Non-default tariffs</b> |                                 |                      |                     |                               |                                                          |
| Total non-default tariffs  | -                               | -                    | -                   | -                             | -                                                        |
| <b>Total</b>               | <b>79.720</b>                   | <b>3.997</b>         | <b>83.717</b>       | <b>73.547</b>                 | <b>54</b>                                                |

|                      | Number of customers<br>000s | Average non-household retail revenue per customer<br>£ |
|----------------------|-----------------------------|--------------------------------------------------------|
| Revenue per customer | 73.547                      | 54                                                     |



## 2I – Revenue analysis for the year ended 31 March 2019

|                                                | Ref | Household<br>£m | Non-<br>household<br>£m | Total<br>£m    |
|------------------------------------------------|-----|-----------------|-------------------------|----------------|
| <b>Wholesale charge – water</b>                |     |                 |                         |                |
| Unmeasured                                     |     | 143.363         | 2.138                   | <b>145.501</b> |
| Measured                                       |     | 67.718          | 80.611                  | <b>148.329</b> |
| Third party revenue                            |     | -               | 7.269                   | <b>7.269</b>   |
| Total                                          | 2A  | <b>211.081</b>  | <b>90.018</b>           | <b>301.099</b> |
| <b>Wholesale charge – wastewater</b>           |     |                 |                         |                |
| Unmeasured                                     |     | 207.883         | 2.774                   | <b>210.657</b> |
| Measured                                       |     | 109.956         | 76.946                  | <b>186.902</b> |
| Third party revenue                            |     | -               | -                       | -              |
| Total                                          | 2A  | <b>317.839</b>  | <b>79.720</b>           | <b>397.559</b> |
| <b>Wholesale total<sup>1</sup></b>             |     | <b>528.920</b>  | <b>169.738</b>          | <b>698.658</b> |
| <b>Retail revenue</b>                          |     |                 |                         |                |
| Unmeasured                                     |     | 18.497          | 0.579                   | <b>19.076</b>  |
| Measured                                       |     | 30.222          | 7.624                   | <b>37.846</b>  |
| Other third party revenue                      |     | -               | 0.066                   | <b>0.066</b>   |
| <b>Retail total<sup>1, 2</sup></b>             | 2A  | <b>48.719</b>   | <b>8.269</b>            | <b>56.988</b>  |
| <b>Third party revenue – non-price control</b> |     |                 |                         |                |
| Bulk supplies - water                          |     |                 |                         | <b>16.375</b>  |
| Bulk supplies - wastewater                     |     |                 |                         | <b>0.043</b>   |
| Other third party revenue                      |     |                 |                         | <b>0.570</b>   |
| <b>Principal services – non-price control</b>  |     |                 |                         |                |
| Other appointed revenue                        |     |                 |                         | <b>0.919</b>   |
| <b>Total appointed revenue</b>                 | 1A  |                 |                         | <b>773.553</b> |

### <sup>1</sup> Revenue reconciliation

|                          | Ref | Wholesale<br>£m | Retail<br>£m  |
|--------------------------|-----|-----------------|---------------|
| Household                | 2F  | 528.920         | 48.719        |
| Non-household water      | 2G  | 90.018          | 4.206         |
| Non-household waste      | 2H  | 79.720          | 3.997         |
|                          |     | <b>698.658</b>  | <b>56.922</b> |
| New connections (retail) |     | -               | 0.066         |
|                          |     | <b>698.658</b>  | <b>56.988</b> |

### <sup>2</sup> Non-household retail reconciliation

|                     | Ref | Non-<br>household<br>£m |
|---------------------|-----|-------------------------|
| Non-household water | 2G  | 4.206                   |
| Non-household waste | 2H  | 3.997                   |
| Developer services  |     | 0.066                   |
|                     |     | <b>8.269</b>            |



## 2I – Revenue analysis for the year ended 31 March 2019 (continued) – wholesale control reconciliation

|                                                          | Ref | Water<br>£m    | Wastewater<br>£m | Total<br>£m    |
|----------------------------------------------------------|-----|----------------|------------------|----------------|
| Wholesale revenue governed by price control              |     | 301.099        | 397.559          | 698.658        |
| Grants and contributions <sup>1</sup>                    | 2E  | 9.724          | 7.684            | 17.408         |
| <b>Total revenue governed by wholesale price control</b> |     | <b>310.823</b> | <b>405.243</b>   | <b>716.066</b> |
| Amount assumed in wholesale determination                |     | 307.118        | 403.020          | 710.138        |
| Adjustment for in-period ODI revenue                     |     | -              | -                | -              |
| Adjustment for WRFIM                                     |     | (1.381)        | (2.149)          | (3.530)        |
| <b>Total assumed revenue</b>                             |     | <b>305.737</b> | <b>400.871</b>   | <b>706.608</b> |
| <b>Difference<sup>2</sup> (see narrative below)</b>      |     | <b>5.086</b>   | <b>4.372</b>     | <b>9.458</b>   |
| <b>Difference<sup>2</sup> %</b>                          |     | <b>1.6%</b>    | <b>1.1%</b>      | <b>1.3%</b>    |

<sup>1</sup> Grants and contributions are revenues from new connections, requisitions and infrastructure charges for properties which have connected in the year

<sup>2</sup> This is the difference between total revenue governed by revenue control and the total assumed revenue

### Variance Analysis

The difference between the total revenue governed by the revenue control and the total assumed revenue is £9.5m or 1.3%, which is below the +/-2% WRFIM (Wholesale Revenue Forecasting Incentive Mechanism) flexibility threshold. The over-recovery of £9.5m will be recovered as part of PR19 through the WRFIM reconciliation model. The table on page 12 shows the wholesale income reconciliation against the forecast budgets.

Residential wholesale water and sewerage revenue over-recovery was driven by the increases in consumption against forecast arising from the exceptional summer experienced. Unmeasured income was recovered slightly under forecast due to higher than forecast meter optants.

Business water <50MI and waste revenue over recovery was also due to increases in consumption against forecast. Unmeasured income was recovered largely as forecast.

Business water >50MI under recovery was due to a general reduction in demand from all tariff bands. The customers in this group would not be expected to change consumption due to good weather.

Income from Grants and contributions was higher than forecast due to higher new connections rates and larger diameter work being undertaken. This led to higher revenue per connection than forecast (Table 4Q in Part 4).



## 2I – Revenue analysis for the year ended 31 March 2019 (continued) – wholesale control reconciliation

### Wholesale income reconciliation

| Wholesale income reconciliation | Allowance<br>£m | Actual<br>£m | Variance<br>£m | Variance<br>% |
|---------------------------------|-----------------|--------------|----------------|---------------|
| <b>HOUSEHOLD</b>                |                 |              |                |               |
| <b>Wholesale water</b>          |                 |              |                |               |
| Unmeasured                      | 146             | 143          | (3)            | (2%)          |
| Measured                        | 64              | 68           | 4              | 6%            |
| Water sub-total                 | 210             | 211          | 1              | -             |
| <b>Wholesale wastewater</b>     |                 |              |                |               |
| Unmeasured                      | 211             | 208          | (3)            | (1%)          |
| Measured                        | 107             | 110          | 3              | 3%            |
| Wastewater sub-total            | 318             | 318          | -              | -             |
| <b>Household total</b>          | <b>528</b>      | <b>529</b>   | <b>1</b>       | <b>-</b>      |
| <b>NON-HOUSEHOLD</b>            |                 |              |                |               |
| <b>Wholesale water &lt;50MI</b> |                 |              |                |               |
| Unmeasured                      | 2               | 2            | -              | -             |
| Measured                        | 61              | 63           | 2              | 3%            |
| Water >50MI (inc non-potable)   | 25              | 25           | -              | -             |
| Water sub-total                 | 88              | 90           | 2              | 2%            |
| <b>Wholesale wastewater</b>     |                 |              |                |               |
| Unmeasured                      | 3               | 3            | -              | -             |
| Measured                        | 74              | 77           | 3              | 4%            |
| Wastewater sub-total            | 77              | 80           | 3              | 4%            |
| <b>Non-household total</b>      | <b>165</b>      | <b>170</b>   | <b>5</b>       | <b>3%</b>     |
| <b>Grants and contributions</b> | <b>13</b>       | <b>17</b>    | <b>4</b>       | <b>24%</b>    |
| <b>Total (as table 2I)</b>      | <b>706</b>      | <b>716</b>   | <b>10</b>      | <b>1%</b>     |



## 2J – Infrastructure network reinforcement costs for the year ended 31 March 2019

|                                                              | Network<br>reinforcement<br>capex<br>£m | On site/<br>site-specific<br>capex<br>(memo only)<br>£m |
|--------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------|
| <b>Wholesale water network+ (treated water distribution)</b> |                                         |                                                         |
| Distribution and trunk mains                                 | 0.848                                   | 0.077                                                   |
| Pumping and storage facilities                               | 0.046                                   | 0.067                                                   |
| Other                                                        | 0.029                                   | -                                                       |
| <b>Total</b>                                                 | <b>0.923</b>                            | <b>0.144</b>                                            |
| <b>Wholesale wastewater network+ (sewage collection)</b>     |                                         |                                                         |
| Foul and combined systems                                    | 0.036                                   | -                                                       |
| Surface water only systems                                   | -                                       | -                                                       |
| Pumping and storage facilities                               | 1.204                                   | 0.002                                                   |
| Other                                                        | 0.366                                   | -                                                       |
| <b>Total</b>                                                 | <b>1.606</b>                            | <b>0.002</b>                                            |

This table includes costs associated with the network reinforcement of new developments and costs for the onsite/site specific capex.



## 2K – Infrastructure charges reconciliation for the year ended 31 March 2019

|                                                  | Water<br>£m  | Wastewater<br>£m | Total<br>£m    |
|--------------------------------------------------|--------------|------------------|----------------|
| <b>Impact of infrastructure charge discounts</b> |              |                  |                |
| Infrastructure charges                           | 4.090        | 3.832            | <b>7.922</b>   |
| Discounts applied to infrastructure charges      | -            | -                | -              |
| <b>Gross infrastructure charges</b>              | <b>4.090</b> | <b>3.832</b>     | <b>7.922</b>   |
| <b>Comparison of revenue and costs</b>           |              |                  |                |
| Variance brought forward                         |              |                  | -              |
| Revenue                                          | 4.090        | 3.832            | <b>7.922</b>   |
| Costs                                            | (0.923)      | (1.606)          | <b>(2.529)</b> |
| <b>Variance carried forward</b>                  | <b>3.167</b> | <b>2.226</b>     | <b>5.393</b>   |

This is a new table in the APR in order to provide evidence for compliance with charging rules for new connections for English Companies. The rules require revenue from infrastructure charges to be aligned to costs over a period of time i.e. the variance reported is expected to be small over the long term. The rules do not apply in Wales where the infrastructure charge is set by Ofwat at Periodic Reviews and is not directly aligned to costs. The variance shown between revenue and costs in the table reflects this.