

Draft Determination Representations

WSH.DD.CE.3

Network water quality – new legal obligations

30 August 2019

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1. Background

In arriving at its Draft Determination (DD), Ofwat considered the expenditure for network water quality (new legal obligations) together with expenditure to address WTWs manganese improvements, worst served customers in terms of acceptability of water, Zonal modelling studies and Acceptability improvement projects.

Ofwat has accepted that the driver for the investment is statutory obligations arising from DWI legal notices. However, the DD applies a 50% cost reduction at the programme level, to account for Ofwat's assertion that management has failed to invest in previous periods to address acceptability (taste, odour and colour) performance failures. We do not accept this assertion and provide supporting evidence below.

We maintain that the combined DD allowance of £59 million is insufficient to meet the company's statutory obligations. As it stands, the Welsh Water Board would be unable to confirm that the determination is financeable, inter alia, as it does not adequately fund our statutory obligations during AMP7.

2. Historic investment

Ofwat assert that Dŵr Cymru failed to apply management control and invest previously to address taste odour and colour complaints at the same level as the rest of the sector.

We reject this assertion and provide details covering each of the last two AMP periods below.

2.1. AMP6

At PR14, Ofwat allowed 99.7% of the £1,240 million water service totex we submitted in our PR14 Business Plan. This included £70 million to address water acceptability (taste, odour and colour). During AMP6 we plan to spend £60 million more on water acceptability than was allowed for in the PR14 Final Determination.

PR14 Investment plan	£m
Trunk mains	28
Acceptability of water	30
Distribution mains burst clusters	53
Less: expenditure relating to trunk mains diversions and other schemes not related to acceptability	(41)
Total allowed FD14 expenditure	70
Additional Board approved expenditure	60
Total AMP6 budget	130

The table below shows the water quality zones addressed during AMP6.

Water quality zone	£m
Malpas / Caerleon	2.2
Maerdy / Porth	25.1
Holywell / Mold	5.1
Flint / Connaahs Quay	10.3
Whitbourne	12.1
Llechryd	11.2
Abergele / Rhyl	5.4
Dafen	9.1
Swansea Morryston	1
Hereford North	10.2
Skewen Llandarcy	9.6
North Anglesey	15.5
Bolton Hill	5.5
Other schemes	5.4
Total	127.7

2.2. AMP5

At PR09, Ofwat allowed 96% of the £555 million of capital expenditure for the water service we submitted in our Business Plan. This included £30 million to address water network quality issues.

Our Business Plan for AMP5 included the following network water quality improvement schemes, which were delivered in full.

Scheme Name	Solution	Business plan £m	Actual £m
Crai	Cleansing trunk mains and renovation of distribution mains	12.3	10.1
Talybont	Cleaning/relining/replacement of trunk mains	2.2	1.8
Llyn Conwy	Replace asbestos mains and cleanse distribution system	2.5	2.1
Zonal Studies		4.5	4.6
Distribution Operation and Maintenance Strategy		8.8	10.6
Total		30.3	29.2

2.3. Conclusion

Over the last 10 years we have spent considerably more than we have been allowed in Final Determinations on water network improvements. As has been shown by the PR19 botex modelling (and PR14 cost modelling), our water network expenditure delivery is efficient.

The requirement for significant further investment in AMP7 to meet our statutory water quality obligations is not a function of past underinvestment but, rather, reflects a range of

external factors, including asset condition and age, raw waters and changing regulatory requirements.

The fact that the Welsh Water Board has sanctioned significantly more expenditure in the AMP6 period than was allowed for in PR14, with the consequent financial loss to the company, demonstrates in very practical terms that we consider this investment to be essential on behalf of our customers. The fact that the investment is encapsulated in DWI legal notices demonstrates that it agrees with this assessment.