

Growth Expenditure

Data and Information Request

Supporting document

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dwrcymru.com



1. Methodology

1.1. Purpose

This document provides part of Dŵr Cymru Welsh Water's (DCWW) response to the information notice 'IN 22/02 Cost assessment data requests' issued by Ofwat on 28 April 2022. This document provides supporting information to the tables for growth expenditure data.

This submission collects historical outturn developer services expenditure data for the reporting period between 2011-12 and 2021-22 in the same format as APR Tables 4N and 4O. Ofwat has requested this data to explore the assessment of growth expenditure separately from base costs at PR24. As part of the submission, Ofwat has asked companies to outline where growth costs have been included in historical cost data to enable Ofwat to make appropriate adjustments to the base cost dependent variable.

This document is submitted alongside the completed Excel tables in 'Growth-expenditure-data-request_FINAL_revised WSH.xlsx'. The data tables contain the following elements:

Table number	Description
1	4N: Developer services expenditure - water network+
2	4O: Developer services expenditure - wastewater network+
3	4N Historical allocation: Developer services expenditure - water network+
4	4O Historical allocation: Developer services expenditure - wastewater network+

This supporting document comprises of an outline of the approach taken to completing the data tables with confidence grades for each line and a summary of DCWW's approval and governance procedures with the independent assurance findings.

1.2. Confidence grades

Confidence grades have been provided for each component of the submission where appropriate. The confidence grades include two components, firstly a letter is assigned for the reliability of the data and secondly a number to reflect the accuracy.

Reliability bands:

- A. Measured data from sound textual records, procedures, investigations or analysis properly documented and recognized as the best method of assessment
- B. As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation
- C. Extrapolation from limited sample for which Grade A or B data is available
- D. Unconfirmed verbal reports, cursory inspections or analysis

Accuracy bands:

1. Accuracy to or within +/- 1%
2. Accuracy to or within +/- 5%
3. Accuracy to or within +/- 10%
4. Accuracy to or within +/- 25%

1.3. Structure

The structure of this document is as follows:

Section 2 contains the line commentary for:

Table 4N: Developer services expenditure - water network+

Table 4O: Developer services expenditure - wastewater network+

Table 4N Historical allocation: Developer services expenditure - water network+

Table 4O Historical allocation: Developer services expenditure - wastewater network+

Section 3 contains a summary of DCWW's approval and governance procedures with the independent assurance findings from Jacobs.

2. Table commentaries

This section provides commentary for this data submission which sets out:

- The approach/methodology taken to complete each field and any assumptions that have been applied;
- An indication of the level of confidence behind the data provided in each table.

2.1. Approach

The data lines contain a division of the various workstreams undertaken by Developer Services. Cost information is extracted from our accounting system (SAP) and reported based on the type of scheme being delivered. In addition to these direct costs, reported costs will include an element of general administration. Developer services is also involved in delivering services such as searches, New Roads & Street Works Act 1991 (NRSWA) diversions and facilitating developer funded Developer Impact Assessments, however we do not consider these to be within the scope of tables 4N and 4O.

Confidence grades have been awarded to each line in the data tables. Our external auditors have commented that data from 2018-19 onwards is of a good quality. For prior years, we have used current data to assess splits for historic information in some areas and this is reflected in lower confidence grades being awarded to less recent data. An example of this is the approach taken to network reinforcement costs for older schemes, which is detailed in the line commentary below. Where costs cannot be allocated to foul, surface water and/or highway drainage, the approach taken is set out in the 'Accounting Methodology Statement 2021/22' that accompanies our Annual Performance Report.

2.2. Commentary

2.2.1. Table 4N– Developer services expenditure – water network+

Line 1: New connections

Line 4N.1 reports opex and capex costs for new connections including fire mains. Small diameter connections are reported as opex. Larger connections (>63mm) and dedicated fire mains are reported as capex. Self-lay costs are also reported in this line.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N.1	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2
	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 2: Requisition mains

Line 4N.2 reports opex and capex costs for requisition mains and the costs of delivering non-contested work on self-lay water mains.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N.2	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2
	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 3: Network reinforcement

Line 4N.3 reports opex and capex costs for network reinforcement. Where network reinforcement data is unavailable, an average percentage of costs by scheme type has been assumed.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N.3	Capex	B3	B3	B3	B3	B3	B3	B3	B3	A2	A2	A2
	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 4: s185 diversions

Line 4N.4 reports opex costs for s185 diversions. All s185 costs are considered opex due to their classification as IRE. This excludes diversions delivered under NRSWA.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N.4	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2
	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 5: Other price controlled activities

Line 4N.5 reports opex and capex costs for other price controlled activities. The opex costs include costs associated with plan sales. The capex costs includes the value of any asset payments made to self-lay providers.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N.5	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2
	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

2.2.2. Table 40 – Developer services expenditure – wastewater network+

Capex costs

Line 1: New connections

Line 40.1 reports capex costs for new connections delivered by both Welsh Water and by developers. Costs incurred associated with developer delivered new connections are also reported in this line. The costs reported in this line for 2019/20 are significantly higher than other years due to a highly complex and expensive scheme being delivered during the year.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.1	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2

Line 2: Requisition mains

Line 40.2 reports capex costs for requisition mains.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.2	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2

Line 3: Network reinforcement

Line 40.3 reports capex costs for network reinforcement. Where network reinforcement data is unavailable, an average percentage of costs by scheme type has been assumed.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.3	Capex	B3	B3	B3	B3	B3	B3	B3	B3	A2	A2	A2

Line 4: s185 diversions

Line 40.4 reports capex costs for s185 diversions. All s185 costs are considered opex due to their classification as IRE. This excludes diversions delivered under NRSWA.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.4	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2

Line 5: Other price controlled activities

Line 40.5 reports capex costs for other price controlled activities such as adoptions.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.5	Capex	B3	B3	B3	B3	B3	B2	B2	A2	A2	A2	A2

Line 6: Total developer services capex

Line 40.6 is the total of the capex lines above.

Opex costs

Line 7: New connections

Line 40.7 reports opex costs for new connections delivered by both Welsh Water and by developers.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.7	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 8: Requisition mains

Line 40.8 reports opex costs for requisition mains.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.8	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 9: Network reinforcement

Line 40.9 reports opex costs for network reinforcement. Where network reinforcement data is unavailable, an average percentage of costs by scheme type has been assumed.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.9	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 10: s185 diversions

Line 40.10 reports opex costs for s185 diversions. All s185 costs are considered opex due to their classification as IRE. This excludes diversions delivered under NRSWA.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.10	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 11: Other price controlled activities

Line 40.11 reports opex costs for other price controlled activities such as sewer adoptions, plan sales and build over sewers. Build over sewers are treated as opex costs due to their classification as IRE.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
40.11	Opex	B3	B3	B3	B3	B3	B3	B3	B2	B2	A2	A2

Line 12: Total developer services opex

Line 40.12 is the total of the opex lines above.

2.2.3. Table 4N– Developer services expenditure – water network+ - historic allocations

A review has been undertaken to outline where expenditure was reported in our historic cost data. Data between the reporting years 2011-12 and 2016-17 has previously been reported in Ofwat’s cost assessment data request (2017). Data between the reporting years 2017-18 and 2021-22 has previously been reported in our Annual Performance Report.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4N-H	Capex	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2
	Opex	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2

2.2.4. Table 4O – Developer services expenditure – wastewater network+ - historic allocations

A review has been undertaken to outline where expenditure was reported in our historic cost data. Data between the reporting years 2011-12 and 2016-17 has previously been reported in Ofwat’s cost assessment data request (2017). Data between the reporting years 2017-18 and 2021-22 has previously been reported in our Annual Performance Report.

Confidence grades:

		For the 12 months ending 31 March										
Line	Cost	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
4O-H	Capex	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2
	Opex	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2

3. Assurance and Governance

We have adopted a three lines of defence approach to the data tables in this submission, in line with our approach to regulatory data submissions.

Each data line was assigned an owner who produced a methodology statement for production of the data. The data was peer reviewed, with sign off provided by the responsible manager and director. In addition, the submission has been subject to external assurance from Jacobs. Jacobs concluded that:

- [The Welsh Water] team has a good understanding of your processes to produce the data in line with Ofwat guidance;
- [The Welsh Water] team's internal commentaries were consistent with the data we saw at the time of reviewing them and did not contain any obviously false or misleading statements in relation to that data; and
- data are competently sourced, processed and fit for purpose.

The final submission was approved by the Strategy and Regulation Director, the Business Customer Services Director and the Finance Director.