

Chapter 37

Financial measures: Water compliance - expenditure report

Covering:
Water treatment
Water distribution
Other compliance
Capex and opex totals

Section 2

Chapter 37

Financial measures: Water compliance - expenditure report

This table has six blocks and a total of 19 lines. It covers:

- **Obligations prior to SBP**
- **Water treatment**
- **Water distribution** The allocation of expenditure for all work funded under Article 31 undertakings dealing with the condition of the distribution system. Where separate undertakings or schedule of works require the replacement of lead communication pipes, this should be included in the appropriate line.
- **Security related matters**
- **Environmental Programme:**
- **Capex and opex totals:** These are calculated lines, giving the totals for capital expenditure and net additional operating expenditure for quality enhancement for the water service which are carried forward to table 35 lines 7 and 8.

The company should provide commentary in the return on any material changes in allocation methodology since the SBP. Where the allocation of expenditure complies with the proportional allocation principles employed by in preparing the SBP, the company must provide a statement in the commentary confirming this to be the case.

This table should only include expenditure related to work included in the SBP final determination or a subsequent interim determination.

For work required to meet new legal obligations relating to quality enhancement, the company should utilise lines 18 and 19 of table 35. These lines should be completed when the company intend to submit a claim to have these additional new obligations considered for additional remuneration .

This information will be used to assess the overall cost of meeting compliance with specific parameters, and compare relative company efficiencies at meeting the required quality standards.

Price base: The company is required to submit the figures in money of the day price terms.

In this guidance the term 'schedule of work attached to a legally binding instrument of work' covers all documents setting down the work that companies have agreed to fulfil by the DWI under:

- Article 31 undertakings
- Authorisations
- Notices

The company should also provide data relating to expenditure related to its PPP water contractor. These data should be included in both the existing table and the separate PPP table as indicated.

Company commentary

The company should:

- (where necessary) explain the late delivery of quality enhancement outputs during the report year;
- provide an indication of the effect any delays may have on the delivery of the total SBP drinking water programme; and
- confirm that all other quality enhancement outputs have either been met or are on target to meet due dates.

Guidance to Reporters

The Reporter should:

- confirm that he has examined the company statement on the allocation for quality expenditure and whether allocation has been in accordance with the rules used in the SBP;
- pay particular attention to the proportional allocation of expenditure on distribution mains and confirm or not whether the proportional allocation of expenditure is the same as in the SBP;
- examine and comment upon the reporting of ancillary expenditure on communication pipe replacement by the company (particularly lead); and
- should confirm (and/or provide additional commentary) on the company's commentary regarding the late delivery of the SBP drinking water programme, and the satisfactory delivery of other outputs.

Lines 1 – 8: Water treatment

This table requires proportional allocation of expenditure to work required to meet legal standards for water quality. For all new schemes, and modifications to treatment works, the company must proportionally allocate expenditure to all lines in table 35 (Base service, Enhanced service levels and Supply demand balance as well as Quality enhancement) according to the required allocation methodology.

For opex the net additional operating costs attributed to individual parameters are required. The company is required to explain to the reporter the methodology used, and NIAUR may require follow-up information for individual parameters.

Company commentary

The company should:

- for lines 1 and 2 include a breakdown for this expenditure in line with the categories included for table 37, to allow the costs to be reconciled;
- state the design flow of new and replacement works and the elements apportioned to growth for both capital and operating costs; and
- for lines 3, 4, 5, 6, 7 and 8 include the treatment works and the DWI reference number of the work carried out.

Guidance to Reporter

The Reporter should:

- confirm whether the methodologies used by the company to proportionally allocate expenditure at new or modified works to the various water compliance categories is the same as that used in the company SBP;

- comment on the information given by the company on the capacities of existing and new works; and
- for operating costs allocation, comment on the methods used to estimate the allocation between the various water compliance categories and the confidence grade placed on the allocation.

Guidance lines 9 -12: Water distribution

Water distribution: line 9, Capex: Total expenditure on distribution undertakings comprises the expenditure on the work carried out to fulfil the Article 31 undertaking required because of non-compliance or the risk of non-compliance caused by the condition of the distribution system. Line 10 includes only the proportion of capital expenditure allocated to quality. Additional or associated work on infrastructure renewal, concerned with maintaining the serviceability of the distribution system, must be included in the Base Service Provision. Similarly in line 11, the expenditure on lead to be included is that on lead communication pipes specifically covered by Article 31 undertakings/or a schedule of works attached to a legally binding Instruments of work or their successor documents. The only operating costs to be included in this section comprise activity, agreed with DWI as being acceptable for the fulfilment of the Article 31 undertakings or a schedule of work attached to a legally binding Instruments of work

Company commentary

The company should:

- for line 11 include the number of lead pipes replaced and the DWI reference number.

Guidance to Reporter

The reporter should:

- confirm that the expenditure included in these lines relates to work that is needed to fulfil the Article 31 undertakings for quality parameters in the distribution system. Where replacement has been carried out, but only relining is required for quality reasons, this should be noted in the commentary;
- confirm whether only the element attributable to quality has been included in line 12. Expenditure on work required to control leakage or maintain serviceability of the infrastructure should have been recorded elsewhere;
- comment on whether the proportional allocation used by the company for quality and other categories is the same as that for the Business Plan. Any changes in methodology should be thoroughly explored and explained in the report.

Lines 13-14: Security related measures

The company must report the expenditure incurred in delivering security related measures included in the SBP price setting.

Lines 15-17: Environmental Programme

These three lines refer to the work required from the company for the water service to deliver investigations, carry out options appraisals and in a few cases enhancements required to deal with the environmental impact of water abstraction.

This is different from work in the previous blocks as the work is proposed and enforced by the Environment Agency.

Company commentary

The company should:

- for lines 15 and 16 include in the commentary the project names and the Environment Agency reference numbers of the work carried out; and
- for line 17 include the names of the projects and Environment Agency reference numbers along with the allocation of expenditure.

Table 37 line definitions

A AMP3 OBLIGATIONS

1	Capex: Completion of programme of work funded prior to the SBP.	£m	3dp
Definition	Capital expenditure to complete the programme of work funded prior to the SBP.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

2	Opex: Completion of programme of work funded prior to the SBP.	£m	3dp
Definition	The additional operating expenditure in relation to the base year to complete the programme of work funded prior to the SBP.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

B WATER TREATMENT

3	Capex: nitrate	£m	3dp
Definition	Net capital expenditure on water treatment assets and processes to comply with the nitrate parameter. This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the nitrate parameter .		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

4	Capex: pesticides	£m	3dp
Definition	Net capital expenditure on water treatment assets and processes to comply with the pesticides parameters. This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the pesticides parameter		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

5	Capex: Cryptosporidium	£m	3dp
Definition	<p>Net capital expenditure on water treatment assets and processes for reduction of risk from cryptosporidium. Expenditure to be included only if the need for the output has been confirmed by DWI.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for reducing the risk from cryptosporidium.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

6	Capex: lead – water conditioning	£m	3dp
Definition	<p>Capital expenditure to deal with the conditioning of water before entering distribution to reduce plumbosolvency.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the conditioning of water supplies to reduce the risk from plumbosolvency.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

7	Capex: Other parameters	£m	3dp
Definition	<p>Net capital expenditure on water treatment assets and processes to comply with THMs reduction, turbidity control or any other parameter included in the SBP as water quality enhancement output requirements or amendments confirmed at an interim determination of prices.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

8	Opex: Water treatment	£m	3dp
Definition	<p>Net additional operating expenditure in addition to that in the base year for water treatment assets and processes enhanced to deliver the quality programme.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the parameters affecting water treatment assets</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

C WATER DISTRIBUTION

9	Capex - Total Article 31 distribution expenditure	£m	3dp
Definition	<p>Total capital expenditure on relining, replacing and providing new mains in the distribution system to meet the terms of the undertaking given by the company to deal with compliance with parameters in the water quality regulations affected by the condition of the distribution system.</p> <p>Only include expenditure for work accepted by the DWI under the terms of the Article 31 undertaking dealing with the condition of the distribution system. Also include any capital expenditure relating to the consumer acceptability projects</p> <p>This line is not included in the capex total in line 18.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

10	Capex: Distribution expenditure allocated to quality	£m	3dp
Definition	<p>Net capital expenditure on relining, replacing and providing new mains in the distribution system allocated to quality enhancement. This is the net amount attributed to quality. The difference between lines 11 and 12 is allocated to other categories – maintenance, supply/demand, levels of service, etc. The company should explain in the commentary the allocation to other areas.</p> <p>This should only include the expenditure directly relating to the distribution mains. Any expenditure relating to the replacement of communication pipes, including lead, should be included elsewhere. If the company has a policy of replacing lead and other communication pipes as part of the mains renovation (quality) programme, and this was included with these costs in the SBP and previously reported in the Annual Information return, but this work has not received specific confirmation from DWI, these costs may be included here. The commentary should give the breakdown of the number of lead and other communication pipes replaced and the associated costs.</p> <p>This is the expenditure proportionately allocated to quality to deliver the outputs included in the SBP for the distribution system or confirmed at an interim determination of prices for the parameters affecting water distribution assets</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

11	Capex: Lead communication pipes	£m	3dp
Definition	<p>Net capital expenditure on replacing or laying of lead communication pipes owned by the company which are specifically required by a schedule of works attached to a legally binding instruments of works. Do not include lead communication pipe replacement carried out for other reasons - this is included in base service - infrastructure renewals (Rev) (table 35 line 2).</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for replacing lead communication pipes</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

12	Opex: Quality distribution	£m	3dp
Definition	<p>Net additional operating expenditure in addition to that in the base year for distribution assets and processes enhanced to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the parameters affecting water distribution assets.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

D SECURITY RELATED MEASURES

13	Capex: Security – related	£m	3dp
Definition	<p>This is the capital expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for miscellaneous work, and work to improve security and provide emergency supplies of water</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

14	Opex: Security – related	£m	3dp
Definition	<p>Net additional operating expenditure in addition to that in the base year for quality for work to deliver asset improvements for security reasons, or for miscellaneous work to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for delivering miscellaneous work, and work to improve security and provide emergency supplies of water</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

F ENVIRONMENTAL PROGRAMME

15	Capex: Investigations	£m	3dp
Definition	<p>The capex to deliver the programme of environmental investigations into the environmental impact of water abstraction during the report year. Do not include investigations carried out as part of a larger project.</p> <p>This is the expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for environmental investigations</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

16	Capex: Options appraisals/implementations	£m	3dp
Definition	<p>The capex to deliver the programme of option appraisals and the implementation of projects relating to the environmental impact of water abstraction during the report year.</p> <p>This is the capital expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the programme of option appraisals and the implementation of projects</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

17	Opex: environmental obligations	£m	3dp
Definition	<p>Net additional operating expenditure in addition to that in the base year for work to deliver the programme to deal with the environmental impact of water abstraction, investigations, options appraisals and in a few cases implementation to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the programme of investigations, option appraisals and the implementation of projects</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

F CAPEX & OPEX TOTALS

18	Capex: Total quality enhancement programme (water)	£m	3dp
Definition	<p>The total capital expenditure proportionally allocated to quality reported for the provision of new or enhancement of existing water service assets to comply with legal obligations or Ministerial guidance.</p> <p>This is the capital expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for all the water service quality cost drivers.</p> <p>[This line does not include the total capex to fulfil Article 31 undertakings for quality in the distribution system, as collected in line 9.- only line 10 the proportion allocated to quality]</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 1, 3, 4, 5, 6, 7, 10, 11, 13, 15 and 16		
Responsibility	Network Regulation Team		

19	Opex: Total quality enhancement programme (water)	£m	3dp
Definition	<p>The net additional operating expenditure in addition to that in the base year for work to deliver the water service quality enhancement programme.</p> <p>This is the operating expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for all the water service quality cost drivers.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 2, 8, 12, 14, and 17		
Responsibility	Network Regulation Team		

CHANGE CONTROL SHEET

CHAPTER 37

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period - no amendments