

# Appendix 3.3.A - Third party report on cost benefit analysis

Wessex Water

September 2018



**Wessex Water**

YTL GROUP

Business plan section	Supporting document
	Board vision and executive summary
1	Engaging customers
2	Addressing affordability and vulnerability
3	3.1 Performance commitment overview
	3.2 Triangulation methodology
	<b>3.3 Cost benefit analysis – methodology and results</b>
	3.4 Calculation of incentive rates including enhanced incentives
	3.5 Inputs to RORE for outcome delivery incentives
	3.6 Sharing success – Proposals for a Wessex Water community foundation
4	Securing long term resilience
5	Markets & innovation: wholesale
6	Markets & innovation: open systems & DPC
7	Markets & innovation: retail
8	Securing cost efficiency
9	Aligning risk and return
10	Financeability
11	Accounting for past delivery
12	Securing trust, confidence and assurance
13	Data tables and supporting commentaries



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### Assurance Statement

Ricardo Energy & Environment (REE) were commissioned by Wessex Water (WW) to provide the following services:

- To undertake the social and environmental benefit assessment (excluding carbon and sensitivity analysis) as part of the Cost Benefit Analysis (CBA) process for Price Review 2019 (PR19).

This work also included project managing the completion of the CBA programme for PR19, supporting the development of options for assessment and supporting the production of the written report. The CBA has been undertaken in accordance with UKWIR best practice ensuring all schemes are assessed consistently, using valid and robust technical assumptions and ensuring benefits are not double counted.

REE team worked closely with the relevant technical managers at WW and the required information was provided freely and directly by WW to the REE team. This information primarily includes:

- The capital costs of the schemes or programmes of work for assessment.
- The avoided costs over the baseline resulting from investment.
- The CBA assessment template which follows Ofwat methodology to calculate the effect of bill impact resulting from an investment.
- Establishment of the baseline and the effect of the investment on the baseline (i.e. change in service level expected).
- Customers research data, such as Willingness to Pay (WTP).

Following the completion to the CBA programme, each CBA scheme was subject to a detailed technical review and formal sign off process. There are six key stages to sign off which are detailed in Table 1-1 (in Annex 1). The purpose of signoff process is to ensure the relevant costs, baseline and effects of the schemes are consistent, agreed and technically reviewed.

Based on and to the extent disclosed by the scope of work provided. REE can confirm that:

1. Wessex Water's PR19 benefit assessment has been undertaken in a consistent and robust manner.
2. Wessex Water's PR19 cost benefit analysis has investigated various options or service levels for assessment (where possible).

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3. Wessex Water's PR19 cost benefit analysis has accurately utilised data provided by Wessex Water. Data transformations such as scaling of WTP or cost data has been undertaken robustly and accurately, with supporting justification.
4. Wessex Water's PR19 cost benefit analysis has utilised Benefit Transfer data which is of high quality and has accurately used within the assessment.
5. Wessex Water's PR19 cost benefit analysis has detailed benefit assessments which have been robustly assessed and key uncertainties have been accurately captured within the analysis.
6. Wessex Water's PR19 cost benefit analysis has avoided double counting.
7. Wessex Water's PR19 cost benefit analysis results have been presented in a way that is consistent with that expected for this analysis.
8. Wessex Water's PR19 cost benefit analysis has subject to a detailed review and sign-off process as detailed in **Annex 1**.

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## Annex 1. CBA Review and Sign Off

Table 1-1: CBA Review and Sign Off Process

Stage	Person	Checks	
1	Undertake Assessment	Ricardo Energy & Environment	All aspects of the assessment completed
			Assumptions clearly stated and justified
			Units used clearly stated
			Assessment transparent and easily to follow
			QA of calculations
2	Project Manager Review	Project Manager (Wessex Water)	Confirm wording in the Summary Sheet is correct
			Check Capex and Opex Profiles
			Ensure the baseline and future baseline is correct and aligns with the Business Plan (i.e. service levels)
3	Carbon and WTP Review	Economic Regulation (Wessex Water)	Add Carbon Data
			Check correct use of WTP/WTA data i.e. Service levels
			Check costs of preferred option aligns with Complier
			Complete PAYG, Runoff Rates etc.
4	Ricardo Energy & Environment Review	Ricardo Energy & Environment	Review wording for typos, grammar, readability
			Check calculations / data transformations
			Check all assumptions are detailed
5	Sensitivity Analysis	Economic Regulation (Wessex Water)	Complete sensitivity analysis
6	Risk Management Sign Off	Neil Wilson (Wessex Water)	Review final CBA