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4 November 2016

Dear Sir

PRT Response to Ofwat's Consultation on the final 2010-15 reconciliation

Thank you for the opportunity to respond to the above consultation, published 4 October 2016.

Firstly we wish to comment that we appreciate consultation on this issue at this time. It will help our planning and preparation for the next business plan, PR19.

Second we welcome the publication of populated spreadsheets. This helps us understand and challenge the data underpinning the decisions in an efficient way.

We are pleased that the Company Specific appendix states that there are no significant differences between our view of the blind year reconciliation and that of Ofwat in this consultation.

Of the seven adjustments documented in the consultation only two have non-zero values for Portsmouth Water. These relate to the revenue correction mechanism (RCM) and the capital incentive scheme (CIS). Looking at each in turn:-

1. Revenue Correction Mechanism
We agree the BYR revenue assessment for RCM is £8.802m. This is a reduction of £0.190m relative to the Final Determination, and reflects that we exceeded our revenue expectation in 2014/15 when the assumed inflation rate in the Final Determination is replaced by the actual inflation rate to determine 2012/13 prices. In cash terms we actually underperformed the expectation for 2014/15.

However, as part of our PR14 business plan the Board chose to forgo £5.2m legacy, which included the RCM adjustment for the whole period, including 2014/15, and as such it feels counterintuitive that we should be giving up a further sum relating to 2014/15.

We would request further discussion with you on this specific issue at your convenience.

2. Capital Incentive Scheme

We agree the BYR revenue assessment for CIS is -£2.229m. This is a reduction of £0.063m relative to the Final Determination, and reflects that we exceeded our capital expenditure expectation for 2014/15.

We also agree the BYR RCV adjustment assessment for CIS is £3.141m. This is an increase of £0.128m relative to the Final Determination, and again reflects that we exceeded our capital expenditure expectation in 2014/15.

Specifically there are two components to this adjustment. First, capital expenditure on meter optants where we did not achieve the 2014/15 expectation, result in a greater logging down of £0.252m; second all other capex which did exceed the 2014/15 expectation implicit in the Final Determination resulting in an increase of £0.380m.

Finally, we do not agree that the approach to CIS indexation applied at PR14 Final Determinations should be revised as part of the PR19 Review. We documented our position in our response to the PR14 Rule Book, dated 7 May 2016. In particular, in choosing to forgo legacy of a material amount of £5.2m (4% of revenue) from AMP5, it is likely that the Board would have chosen a different sum had it been made aware of this adjustment at the time.

We consider that adjustments for the difference between 2014-15 actuals and the forecasts assumed in PR14 Final Determinations should be calculated and applied at PR19 in the same way that the adjustments were calculated and applied in PR14 Final Determinations (which had no materiality thresholds).

We would ask you to reconsider your position on this general policy issue and contact us on the RCM adjustment in particular.

I look forward to hearing from you at your convenience.

Kind regards,

Helen Orton
Finance and Regulation Director