

April 2019

Trust in water

PR19 draft determinations: Severn Trent Water – Accounting for past delivery appendix

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The following tables set out the adjustments we are making to the RCV (the 'midnight adjustment') and revenue for the 2020-25 period for the PR14 reconciliations. These adjustments are made in line with the [PR14 reconciliation rulebook](#) and reflect the interventions explained in summary in table 4.11 in 'Severn Trent Water draft determination' and in detail in 'Severn Trent Water - Accounting for past delivery actions and interventions'.

We are setting the price controls for PR19 at a more disaggregated level than we did at PR14, with wholesale water split into water network plus and water resources, and wholesale wastewater split into wastewater network plus and bioresources. To show how we are applying the reconciliations in table 4.12 in 'Severn Trent Water draft determination' across price controls, the allocation against PR14 price controls is set out in table 1 below, and the allocation across PR19 price controls in table 2.

Note that the revenue in these tables may not reconcile to the lines for 'Revenue adjustments for PR14 reconciliations' in table 4.1 in the 'Severn Trent Water draft determination'. This is because the values in table 4.1 reflect adjustments made in the financial model for the tax treatment of the wholesale revenue forecasting incentive mechanism and totex reconciliations, and net present value profiling of the reconciliation adjustments over the 2020-25 period used for setting the allowed revenue. The treatment of tax and profiling are explained in the [PR14 reconciliation rulebook](#). The revenue adjustment values shown in tables 1 and 2 below assume a single year adjustment in the first year of the 2020-25 period.

The PR14 reconciliation adjustments in the draft determination reflect actual performance in 2015-16, 2016-17 and 2017-18 and forecast performance in 2018-19 and 2019-20. These adjustments, and our interventions, might change after the past delivery update submission on 15 July when actual data for 2018-19 is reported and the 2019-20 forecast is updated.

Table 1: Ofwat's view of reconciliation adjustments by PR14 price control £ million (2017-18 FYA CPIH deflated: PR19 base year prices)

| | Wholesale water | | Wholesale wastewater | | Residential Retail |
|---------------------------------------------------|-----------------|------------|----------------------|-------------|--------------------|
| | RCV | Revenue | RCV | Revenue | Revenue |
| Outcome delivery incentives | -0.5 | 7.8 | 0.0 | 110.6 | 0.0 |
| Residential retail revenue | N/A | N/A | N/A | N/A | 1.2 |
| Wholesale revenue forecasting incentive mechanism | N/A | -16.7 | N/A | -18.4 | N/A |
| Totex | 88.4 | 23.8 | -199.8 | -19.8 | N/A |
| Land sales | -9.4 | N/A | -11.5 | N/A | N/A |
| Service Incentive Mechanism | N/A | N/A | N/A | N/A | 0.0 |
| PR09 blind year adjustments | 10.8 | -7.3 | 1.0 | 1.7 | N/A |
| CIS RCV inflation correction | -72.1 | N/A | -80.8 | N/A | N/A |
| Water trading | 0.0 | 0.0 | N/A | N/A | N/A |
| Total | 17.1 | 7.6 | -291.2 | 74.1 | 1.2 |

Table 2: Ofwat's view of reconciliation adjustments by PR19 price control £ million (2017-18 FYA CPIH deflated: PR19 base year prices)

| | RCV adjustments | | | | Revenue adjustments | | | | |
|---------------------------------------------------|-----------------|--------------------|-------------------------|--------------|---------------------|--------------------|-------------------------|--------------|--------------------|
| | Water resources | Network plus water | Network plus wastewater | Bioresources | Water resources | Network plus water | Network plus wastewater | Bioresources | Residential Retail |
| Outcome delivery incentives | 0.0 | -0.5 | 0.0 | N/A | 0.0 | 7.8 | 110.6 | 0.0 | 0.0 |
| Residential retail revenue | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1.2 |
| Wholesale revenue forecasting incentive mechanism | N/A | N/A | N/A | N/A | N/A | -16.7 | -18.4 | N/A | N/A |
| Totex | 7.4 | 81.0 | -199.8 | N/A | N/A | 23.8 | -19.8 | N/A | N/A |
| Land sales | -0.8 | -8.6 | -11.5 | N/A | N/A | N/A | N/A | N/A | N/A |
| Service Incentive Mechanism | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0.0 |
| PR09 blind year adjustments | 0.9 | 9.9 | 1.0 | N/A | N/A | -7.3 | 1.7 | N/A | N/A |
| CIS RCV inflation correction | -6.1 | -66.0 | -80.8 | N/A | N/A | N/A | N/A | N/A | N/A |
| Water trading | N/A | N/A | N/A | N/A | 0.0 | 0.0 | N/A | N/A | N/A |
| Total | 1.5 | 15.7 | -291.2 | N/A | 0.0 | 7.6 | 74.1 | 0.0 | 1.2 |

Note: These totals exclude any outcome delivery incentive revenue adjustments for business retail performance commitments.

The midnight adjustments to RCV include the adjustments from the PR14 reconciliations and adjustments for the IFRS change to accounting treatment of leases. These are set out in the table below and reconcile, subject to rounding, to the 'Midnight adjustments to RCV' in table 4.5 in the 'Severn Trent Water draft determination'.

Table 3: Ofwat's view of midnight adjustments to RCV by PR19 price control £ million (2017-18 FYA CPIH deflated: PR19 base year prices)

| | RCV adjustments | | | |
|------------------------------------|-----------------|--------------------|-------------------------|--------------|
| | Water resources | Network plus water | Network plus wastewater | Bioresources |
| PR14 reconciliations | 1.5 | 15.7 | -291.2 | N/A |
| IFRS adjustments | 0.5 | 2.5 | 0.5 | 0.0 |
| Midnight adjustments to RCV | 2.0 | 18.1 | -290.7 | 0.0 |

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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