

April 2019

Trust in water

PR19 draft determinations: Severn Trent Water – Accounting for past delivery actions and interventions

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Following our initial assessment of plans, we categorised two types of actions for fast-track companies:

- agreed actions that fast-track companies committed to implement to ensure that their plans meet the threshold for fast-track status; and
- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery).

Table 1 below sets out the agreed and required actions, the model the action relates to, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination. Table 1 also sets out any further interventions that are not resulting from an action, which we are making as part of the draft determination.

Each action and further intervention that is not resulting from an action has a unique reference. The prefix 'SVE' denotes the company Severn Trent Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote agreed or required actions. Intervention numbers are preceded with a 'C' followed by a three digit code for the model the intervention is relevant to, and a two digit reference for the interventions in that model. The model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011

For all other documents related to the Severn Trent Water draft determination, please see the [draft determinations webpage](#).

Table 1: Severn Trent Water's response to required actions and interventions for draft determinations

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
Land sales	SVE.PD.A1	Required	PR14 Land sales: The company should provide additional evidence to support the forecast trajectory reported in table App9.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review the additional evidence before making any intervention for the final determination.	N/A
Land sales	SVE.PD.C003.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to revise the calculation of the present value effect of 50% of proceeds from disposals of interest in land for the wholesale water price control. We are doing this so that the calculation aligns with the revised business plan table templates released on 31 January 2019.	In the original business plan table App9, the present value was calculated in error by multiplying proceeds by the discount factor. Our intervention corrects the present value calculation by dividing proceeds by the discount factor. This correction aligns with the revised business plan table templates released on 31 January 2019. The revision increases the reduction in the net present value effect of 50% of proceeds from disposals of interest in land within the wholesale water price control from -£8.285 million to -£9.433 million (2017-18 FYA CPIH deflated price base). Please see published draft determination land disposal reconciliation model for Severn Trent Water.
Land sales	SVE.PD.C003.02	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to revise the calculation of the present value effect of 50% of proceeds from disposals of interest in land for the wholesale wastewater price control. We are doing this so that the calculation aligns with the revised business plan table templates released on 31 January 2019.	In the original business plan table App9, the present value was calculated in error by multiplying proceeds by the discount factor. Our intervention corrects the present value calculation by dividing proceeds by the discount factor. This correction aligns with the revised business plan table templates released on 31 January 2019. The revision increases the reduction in net present value effect of 50% of proceeds from disposals of interest in land within the wholesale wastewater price control from -£10.789 million to -£11.492 million (2017-18 FYA CPIH deflated price base). Please see published draft determination land disposal reconciliation model for Severn Trent Water.

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
Land sales	SVE.PD.C003.03	Intervention not resulting from an action	N/A	N/A	N/A	No intervention required. We are including Severn Trent Water's updated data from its September 2018 business plan submission.	We are including Severn Trent Water's revised actual figure for 2014-15 of 4,960 (£ thousands) in outturn (nominal) prices for 'RCV midnight adjustment ~ land sales water: Actual current and forecast sales' as submitted in its business plan in September 2018. This replaces the figure of 5,485 (£ thousands) in outturn (nominal) prices contained in Severn Trent Water's July 2018 past delivery submission. Please see published draft determination land disposal reconciliation model for Severn Trent Water.
Outcomes	SVE.PD.A2a	Required	PR14 Outcome delivery incentives: Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated.	15 July 2019	No company action required for the draft determination.	Intervention required. We are unable to understand the reasons for differences in the App27 figures for water network plus in-period ODI adjustments and are asking Severn Trent Water to provide further explanation. We are intervening to ensure net performance payments and penalties applied to revenue reconcile to the outcome of the 2018 in-period determination. We will review this intervention once we receive Severn Trent Water's updated information.	We are including the following figures as per the 2018 in-period determination for 'Net performance payment / (penalty) applied to revenue for in-period ODI adjustments ~ Water network plus' in 2012-13 prices: <ul style="list-style-type: none"> • 2017-18: - £29.409 million • 2018-19: £7.304 million • 2019-20: - £0.602 million These replace the following figures for this line from Severn Trent Water's 2018 business plan submission: <ul style="list-style-type: none"> • 2017-18: - £23.217 million • 2018-19: £7.429 million • 2019-20: - £1.829 million The net effect of the interventions is to increase the net outperformance payment applied to revenue for in-period outcome delivery incentives for the water network plus price control from £6.515 million to £7.799 million (2017-18 FYA CPIH deflated price base). Please see published draft determination outcome delivery incentives reconciliation model for Severn Trent Water.
Outcomes	SVE.PD.A2b	Required	PR14 Outcome delivery incentives: Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated.	15 July 2019	No company action required for the draft determination.	Intervention required. We are unable to understand the reasons for differences in the App27 figures for wastewater network plus in-period ODI adjustments and are	We are including the following figures as per the 2018 in-period determination for 'Net performance payment / (penalty) applied to revenue for in-period ODI adjustments ~ Wastewater network plus' in 2012-13 prices: <ul style="list-style-type: none"> • 2016-17: £39.994 million • 2017-18: £87.816 million

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
						<p>asking Severn Trent Water to provide further explanation.</p> <p>We are intervening to ensure net performance payments and penalties applied to revenue reconcile to the outcome of the 2018 in-period determination.</p> <p>We will review this intervention once we receive Severn Trent Water's updated information.</p>	<ul style="list-style-type: none"> 2018-19: £5.811 million <p>These replace the following figures for this line from Severn Trent Water's 2018 business plan submission:</p> <ul style="list-style-type: none"> 2016-17: £40.016 million 2017-18: £88.203 million 2018-19: £5.369 million <p>The net effect of the interventions is to decrease the net outperformance payment applied to revenue for in-period outcomes delivery incentives for the wastewater network plus price control from £111.872 million to £110.561 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination outcome delivery incentives reconciliation model for Severn Trent Water.</p>
Outcomes	SVE.PD.A2c	Required	PR14 Outcome delivery incentives: Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated.	15 July 2019	No company action required for the draft determination.	<p>Intervention required.</p> <p>We are unable to understand the reasons for differences in the App27 figures for water network plus end of period ODI adjustments and are asking Severn Trent Water to provide further explanation.</p> <p>We are intervening to ensure net performance payments and penalties applied to revenue reflect our view of the outperformance payments following our independent check of actual performance and reported ODI underperformance and outperformance payments.</p> <p>We will review this intervention once we receive Severn Trent Water's updated information.</p>	<p>We are including the following figures as per the 2018 in-period determination:</p> <ul style="list-style-type: none"> 'Net performance payment / (penalty) applied to revenue for end of period ODI adjustments ~ Water network plus' in 2012-13 prices: <ul style="list-style-type: none"> 2018-19: £0.002 million 2019-20: £0.002 million <p>These replace the following figures for this line from Severn Trent Water's 2018 business plan submission:</p> <ul style="list-style-type: none"> 2018-19: £0.159 million 2019-20: £1.560 million <p>The net effect of the interventions is to decrease the net outperformance payment applied to revenue for end of period outcome delivery incentives for the wholesale water network plus price control from £2.000 million to £0.004 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination outcome delivery incentives reconciliation model for Severn Trent Water.</p>

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
Outcomes	SVE.PD.A2d	Required	PR14 Outcome delivery incentives: Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated in particular the payments for performance commitment 'customers rating our services as good value for money' (S-B1 and W-C1) for Severn Trent in 2018-19 and 2019-20	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's updated information before making any interventions for the final determination.	N/A
Outcomes	SVE.PD.A2e	Required	PR14 Outcome delivery incentives: Severn Trent Water is required to provide a clear explanation of how the values in App27 have been calculated in particular the payments for 'A1: discoloured water contacts' performance commitment for Dee Valley Water	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's updated information before making any interventions for the final determination.	N/A
Outcomes	SVE.PD.A2f	Required	PR14 Outcome delivery incentives: 'W-A3 Asset stewardship – number of sites with coliform failures (WTWs)': the company needs to include the underperformance payment for 2017-18 that is included in the annual performance report in its App27 table.	15 July 2019	No company action required for the draft determination.	Intervention required. We are intervening to account for the underperformance payment of - £0.461 million (2012-13 prices) in 2017-18 that Severn Trent Water included in table App27 of its annual performance report. We will review any additional evidence Severn Trent Water provides for the final determination.	We are including an underperformance payment figure of - £0.461 million (2012-13 prices) in 2017-18 for 'Net performance payment / (penalty) applied to RCV for end of period ODI adjustments ~ Water network plus.' The intervention increases the net underperformance payment applied to RCV for end of period outcome delivery incentives for the water network plus price control from £0.000 million to - £0.537 million (2017-18 FYA CPIH deflated price base). Please see published draft determination outcome delivery incentives reconciliation model for Severn Trent Water.
Outcomes	SVE.PD.A2g	Required	Severn Trent Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments. We expect the company to pay particular focus where we found the evidence provided in its business plan for the 2018-20 forecasts to be insufficient which was for:	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's updated data before making any interventions for the final determination.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
			<ul style="list-style-type: none"> W-B3: Speed of response in repairing leaks (% fixed within 24 hours) S-C1: Improvements in river water quality against WFD criteria W-B7: Customers at risk of low pressure W-B10: Non-delivery of the outcome of the Birmingham resilience scheme S-A1: Number of internal sewer flooding incidents S-A2: Number of external sewer flooding incidents S-A3: Partnership working S-C4: Biodiversity S-C7: Overall environmental performance (basket of environmental measures) 				
Residential retail	SVE.PD.A3a	Required	PR14 Residential retail: The company should clarify what the correct value is in table R9 for actual number of wastewater-only customer in 2017-2018.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's updated data before making any interventions for the final determination.	N/A
Residential retail	SVE.PD.A3b	Required	PR14 Residential retail: The company should provide further evidence to support its forecasts for unmetered wastewater-only customers in 2018-2019 and 2019-2020.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's additional evidence before making any interventions for the final determination.	N/A
Residential retail	SVE.PD.A3c	Required	PR14 Residential retail: The company should provide further evidence to support its forecasts for metered water customers in 2018-2019 and 2019-2020.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's additional evidence before making any interventions for the final determination.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
Residential retail	SVE.PD.A3d	Required	PR14 Residential retail: The company should provide further evidence to support its forecasts for metered water and wastewater customers in 2018-2019.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review Severn Trent Water's additional evidence before making any interventions for the final determination.	N/A
Residential retail	SVE.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to round Severn Trent Water's modification factor figures to 2 decimal places to ensure consistency with the PR14 Reconciliation Rulebook.	We are rounding to 2 decimal places the modification factor figures for 2015-16 to 2019-20 associated with the following lines in business plan table R9: <ul style="list-style-type: none"> • Unmetered water-only customer • Unmetered wastewater-only customer • Unmetered water and wastewater customer • Metered water-only customer • Metered wastewater-only customer • Metered water and wastewater customer <p>Along with our intervention to include calculated weighted modification factors for the merged company as detailed in SVE.PD.C008.02 and SVE.PD.C008.03 below, our interventions reduce the total residential retail revenue payment at the end of the 2015-20 period from £1.416 million to £1.166 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Severn Trent Water.</p>
Residential retail	SVE.PD.C008.02	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to include an updated weighted average modification factor for allowed retail service revenue per unmeasured water customer in 2018-19 and 2019-20. This is because the PR14 modification factors were different for Severn Trent Water and Dee Valley Water unmeasured water customers and it is appropriate to use a	We are including the following calculated weighted average modifications factors for 'Allowed retail service revenue per unmeasured water customer:': <ul style="list-style-type: none"> • 2018-19: £23.35 (outturn prices) • 2019-20: £23.51 (outturn prices) <p>We are basing our calculation on the reforecast figures for Severn Trent Water and Dee Valley Water as contained in the residential retail revenue model submitted in July 2018 which replace the following company figures:</p> <ul style="list-style-type: none"> • 2018-19: £23.41 (outturn prices) • 2019-20: £23.59 (outturn prices)

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
						weighted average for the merged company.	Please see published draft determination residential retail revenue reconciliation model for Severn Trent Water.
Residential retail	SVE.PD.C008.03	Intervention not resulting from an action				<p>Intervention required.</p> <p>We are intervening to include an updated weighted average modification factor for allowed retail service revenue per measured water customer in 2018-19 and 2019-20.</p> <p>This is because the PR14 modification factors were different for Severn Trent Water and Dee Valley Water measured water customers and it is appropriate to use a weighted average for the merged company.</p>	<p>We are including the following calculated weighted average modifications factors for 'Allowed retail service revenue per measured water customer:'</p> <ul style="list-style-type: none"> 2018-19: £29.10 (outturn prices) 2019-20: £29.27 (outturn prices) <p>We are basing our calculation on the reforecast figures for Severn Trent Water and Dee Valley Water as contained in the residential retail revenue model submitted in July 2018 which replace the following company figures:</p> <ul style="list-style-type: none"> 2018-19: £29.84 (outturn prices) 2019-20: £30.04(outturn prices) <p>Please see published draft determination residential retail revenue reconciliation model for Severn Trent Water.</p>
SIM	SVE.PD.A4	Required	PR14 Service incentive mechanism: The company should provide more evidence to support the forecast trajectory in table R10.	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Severn Trent Water's additional evidence before making any interventions for the final determination.</p>	N/A
Totex	SVE.PD.A5a	Required	PR14 Totex: The company should amend the PR14 final determination controls and targets data in tables WS15/WWS15 in order for it to match the values agreed with Ofwat.	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Severn Trent Water's updated data before making any interventions for the final determination.</p>	N/A
Totex	SVE.PD.A5b	Required	PR14 Totex: The company should provide more detailed and numerically sound explanation of its forecasted totex for years 2018-2019 and 2019-2020. It should also either re-submit the model without the	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Severn Trent Water's additional information and updated data before making any interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
			changes made to cells L97-98, M97-98, N97-98, P97-08; or alternatively it should provide a credible explanation of why it has used a hard-coded value, rather than the formula.				
WRFIM	SVE.PD.A6	Required	PR14 Wholesale revenue forecasting incentive mechanism: The company should use consistent values for the 2018-19 and 2019-20 wastewater recovered revenue values in its model and business plan table WWS13.	15 July 2019	No company action required for the draft determination.	No intervention required. We are including Severn Trent Water's data from its September 2018 business plan submission.	N/A
All models	SVE.PD.A7	Required	PR14 reconciliations: Further to the actions we have set out to address our concerns over the evidence provided in its business plan for the individual reconciliations, we will require the company to refresh all of its PR14 reconciliations to replace its 2018-19 forecast performance with 2018-19 actual performance and update the evidence for its forecast 2019-20 performance taking into account of the actual 2018-19 performance.	15 July 2019	No company action required for the draft determination.	No interventions required. We will review Severn Trent Water's responses to its actions and further information provided for all the PR14 reconciliation models before making any further interventions for the final determination.	N/A
N/A	SVE.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments.	We have used our view of the wholesale WACC as the discount factor in the profiling of the revenue adjustments.

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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