

April 2019

Trust in water

PR19 draft determinations: South West Water – Aligning risk and return 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, 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.

Each action has a unique reference. The prefix ‘SWB’ denotes the company South West 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.

Table 2 below sets out any further interventions that are not resulting from an action, which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix ‘SWB’ denotes the company South West 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. Intervention numbers are preceded with a ‘C’.

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

Table 1: South West Water’s response to required actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of the company’s response to the action	Our assessment and rationale	Interventions
Aligning risk and return	There were no agreed or required actions for South West Water.						

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
<p>SWB.RR.C1</p>	<p>South West Water’s approach to PAYG rates is to recover in each year an amount equivalent to operating costs and similar expenses, plus infrastructure renewal costs. The Ofwat view of totex has a different profile of operating and capital expenditure. Using the company’s PAYG rates would result in PAYG revenue not being consistent with the approach stated in the business plan.</p>	<p>We are intervening to amend the PAYG rates across all wholesale controls to reflect the mix of operating and capital expenditure in our view of efficient costs in the draft determination. The changes maintain the company’s stated approach for PAYG of recovering operating costs and similar expenses plus infrastructure renewal costs.</p>
<p>SWB.RR.C2</p>	<p>In our draft determination summary, we note that the RoRE risk ranges shown in Table 5.1 and Figure 5.1 reflect our interventions and, in particular, that we have included the RoRE risk ranges for ODIs shown in Table 2.3 of the summary document.</p>	<p>The company should provide an updated view of RoRE risk ranges at P10/P90 confidence levels in light of our draft determination. For this purpose, the company should apply its view on the interactions between individual ODI risks in arriving at an overall risk range for ODIs. Calculations should be carried out using the App26 rows on the F-Inputs tab of the draft determination financial model with values read off the model dashboard. The company’s updated view should be provided in its response to the draft determination.</p>

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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