

April 2019

Trust in water

**PR19 draft determinations:
United Utilities – 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 'UUW' denotes the company United Utilities. 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 United Utilities draft determination, please see the [draft determinations webpage](#).

Table 1: United Utilities' 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	UUW.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	UUW.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 - £6.264 million to - £6.359 million (2017-18 FYA CPIH deflated price base). Please see published draft determination land disposal reconciliation model for United Utilities.
Land sales	UUW.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 reduces the reduction in net present value effect of 50% of proceeds from disposals of interest in land within the wholesale wastewater price control from - £0.307 million to - £0.305 million (2017-18 FYA CPIH deflated price base). Please see published draft determination land disposal reconciliation model for United Utilities.

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
Outcomes	UUW.PD.A2a	Required	PR14 Outcome delivery incentives: The company should provide evidence of how the proposed change to the R-A2 customer experience programme outcome delivery incentive is in customers' interests.	15 July 2019	No company action required for the draft determination.	<p>Intervention required.</p> <p>We are intervening as United Utilities does not follow the stated definition for the A2 customer experience programme outcome delivery incentive as it considers the incentive would have led to a perverse outcome for customers.</p> <p>United Utilities proposes a significant change in how the ODI is calculated, but does not provide sufficient evidence that the change is in the interests of customers.</p>	<p>We are including an adjustment of - £1.029 million (2012-13 prices) which results in an overall penalty of - £4.738 million in 2019-20 for 'Net performance payment / (penalty) applied to revenue for end of period ODI adjustments ~ Retail (household) in 2012-13 prices.'</p> <p>This replaces the figure of - £3.709 million (2012-13 prices) contained in United Utilities' business plan in September 2018.</p> <p>The adjustment derives from our independent check of actual performance and reported ODI underperformance and outperformance payments.</p> <p>The intervention increases the net underperformance payment for end of period outcome delivery incentives for the residential retail price control from - £4.274 million to - £5.461 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination outcome delivery incentives reconciliation model for United Utilities.</p>
Outcomes	UUW.PD.A2b	Required	PR14 Outcome delivery incentives: The company should provide evidence of how it has calculated the Thirlmere outcome delivery incentive in tables App5/App6 for table App27.	15 July 2019	No company action required for the draft determination.	<p>Intervention required.</p> <p>We are intervening because we are unable to reconcile United Utilities' outcome delivery incentive calculation for B6: Thirlmere transfer into West Cumbria due to how company performance is rounded.</p> <p>We will review this intervention once we receive United Utilities' updated information.</p>	<p>We are including an adjustment of £0.408 million (2012-13 prices) which results in an overall payment of £19.792 million in 2019-20 for 'Net performance payment / (penalty) applied to revenue for end of period ODI adjustments ~ Wholesale water in 2012-13 prices.'</p> <p>This replaces the figure of £19.384 million (2012-13 prices) contained in United Utilities' business plan in September 2018.</p> <p>The definition for this performance commitment set out it should be measured to zero decimal places. We have calculated the adjustment based on a completion rate of 99%. The adjustment derives from our independent check of actual performance and reported ODI underperformance and outperformance payments.</p> <p>The intervention reduces the net underperformance payment applied to revenue for end of period outcome delivery incentives for the wholesale water network plus price control from - £24.221 million to - £23.750 million (2017-18 FYA CPIH deflated price base).</p>

Model	Ref.	Action type	Action	Date required	Summary of company's response to the action	Our assessment and rationale	Interventions
							Please see published draft determination outcome delivery incentives reconciliation model for United Utilities.
Outcomes	UUW.PD.A2c	Required	<p>PR14 Outcome delivery incentives: The company should, in its 15 July 2019 submission, 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:</p> <p>A2: Water quality events DWI category 3 or above</p> <p>A3: Water Quality Service Index</p> <p>S-D4a: Wastewater serious (category 1 and 2) pollution incidents</p> <p>S-D2: Maintaining our wastewater treatment works (includes Oldham and Royton WwTWs special cost factor claims)</p> <p>B5: Resilience of impounding reservoirs</p> <p>B2: Reliable water service index</p> <p>B1: Average minutes supply lost per property (a year)</p> <p>S-A1: Private sewers service index</p> <p>S-B2: Sewer flooding index</p> <p>S-A2: Wastewater network performance index</p> <p>C1: Contribution to rivers improved - water programme (NEP schemes and abstraction changes at 4 AIM sites)</p> <p>S-C1: Contribution to bathing waters improved (includes NEP phase 3&4</p>	15 July 2019	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review United Utilities' 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
			bathing water intermittent discharge projects)				
Residential retail	UUW.PD.A3	Required	PR14 Residential retail: The company should provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019 in table R9.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review United Utilities' additional information before making any interventions for the final determination.	N/A
Residential retail	UUW.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to round United Utilities' modification factor figures to two decimal places to ensure consistency with the PR14 Reconciliation Rulebook.	We are rounding to two decimal places, 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; and • metered water and wastewater customer. Our interventions increase the total residential retail revenue payment at the end of the 2015-20 period from £6.028 million to £6.039 million (2017-18 FYA CPIH deflated price base). Please see published draft determination residential retail revenue reconciliation model for United Utilities.
Totex	UUW.PD.A4	Required	PR14 Totex: The company should provide a more detailed and numerically sound explanation of its forecasted performance in tables WS15/WWS15.	15 July 2019	No company action required for the draft determination.	No intervention required. We will review United Utilities' 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
All models	UUW.PD.A5	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. The company should submit the updated past delivery tables and populated models by 15 July 2019.	15 July 2019	No company action required for the draft determination.	No interventions required. We will review United Utilities' 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	UUW.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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