

July 2019

Trust in water

# PR19 draft determinations

**Anglian Water – Accounting for past delivery actions and interventions**

## PR19 Draft Determinations: Anglian Water - Accounting for past delivery actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised 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 'ANH' denotes the company Anglian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions. Actions whose numbers are preceded with a 'B' denote advised actions. Interventions not resulting from an action 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 Anglian Water draft determination, please see the [draft determinations webpage](#).

**Table 1 – Anglian Water’s response to required actions and interventions for draft determinations**

| Model          | Ref.       | Action type | Action   | Date required | Summary of company response to the action  | Our assessment and rationale  | Interventions |
|----------------|------------|-------------|--|---------------|--|---|---------------|
| Land disposals | ANH.PD.A1  | Required    | <b>PR14 Land sales:</b> Anglian Water is required to provide additional evidence to support the forecast trajectory in table App9.   | 1 April 2019  | Anglian Water provides additional evidence to support the forecast trajectory in table App9. | No intervention required.<br>Commentary supplied to support the forecast is sufficient.   | N/A           |
| Outcomes       | ANH.PD.A2a | Required    | <b>PR14 Outcome delivery incentives:</b><br>Anglian 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.<br><br>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.<br>We will review Anglian Water’s updated data before making any interventions for the final determination. | N/A           |
| Outcomes       | ANH.PD.A2b | Required    | W-D3: Per property consumption (PPC) (litres/household/day reduction)  | 15 July 2019  | As ANH.PD.A2a  | As ANH.PD.A2a   | As ANH.PD.A2a |
| Outcomes       | ANH.PD.A2c | Required    | W-I1: Mean zonal compliance (MZC)  | 15 July 2019  | As ANH.PD.A2a  | As ANH.PD.A2a   | As ANH.PD.A2a |
| Outcomes       | ANH.PD.A2d | Required    | W-A4: Water quality contacts   | 15 July 2019  | As ANH.PD.A2a  | As ANH.PD.A2a   | As ANH.PD.A2a |

| Model    | Ref.       | Action type | Action   | Date required | Summary of company response to the action | Our assessment and rationale | Interventions |
|----------|------------|-------------|--|---------------|---|------------------------------|---------------|
| Outcomes | ANH.PD.A2e | Required    | W-A3: Properties at risk of persistent low pressure                              | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |
| Outcomes | ANH.PD.A2f | Required    | S-A3: Properties flooded externally from sewers - three-year average (reduction) | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |
| Outcomes | ANH.PD.A2g | Required    | W-E2: Environmental compliance (water)   | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |
| Outcomes | ANH.PD.A2h | Required    | S-C1: Percentage of bathing waters attaining excellent status                    | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |
| Outcomes | ANH.PD.A2i | Required    | S-C4: Environmental compliance (wastewater)                                      | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |
| Outcomes | ANH.PD.A2j | Required    | S-F2: Sewerage non-infrastructure  | 15 July 2019  | As ANH.PD.A2a                             | As ANH.PD.A2a                | As ANH.PD.A2a |

| Model              | Ref.           | Action type                               | Action  | Date required | Summary of company response to the action   | Our assessment and rationale  | Interventions  |
|--------------------|----------------|---|---|---------------|---|---|--|
| Outcomes           | ANH.PD.C002.01 | Intervention not resulting from an action | Table App27 (PR14 reconciliation - financial outcome delivery incentives summary)   | N/A           | N/A   | Intervention required.<br><br>For consistency with the other companies that have in-period outcome delivery incentives, and we have adjusted the 'total to be applied at PR19' so that it includes the 2018-19 (£2.060 million) and 2019-20 (£4.120 million) outcome delivery incentive values. | We are making an adjustment to the in-period outcome delivery incentive 'Total to be applied at PR19' values in column M so that they include the 2018-19 (column J) and 2019-20 (column K) totals. Previously, for in-period outcome delivery incentives column M contained the 2018-19 (column J) total only.<br><br>Along with ANH.PD.C002.02 below, our interventions increase the total net performance payment at the end of the 2015-20 period from £51.857 million ( £23.590 million for water, £27.204 for wastewater and £1.064 million residential retail) to £56.825 million (£28.558 million for water, £27.204 for wastewater and £1.064 million residential retail) (2017-18 FYA CPIH deflated price base). |
| Outcomes           | ANH.PD.C002.02 | Intervention not resulting from an action | N/A   | N/A           | N/A   | Intervention required.<br><br>Anglian Water does not include the £0.2 million outperformance payment for performance commitment W-B1 (value for money perception - variation from baseline against WaSCs (water)) in its 1 April 2019 submission of table App27.                                | We are making an adjustment to correct the £0.2 million company error.<br><br>Along with ANH.PD.C002.01 above, our interventions increase the total net performance payment at the end of the 2015-20 period from £51.857 million ( £23.590 million for water, £27.204 for wastewater and £1.064 million residential retail) to £56.825 million (£28.558 million for water, £27.204 for wastewater and £1.064 million residential retail) (2017-18 FYA CPIH deflated price base).  |
| Residential retail | ANH.PD.A3a     | Required                                  | <b>PR14 Residential retail:</b> Anglian Water is required to clarify what the correct number is in table R9 for metered wastewater only customers in 2017-2018. | 1 April 2019  | In its submission, the company clarifies that actual revenue (net) for metered wastewater only customers in 2017-2018 is £12,583 million. | No intervention required.<br><br>Commentary supplied to support the data is sufficient.   | N/A  |

| Model              | Ref.           | Action type                               | Action   | Date required | Summary of company response to the action   | Our assessment and rationale   | Interventions   |
|--------------------|----------------|---|--|---------------|---|--|---|
| Residential retail | ANH.PD.A3b     | Required                                  | <b>PR14 Residential retail:</b> Anglian Water is required to provide further evidence to explain its forecasts which depart from the trend in the first three years of the control period.           | 1 April 2019  | The company provides evidence to explain its forecasts for 2018-19 and 2019-20 referring to the forecasts being consistent with its WRMP and the methodology to capture local authority planning targets. | No intervention required.<br>Commentary supplied to support the data is sufficient.  | N/A   |
| Residential retail | ANH.PD.A3c     | Required                                  | <b>PR14 Residential retail:</b> Anglian Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019. | 1 April 2019  | The difference between actual and reforecast customer numbers in 2018-2019 is due to the forecast for actual customer numbers figure being a more recent forecast.  | No intervention required.<br>Commentary supplied to support the data is sufficient.  | N/A   |
| Residential retail | ANH.PD.C008.01 | Intervention not resulting from an action | N/A  | N/A           | N/A   | Intervention required.<br>We are intervening to round Anglian Water's modification factor figures to two decimal places to ensure consistency with the ' <a href="#">PR14 reconciliation rulebook</a> '. | 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"> <li>• unmetered water-only customer;</li> <li>• unmetered wastewater-only customer;</li> <li>• unmetered water and wastewater customer;</li> <li>• metered water-only customer;</li> <li>• metered wastewater-only customer; and</li> <li>• metered water and wastewater customer.</li> </ul> Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period which remains at - £6.059 million (2017-18 FYA CPIH deflated price base)..<br><br>Please see published draft determination residential retail revenue reconciliation model for Anglian Water. |

| Model              | Ref.           | Action type                               | Action   | Date required | Summary of company response to the action  | Our assessment and rationale   | Interventions   |
|--------------------|----------------|---|--|---------------|--|--|---|
| Residential retail | ANH.PD.C008.02 | Intervention not resulting from an action | N/A  | N/A           | N/A  | <p>Intervention required.</p> <p>We are intervening to apply the appointee WACC as the discount rate to be used to provide a financing adjustment for the time value of money of the reward or penalty in line with the 'PR14 reconciliation rulebook'. This may be required if the materiality threshold for financing adjustment is exceeded.</p> <p>Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.</p> | <p>For Anglian Water we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 0% contained in Anglian Water's April 2019 submission.</p> <p>Our interventions do not result in any changes to the total residential retail revenue payment at the end of the 2015-20 period because the materiality threshold is not exceeded.</p> <p>Please see published draft determination residential retail revenue reconciliation model for Anglian Water.</p> |
| SIM                | ANH.PD.C009.01 | Intervention not resulting from an action | N/A  | N/A           | N/A  | <p>Intervention required.</p> <p>We are intervening to adjust Anglian Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.</p>   | <p>We are intervening to set the service incentive mechanism adjustment to +3.54% of household retail revenue, which is £16.357 million (2017-18 FYA CPIH deflated price base) in total over the period. We explain how we calculate this in the 'Accounting for past delivery technical appendix'.</p>   |
| Totex              | ANH.PD.A4      | Required                                  | <b>PR14 Totex:</b> Anglian Water is required to provide evidence to explain its forecast performance in tables WS15/WWS15. | 1 April 2019  | <p>Anglian Water provides evidence to explain its forecast performance. The company explains that its performance is driven by ongoing increased costs from severe weather in 2018 (water).</p> <p>For wastewater, it cites re-phasing of projects and reinvested efficiencies to explain the deferral of £45m to 2019-20.</p> | <p>No intervention required.</p> <p>The company provides sufficient evidence in response to this action.</p>   | N/A   |

| Model               | Ref.           | Action type                               | Action   | Date required | Summary of company response to the action               | Our assessment and rationale   | Interventions   |
|---------------------|----------------|---|--|---------------|---|--|---|
| WRFIM               | ANH.PD.A5      | Required                                  | <b>PR14 Wholesale revenue forecasting incentive mechanism:</b> Anglian Water is required to provide evidence to explain its forecast performance in tables WS13/WWS13.   | 1 April 2019  | Anglian Water explains its forecast performance.        | No intervention required.<br>The company provides sufficient evidence to explain its forecasts.  | N/A   |
| All models          | ANH.PD.A6      | Required                                  | <b>PR14 reconciliations:</b> 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 intervention required.<br>We will review Anglian 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   |
| Revenue adjustments | ANH.PD.C011.01 | Intervention not resulting from an action | N/A  | N/A           | N/A   | Intervention required.<br>We are standardising the discount factor used to profile revenue adjustments.<br>Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers.<br>We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in Anglian Water's choices for profiling revenue adjustments in 2020-25. | We are using our view of the wholesale WACC (3.09%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period. |

| Model | Ref.      | Action type | Action   | Date required | Summary of company response to the action                | Our assessment and rationale   | Interventions                |
|-------|-----------|-------------|--|---------------|--|--|------------------------------|
| N/A   | ANH.PD.B1 | Advised     | <p>Anglian Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> <li>the drivers of incidents performance and customer communication and support performance during and after major incidents, pollution incidents and where statutory and licence obligations enforced by the EA/NRW, DWI and Ofwat have not been met;</li> <li>lessons learnt from good and poor past and current performance;</li> <li>the performance gap between current performance and proposed performance in the 2020-25 business plan; and</li> <li>measures planned or already in place to ensure deliverability of the 2020-25 business plan.</li> </ul> | 24 May 2019   | Anglian Water has submitted its response to this action. | Following a risk-based review of Anglian Water's response to this action we will determine whether there is a need for intervention for the final determination. | N/A for draft determination. |

| Model | Ref.      | Action type | Action  | Date required | Summary of company response to the action                | Our assessment and rationale   | Interventions                |
|-------|-----------|-------------|---|---------------|--|--|------------------------------|
| N/A   | ANH.PD.B2 | Advised     | <p>Anglian Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> <li>• how Anglian Water will continuously monitor incidents performance and customer communication and support during and after major incidents and deliver targets set by the EA/NRW in the Environmental Performance Assessment (EPA), by DWI and by Ofwat's regulations , including what evidence it will look for beyond itself and the sector;</li> <li>• how Anglian Water will identify drivers of performance and lessons learnt from both good and poor performance;</li> <li>• how Anglian Water will identify measures to improve performance and integrate these into its business; and</li> <li>• how Anglian Water will ensure that this is a continuous rather than one-off process.</li> </ul> | 24 May 2019   | Anglian Water has submitted its response to this action. | Following a risk-based review of Anglian Water's response to this action we will determine whether there is a need for intervention for the final determination. | N/A for draft determination. |

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.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

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Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk).

