

July 2019

Trust in water

PR19 draft determinations

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

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PR19 Draft Determinations: Portsmouth 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 'PRT' denotes the company Portsmouth 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 Portsmouth Water draft determination, please see the [draft determinations webpage](#).

Table 1 – Portsmouth 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	PRT.PD.A1	Required	PR14 Land sales: Portsmouth Water is required to provide sufficient evidence to support the forecast trajectory in table App9.	1 April 2019	Portsmouth Water provides additional evidence to support the forecast trajectory in table App9. The company states “The Company can confirm that we have not made or have plans to sell any land in AMP6 that impacts this measure. As such there is no associated adjustment to the RCV.”	No intervention required. Commentary supplied to support the forecast is sufficient.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes			<p>Outcome delivery incentive summary</p> <p>We are intervening to correct company errors and take account of clarifications relating to Portsmouth Water's 1 April 2019 submission of tables App5 and App27. Reference: DD-PD-001 query response (26 April 2019).</p> <p>In summary, we have made interventions in each of the five years so that the underperformance and outperformance payments are as follows:</p> <p>2015-16 A2 (water quality standards(MZC)): -£319,420 A3 (water quality contacts): -£380,604 C1 (interruptions to supply): £12,087 Total: -£687,937 (wholesale water/water network+)</p> <p>2016-17 A3 (water quality contacts): -£380,604 C1 (interruptions to supply): £12,087 Total: -£368.517 (wholesale water/water network+)</p> <p>2017-18 A2 (water quality standards(MZC)): -£319,420 A3 (water quality contacts): -£380,604 C1 (interruptions to supply): £12,087 Total: -£687,937 (wholesale water/water network+)</p> <p>2018-19 A3 (water quality contacts): -£380,604 C1 (interruptions to supply): £12,087 Total: -£368.517 (wholesale water/water network+)</p> <p>2019-20 A3 (water quality contacts): -£380,604 C1 (interruptions to supply): £12,087 Total: -£368.517 (wholesale water/water network+)</p> <p>B1 (reducing per capita consumption) = -£162,488 Total: -£162,488 (retail household/residential household)</p> <p>5-year totals Wholesale water/water network+: -£2,481,425 Retail household/residential household: -£162,488 Total for all price controls: -£2,643,913</p> <p>Note: The service incentive mechanism (SIM) is being reconciled in a separate model. To avoid duplication, it is not included in the outcome delivery incentive summary above.</p> <p>In aggregate, our interventions increase the total net performance penalty at the end of the 2015-20 period from - £2.115 million to - £3.041 million (2017-18 FYA CPIH deflated price base).</p>				

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	PRT.PD.A2a	Required	PR14 Outcome delivery incentives: Portsmouth Water is required to provide evidence explaining how it has calculated the outcome delivery incentives for the 'C1: interruptions to performance commitment in tables App5/App6 and associated table App27.	15 July 2019	In response to our query PRT-DD-PD-001 (26 April 2019), Portsmouth Water stated that for its C1 (interruptions to supply) performance commitment it expects to outperform its 5 year target of 5 mins. The outperformance payment (over the five years) is £60,435 per minute. It expects to outturn at an average of 4 minutes. The annual underperformance payment is £12,087 (2012-13 prices).	Intervention required. We agree with the company's calculation and that the annual outperformance payment is £12,087 (2012-13 prices).	We are intervening on the information the company provides in its 1 April business plan submission, to ensure that the annual outperformance payment is £12,087 (2012-13 prices).
Outcomes	PRT.PD.A2b	Required	PR14 Outcome delivery incentives: Portsmouth Water is required to provide evidence explaining how it has calculated the outcome delivery incentives for the 'B1: reducing per capita consumption' performance commitment in tables App5/App6 and associated table App27.	15 July 2019	In response to our query DD-PD-001 (26 April 2019), Portsmouth Water stated that for its B1 (reducing per capita consumption (PCC)) performance commitment it expects to fail its year 5 target of 143.9 l/h/d. The underperformance payment rate is £81,244 per l/h/d, capped at 148 l/h/d. The company expects to outturn at 145.9 l/h/d. The underperformance payment is - £162,488 (2012-13 prices).	Intervention required. We agree with the company's calculation and that the annual underperformance payment in 2019-20 is - £162,488 (2012-13 prices).	We are intervening on the information the company provides in its 1 April business plan submission, to ensure that the 2019-20 underperformance payment is - £162,488 (2012-13 prices) and that it is included in the retail household (PR14) and residential retail (PR19) price control totals.
Outcomes	PRT.PD.A3a	Required	PR14 outcome delivery incentives: Portsmouth 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 Portsmouth Water's updated data before making any interventions for the final determination.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	PRT.PD.A3b	Required	B1: Reducing per capita consumption (PCC)	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3c	Required	A2: Water quality standards	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3d	Required	A3: Water quality contacts	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3e	Required	A1: Bursts	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3f	Required	B1: Leakage	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3g	Required	C1: Interruptions to supply	15 July 2019	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.C002.01	Intervention not resulting from an action	N/A	N/A	N/A	Portsmouth Water includes Service Incentive Mechanism (SIM) outperformance payments in table App27 (PR14 reconciliation - financial outcome delivery incentives summary). These are being reconciled in a separate model and so should be removed from the outcome delivery incentive model to avoid duplication.	We are intervening to remove the SIM outperformance payments from the outcome delivery incentive model.

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Outcomes	PRT.PD.C002.02	Intervention not resulting from an action	N/A	N/A	<p>Following engagement with the company, Portsmouth Water states that for its A3 (water quality contacts) performance commitment it expects to fail its 5 year target of 0.421 contacts per 1,000 customers.</p> <p>The underperformance payment (over five years) is -£1,903,020 (2012-23 prices).</p> <p>This is - £380,604 per year, not the - £390,000 as previously stated by the company.</p>	We agree with the company's calculation. The underperformance payment is - £380,604 per year (2012-13 prices).	We are intervening to ensure that the underperformance payments for performance commitment A3 (water quality contacts) are - £380,604 per year (2012-13 prices).
Residential retail	PRT.PD.A4a	Required	PR14 Residential retail: Portsmouth Water is required to clarify what the correct values are for reforecast 2015-16 and 2016-17 data in respect of unmetered water-only customers.	1 April 2019	Portsmouth Water updates the values for reforecast unmetered water-only customer numbers. The updated values are consistent with the submitted reconciliation model.	No intervention required. The company provides a satisfactory response to this action.	N/A
Residential retail	PRT.PD.A4b	Required	PR14 Residential retail: Portsmouth Water is required to provide further evidence for the forecast number of unmetered water customers in 2018-19.	1 April 2019	Portsmouth Water provides evidence to support its forecasts by referring to forecast growth in its property numbers, its metering strategy and changes due to customers switching to a social tariff.	No intervention required. The company provides sufficient evidence in response to this action.	N/A
Residential retail	PRT.PD.A4c	Required	PR14 Residential retail: Portsmouth Water is required to provide further evidence for the forecast number of metered water customers in 2018-19.	1 April 2019	Portsmouth Water provides evidence to support its forecasts by referring to forecast growth in its property numbers, its metering strategy and changes due to customers switching to a social tariff.	No intervention required. The company provides sufficient evidence in response to this action.	N/A
Residential retail	PRT.PD.A4d	Required	PR14 Residential retail: Portsmouth Water is required to populate the 'Materiality threshold for financing adjustment' in table R9.	1 April 2019	The company has populated the materiality threshold for financing adjustment in table R9.	No intervention required.	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Residential retail	PRT.PD.C008.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to round Portsmouth Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.</p>	<p>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:</p> <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. <p>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 - £0.029 million (2017-18 FYA CPIH deflated price base).</p> <p>Please see published draft determination residential retail revenue reconciliation model for Portsmouth Water.</p>
Residential retail	PRT.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 Portsmouth Water, we are including a figure of 3.90% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 3.76% contained in Portsmouth 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 Portsmouth Water.</p>

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
SIM	PRT.PD.C009.01	Intervention not resulting from an action	N/A	N/A	N/A	Intervention required. We are intervening to adjust Portsmouth Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	We are intervening to set the service incentive mechanism adjustment to +6.00% of household retail revenue, which is £1.444 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in the 'Accounting for past delivery technical appendix'.
Totex	PRT.PD.A5	Required	PR14 Totex: Portsmouth Water is required to provide a more detailed explanation of why it intends to overspend on its allowance in the last two years of the 2015-20 period (as indicated in the submitted table WS15 and totex model) and what it aims to spend this totex on.	1 April 2019	Portsmouth Water provides further detail regarding its overspend during 2018-20 in its 'Response to Ofwat Initial Assessment of Plan' document (P.227). The main reasons are due to reinvestment of efficiencies in projects (including Havant Thicket) which were not included in its original PR14 business plan.	No intervention required. The company provides a satisfactory response to this action.	N/A
WRFIM	PRT.PD.A6	Required	PR14 Wholesale revenue forecasting incentive mechanism: Portsmouth Water is required to update table WS13 and the WFRIM model to reflect actual grants and contributions in line with the reporting requirements for the annual performance report. The company has not been populating grants and contributions in the annual performance report Table 21 in accordance with the reporting requirements (by excluding connection charges). Portsmouth Water is required to either restate the data or provide compelling evidence that the adjustment is appropriate.	1 April 2019	Portsmouth Water does not provide evidence to support the amendment. We note the company has not changed table WS13 nor submitted a model in the April submission.	Intervention required. The claim relates to errors Portsmouth Water made in completing its business plan tables for connection expenditure at PR14 and we consider this to be outside of the reconciliation mechanism's scope.	We are intervening to reflect actual grants and contributions reported in line with the reporting requirements for the annual performance report. Our intervention reduces the total WRFIM adjustment at the end of the 2015-20 period from £0 million to - £2.682 million (2017-18 FYA CPIH deflated price base).

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Water trading	PRT.PD.A7	Required	PR14 Water trading: Portsmouth Water has been required to resubmit the evidence supporting its proposed water trading incentive payment. This was provided in January 2019; the company may be required to provide further evidence after we have completed our review of this evidence.	1 April 2019	Portsmouth Water resubmits the water trading model. The company resolves some of the previously identified issues. There are some other issues in relation to the forecast profits of 'export 1' (Portsmouth Water's export to Southern Water into its Sussex North area at Hardham) which the company clarifies in response to a query we issued seeking more evidence and explanation.	Intervention required. The intervention relates to the forecast profits for export 1 for which the company is claiming water trading incentives. In its April submission, the company provides forecast profits for export 1 consistent with the minimum volume contained in the trade agreement. However, evidence from the first four years of the operation of the export suggests that the volumes traded were always above the minimum. Therefore, our intervention is to impose forecast profits based on the historical average volumes for the last three years of the export.	Consistent with the company's proposal in the query response, we are intervening to impose forecast for profits consistent with the average historical profits for 2016-17 to 2018-19. Our interventions increase the total PR14 water trading incentive payment from £0.107 million to £0.197 million (2017-18 FYA CPIH deflated price base).
All models	PRT.PD.A8	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 intervention required. We will review Portsmouth 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

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
Revenue adjustments	PRT.PD.C011.01	Intervention not resulting from an action	N/A	N/A	N/A	<p>Intervention required.</p> <p>We are standardising the discount factor used to profile revenue adjustments.</p> <p>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.</p> <p>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 Portsmouth Water's choices for profiling revenue adjustments in 2020-25.</p>	We are using our view of the wholesale WACC (3.26%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period. This includes a company specific adjustment of 0.17%.
N/A	PRT.PD.B1	Advised	<p>Portsmouth Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> the drivers of its performance past and current outcomes performance, including financial and reputational performance commitments; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and measures to ensure deliverability of the 2020-25 business plan. 	24 May 2019	The company provides further evidence to support the deliverability of its plan.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	PRT.PD.B2	Advised	<p>Portsmouth Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Portsmouth Water will continuously monitor performance against PR14 and PR19 performance commitments, including how this relates to section 3 of the Annual Performance Report and what evidence it will look for beyond itself and the sector; • how Portsmouth Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Portsmouth Water will identify measures to improve performance and integrate these into its business; and • how Portsmouth Water will ensure that this is a continuous rather than one-off process. 	24 May 2019	The company provides an action plan as requested.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	PRT.PD.B3	Advised	<p>Portsmouth Water should produce and provide additional evidence that it has identified:</p> <ul style="list-style-type: none"> 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; lessons learnt from good and poor past and current performance; the performance gap between current performance and proposed performance in the 2020-25 business plan; and measures planned or already in place to ensure deliverability of the 2020-25 business plan. 	24 May 2019	The company provides further evidence to support the deliverability of its plan.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

Model	Ref.	Action type	Action	Date required	Summary of company response to the action	Our assessment and rationale	Interventions
N/A	PRT.PD.B4	Advised	<p>Portsmouth Water should produce and provide an action plan that sets out:</p> <ul style="list-style-type: none"> • how Portsmouth 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; • how Portsmouth Water will identify drivers of performance and lessons learnt from both good and poor performance; • how Portsmouth Water will identify measures to improve performance and integrate these into its business; and • how Portsmouth Water will ensure that this is a continuous rather than one-off process. 	24 May 2019	The company provides an action plan as requested.	<p>No intervention required.</p> <p>Because our deliverability concerns were not substantial in this area, and so we set an advised action, we will conduct a risk-based review of the company's response to the action and will determine the need for further interventions for the final determination.</p>	N/A

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