

July 2019

Trust in water

# PR19 draft determinations

**Portsmouth Water – Securing cost efficiency  
actions and interventions**

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## PR19 Draft Determinations: Portsmouth Water – Securing cost efficiency 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, 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 '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 and actions whose numbers are preceded with a 'B' denote advised 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 '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. Intervention numbers are preceded with a 'C'.

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**

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing cost efficiency	PRT.CE.A1	Required	<p>We have provided our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either:</p> <ul style="list-style-type: none"> <li>• the need for investment is not compelling; or</li> <li>• there is no need for a cost adjustment claim beyond our existing cost baseline.</li> </ul>	1 April 2019	<p>Portsmouth Water submitted a new cost adjustment claim on average bill size for the residential retail control at DD.</p> <p>Portsmouth Water provided further detail of the Havant Thicket reservoir scheme, including a detailed breakdown of costs in its response to our initial assessment of plans.</p>	<p>Intervention required.</p> <p>We have adjusted our models and Portsmouth Water is still efficient compared to the rest of the industry in its base costs.</p> <p>We reject the retail cost adjustment claim concerning average bill size. We provide more detail in 'Portsmouth Water - Cost efficiency draft determination appendix'.</p> <p>We intervene to create a new 10 year separate price control for Havant Thicket expenditure. We provide</p>	<p>Company to provide further detail regarding how assets relating to the Havant Thicket reservoir development with the potential to earn income will be treated in the bulk supply agreement with Southern Water.</p>

						<p>further detail in 'Havant Thicket policy issue appendix'. This reduces the costs we allow in wholesale water.</p> <p>In assessing the Havant Thicket reservoir development scheme we apply an efficiency challenge and exclude costs relating to assets such as car parks from which Portsmouth Water may earn an income and that are not directly related to making a transfer of water to Southern Water.</p>	
	PRT.CE.A2	Required	<p>There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.</p>	1 April 2019	The company states that no investment for the treatment of metaldehyde is included.	<p>No intervention required for draft determination but further action needed by the company.</p> <p>For the purpose of the draft determination we accept that no expenditure is included for metaldehyde.</p>	<p>Company to provide evidence to confirm DWI agreement with its submitted plans/ revised undertakings and that no metaldehyde specific product substitution costs are included in the requested allowance.</p>
	Advised actions	Advised	No advised actions.	N/A			

**Table 2: Further interventions for draft determinations**

Intervention reference	Our assessment and rationale	Interventions
<p>We explain our approach to cost assessment, including the allowances we set for each control, assumption on revenue recovery from grants and contributions, opex-capex split and totex profiling, in 'Securing cost efficiency technical appendix'. We set out other company specific interventions, and the allowances we set for each control, in section 3 of the company's draft determination summary and its cost efficiency appendix.</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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