

July 2019

Trust in water

# PR19 draft determinations

**Portsmouth Water – Targeted controls,  
markets and innovation actions and  
interventions**

## PR19 Draft Determinations: Portsmouth Water– Targeted controls, markets and innovation 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
Targeted controls, markets and innovation	PRT.CMI.A1	Required	The company has not provided insufficient detail to give us confidence that its customers will be adequately protected by the commercial arrangements between the company and Southern Water. Please set out the key commercial terms and explain how these would protect customers from bearing the cost of the reservoir over the longer term if Southern Water withdraw from the agreement where the need for proposed scheme is driven by their supply requirements. It is unclear that the proposed development should be included within the RCV of the company if Southern water (and its customers) are essentially funding the reservoir development through the proposed contractual framework as this would transfer residual risks to your customers.	1 April 2019	The company has provided a helpful response which provides some assurance that the commercial arrangements could protect customers in certain circumstances.	Intervention required.  We still have concerns about the residual risks to Portsmouth Water customers, because: <ul style="list-style-type: none"> <li>• the potential impact on customers is high if they are left with stranding risk because this is a significant project relative to the size of the company; and</li> <li>• the agreement with Southern Water has not been finalised and</li> </ul>	We are intervening to propose a separate control related to the Havant Thicket reservoir. Further information is provided in ‘Havant Thicket Policy Issues.’

						so the terms are still mutable.  We additionally have concerns for the protection of both companies' customers regarding the inclusion of assets with the potential to earn income within the commercial arrangements and consider further detail of the companies proposed approach in this area is required.	
	PRT.CMI.A2	Required	The company should produce a standalone bid assessment framework document that addresses our feedback. This should provide sufficient clarity to a bidder.	15 July 2019	The deadline for the updated bid assessment framework document was 15 July 2019. We have not yet analysed the submissions.	N/A	N/A
	PRT.CMI.A3	Required	Please explain the impact of the proposed changes to the metering programme on your water resources position	1 April 2019	The company has provided an appropriate response. The company has provided a forecasts of the meters installed under its metering programme and estimated that this reduces demand by 1.4 ml/d by 2024/25.	No intervention required.	N/A
	PRT.CMI.A4	Required	<p><b>HTWSR</b></p> <p>A revised economic analysis of the scheme including a new Net Present Value analysis using the standardised assumptions provided in Table A</p> <p>Supporting evidence for the use of 82% leverage in the Standard approach in the NPV analysis provided supporting the DPC recommendation.</p> <p>A summary of the results of the network modelling and option development that was due for delivery in December with regard to the dilution of the operational flexibility and a risk assessment to the operation with regard to a third party operating HTWSR.</p> <p>Evidence for the 18-24 months timeframe for the delay incurred for the Procurement of the CAP.</p> <p>A summary of the commercial arrangement and mechanisms to be entered into with Southern Water to ensure Portsmouth Water's customers are not at risk from the HTWSR scheme.</p>	1 April 2019	<p>The company provided a revised economic analysis and a supporting statement with regards to the leverage used in the September business plan for the Havant Thicket Winter Storage Reservoir.</p> <p>The network modelling, option development and risk assessment had not been completed and was unavailable for review.</p> <p>The company also produced a brief description of the potential 18-24 months delay caused by procurement using a DPC approach and a summary of the commercial arrangement and</p>	<p>No intervention required.</p> <p>The updated technical analysis did not provide any more information on why the scheme was unsuitable for DPC.</p> <p>The Net Present Value analysis provided sufficient information to allow a high-level review but insufficient detail to be able to confirm absolute values. In some areas the assumptions used were unsubstantiated.</p> <p>The critical timeline for the availability of the reservoir and the risk of delay due to delivery through DPC was considered the only well-reasoned argument for delivery through in-house procurement.</p>	N/A

					mechanisms to be entered in to with Southern Water.  The company decision was that this project was not suitable to progress under DPC.		
	PRT.CMI.B1	Advised	The company should consider how it can collaborate with other companies to maximise the opportunities for research to address common challenges (eg leakage detection, water efficiency and water treatment processes) rather than companies progressing research independently.	1 April 2019	The company did not provide a response to this advised action.	No intervention required.  We remain concerned that the company is not maximising the opportunities available from collaborating to address common challenges. We will promote innovation in the sector as part of our on-going work on innovation.	N/A

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

Intervention reference	Our assessment and rationale	Interventions
PRT.CMI.C1	<p>Intervention required.</p> <p>We have reviewed the company's Annualised Unit Cost (AUC) that inform the water resources price control. We judge that the company incorrectly transferred the '£000s' value from the Reckon model into table Wr7 and did not correctly reflect the '£' units as required for the AUC line in table Wr7.</p> <p>We are therefore intervening to correct the conversion from £000s to £.</p>	<p>We are intervening to set the AUC to be used in the water resources control.</p> <p>We have reflected this in 'Table 4: Price Control for Water Resources Activities bilateral entry adjustment numbers' of the company's 'Notification of the PR19 draft determination of price controls' letter.</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.

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)

July 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

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

