

December 2019

PR19 final determinations

**United Utilities – Accounting for past
delivery final decisions**

PR19 final determinations: United Utilities - Accounting for past delivery final decisions

In our [draft determinations](#), we published the 'Accounting for past delivery actions and interventions' document for each company. This set out the required and advised actions in our initial assessment of plans, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we made as part of the draft determination. It also set out any further interventions that were not resulting from an action, which we made as part of the draft determination.

This document sets out the decisions on accounting for past delivery we are making for the final determination. Our decisions and interventions set out here are relative to the company's 15 July 2019 past delivery submission (the '15 July 2019 submission'). They also take into account the representations made on all our draft determinations, responses from companies to our queries and additional information provided following further engagement with companies and other stakeholders as part of the final determination process.

Table 1 below sets out all the initial assessment of plans actions, the model the action relates to, a summary of the company's response to the initial assessment of plans action, our assessment of the company's response, any further interventions we made as part of the draft determination, a summary of the company's updated submission and / or representation on the draft determination, our assessment of the company's updated submission and / or representation and our final interventions for the final determination. Table 1 also sets out any further interventions that are not resulting from an action which we are making as part of the final determination.

Our final determination and the final decisions set out in this document take account of United Utilities' actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 or in updated information submitted as part of its 30 August 2019 representation.

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 'Glossary' for a key to these acronyms). Actions whose numbers are preceded with an 'A' denote required actions from the initial assessment of plans. Actions whose numbers are preceded with a 'B' denote advised actions from the initial assessment of plans. Draft determination interventions not resulting from an initial assessment of plans action are preceded with a 'C' and new interventions for the final determination not related to a previous action are preceded with a 'D.' Both draft and final interventions are 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. Where a company submits updated information as part of its 30 August 2019 representation and we reflect this in our final determination, we identify this intervention in our final determination models with the reference Uuw.PD.REP. The past delivery model codes are set out below.

Model	Code
ODIs	002
Land sales	003
WRFIM	005
Totex	006
Water trading	007
Residential retail	008
Residential retail SIM	009
RCV adjustments feeder model	010
Revenue adjustments feeder model	011
South West Water aggregation model	012
Thames Water / Southern Water revenue profiling model	013
Business retail SIM	014
Southern Water enforcement revenue adjustments	015

For all other documents related to the United Utilities' final determination, please see the [final determinations webpage](#).

Table 1: Accounting for past delivery final decisions for United Utilities

Model	Ref.	IAP action	Summary of company's response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
All models	UUW.PD.A5	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.	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.	In its 15 July 2019 submission, United Utilities Water updates all of its PR14 reconciliations with actual performance for 2018-19 and provides evidence for its forecast performance in 2019-20 and provided updated populated models.	Our final interventions take account of United Utilities' actual performance in 2018-19 and updated evidence for its forecast performance in 2019-20 (taking into consideration its actual performance in 2018-19) as submitted on 15 July 2019 and in its 30 August 2019 representation.	N/A
All models	UUW.PD.REP	In its 30 August 2019 representation, United Utilities does not submit any updated past delivery business plan tables or reconciliation models.					
Land sales	UUW.PD.A1	PR14 Land sales: The company should provide additional evidence to support the forecast trajectory reported in table App9.	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.	In its 15 July 2019 submission, United Utilities provides evidence in support of its forecast trajectory.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Land sales	UUW.PD.C003.01	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 its representation, United Utilities does not raise substantive reasons to change our draft determination in relation to these specific interventions.	No intervention required. The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission. In the original business plan table App9, the present value was calculated in error by multiplying proceeds by the discount factor. Our draft	N/A

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Land sales	UUW.PD.C003.02	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.		determination interventions corrected the present value calculation by dividing proceeds by the discount factor. This correction aligns with the revised business plan table templates released to companies on 31 January 2019 and the template used for the 15 July 2019 submission.	
Outcomes	UUW.PD.A2a	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.	No company action required for the draft determination.	Intervention required. 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. 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.	In its 15 July 2019 submission, United Utilities sets out how it calculates the underperformance payment adjustment for its ODI for Customer Experience Programme. The company includes an updated underperformance payment adjustment in 2019-20 of - £4.522 million (2012-13 prices) for 'Net performance payment / (penalty) applied to revenue for end of period ODI adjustments ~ Retail (household) in 2012-13 prices.'	No intervention required. The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission. United Utilities provides sufficient evidence that it follows the stated definition for this ODI and that its calculation of the underperformance payment is in the interests of customers.	N/A
Outcomes	UUW.PD.A2b	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.	No company action required for the draft determination.	Intervention required. 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. We will review this	In its 15 July 2019 submission, United Utilities calculates the Thirlmere outcome delivery incentive based on its performance measured to zero decimal places. The company includes an updated outperformance payment adjustment in 2019-20 of £18.454 million (2012-13 prices) for 'Net performance	No intervention required. The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.	N/A

Model	Ref.	IAP action	Summary of company's response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
				intervention once we receive United Utilities' updated information.	payment / (penalty) applied to revenue for end of period ODI adjustments ~ Wholesale water in 2012-13 prices.'		
Outcomes	UUW.PD.A2c	<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 A3: Water Quality Service Index S-D4a: Wastewater serious (category 1 and 2) pollution incidents S-D2: Maintaining our wastewater treatment works (includes Oldham and Royton WwTWs special cost factor claims) B5: Resilience of impounding reservoirs B2: Reliable water service index B1: Average minutes supply lost per property (a year) S-A1: Private sewers service index S-B2: Sewer flooding index S-A2: Wastewater network performance index C1: Contribution to rivers improved - water programme (NEP schemes and abstraction changes at 4 AIM sites) S-C1: Contribution to bathing waters improved (includes NEP phase 3&4 bathing water intermittent discharge projects)</p>	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>	<p>In its 15 July 2019 submission, United Utilities provides evidence for its updated forecast performance for 2019-20 in light of its actual performance in 2018-19 for all of its performance commitments.</p> <p>The company includes an underperformance payment in 2019-20 of -£4.387 million (2012-13 prices) million for performance commitment S-D2 (maintaining wastewater treatment works). The company states that "This measure is particularly sensitive to failure at our largest WwTWs. Any failures at one of these works in the final year of this AMP would mean that we would fail this measure."</p> <p>In its representation, United Utilities does not raise substantive reasons to change our draft determination in relation to this specific action.</p>	<p>Intervention required.</p> <p>We have assessed the data the company provides and its forecasts for the 2019-20 reporting year. We are intervening where we found data errors or inconsistencies, or the company provided insufficient evidence for its performance.</p> <p>Please see UUW.PD.D002.01 below.</p> <p>In respect of the performance commitment S-D2 (maintaining wastewater treatment works), we consider that to receive an underperformance payment United Utilities would need to deliver a worse level of service than it has achieved in the last three years.</p> <p>The company provides no evidence for why performance will deteriorate in the final year.</p> <p>We are therefore removing this underperformance payment for the final determination.</p>	<p>We are intervening on the 2019-20 forecast performance for performance commitment S-D2 (maintaining wastewater treatment works) as it is overly pessimistic. This removes the company underperformance payment of - £4.387 million in 2019-20 (2012-13 prices).</p> <p>Along with UUW.PD.D002.01 below, our interventions increase the wastewater RCV adjustment at the end of the 2015-20 period from £55.872 million to £60.460 million (2017-18 FYA CPIH deflated price base).</p>

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Outcomes	UUW.PD.D002.01	N/A	N/A	N/A	In its 15 July 2019 submission, United Utilities' calculation of the ODI payment for performance commitment S-D3 (contribution to rivers improved - wastewater) does not reflect the definition.	<p>Intervention required.</p> <p>We have taken the difference between the outperformance cap as the number of km delivered at the end of the year of river was greater than this and the committed performance level in the corrigenda and multiplied it by the outperformance ODI rate:</p> <p>2016-17 (30.82km - 15.41km) multiplied by £0.028m/km = £0.431m.</p> <p>2017-18 (120.75km - 98.14km) multiplied by £0.028m/km = £0.633m.</p> <p>2018-19 (178.93 km - 145.39km) multiplied by £0.028m/km = £0.939m.</p> <p>2019-20 (355.22km - 341.92km) multiplied by £0.111m/km = -£1.476m.</p>	<p>We are intervening to reduce the outperformance payment to ensure the definition is followed correctly and so are including the following adjustments which are the difference between our calculation and the company calculation set out in United Utilities' 15 July 2019 submission:</p> <p>2016-17 £0.431m less £0.395m = £0.037 million.</p> <p>2017-18 £0.633m less £0.392m = £0.241 million.</p> <p>2018-19 £0.939m less £0.235m = £0.704 million.</p> <p>2019-20 -£1.476m less - £0.118m = -£1.358 million.</p>
Residential retail	UUW.PD.A3	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.	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.	In its 15 July 2019 submission, United Utilities provides further clarity on the reasons for differences between reforecast and actual customer numbers in 2018-19.	N/A	N/A

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Residential retail	UUW.PD.C008.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to round United Utilities' modification factor figures to two decimal places to ensure consistency with the PR14 Reconciliation Rulebook.</p>	<p>In its representation, United Utilities does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	<p>Intervention retained.</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 change the total residential retail revenue payment at the end of the 2015-20 period which remains at £5.209 million (2017-18 FYA CPIH deflated price base).</p>
Residential retail service incentive mechanism (SIM)	UUW.PD.D009.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust United Utilities' residential retail revenue as a result of its SIM performance from 2015-16 to 2018-19.</p>	<p>In its representation, United Utilities considers that changing our methodology this late in the 2015-20 period risks eroding companies' ability to have confidence in future incentives and frameworks and proposes that we change our methodology for calculating SIM payments back to the PR14 methodology. Otherwise, the company considers that we should remove outliers (notably Portsmouth) that have an undue impact on industry</p>	<p>Intervention retained.</p> <p>We consider that our approach is consistent with our PR19 final methodology and the removal of high performing outliers would not be appropriate. Our approach allocates payments in a way which clearly distinguishes between performance differences (payments are</p>	<p>We are intervening to set the residential retail service incentive mechanism adjustment to + 1.10% of residential retail revenue, which is + £6.238 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in the</p>

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					SIM payment calculations and adjust final determination calculations accordingly.	proportionate). SIM payments also reflect the outcome of our consultation on calculating SIM. We are updating our analysis to take account of companies' finalised scores for 2018-19.	'Accounting for past delivery technical appendix'.
Totex	UUW.PD.A4	PR14 Totex: The company should provide a more detailed and numerically sound explanation of its forecasted performance in tables WS15/WWS15.	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.	In its 15 July 2019 submission, United Utilities provides an explanation for its totex forecast performance.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex	UUW.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, United Utilities inputs its 'Water: Final menu choice' and 'Sewerage: Final menu choice' figures rounded to 1 decimal place.	Intervention required. Where companies did not change their position on the menu from that used in the PR14 final determination, we are ensuring the water and sewerage final menu choices reflect the full accuracy of these figures as calculated in the PR14 populated final determination models . (see 'Calculations' tab cell D68).	We are intervening to change the 'Water: Final menu choice' figure from 100.470 to 100.476 and the 'Sewerage: Final menu choice' figure from 106.240 to 106.239.
RCV adjustments	UUW.PD.D010.01	N/A	N/A	N/A	In its 15 July 2019 submission, United Utilities includes a figure of 14% for 'RCV ~ 31 March 2020 (% of total wholesale water) - Water resources.' Through subsequent engagement, United Utilities is revising its allocation to water resources from 14% to 15%.	Intervention required. At draft determination, we expressed concerns about the RCV allocation for water resources. We intervened and proposed an alternative allocation of 20%. In light of this feedback, United Utilities changed its methodology to base it on future expenditure and has	We are intervening to include a revised figure of 15% for 'RCV ~ 31 March 2020 (% of total wholesale water) - Water resources' replacing United Utilities original figure of 14%. Our minor interventions increase the water totex revenue adjustment at the end of the period from

Model	Ref.	IAP action	Summary of company's response to the IAP action	Our assessment and rationale for the draft determination	Summary of company updated submission and / or representation	Our assessment and rationale for the final determination decision	Decisions for the final determination
						now revised its allocation to water resources to 15%. We welcome this revision and accept the company's proposal.	£49.614 million to £49.618 million and reduce the wastewater RCV adjustment from £42.022 million to £42.021 million.
Revenue adjustments	UUW.PD.C011.01	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments.	In its representation, United Utilities does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention required. We are intervening to reflect our updated view of the wholesale WACC. 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. 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 United Utilities' choices for profiling revenue adjustments in 2020-25. Where profiling selections have been made for controls with no revenue (Dummy control and/or Business retail) we have set these selections to '0'. This has no impact on the modelling outputs.	We are using our view of the wholesale WACC (2.92%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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