

December 2019

PR19 final determinations

**Bristol Water – Accounting for past
delivery final decisions**

PR19 final determinations: Bristol Water - 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 Bristol Water’s 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 ‘BRL’ denotes the company Bristol Water. 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 BRL.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 Bristol Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for Bristol Water

Model	Ref.	IAP action	Summary of company 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	Decision for the final determination	
All models	BRL.PD.A8	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.	No company action required for the draft determination.	We will review Bristol 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.	In its 15 July 2019 submission, Bristol Water updates all of its PR14 reconciliations with actual performance for 2018-19 and provides evidence for its forecast performance in 2019-20.	Our final interventions take account of Bristol Water's 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	BRL.PD.REP	<p>In its 30 August 2019 representation, Bristol Water submits the following updated past delivery business plan tables and reconciliation models to align with its 15 July 2019 submission and reflect our draft determination:</p> <ul style="list-style-type: none"> App9 (Adjustments to RCV from disposals of interest in land), App23 (Inflation measures), App25 (PR14 reconciliation adjustments summary), App27 (PR14 reconciliation - outcome delivery incentives summary), WS13 (PR14 WRFIM), WS15 (PR14 Totex), R9 (PR14 reconciliation of household revenue) and R10 (PR14 SIM); and WRFIM, Totex, Residential retail and RCV / Revenue adjustments feeder models. <p>Unless otherwise stated, our final determination and any interventions we have made for the final determination as set out in the table below, take account of Bristol Water's latest updated information including the company's latest view of inflation.</p>						
Land disposals	BRL.PD.A1	PR14 Land sales: Bristol Water is required to provide additional evidence to support the forecast trajectory in table App9.	Bristol Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A	

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Outcomes	BRL.PD.A2	PR14 Outcome delivery incentives: Bristol Water is required to provide evidence of how it considers leakage performance should be rounded before applying the outcome delivery incentive rate in tables App5/App6 and update App27.	Bristol Water is rounding the average leakage performance to 1 decimal place, in accordance with the ‘Corrigenda to the company specific appendix that accompanied the Notification by the Water Services Regulation Authority of its determination of Price Controls for Retail Activities and for Wholesale Activities for Bristol Water Limited’ . The company states that it has recalculated the underperformance penalties on this basis.	No intervention required. We will review Bristol Water’s updated data submitted in response to action BRL.PD.A3 before making any interventions for the final determination.	In its 15 July 2019 submission, Bristol Water explains how it calculates leakage performance and that it has now amended its calculation so that all figures used in the calculation are fixed to 1dp. In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Outcomes	BRL.PD.A3a	PR14 Outcome delivery incentives: Bristol 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:	No company action required for the draft determination.	No intervention required. We will review Bristol Water’s updated data before making any interventions for the final determination.	In its 15 July 2019 submission, Bristol Water 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. In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to the specific actions BRL.PD.A3a to BRL.PD.A3g.	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
Outcomes	BRL.PD.A3b	D1: Mean zonal compliance (MZC)	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a

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Outcomes	BRL.PD.A3c	E1: Negative water quality contacts	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a
Outcomes	BRL.PD.A3d	A2: Asset reliability - infrastructure	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a
Outcomes	BRL.PD.A3e	A3: Asset reliability - non-infrastructure	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a
Outcomes	BRL.PD.A3f	F1: Leakage	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a
Outcomes	BRL.PD.A3g	A1: Unplanned customer minutes lost	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a	As BRL.PD.A3a
Residential retail	BRL.PD.A4a	PR14 Residential retail: Bristol Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019 in table R9.	No direct response apart from the following statement: "The customer numbers in R9 have been updated to reflect those used in 2019/20 charges forecasts."	No intervention required. We consider the explanation provided to be sufficient.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	BRL.PD.A4b	PR14 Residential retail: Bristol Water is required to clarify the justification for its 2019-2020 forecast which departs from the previously observed trends.	The company states that the forecast for 2019-2020 departs from the previously observed trends due to its increased metering penetration target for 2019-2020.	No intervention required. We consider the explanation provided to be sufficient.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A

Model	Ref.	IAP action	Summary of company 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	Decision for the final determination
Residential retail	BRL.PD.C008.01	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' but for Bristol Water, consistent with the Competition and Markets Authority's (CMA) determination of Bristol Water's cost of capital. 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>In its 15 July 2019 submission, Bristol Water includes a figure of 3.67% for the 'Materiality threshold for financing adjustment - Discount Rate.'</p> <p>In its representation, Bristol Water uses a figure of 3.81% for the 'Materiality threshold for financing adjustment - Discount Rate' that reflects our draft determination intervention.</p>	Intervention retained.	<p>For Bristol Water we are including a figure of 3.81% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 3.67% contained in Bristol Water's 15 July 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>
Residential retail service incentive mechanism (SIM)	BRL.PD.A5	PR14 Service incentive mechanism: Bristol Water is required to provide further explanation for the change to the 2017-18 value and the forecast trajectory in table R10.	Bristol Water provides explanations for the 2017-18 value in an initial assessment of plans query response, and the forecast trajectory in its business plan section C7.5 (page 36).	<p>No intervention required.</p> <p>We consider the explanation provided to be sufficient.</p>	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	N/A	N/A

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Residential retail service incentive mechanism (SIM)	BRL.PD.C009.01	N/A	N/A	Intervention required. We are intervening to adjust Bristol Water's residential retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	In its representation, Bristol Water includes an updated residential retail revenue adjustment of + £0.085 million (2017-18 FYA CPIH deflated price base).	Intervention retained. We are updating our analysis to take account of companies' finalised scores for 2018-19.	We are intervening to set the residential retail service incentive mechanism adjustment to +0.16% of residential retail revenue, which is £0.085 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'.
Totex	BRL.PD.A6a	PR14 Totex: Bristol Water is required to amend the values as submitted in the table WS15 to match those in the model.	Bristol Water amends the values as submitted in table WS15 to match those in the model with the exception of PAYG figures.	Intervention required. Bristol Water does not report the PAYG figures as specified by the CMA in table WS15. We are intervening to apply PAYG figures as determined by the CMA.	In its 15 July 2019 submission, Bristol Water does not report the PAYG figures in table WS15 as specified by the Competition and Markets Authority (CMA). In its representation, Bristol Water reports the PAYG figures in table WS15 as specified by the Competition and Markets Authority (CMA) that reflect our draft determination intervention.	Intervention retained. We are intervening to apply PAYG figures as determined by the CMA. We are making this intervention relative to the company's 15 July 2019 submission. The intervention is consistent with the company's view in its representation.	We are intervening to change the PAYG figures from 59.94%, 54.03%, 54.05%, 54.07%, 54.16% for years 2015-20 to 59.94% for 2015-16 and 54.20% for the remaining years. These figures are provided in the CMA's determination (Para's 11.11 and 11.73). This change increases Bristol Water's revenue by £16k and reduces its RCV by the same amount. Along with BRL.PD.C006.01 below, our interventions change the RCV adjustment at the end of the period from - £3.448 million as submitted in Bristol Water's 15 July 2019 submission to - £3.162 million and the revenue adjustment at the end of the period from - £2.378 million to - £2.338 million (2017-18 FYA CPIH deflated price base).

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Totex	BRL.PD.A6b	PR14 Totex: Bristol Water is required to update the value for transitional expenditure to actual value.	Bristol Water updates the transitional expenditure value to the actual outturn figure.	No intervention required.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	BRL.PD.A6c	PR14 Totex: Bristol Water is required to provide a detailed explanation to support its forecasted performance for years 2018-19 and 2019-20.	Bristol Water provides some information in 'C7 Track record of delivery' (P.72) to support its forecast performance in 2019-20. It forecasts additional expenditure associated with leakage and the re-phasing of capital expenditure.	No intervention required. The company provides sufficient explanation in support of its forecasts.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	BRL.PD.C006.01	N/A	N/A	Intervention required. Bristol Water uses the incorrect wholesale water baseline totex figure for all years. We are intervening to correct this figure.	In its 15 July 2019 submission, Bristol Water submits the incorrect figures for 'Water: baseline totex' in its business plan. In its representation, Bristol Water uses the correct wholesale water baseline totex figures that reflect our draft determination intervention.	Intervention retained. We are making this intervention relative to the company's 15 July 2019 submission. The intervention is consistent with the company's view in its representation.	We are intervening to change the 'Water: baseline totex' figures as submitted in Bristol Water's 15 July 2019 submission. The baseline totex figure is calculated by deducting the 3 rd party and pension deficit repair allowances from the CMA's allowed totex figure. The company uses 3 rd party figures rounded to 2 decimal places in its calculation leading to a minor difference (£14k) from our calculated figures. We have calculated this figure using the final determination figures (£1.077 million for 2015-16 and £1.015 million for the remaining years).

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Wholesale revenue forecasting incentive mechanism (WRFIM)	BRL.PD.A7	PR14 Wholesale revenue forecasting incentive mechanism: Bristol Water is required to use the 2015-16 revenue recovered value from table WS13 in the model.	We withdrew this action as subsequent engagement with Bristol Water confirms the prepopulated 2015-16 data we issued in the business plan table template does not reflect the company's restated 2015-16 annual performance report tables.	No intervention required. We updated the prepopulated data values in the April submission table template.	In its representation, Bristol Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Revenue adjustments	BRL.PD.C011.01	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments. 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 Bristol Water's choices for profiling revenue adjustments in 2020-25.	In its representation, Bristol Water 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. We are not intervening in Bristol Water's 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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