

December 2019

PR19 final determinations

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

PR19 final determinations: Portsmouth 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 Portsmouth 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 ‘PRT’ denotes the company Portsmouth 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 IAP. Actions whose numbers are preceded with a ‘B’ denote advised actions from the IAP. 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 PRT.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 Portsmouth Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for Portsmouth 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	PRT.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.	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.	In its 15 July 2019 submission, Portsmouth 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 Portsmouth 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	PRT.PD.REP	In its 30 August 2019 representation, Portsmouth Water does not submit any updated past delivery business plan tables or reconciliation models.					
Land disposals	PRT.PD.A1	PR14 Land sales: Portsmouth Water is required to provide sufficient evidence to support the forecast trajectory in table App9.	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.	In its representation, Portsmouth 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
Outcomes	PRT.PD.A2	<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</p> <p>A2 (water quality standards(MZC)): -£319,420</p> <p>A3 (water quality contacts): -£380,604</p> <p>C1 (interruptions to supply): £12,087</p> <p>Total: -£687,937 (wholesale water/water network+)</p> <p>2016-17</p> <p>A3 (water quality contacts): -£380,604</p> <p>C1 (interruptions to supply): £12,087</p> <p>Total: -£368.517 (wholesale water/water network+)</p> <p>2017-18</p> <p>A2 (water quality standards(MZC)): -£319,420</p> <p>A3 (water quality contacts): -£380,604</p> <p>C1 (interruptions to supply): £12,087</p> <p>Total: -£687,937 (wholesale water/water network+)</p>	<p>Our assessment and rationale for the draft determination</p>	<p>In its 15 July 2019 submission, Portsmouth Water submits revised tables App5 and App27 that reflect the underperformance and outperformance payments as set out in our draft determination. The company also updates its 2019-20 payments based on its latest performance forecasts.</p> <p>However, the company submits a representation on the following performance commitment:</p> <p>A3 Water quality contacts</p> <p>Portsmouth Water considers, as a frontier company, the £1.9 million underperformance payment for this performance commitment is disproportionate.</p> <p>The company states that its PR14 target for AMP6 was based on its 2013 performance. And as a result of introducing a new Customer Relationship Management System (CRM) in October 2012 and a resultant review of its reporting methodology, the company started to record a greater number of contacts. The company admits that, in retrospect, it should have rebased our ODI commitment and states that it is still upper quartile in the industry.</p> <p>Portsmouth Water request that we reconsider the magnitude of the penalty associated with this ODI in light of:-</p> <ol style="list-style-type: none"> 1. The impact of the PR14 Determination intervention on the level of this penalty 2. The improvement it has made in performance in AMP6 3. Its relative historical performance in AMP6 4. Its proposed future performance in AMP7 5. The proposed incentive rate for AMP7. <p>The company proposes a revision to the penalty to £96,636 per annum for AMP6, totalling £483,180.</p>	<p>No intervention required.</p> <p>The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.</p> <p>A3 Water quality contacts</p> <p>At PR14 we extended the definition to include discolouration as well as taste and odour that Portsmouth Water proposed. This roughly doubled the level of contacts. We also increased stretch and caps and collars proportionally which roughly doubled the possible financial incentive. We increased the ODI rates, both underperformance and outperformance five-fold. The company accepted these interventions.</p> <p>We reject the company's proposal and are not intervening on the £1.9 million underperformance payment which it includes in its 15 July submission following our draft determination intervention.</p> <p>We are doing this to maintain the integrity of the outcomes approach by not changing incentive packages that companies accept in final determinations.</p>	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
Outcomes	PRT.PD.A2	<p>2018-19</p> <p>A3 (water quality contacts): -£380,604</p> <p>C1 (interruptions to supply): £12,087</p> <p>Total: -£368.517 (wholesale water/water network+)</p> <p>2019-20</p> <p>A3 (water quality contacts): -£380,604</p> <p>C1 (interruptions to supply): £12,087</p> <p>Total: -£368.517 (wholesale water/water network+)</p> <p>B1 (reducing per capita consumption) = -£162,488</p> <p>Total: -£162,488 (retail household/residential household)</p> <p>5-year totals</p> <p>Wholesale water/water network+: -£2,481,425</p> <p>Retail household/residential household: -£162,488</p> <p>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>		<p>In its 15 July 2019 submission, Portsmouth Water submits revised tables App5 and App27 that reflect the underperformance and outperformance payments as set out in our draft determination. The company also updates its 2019-20 payments based on its latest performance forecasts.</p> <p>Please refer to page 3 above.</p>	<p>No intervention required.</p> <p>The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.</p> <p>Please refer to page 3 above.</p>	N/A	

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Outcomes	PRT.PD.A2a	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.	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).	In its 15 July 2019 submission, Portsmouth Water includes an updated annual outperformance payment of £12,000 (2012-13 prices) for its C1 (interruptions to supply) performance commitment.	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

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Outcomes	PRT.PD.A2b	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.	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).	In its 15 July 2019 submission, Portsmouth Water includes an updated 2019-20 forecast underperformance payment of £162,000 (2012-13 prices) for its B1 (reducing per capita consumption (PCC)) performance commitment. The company includes this payment in the retail household (PR14) and residential retail (PR19) price control totals.	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	PRT.PD.A3a	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:	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.	In its 15 July 2019 submission, Portsmouth 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. Portsmouth Water does not raise substantive reasons to change our draft determination in relation to the specific actions PRT.PD.A3a to PRT.PD.A3g.	Intervention required. 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. Please see PRT.PD.C002.01 below.	N/A
Outcomes	PRT.PD.A3b	B1: Reducing per capita consumption (PCC)	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a

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Outcomes	PRT.PD.A3c	A2: Water quality standards	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3d	A3: Water quality contacts	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3e	A1: Bursts	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3f	B1: Leakage	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a
Outcomes	PRT.PD.A3g	C1: Interruptions to supply	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a	As PRT.PD.A3a

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Outcomes	PRT.PD.C002.01	N/A	N/A	<p>Portsmouth Water includes Service Incentive Mechanism (SIM) outperformance payments in table App27 (PR14 reconciliation - financial outcome delivery incentives summary).</p> <p>These are being reconciled in a separate model and so should be removed from the outcome delivery incentive model to avoid duplication.</p>	<p>In its representation, Portsmouth Water acknowledges that in its 1 April 2019 Business Plan, APP27 did include a reward for SIM to the value of £1.190 million and thus an ODI adjustment of £2.115 million. However the company states that it did not feed the results from APP27 automatically into the Financial Model.</p> <p>Portsmouth Water explains that specifically in the financial model they entered a penalty of £3.336 million over the AMP7 period in row 261 of the Inputs tab – Water Network End of periods ODIs. This was the re-profiled assessment of the penalty of £3.0 million and a re-profiling impact £0.3 million. Further they entered SIM on row 443 of the Inputs Tab – Residential retail revenue adjustment. This was a value of £0.238 million per annum, £1.190 million in total. Finally, they did respond to a query on this issue on 26 April 2019, where the penalty was reduced marginally from £2.115 million to £2.041 million.</p>	<p>Intervention retained.</p> <p>Having reviewed the information and actively considered all issues raised in the representation provided to us, Portsmouth Water does not raise substantive reasons to change our draft determinations.</p> <p>We are reconciling the SIM in a separate model and are therefore removing this outperformance payment from this model to avoid duplication.</p>	We are intervening to remove the SIM outperformance payment of £0.212 million per year (2012-13 prices) from the outcome delivery incentive model.
Outcomes	PRT.PD.C002.02	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>	<p>We agree with the company's calculation. The underperformance payment is - £380,604 per year (2012-13 prices).</p>	<p>In its 15 July 2019 submission, Portsmouth Water includes an updated annual underperformance payment of £390,000 (2012-13 prices) for its A3 (water quality contacts) performance commitment.</p>	<p>No intervention required.</p> <p>The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.</p>	N/A

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Residential retail	PRT.PD.A4a	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.	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.	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	PRT.PD.A4b	PR14 Residential retail: Portsmouth Water is required to provide further evidence for the forecast number of unmetered water customers in 2018-19.	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.	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	PRT.PD.A4c	PR14 Residential retail: Portsmouth Water is required to provide further evidence for the forecast number of metered water customers in 2018-19.	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.	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	PRT.PD.A4d	PR14 Residential retail: Portsmouth Water is required to populate the 'Materiality threshold for financing adjustment' in table R9.	The company has populated the materiality threshold for financing adjustment in table R9.	No intervention required.	In its representation, Portsmouth 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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Residential retail	PRT.PD.C008.01	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>	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	<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 - £0.064 million (2017-18 FYA CPIH deflated price base).</p>

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Residential retail	PRT.PD.C008.02	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>	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	<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>
Residential retail	PRT.PD.D008.01	N/A	N/A	N/A	In its 15 July 2019 submission, for the blind year 2019-20, Portsmouth Water provides its most recently available data for reforecast customer numbers.	<p>Intervention required.</p> <p>This is inconsistent with the definition of this line which requires it to be a forecast based on tariff setting in advance of the charging year 2019-20. Therefore, we issued a query to the company (ref. "PRT-APR-PD-001"), requesting it to provide us with updated data for reforecast customer numbers in 2019-20 based on the customer numbers the company used to set tariffs in advance of the 2019-20 charging year.</p>	<p>We are intervening to use the 2019-20 reforecast customer numbers provided by the company in response to our query (ref. PRT-APR-PD-001).</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 which remains at - £0.064 million (2017-18 FYA CPIH deflated price base).</p>

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Residential retail service incentive mechanism (SIM)	PRT.PD.C009.01	N/A	N/A	Intervention required. We are intervening to adjust Portsmouth Water's residential retail revenue as a result of its residential retail service incentive mechanism performance from 2015-16 to 2018-19.	In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	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 +6.00% of residential retail revenue, which is £1.439 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	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.	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.	In its representation, Portsmouth 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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Wholesale revenue forecasting incentive mechanism (WRFIM)	PRT.PD.A6	<p>PR14 Wholesale revenue forecasting incentive mechanism: Portsmouth Water is required to update table WS13 and the WRFIM 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 2I 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.</p>	<p>Portsmouth Water does not provide evidence to support the amendment.</p> <p>We note the company has not changed table WS13 nor submitted a model in the April submission.</p>	<p>Intervention required.</p> <p>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.</p>	<p>In its representation, Portsmouth Water disagrees with the intervention on the grounds that it considers that it reverses a previously agreed position and proposes to strip connection charges income received out of revenue recovered or, alternatively, that an adjustment is made to the allowed revenue to include the connection charges so that a like for like comparison is being made. The company provides further evidence that we agreed the company could report on a particular basis in its annual performance report, but does not provide evidence that there was an agreement on the treatment of the error for the wholesale revenue forecasting mechanism adjustment.</p> <p>Please refer to 'Portsmouth Water - Accounting for past delivery additional information' for a more detailed summary of the company's representation.</p>	<p>Intervention retained.</p> <p>Please refer to 'Portsmouth Water - Accounting for past delivery additional information' for a detailed explanation of our assessment and rationale for the intervention we are including for the final determination.</p>	<p>We are excluding the claim for additional revenue to correct the error the company made in completing the PR14 business plan.</p> <p>Our intervention reduces the total wholesale revenue forecasting incentive mechanism adjustment at the end of the 2015-20 period from - £0.489 million to - £4.442 million (2017-18 FYA CPIH deflated price base).</p>

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Water trading	PRT.PD.A7	<p>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.</p>	<p>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.</p>	<p>Intervention required.</p> <p>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.</p>	<p>In its 15 July 2019 submission Portsmouth Water updates its table WS17 to include forecast profits for export 1 that reflect our draft determination intervention.</p> <p>In its representation, Portsmouth Water agrees with our intervention in relation to imposing forecast profits based on the historical average volumes for the last three years of the export.</p>	<p>No intervention required.</p> <p>The draft determination intervention is no longer required because the company addresses the issue appropriately in its 15 July 2019 submission.</p>	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
Revenue adjustments	PRT.PD.C011.01	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>	<p>In its representation, Portsmouth Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	<p>Intervention required.</p> <p>We are intervening to reflect our updated view of the wholesale WACC.</p> <p>We are not intervening in Portsmouth Water's choices for profiling revenue adjustments in 2020-25.</p> <p>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.</p>	<p>We are using our view of the wholesale WACC (3.11%) 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%.</p>

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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