

December 2019

PR19 final determinations

**South Staffs Water – Accounting for past
delivery final decisions**

PR19 final determinations: South Staffs 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 South Staffs 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 ‘SSC’ denotes the company South Staffs 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 SSC.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 South Staffs Water’s final determination, please see the [final determinations webpage](#).

Table 1 – Accounting for past delivery final decisions for South Staffs 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	SSC.PD.A6	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 South Staffs 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, South Staffs 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 South Staffs 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	SSC.PD. REP	In its 30 August 2019 representation, South Staffs Water does not submit any updated past delivery business plan tables or reconciliation models.						
Land disposals	SSC.PD.A1	PR14 Land sales: South Staffs Water is required to provide sufficient evidence to support the forecast trajectory in table App9.	South Staffs Water provides additional evidence to support the forecast trajectory in table App9 stating "We have not sold any land in the first three years of the current period. There is also no expectation that we will sell any land in either 2018/19 and 2019/20. Although we constantly review our land portfolio, most surplus land is not suitable to sell as it is 'greenbelt' land and so only has agricultural value. We do not believe it would be in customers' interests to sell this land unless future local plans look to allocate some of this land for development."	No intervention required. Commentary supplied confirming zero sales is sufficient.	In its representation, South Staffs 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	SSC.PD.A2	PR14 outcome delivery incentives: South Staffs Water is required to calculate the outcome delivery incentive: '1.2: acceptability of water to customers (combined company)' based on performance reported to 2 decimal places in tables App5/App6/App27.	South Staffs Water states that it has calculated its financial incentives in line with its previous Annual Performance Reports. It considers that reporting to additional decimal places is fairer for its customers.	Intervention required. The 'PR14 final determination company-specific appendix' states that performance commitment 1.2 (acceptability of water to customers) is measured "in nr / 1000 population to two decimal places" (pages 95-96). 1.2 (acceptability of water to customers) is measured "in nr / 1000 population to two decimal places" (pages 95-96).	In its 15 July 2019 submission, South Staffs Water calculates its outperformance payments correctly to two decimal places as stated in the 'PR14 final determination company-specific appendix.'	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	SSC.PD.A3a	PR14 outcome delivery incentives: South Staffs 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 South Staffs Water's updated data before making any interventions for the final determination.	In its 15 July 2019 submission, South Staffs 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, South Staffs Water does not raise substantive reasons to change our draft determination in relation to the specific actions SSC.PDA3a to SSC.PD.A3c.	No intervention required. We have assessed the data the company provides and its forecasts for the 2019-20 reporting year. We found no data errors and the company provided sufficient evidence for its forecast performance. We agree with the underperformance payments and outperformance payments that the company submitted for the 2018-19 and 2019-20 based on this performance data.	N/A
Outcomes	SSC.PD.A3b	1.1: Mean zonal compliance (MZC, combined company)	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a
Outcomes	SSC.PD.A3c	1.2: Acceptability of water to customers (combined company)	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a	As SSC.PD.A3a

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Residential retail	SSC.PD.A4a	PR14 Residential retail: South Staffs Water is required to clarify the justification for its 2019-2020 forecast for the number of metered water customers which departs from the previously observed trends in table R9.	South Staffs Water provides evidence to support its forecasts by referring to improvements to the process of calculating property numbers.	No intervention required. The company provides sufficient evidence in support of its forecast.	In its representation, South Staffs Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	SSC.PD.A4b	PR14 Residential retail: South Staffs Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019.	South Staffs clarifies that there is a difference between actual and reforecast customer numbers in 2018-19 because the forecast actual customer numbers figure is a more recent forecast. In addition, the improvements to the process of calculating property numbers were first applied to the forecast actual customer numbers in 2018-19, resulting in further differences.	No intervention required. The company provides a satisfactory response to this action.	In its representation, South Staffs 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	SSC.PD.C008.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to round South Staffs Water's modification factor figures to two decimal places to ensure consistency with the 'PR14 reconciliation rulebook'.</p>	<p>In its representation, South Staffs Water 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 £1.196 million (2017-18 FYA CPIH deflated price base).</p>

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Residential retail	SSC.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, South Staffs Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	<p>For South Staffs Water, we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 3.6% contained in South Staffs 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)	SSC.PD.C009.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust South Staffs Water's residential retail revenue as a result of its residential retail service incentive mechanism performance from 2015-16 to 2018-19.</p>	In its representation, South Staffs Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	<p>Intervention retained.</p> <p>We are updating our analysis to take account of companies' finalised scores for 2018-19.</p>	We are intervening to set the residential retail service incentive mechanism adjustment to + 2.07% of residential retail revenue, which is £1.605 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'.

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Totex	SSC.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, South Staffs Water input its 'Water: Final menu choice' figure 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 103.200 to 103.246. Our intervention reduces the water totex RCV adjustment from £0.657 million to £0.639 million and reduces the water totex revenue adjustment at the end of the period from £0.069 million to £0.060 million (2017-18 FYA CPIH deflated price base).

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
Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5	<p>PR14 Wholesale revenue forecasting incentive mechanism: The company proposes that there is no WFRIM adjustment for additional revenue from higher developer contributions than forecast. South Staffs Water is required to provide further evidence in support of its claim, specifically to cover the following elements:</p>	<p>South Staffs Water partially responds to this action as noted in SSC.PD.A5a to A5e below.</p>	<p>Intervention required.</p> <p>We have assessed the complex revenue claim for £18.9 million (nominal prices) in respect of higher grants and contributions revenue than included in the 2014 price review final determination.</p> <p>Some of the elements of the company's claim are not within the scope of the adjustment as set out at PR14 which related to the demand for new connections only. We have not accepted the elements of the claim where the variance has been driven by the cost or type of new connection.</p> <p>We also consider that claims due to errors companies made in completion of business plans at PR14 are outside the scope of the adjustment mechanism, so we have not accepted the element relating to main requisition charges.</p> <p>As the company has explained and evidenced the approach taken to develop its PR14 forecasts and demonstrated that the increase in connection volumes is due to brownfield development that was unexpected and is harder to forecast, we have accepted the elements of the claim that are driven by the volume of new connections.</p> <p>For the draft determination we included £6 million (nominal prices) of the revenue claim.</p>	<p>In its representation, South Staffs Water asserts that the entire claim should be reflected in the wholesale revenue forecasting incentive mechanism.</p> <p>Please refer to 'South Staffs Water - Accounting for past delivery additional information' for a more detailed summary of the company's representation.</p>	<p>Intervention required.</p> <p>Please refer to 'South Staffs 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 including the elements of South Staffs Water's claim related to the demand for new connection and the cost of connections consistent with the updated value provided in the company's representation. We are excluding the elements of the claim not related to the variance in the volume of new connections that are outside the mechanism's scope.</p> <p>We are intervening to reduce the aggregate value of the revenue claim to £12.267 million (nominal prices).</p> <p>Our intervention increases the total wholesale revenue forecasting incentive mechanism adjustment at the end of the 2015-20 period from - £2.057 million to - £9.154 million (2017-18 FYA CPIH deflated price base).</p>

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Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5a	<ul style="list-style-type: none"> Evidence to demonstrate the company took all necessary steps to understand development pipeline and number and type of connections and that the reasons for the variance were outside of management control. For example, how the company took account of evidence from sources that underpin the company's connection forecasts, such as location, type (brownfield / greenfield) and timing of developments coming forward in both the South Staffordshire area and the Cambridge area. 	South Staffs Water responds to this action.	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above
Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5b	<ul style="list-style-type: none"> Evidence to support the company's assumption that the proportion of self-lay would increase significantly. For example, what steps has the company taken to promote the take-up and delivery of self-lay for new connections in your area and what additional steps have been taken to achieve the projected significant increase in self-lay. 	South Staffs Water does not respond to this action.	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above

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Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5c	<ul style="list-style-type: none"> For cost efficiency while we acknowledge the report referenced by the company, further evidence is required as to how much of the additional costs incurred are covered by the unit costs for connection scenarios in the report. 	South Staffs Water does not respond to this action.	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above
Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5d	<ul style="list-style-type: none"> Evidence to support why it is appropriate to base the business plan forecasts for the number of connections in 2018-19 and 2019-20. Including evidence to support the company's view that it is appropriate to base its forecasts on a short period relating to the final quarter of 2017-18 and the first two months of 2018-19. 	South Staffs Water does not respond to this action.	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above
Wholesale revenue forecasting incentive mechanism (WRFIM)	SSC.PD.A5e	<ul style="list-style-type: none"> Mains requisitions - error correction. South Staffs Water is required to update table WS13 and the WFRIM model to remove this adjustment or provide compelling evidence to support why the adjustment is appropriate. 	South Staffs Water does not respond to this action.	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above	See SSC.PD.A5 above

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	SSC.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 in 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 South Staffs Water's choices for profiling revenue adjustments in 2020-25.</p>	<p>In its representation, South Staffs 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 South Staffs 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.</p>

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

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gov.uk

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