

December 2019

# PR19 final determinations

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

## PR19 final determinations: South West 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 West 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 'SWB' denotes the company South West 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 SWB.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 West Water's determination, please see the [final determinations webpage](#).

**Table 1: Accounting for past delivery final decisions for South West Water**

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
All models	SWB.PD.A5	<b>PR14 reconciliations:</b> 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 South West 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 West 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 West 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	SWB.PD.REP	In its 30 August 2019 representation, South West Water does not submit any updated past delivery business plan tables or reconciliation models.					
Land sales	SWB.PD.A1	<b>PR14 Land sales:</b> 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, South West Water 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	SWB.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, South West Water 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	N/A

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Land sales	SWB.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.		proceeds by the discount factor. Our draft 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.	N/A
Outcomes	SWB.PD.A2a	<b>PR14 Outcome delivery incentives:</b> The company is required to exclude the service incentive mechanism from App27 (Bournemouth area) and allocate each performance commitment's outcome delivery incentive payments and penalties to a single PR19 price control as per methodology (South West area).	No company action required for the draft determination.	Intervention required. We are intervening on the service incentive mechanism for the Bournemouth area because the SIM is being reconciled separately from outcome delivery incentives.  No intervention required on the allocation of outcome delivery incentive payments.  Our final methodology required the allocation of outcome delivery incentive payments to a single PR19 price control. However, following the IAP, we are relaxing this requirement and allowing companies to allocate to multiple PR19 price controls.	In its 15 July 2019 submission for the Bournemouth area, South West Water excludes the outperformance payment for Service Incentive Mechanism (SIM) from table App27.  In its representation, South West Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	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	SWB.PD.A2b	<b>PR14 Outcome delivery incentives:</b> The company should report the service level and resulting outcome delivery incentive for performance commitment 'W-B1 Water restrictions placed on customers (numbers)' in line with the definition published in the company specific appendix at PR14. The company should not	No company action required for the draft determination.	No intervention required. We will review South West Water's revised data before making any intervention for the final determination.	In its 15 July 2019 submission for the South West area, South West Water reports the service level and resulting outcome delivery incentive for performance commitment 'W-B1 Water restrictions placed on customers (numbers)' in line with the definition published in the company specific appendix at PR14. The company states	No intervention required.  The company addresses the issue appropriately in its 15 July 2019 submission.	N/A

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
		exclude any restrictions placed on customers for this performance commitment. Tables App27 should be updated accordingly.			that it has not excluded any restrictions placed on customers, as none have been made.		
Outcomes	SWB.PD.A2c	<b>PR14 Outcome delivery incentives:</b> The company should provide further evidence to support the exclusions it makes for W-A5: Duration of interruptions in supply (hours/property).	No company action required for the draft determination.	<p>Intervention required.</p> <p>We are intervening because South West Water has not reported the service level and resulting outcome delivery incentive for performance commitment W-A5: Duration of interruptions in supply (hours/property) for 2017-18 in line with the definition published in the company specific appendix at PR14.</p> <p>South West Water excludes restrictions placed on customers for this performance commitment which results in performance of 0.369 hours per property in 2017-18 and an underperformance payment of - £0.895 million (2012-13 prices net of tax).</p> <p>Our intervention includes the excluded hours per property and therefore revises the performance in 2017-18 to 0.544 hours per property and increases the underperformance payment to - £1.867 million (2012-13 prices net of tax).</p> <p>We will review this intervention once we receive South West Water's updated information.</p>	<p>In its 15 July 2019 submission for the South West area, South West Water reports the service level and resulting outcome delivery incentive for performance commitment W-A5: Duration of interruptions in supply (hours/property) for 2017-18 in line with the definition published in the company specific appendix at PR14.</p> <p>In its representation, South West Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</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
Outcomes	SWB.PD.A2d	<b>PR14 Outcome delivery incentives:</b> South West Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review South West Water's updated data before making any interventions for the final determination.</p>	In its 15 July 2019 submission, South West Water provides evidence for its updated forecast performance for 2019-20 in light of its actual performance in	<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</p>	N/A

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
		<p>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> <ul style="list-style-type: none"> <li>W-A3: Asset reliability (pipes)</li> <li>W-E5: Pollution incidents (category 3 and 4)</li> <li>W-F1: Customers paying a metered bill</li> <li>W-A5: Duration of interruptions in supply (hours/property)</li> <li>S-C1: Wastewater treatment numeric compliance (%)</li> <li>S-B1: Operational customer contacts resolved first time (%)</li> <li>C1: Repair visible leaks</li> </ul>			<p>2018-19 for all of its performance commitments.</p> <p>In its representation, South West Water does not raise substantive reasons to change our draft determination in relation to this specific action.</p>	<p>where we found data errors or inconsistencies, or the company provided insufficient evidence for its performance.</p> <p>Please see SWB.PD.D002.01 below.</p> <p>We also note the following:</p> <p><b>Performance commitment S-A4 (asset reliability - pipes), sub-measure 02 (pollution incidents (CSO + RM + FS)):</b></p> <p>2018-19 performance has breached the 'high' level, however the company considers its performance to be 'stable'. In its response to our query (SWB-APR-OC-003) the company states that it is working with the Environment Agency to re-classify eight of these events and it changes its assessment of the sub-measure to 'marginal' from 'stable' until the re-classifications are resolved. We consider that pending the re-classifications another year of poor performance in this sub-measure (above the high level) could result in a deteriorating assessment, resulting in the performance commitment moving to marginal which may trigger an underperformance penalty.</p>	
Outcomes	SWB.PD.D00 2.01	N/A	N/A	N/A	In its 15 July 2019 submission, South West Water calculates the outperformance payment for its B2 (large scale interruptions)	Intervention required. We are intervening to adjust the forecast 2019-20 outperformance payment for the B2 (large scale	We are intervening to adjust the 'Net performance payment / (penalty) applied to revenue for end of period ODI adjustments ~

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
					<p>performance commitment for the Bournemouth area as follows:</p> <p>16 (2019-20 forecast performance level) - 12 (outperformance deadband) * 0.1853m (incentive rate) = £0.7412m (2012-13 prices)</p>	<p>interruptions) performance commitment for the Bournemouth area.</p> <p>The 2019-20 performance commitment level, outperformance deadband and incentive rate are on pages 92-93 of the '<a href="#">Bournemouth Water PR14 final determination company-specific appendix</a>'. The deadband is stated as 12.5.</p> <p>We therefore calculate the outperformance payment as follows:</p> <p>2019-20 performance commitment level = 12.0 thousand properties</p> <p>16.4 (2019-20 forecast performance level) - 12.5 (2019-20 outperformance deadband) = 3.9</p> <p>3.9 * 0.1853m (incentive rate) = £0.72267m (2012-13 prices)</p> <p>The end of period revenue adjustment is £0.72267m - £0.74120m = - £0.01853m</p>	<p>Wholesale water in 2012-13 prices' in 2019-20 by - £0.01853 million from £1.474 million to £1.455 million.</p> <p>Overall, our intervention reduces the water revenue adjustment at the end of the 2015-20 period for South West Water (Bournemouth area) from £1.686 million to £1.658 million (2017-18 FYA CPIH deflated price base).</p>
Residential retail	SWB.PD.A3a	<b>PR14 Residential retail:</b> The company should clarify what the correct values are in table R9 (Bournemouth area) for the forecast number of metered water-only customers in 2018-2019 and 2019-2020.	No company action required for the draft determination.	<p>Intervention required.</p> <p>We are intervening because we identified unexpected differences between forecasts and actuals in South West Water's business plan</p>	In its 15 July 2019 submission for the Bournemouth area, South West Water updates table R9 to reflect actual outturn for 2018-19 and updates its forecasts for 2019-20.	<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 the 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	Decision for the final determination
Residential retail	SWB.PD.A3b	<b>PR14 Residential retail:</b> The company should clarify what the correct values are in table R9 (Bournemouth area) for the actual number of metered water-only customers in 2019-2020.		table R9 which we do not expect at this stage.  We will review this intervention once we receive South West Water's updated information.			
Residential retail	SWB.PD.A3c	<b>PR14 Residential retail:</b> The company should clarify what the correct values are in table R9 (Bournemouth area) for the actual number of unmetered water-only customers in 2019-2020.					
Residential retail	SWB.PD.A3d	<b>PR14 Residential retail:</b> The company should clarify what the correct values are in table R9 (South West area) for the reforecast number of unmetered water-only customers in 2015-2016.	No company action required for the draft determination.	Intervention required.  We are intervening because we identified unexpected differences between forecasts and actuals in South West Water's business plan table R9 which we do not expect at this stage.	In its 15 July 2019 submission for the South West area, South West Water confirms what the correct values are in table R9 for 2015-16 and 2019-20.	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
Residential retail	SWB.PD.A3e	<b>PR14 Residential retail:</b> The company should clarify what the correct values are in table R9 (South West area) for the actual number of metered water and wastewater customers in 2019-2020.		We will review this intervention once we receive South West Water's updated information.			
Residential retail	SWB.PD.A3f	<b>PR14 Residential retail:</b> The company should clarify why it has taken its particular approach (both areas) in relation to pre-occupied properties given that other companies that have also experienced the non-household retail market opening have not submitted different values for business plan table R9 and the 2017-2018 annual performance report.	No company action required for the draft determination.	No intervention required.  In its September 2018 business plan submission, South West Water changed the values for the actual number of unmetered and metered water-only customers in table R9. This was already incorporated in the reconciliation model submitted in July 2018.	In its 15 July 2019 submission for the South West area, South West Water addresses these interventions relating to the actual number of unmetered and metered water-only customers in table R9.	No intervention required.  The company addresses the issue appropriately in its 15 July 2019 submission.	N/A



Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Residential retail	SWB.PD.C008.01	N/A	N/A	Intervention required. We are intervening to round South West Water's modification factor figures to 2 decimal places to ensure consistency with the PR14 Reconciliation Rulebook.	In its 15 July 2019 submission, South West Water reflects our intervention in relation to rounding the modification factors to 2 decimal places.	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
Residential retail	SWB.PD.C008.02	N/A	N/A	No intervention required. We are including South West Water's updated data from its September 2018 business plan submission.	In its 15 July 2019 submission South West Water updates its forecast figures 2019-20 forecasts for 'Actual customer numbers – Metered water and wastewater customer' for the South West area. For the Bournemouth area, the company also reflects 'Actual customer numbers – Unmetered water-only customer' and 'Actual customer numbers – Metered water-only customer' in 2016-17 contained in its July 2018 past delivery submission as per our draft determination.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Residential retail	SWB.PD.C008.03						
Residential retail	SWB.PD.C008.04						
Residential retail	SWB.PD.C008.05	N/A	N/A	Intervention required. 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. Our intervention ensures that there is no mismatch between the discount rate used and the revenue control to which it is applied.	In its representation, South West Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	For South West Water we are including a figure of 3.85% for the 'Materiality threshold for financing adjustment - Discount Rate.' This replaces the figure of 3.7% contained in South West Water's 15 July 2019 submission for the South West area.  For Bournemouth Water we are including a figure of 3.74% for the 'Materiality threshold for financing adjustment - Discount Rate.'

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
							This replaces the figure of 3.6% contained in South West Water's 15 July 2019 submission for the Bournemouth area.
Residential retail service incentive mechanism (SIM)	SWB.PD.C009.01	N/A	N/A	Intervention required. We are intervening to adjust South West Water's residential retail revenue as a result of its SIM performance from 2015-16 to 2018-19.	In its representation, South West Water proposes that we continue to apply the methodology first established at PR14 for calculating performance payments for SIM.	Intervention retained. We consider that our approach is consistent with our PR19 final methodology and reflects the outcome of our consultation on calculating SIM. 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 - 1.50% of residential retail revenue, which is - £2.944 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	SWB.PD.A4a	<b>PR14 Totex:</b> The company should use the updated actual values for the transitional expenditure.	No company action required for the draft determination.	No intervention required. We will review South West Water's updated data before making any interventions for the final determination.	In its 15 July 2019 submission, South West Water uses the correct actual values for transitional expenditure.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
	SWB.PD.A4b	<b>PR14 Totex:</b> The company should ensure all values are consistent in its models and business plan tables WS15/WWS15.	No company action required for the draft determination.	No intervention required. We will review South West Water's updated data before making any interventions for the final determination.	In its 15 July 2019 submission, South West Water includes several values that are inconsistent between its models and its business plan tables WS15 and WWS15.	Intervention required.	We are intervening to ensure our final determination totex reconciliation models reflect the correct figures for both the South West and Bournemouth areas.  Please see our separate interventions below for SWB.PD.C006.04, SWB.PD.C006.05, SWB.PD.D006.01, SWB.PD.D006.04 and SWB.PD.D006.05.

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Totex	SWB.PD.A4c	<b>PR14 Totex:</b> The company should provide a detailed explanation to support its forecasted performance for years 2018-19 and 2019-20 in tables WS15/WWS15 given the high underspend.	No company action required for the draft determination.	No intervention required. We will review South West Water's explanation for its forecast performance in 2018-19 and 2019-20 before making any interventions for the final determination.	In its 15 July 2019 submission, South West Water updates its actual and forecast performance and provides an explanation for the differences from its 1 April 2019 submission.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex (South West area)	SWB.PD.C006.01	N/A	N/A	No intervention required. We are including South West Water's updated data from its September 2018 business plan submission.	In its 15 July 2019 submission, South West Water provides its latest data for 'Sewerage: Third party services (opex)' for the South West area.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex (South West area)	SWB.PD.C006.02	N/A	N/A	No intervention required. We are including South West Water's updated data from its September 2018 business plan submission.	In its 15 July 2019 submission, South West Water provides its latest data for 'Sewerage: Actual Totex' for the South West area.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex (South West area)	SWB.PD.C006.03	N/A	N/A	No intervention required. We are including South West Water's updated data from its September 2018 business plan submission.	In its 15 July 2019 submission, South West Water provides its latest data for 'Adjustments to totex - Sewerage: Disallowables' for the South West area.  For years 2015-16 to 2017-18, the company includes the figures it reported in its September 2018 business plan which was the basis of our draft determination intervention.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex (Bournemouth area)	SWB.PD.C006.04	N/A	N/A	Intervention required. We are intervening to ensure the values for 'Wholesale water baseline totex' correspond to the PR14 final determination.	In its 15 July 2019 submission, South West Water includes incorrect figures for 'Wholesale water baseline totex' which do not reflect figures contained in the PR14 final determination.  In its representation, South West Water does not raise	Intervention retained.	For South West Water (Bournemouth area), we are including the following values for 2015-16 to 2019-20 for 'Wholesale water baseline totex' as contained in the PR14 final determination:

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
					substantive reasons to change our draft determination in relation to this specific intervention.		<ul style="list-style-type: none"> <li>2015-16 £28.045 million, 2016-17 £27.262 million, 2017-18 £26.383 million, 2018-19 £24.902 million and 2019-20 £24.144 million in 2012-13 FYA RPI deflated prices</li> </ul> <p>These values replace the following values contained in the company's 15 July 2019 submission:</p> <ul style="list-style-type: none"> <li>2015-16 £28.166 million, 2016-17 £27.351 million, 2017-18 £26.469 million, 2018-19 £24.984 million and 2019-20 £24.224 million in 2012-13 FYA RPI deflated prices</li> </ul> <p>Our intervention uses the values from the PR14 final determination. Combined with the interventions detailed in <b>SWB.PD.C006.05</b> and <b>SWB.PD.D006.06</b>, the net effect of the interventions increase the totex menu RCV adjustment for South West Water (Bournemouth area) from - £6.811 million to - £6.926 million (2017-18 FYA CPIH deflated price base) and increase the totex menu revenue reduction from - £6.707 million to - £6.810 million (2017-18 FYA CPIH deflated price base) within the wholesale water price control.</p>

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Totex (Bournemouth area)	SWB.PD.C006.05	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to ensure the values for 'Water: FD allowed totex inclusive of menu cost exclusions, less PDRC allowance' correspond to the PR14 final determination.</p>	<p>In its 15 July 2019 submission, South West Water includes incorrect figures for 'Water: FD allowed totex inclusive of menu cost exclusions, less PDRC allowance' which do not reflect figures contained in the PR14 final determination.</p> <p>In its representation, South West Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	Intervention retained.	<p>For South West Water (Bournemouth area), we are including the following values for 2015-16 to 2019-20 for 'Water: FD allowed totex inclusive of menu cost exclusions, less PDRC allowance' as contained in the PR14 final determination:</p> <ul style="list-style-type: none"> <li>2015-16 £28.166 million, 2016-17 £27.351 million, 2017-18 £26.469 million, 2018-19 £24.984 million and 2019-20 £24.224 million in 2012-13 FYA RPI deflated prices.</li> </ul> <p>These values replace the following values contained in the company's 15 July 2019 submission:</p> <ul style="list-style-type: none"> <li>2015-16 £28.127 million, 2016-17 £27.342 million, 2017-18 £26.461 million, 2018-19 £24.976 million and 2019-20 £24.215 million in 2012-13 FYA RPI deflated prices.</li> </ul>
Totex (Bournemouth area)	SWB.PD.C006.06	N/A	N/A	<p>No intervention required.</p> <p>We are including South West Water's revised data as contained in its September 2018 business plan submission.</p>	<p>In its 15 July 2019 submission for the Bournemouth area, South West Water correctly includes the revised value of £0.108 million in outturn (nominal) prices for 2016-17 for 'Adjustments to totex - Water: third party services (opex)' as submitted in its business plan in September 2018.</p>	<p>No intervention required.</p> <p>The company addresses the issue appropriately in its 15 July 2019 submission.</p>	N/A

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Totex (Bournemouth area)	SWB.PD.C006.07	N/A	N/A	No intervention required. We are including South West Water's revised data as contained in its September 2018 business plan submission.	In its 15 July 2019 submission, South West Water correctly includes the figure of £0.607 million in outturn (nominal) prices for 2016-17 it reported in its September 2018 business plan for 'Adjustments to totex – Water: third party services (capex)' for the Bournemouth area.	No intervention required. The company addresses the issue appropriately in its 15 July 2019 submission.	N/A
Totex (South West area)	SWB.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission for the South West area, South West Water includes zero values for the 'Sewerage: FD Pension deficit repair costs allowance' figures for all years.	Intervention required. We set these allowances at PR14 final determinations and these can be found in 'Table A3.4 Wholesale wastewater allowed expenditure' of <a href="#">Final price control determination notice: company specific appendix – South West Water</a> ('Less pension deficit repair allowance').	We are intervening to change the 'Sewerage: FD Pension deficit repair costs allowance' figures from 0 to £3.533 million for each year 2015-20 (£17.665 million in total).  Combined with the interventions detailed in <b>SWB.PD.D006.02 to SWB.PD.D006.05</b> below, the net effect of the interventions reduce the totex menu RCV adjustment for South West Water (South West area) from - £150.982 million (- £60.383 million for water, - £90.599 million for wastewater) to - £146.533 million (- £56.289 million for water, - £90.243 million for wastewater) (2017-18 FYA CPIH deflated price base).  For revenue, the net effect of our interventions reduce the totex menu revenue adjustment for South West Water (South West area) from - £5.076 million (- £3.209 million for water, -

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
							£1.867 million for wastewater) to - £1.537 million (- £3.360 million for water, + £1.823 million for wastewater) (2017-18 FYA CPIH deflated price base).
Totex (South West area)	SWB.PD.D006.02	N/A	N/A	N/A	In its 15 July 2019 submission for the South West area, South West Water inputs its 'Sewerage: Implied menu choice' figure rounded to 1 decimal place.	Intervention required. We are ensuring the water and sewerage implied menu choices reflect the full accuracy of these figures as calculated in the <a href="#">PR14 populated final determination models</a> (see 'Calculations' tab cell D68).	We are intervening to change to the 'Sewerage: implied menu choice' figure from 100.200 to 100.168.
Totex (South West area)	SWB.PD.D006.03	N/A	N/A	N/A	In its 15 July 2019 submission for the South West area, South West Water inputs its 'Water: Final menu choice' 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 <a href="#">PR14 populated final determination models</a> (see 'Calculations' tab cell D68).	We are intervening to change to the 'Water: final menu choice' figure from 91.5 to 91.528.
Totex (South West area)	SWB.PD.D006.04	N/A	N/A	N/A	In its 15 July 2019 submission for the South West area, South West Water includes 'Wholesale water: baseline totex' figures as follows: <ul style="list-style-type: none"> <li>• 2015-16 £137.237 million;</li> <li>• 2016-17 £144.446 million;</li> <li>• 2017-18 £144.842 million;</li> </ul>	Intervention required. South West Water uses the 'allowed expenditure from menu' water figures rather than the figures set at PR14 final determinations.  The baseline figures can be found in 'Table A2.4 Wholesale water allowed expenditure' of <a href="#">Final price control determination notice: company specific appendix –</a>	We are intervening to change the 'Wholesale water: baseline totex' figures as follows: <ul style="list-style-type: none"> <li>• 2015-16 £140.206 million;</li> <li>• 2016-17 £147.572 million;</li> <li>• 2017-18 £147.976 million;</li> <li>• 2018-19 £132.143 million; and</li> </ul>

Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
					<ul style="list-style-type: none"> <li>2018-19 £129.344 million; and</li> <li>2019-20 £122.958 million</li> </ul> in 2012-13 FYA RPI deflated prices.	South West Water' ('menu cost baseline').	<ul style="list-style-type: none"> <li>2019-20 £125.618 million</li> </ul> in 2012-13 FYA RPI deflated prices.
Totex (South West area)	SWB.PD.D006.05	N/A	N/A	N/A	In its 15 July 2019 submission for the South West area, South West Water includes 'Wholesale sewerage: baseline totex' figures as follows: <ul style="list-style-type: none"> <li>2015-16 £191.763 million;</li> <li>2016-17 £193.218 million;</li> <li>2017-18 £176.776 million;</li> <li>2018-19 £158.743 million; and</li> <li>2019-20 £155.776 million</li> </ul> in 2012-13 FYA RPI deflated prices.	Intervention required. South West Water uses the 'allowed expenditure from menu' wastewater figures rather than the figures set at PR14 final determinations. The baseline figures can be found in 'Table A3.4 Wholesale wastewater allowed expenditure' of <a href="#">Final price control determination notice: company specific appendix – South West Water</a> ('menu cost baseline').	We are intervening to change the 'Sewerage: baseline totex' figures as follows: <ul style="list-style-type: none"> <li>2015-16 £191.683 million;</li> <li>2016-17 £193.137 million;</li> <li>2017-18 £176.702 million;</li> <li>2018-19 £158.677 million; and</li> <li>2019-20 £155.711 million</li> </ul> in 2012-13 FYA RPI deflated prices.
Totex (Bournemouth area)	SWB.PD.D006.06	N/A	N/A	N/A	In its 15 July 2019 submission for the Bournemouth area, South West Water inputs its 'Water: Final menu choice' 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 <a href="#">PR14 populated final determination models</a> (see 'Calculations' tab cell D68).	We are intervening to change the 'Water: Final menu choice' figure from 101.200 to 101.176.



Model	Ref.	IAP action	Summary of the 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	Decision for the final determination
Revenue adjustments	SWB.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>In its representation, South West 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>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.</p> <p>We are not intervening in South West 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 (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.</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](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

December 2019

© Crown copyright 2019

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

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

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

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

