

December 2019

PR19 final determinations

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

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

Table 1 – Accounting for past delivery final decisions for Thames 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	Decisions for the final determination
All models	TMS.PD.A7	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 Thames 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, Thames 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 Thames 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	TMS.PD.REP	In its 30 August 2019 representation, Thames Water does not submit any updated past delivery business plan tables or reconciliation models.					
Land disposals	TMS.PD.A1	PR14 Land sales: Thames Water is required to provide additional evidence to support the forecast trajectory in table App9.	Thames Water provides additional evidence to support the forecast trajectory in table App9.	No intervention required. Commentary supplied to support the forecast is sufficient.	In its representation, Thames 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	Decisions for the final determination
Outcomes	TMS.PD.A2	<p>PR14 Outcome delivery incentives: Thames Water submitted further evidence on the Counters Creek Performance Commitment in November 2018, which has not been assessed as part of the initial assessment of business plans. Subject to our assessment of this evidence after the end of the initial assessment of business plans, the company may be required to provide further convincing evidence that a change to the Counters Creek performance commitment is in customers' interests and/or make a substantial change to the outcome delivery incentive underperformance penalty to return money to customers in tables App5/App6/App27.</p>	<p>Thames Water submitted its outcome delivery incentive amendment proposal for Counters Creek (performance commitment SB3) in November 2018. It met with Ofwat on 21 November 2018 to talk through the proposal in more detail including how our understanding of the risk of flooding in the catchment has evolved. Following the initial assessment of plans feedback, Ofwat issued a set of questions to Thames Water in respect of its proposal on 8 February 2019, and to which it responded on the 15 March 2019.</p> <p>The company met with Ofwat on 19 March 2019 to further discuss the proposal to amend performance commitment SB3 and committed to provide Ofwat with a supplementary letter by 12 April 2019.</p>	<p>The intervention is to include an underperformance payment for performance commitment SB3: properties protected from flooding due to rainfall. Thames Water does not plan to deliver the Counters Creek strategic storm relief sewer. This strategic sewer, together with other improvements over the 2015-20 period, were expected to deliver an annualised benefit of £14.2 million in the Counters Creek area. The PC set out that 'If the Counters Creek project is cancelled and will not be delivered in AMP6 or future AMPs for reasons inside company control the ODI underperformance payment will follow the same method as for non-delivery of the other sewer flooding outputs. This leads to a maximum penalty of £162m.' The company considers improvements in the Counters Creek area have so far delivered an annualised benefit of £0.9 million and that it has a high confidence that there are properties where improvements could deliver a further £1.9 million of annualised benefits before 2020. In November 2018 the company applied to change the definition of the PC as it considers that the scale of sewer flooding risk is less than expected and that the work it plans will resolve the risk. It considers that the scheme is not being cancelled. It proposes to return allowed expenditure not spent in the area to customers in full by a reduction to the RCV.</p>	<p>In its representation, Thames Water responds to our draft determination stating that:</p> <ul style="list-style-type: none"> It did not cancel its Counters Creek scheme and that it is on track to relieve the properties that they committed to protect at PR14; and The underperformance payment has not been calculated appropriately by Ofwat. <p>Please refer to 'Thames 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 'Thames 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>SB3 (properties protected from flooding due to rainfall - including Counters Creek project)</p> <p>We are intervening to include an underperformance payment of - £130.056 million (2012-13 prices, net of tax) for performance commitment SB3 (Counters Creek).</p> <p>Our intervention reduces the wastewater RCV at the end of the 2015-20 period by - £148.801 million (2017-18 FYA CPIH deflated price base).</p>

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Outcomes	TMS.PD.A2			<p>The PC definition references a document (PCR SB3 - 27 June 2014) that sets out further details to understand the PC:</p> <ul style="list-style-type: none"> • 'We recognise any flooding programme is subject to uncertainty, as rainfall causes new flooding of properties – and this may affect the prioritisation of schemes, or even the scale of investment that is cost beneficial. We have used a matrix of benefits to manage uncertainty. The matrix below underpins this performance commitment.' • 'In the event that we deliver an annual benefit of less than £20m by the end of AMP6, a matrix is used to determine the underperformance payment rate.' The matrix is how the company has determined the lower annualised benefit of £2.8 million (£0.9 million + £1.9 million). <p>There is insufficient evidence that Thames Water understands the risk of flooding in the Counters Creek area. For instance, it has previously stated that the risk of flooding comes from rainfall over a widespread area, but in presenting evidence that the risk is less than previously thought has focused on rainfall in the more immediate area of Counters Creek.</p> <p>We consider that not delivering the 'strategic sewer' constitutes cancellation of the Counters Creek scheme. If it does constitute cancellation we consider the PC definition does not need to be changed.</p>			

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Outcomes	TMS.PD.A2			<p>Thames Water proposed a scheme and has not delivered it for reasons that were within Thames' control, in particular:</p> <ul style="list-style-type: none"> • how it originally assessed the benefits and its failure to appropriately check sewer flooding records; • its failure to deliver a hydraulic model that can be used to understand the risk of sewer flooding; • its failure to secure sites in advance and the delay of its stakeholder engagement; and • its involvement in setting up Thames Tideway and its failure to make timely provision for joint working on the Cremorne Wharf site. <p>The majority of the originally envisioned benefits have not been realised. The statement in the PC definition that there is a maximum underperformance payment for cancellation implies that cancellation can occur when some benefits have been achieved, as in this case. We have calculated the underperformance payment by multiplying the proportion of annualised benefits not achieved by the maximum underperformance penalty: 80% ((£14.2 million - £2.8 million) / £14.2 million) multiplied by £162 million = £130.056 million. The PC also set out that a change in scope of work delivered could impact the calculation of the ODI. Our calculation assumes that the scope of improvements that the company is planning to deliver, leading to the £2.8 million annualised benefit, was an element of the original scheme at PR14 and therefore no adjustment is necessary.</p>			

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Outcomes	TMS.PD.A3	<p>PR14 Outcome delivery incentives: Thames 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.</p> <p>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>	No company action required for the draft determination.	<p>No intervention required.</p> <p>We will review Thames Water's updated data before making any interventions for the final determination.</p>	<p>In its 15 July 2019 submission, Thames 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.</p> <p>In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to the specific actions TMS.PD.A3a to TMS.PD.A3n.</p>	<p>Intervention required.</p> <p>We have assessed the data the company provides and its forecasts for the 2019-20 reporting year. We are intervening where we found data errors or inconsistencies, or the company provided insufficient evidence for its performance.</p> <p>Please see TMS.PD.A2 above.</p> <p>In addition, we note the following:</p> <p>Thames Water's calculated historic Security of Supply Index (SOSI) performance may change following discussion with Defra, the environment agency and Ofwat. The impact of this will be reflected in the blind year reconciliation in 2020.</p>	N/A
Outcomes	TMS.PD.A3a	WC2: Leakage	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3b	WA4: Reduced water consumption from issuing water efficiency devices to customers	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3c	WB6: Security of Supply Index - Ofwat KPI	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3

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Outcomes	TMS.PD.A3d	WB7: Compliance with SEMD advice notes (with or without derogation)	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3f	WB1: Asset health water infrastructure	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3g	WB5: Average hours lost supply per property served, due to interruptions > 4 hours	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3h	WB8: MI/d of sites made resilient to future extreme rainfall events	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3i	SB3: Properties protected from flooding due to rainfall (including Counters Creek project)	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3j	WC5: Deliver 100% of agreed measures to meet new environmental regulations	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3k	SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3

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Outcomes	TMS.PD.A3l	SB6: Compliance with SEMD advice notes (with or without derogation)	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3m	SC8: Deliver 100% of agreed measures to meet new environmental regulations	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Outcomes	TMS.PD.A3n	SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3	As TMS.PD.A3
Residential retail	TMS.PD.A4a	PR14 Residential retail: Thames Water is required to resubmit the PR14 reconciliation model including the missing calculations.	Thames Water resubmits the PR14 residential retail reconciliation model including the missing calculations.	No intervention required. The company's response to the action is sufficient.	In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	TMS.PD.A4b	PR14 Residential retail: Thames Water is required provide further evidence to support all of the forecasts in table R9.	Thames Water provides evidence to support its forecasts by referring to details of its metering programme, improvements in processes to identify properties that should be in charge and increased property growth rates.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	In its representation, Thames 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 service incentive mechanism (SIM)	TMS.PD.A5	PR14 Service incentive mechanism: Thames Water is required to provide more evidence to support the forecast trajectory in table R10.	Thames Water provides an explanation for its forecast trajectory in its response to action TMS.PD.A5.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail service incentive mechanism (SIM)	TMS.PD.C009.01	N/A	N/A	Intervention required. We are intervening to adjust Thames 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, Thames 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 -12.00% of residential retail revenue, which is - £102.823 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	TMS.PD.A6a	<p>PR14 Totex: Thames Water is required to re-submit the published model without an adjustment for Counters Creek, or alternatively provide sufficient and convincing evidence for why the adjustment is appropriate.</p>	<p>Thames Water responds to this action and submits data without the Counters Creek adjustment.</p> <p>However, following our initial assessment of plans feedback (including this specific action), Thames Water takes a different approach to returning 100% of the savings to customers (c £120 million in 2012-13 prices) for non-delivery of this performance commitment.</p> <p>The company is now making:</p> <ul style="list-style-type: none"> No adjustments to the totex menu. The underspend associated with Counters Creek therefore automatically returns 49.6% (i.e. 1 minus 50.4%, the wastewater totex sharing rate) of the saving to customers. A downward adjustment to the RCV to return the remaining 50.4% of the underspend to customers (- £86.351 million 2017-18 FYE CPIH deflated). 	<p>Intervention required.</p> <p>As explained in TMS.PD.A2 above, for non-delivery of the Counters Creek performance commitment we are intervening to include an outcome delivery incentive underperformance payment of -£130.056 million (2012-13 prices, net of tax). This reduces the wastewater RCV at the end of the 2015-20 period by - £149.531 million (2017-18 FYA CPIH deflated price base).</p> <p>For the draft determination, to avoid double counting when returning the allowed expenditure back to customers, we are removing the downward adjustment of £86.351 million (2017-18 FYE CPIH deflated price base) Thames Water makes to the wastewater RCV in its business plan table App8.</p>	See TMS.PD.A2 above.	Intervention retained. See TMS.PD.A2 above.	<p>See TMS.PD.A2 above.</p> <p>To avoid double counting when returning the allowed expenditure back to customers for Counters Creek, we are removing the downward adjustment of £86.351 million (2017-18 FYE CPIH deflated price base) Thames Water makes to the wastewater RCV in its business plan table App8.</p> <p>Our intervention changes the 'other wastewater RCV' adjustment at the end of the 2015-20 period from – £87.503 million (2017-18 FYA CPIH deflated price base) to £0.000 million.</p>

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Totex	TMS.PD.A6b	PR14 Totex: Thames Water is required to ensure the values in the model are consistent with tables WS15 / WWS15 / Dmmy10.	Thames Water responds to this action and submits models which are consistent with tables WS15 / WWS15 / Dmmy10.	No intervention required. The company's response to the action is sufficient.	In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	TMS.PD.A6c	PR14 Totex: Thames Water is required to update the submitted values to be consistent with PR14 final determination and previously reported actual data, or alternatively, it should provide an explanation as to why there are differences.	Thames Water responds to this action and submits values consistent with the PR14 final determination.	No intervention required. The company's response to the action is sufficient.	In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	TMS.PD.A6d	PR14 Totex: Thames Water is required to provide detailed and numerical explanation of its forecasted trajectory.	Thames Water responds to this action in its TW_PD_A4 Accounting for Past Delivery: cost allowances (P.6). The company's overspend on its water business is mainly driven by increased leakage costs. For wastewater it is incurring additional costs on maintaining sewer crossings and reducing sewer flooding.	No intervention required. We consider the evidence the company provides to be sufficient to explain the forecast.	In its representation, Thames 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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Totex	TMS.PD.A6e	PR14 Totex: Thames Water is required to provide an explanation of the high underspend for the TTT control.	<p>Thames Water provides a detailed explanation of the high TTT underspend in its 'TTT price control update' document.</p> <p>The main drivers of its significant underspend are procurement savings achieved through using existing alliance arrangements. The company achieved its enabling works deadlines quicker than originally planned. This resulted in lower overhead costs. In addition to this, Thames Water's final determinations allowance included costs associated with Main Works Contractors design changes in response to the enabling works which did not materialise.</p>	<p>No intervention required.</p> <p>We consider the evidence the company provides to be sufficient to explain the data.</p>	In its representation, Thames Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	TMS.PD.C006.01	Corrected Sewerage: implied menu choice figure	N/A	<p>Intervention required.</p> <p>Thames Water rounds the sewerage implied menu choice figure to 98.000. This is consistent with the published figure on our website under the 'final menu choices'. The figure used in our PR14 final determinations was 98.043.</p>	In its 15 July 2019 submission, Thames Water includes a figure of 98.043 for its PR14 sewerage implied menu choice as used in our PR14 final determination.	<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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Totex	TMS.PD.C006.02	Corrected Sewerage: final menu choice figure	N/A	Intervention required Thames Water rounds the sewerage final menu choice figure to 98.000. This is consistent with the published figure on our website under the 'final menu choices'. The figure used in our PR14 final determinations was 98.043.	In its 15 July 2019 submission, Thames Water input its 'Sewerage: Final menu choice' figure rounded to 1 decimal place.	Intervention retained. 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 'Sewerage: Final menu choice' figure from 98.000 to 98.043. Our intervention reduces the wastewater totex menu revenue adjustment from - £1.017 million to - £0.996 million (2017-18 FYA CPIH deflated price base).
Totex	TMS.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, Thames 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 95.300 to 95.273. Our intervention increases the water totex menu revenue adjustment from - £5.118 million to - £5.165 million (2017-18 FYA CPIH deflated price base).
Totex	TTT.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, Thames Water input its TTT 'Sewerage: 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 'Sewerage: Final menu choice' figure from 96.400 to 96.420. Our intervention reduces the wastewater totex menu revenue adjustment from £72.260 million to £72.255 million (2017-18 FYA CPIH deflated price base).

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Wholesale revenue forecasting incentive mechanism (WRFIM)	TMS.PD.C005.01	N/A	N/A	<p>Intervention required.</p> <p>We note the inflation factors Thames Water uses to convert the adjustments relating to the early payment of end of period outcome delivery incentive penalties from 2012-13 prices to nominal prices do not reflect the RPI data in the April submission (table App23).</p>	<p>In the 15 July 2019 submission, the inflation factors Thames Water uses to convert the adjustments relating to the early payment of end of period outcome delivery incentive penalties from 2012-13 prices to nominal prices do not reflect the RPI data in table App23.</p> <p>Thames Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.</p>	Intervention retained.	<p>We are intervening to recalculate the values of the adjustments relating to the early payment of the end of period outcome delivery incentive penalties using the RPI data from table App23 of the 15 July submission.</p> <p>Our intervention reduces the total wholesale revenue forecasting incentive mechanism adjustment at the end of the 2015-20 period from £141.528 million (£74.787 million for water, £64.778 million for wastewater and £1.963 million for Tideway) to £141.480 million (£74.734 million for water, £64.782 million for wastewater and £1.964 million for Tideway) (2017-18 FYA CPIH deflated price base).</p>

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Water trading	TMS.PD.C007.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to disallow the water trading import incentive claim for the trade with Northumbrian Water. The principles of the water trading incentives policy were set out at PR14. The policy intent of the incentives was to encourage new transfers of water between water companies. In order to be able to claim water trading incentives, the 'PR14 methodology' set out a requirement for companies to have an Ofwat-approved trading and procurement code in place consistent with those principles. Thames Water has an Ofwat approved trading and procurement code 'Thames Water's trading and procurement code' consistent with the water trading incentives policy set out at PR14 which we approved on 11 May 2016. However, the net effect of the water trade with Northumbrian Water is to implement a reduction in the amount of water that is exported from Thames Water to Northumbrian Water under a modification of a pre-existing bulk supply agreement with Essex and Suffolk Water. Therefore, the incentive claim for this water trade is inconsistent with the criteria set out in the trading and procurement code which requires a new import agreement and with the policy intent of the water trading incentives as set out in the PR14 methodology to encourage new water transfers. Therefore, we are intervening to disallow the claim.</p> <p>Thames Water has a trade agreement with RWE Generation UK (RWE) which is a new import agreement which is consistent with the criteria set out in the trading and procurement code. It is also consistent with the policy intent of the water trading incentives policy as set out in the PR14 methodology to encourage new water transfers. Therefore, we are allowing the incentive claim in respect of the import of water from RWE.</p>	<p>In its representation, Thames Water reiterates its April 2019 revised business plan position: that the trade with Northumbrian Water is consistent with its trading and procurement code and therefore qualifies for water trading incentives. The company argues that we would have allowed the trading incentives if a parallel main was laid to receive water from Northumbrian Water rather than reducing the existing import from Thames Water.</p>	<p>Intervention retained.</p> <p>We consider that Thames Water's representation does not present any new evidence compared to the evidence provided in its April 2019 revised business plan. We are retaining our intervention to disallow the claim.</p> <p>The policy intent of the PR14 water trading incentives was to encourage new transfers of water between water companies.</p> <p>We do not consider that the trade between Northumbrian Water and Thames Water is a new transfer. The effect of the updated bulk supply agreement is to reduce the amount of water exported to Northumbrian Water which is a reduction in an existing trade. We consider that this reduction of an existing export cannot qualify as an import for Thames Water.</p> <p>We consider that water resources capacity was increased through the expansion of Abberton reservoir beyond the near-term needs. As a result, Northumbrian Water</p>	<p>Our interventions reduce the total PR14 water trading revenue payment at the end of the 2015-20 period from £0.909 million to £0.470 million (2017-18 FYA CPIH deflated price base).</p>

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	Decisions for the final determination
						<p>took the rational and efficient decision to enter into an agreement with Thames Water to reduce the amount of water it imports. We would have also disallowed the incentive if the companies had agreed a contract with no reference to the legacy contract or had duplicated the existing transfer infrastructure because the net effect would still be to reduce an existing trade as it reduces exports to the Essex and Suffolk Water region.</p> <p>As in the draft determination, we are allowing the incentive claim in respect of the import of water from RWE as this is a new import agreement and consistent with the criteria set out in the trading and procurement code.</p>	

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	Decisions for the final determination
Revenue adjustments	TMS.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 Thames Water's choices for profiling revenue adjustments in 2020-25.</p>	<p>In its representation, Thames Water agrees with us adopting a common discount rate but disagrees with our view of the wholesale WACC.</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 Thames 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.

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