

December 2019

PR19 final determinations

Wessex Water – Accounting for past delivery final decisions

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

Table 1 – Accounting for past delivery final decisions for Wessex 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	WSX.PD.A5	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 Wessex 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, Wessex 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 Wessex 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	WSX.PD.REP	In its 30 August 2019 representation, Wessex Water does not submit any updated past delivery business plan tables or reconciliation models.					
Outcomes	WSX.PD.A1a	PR14 outcome delivery incentives: Wessex 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 Wessex Water's updated data before making any interventions for the final determination.	In its 15 July 2019 submission, Wessex 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, Wessex Water does not raise substantive reasons to change our draft determination in relation to the specific actions WSX.PD.A1a to WSX.PD.A1e.	Intervention required. We have assessed the data the company provides and its forecasts for the 2019-20 reporting year. We are intervening where we found data errors or inconsistencies, or the company provided insufficient evidence for its performance. Please see WSX.PD.D002.01 below.	Please see WSX.PD.D002.01 below.
Outcomes	WSX.PD.A1b	B1b: Volume of water saved by water efficiency promotion	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a

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	WSX.PD.A1c	G1: Customer contacts about drinking water quality	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a
Outcomes	WSX.PD.A1d	D3: Water supply interruptions (> 3 hours including planned, unplanned and third party interruptions)	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a
Outcomes	WSX.PD.A1e	D1: Collapses and bursts on sewer network	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a	As WSX.PD.A1a
Outcomes	WSX.PD.D002.01	N/A	N/A	N/A	In its 15 July 2019 submission, Wessex Water incorrectly uses the underperformance incentive rate to calculate the outperformance payments in the 2018-19 and 2019-20 reporting years in relation to performance commitment D3 (water supply interruptions > 3 hours). Reference: WSX-APR-PD-001 query response.	Intervention required. We are intervening to correct the company error by using the outperformance incentive rate to calculate outperformance payments.	For the 2018-19 reporting year, we are calculating the adjustment as follows: Performance commitment D3 (water supply interruptions > 3 hours) ODI calculation (original): £0.226 million (2012-13 prices) ODI calculation (revised): £0.039 million (2012-13 prices) Adjustment: -£0.187 million (2012-13 prices) For the 2019-20 reporting year, we are calculating the adjustment as follows: ODI calculation (original): £0.168 million (2012-13 prices) ODI calculation (revised): £0.026 million (2012-13 prices) Adjustment: -£0.142 million (2012-13 prices)

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
Residential retail	WSX.PD.A2a	PR14 Residential retail: Wessex Water is required to clarify why it used a different discount rate in the model and table R9.	The company clarifies that it should have entered the appointee WACC of 3.74% in table R9 and the submitted model. It updates its submissions to ensure consistency.	No intervention required. The company provides a satisfactory response to this action.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	WSX.PD.A2b	PR14 Residential retail: Wessex Water is required to provide further clarity on the reasons for the difference between reforecast customer numbers and actual customer numbers in 2018-2019.	Wessex Water clarifies that there is a difference between actual and reforecast customer numbers in 2018-2019 because the forecast actual customer numbers figure is a more recent forecast.	No intervention required. The company provides a satisfactory response to this action.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	WSX.PD.A2c	PR14 Residential retail: Wessex Water is required to provide further evidence to support the forecasts for unmetered wastewater-only customers in 2019-2020.	The company provides evidence to support its forecast by referring to estimated property growth and its metering programme.	No intervention required. The company provides sufficient evidence to support its forecast.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	WSX.PD.A2d	PR14 Residential retail: Wessex Water is required to provide further evidence to support the forecasts for unmetered water and wastewater customers in 2019-2020.	The company provides evidence to support its forecast by referring to estimated property growth and its metering programme.	No intervention required. The company provides sufficient evidence to support its forecast.	In its representation, Wessex 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
Residential retail	WSX.PD.A2e	PR14 Residential retail: Wessex Water is required to provide further evidence to support the forecasts for metered water and wastewater customers in 2018-2019.	The company provides evidence to support its forecast by referring to estimated property growth and its metering programme.	No intervention required. The company provides sufficient evidence to support its forecast.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Residential retail	WSX.PD.C008.01	N/A	N/A	Intervention required. We are intervening to round Wessex Water's modification factor figures to two decimal places to ensure consistency with the ' PR14 Reconciliation Rulebook '.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention retained.	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: <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. Our interventions reduce the total residential retail revenue payment at the end of the 2015-2020 period from - £3.786 million to – £3.779 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	Decisions for the final determination
Residential retail service incentive mechanism (SIM)	WSX.PD.C009.01	N/A	N/A	<p>Intervention required.</p> <p>We are intervening to adjust Wessex Water's household retail revenue as a result of its SIM performance from 2015-16 to 2018-19.</p>	<p>In its representation, Wessex Water considers that the proposed approach to calculating SIM payments is not in line with expectations, and represents a material change from the implementation of SIM for 2010-15 and C-MeX.</p> <p>The company proposes that we should revert to a calculation similar to that used at PR14, where companies that are one standard deviation above the mean level of performance receive the full reward of 6% of retail revenues, with a linearly increasing reward up to that level.</p>	<p>Intervention retained.</p> <p>We consider that our PR19 SIM methodology is appropriate as it is consistent with our overall PR19 methodology (therefore offers regulatory certainty), is broadly consistent with our C-MeX policy in the final determination, and is relatively simple to administer.</p> <p>We consider that our PR19 approach is more appropriate than rolling forward the PR14 approach, as it requires less regulatory judgement and it uses the full incentive range, which we consider is appropriate given the spread of performance across the sector.</p> <p>Giving multiple companies the maximum outperformance payment for different levels of performance would reduce the extent to which the SIM results in customers paying for the service that they received - to the detriment of customers. We therefore only give the maximum outperformance payment to the best performing company. Our C-MeX policy for allocating payments is to measure each company's performance based on where the company places relative to the median company, and either the highest or lowest performing company. In this way, our SIM methodology is broadly consistent with C-MeX. We are updating our analysis to take account of companies' finalised scores for 2018-19.</p>	<p>We are intervening to set the residential retail service incentive mechanism adjustment to + 3.91% of residential retail revenue, which is £7.252 million (2017-18 FYA CPIH deflated price base) in total over the period. We further explain how we calculate this in 'Accounting for past delivery technical appendix'.</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
Totex	WSX.PD.A3a	PR14 Totex: Wessex Water is required to use the published model without amending it, or alternatively provide a reasonable explanation of why its changes are necessary.	Wessex Water responds to this action and published a model without any unauthorised changes.	No intervention required. The company provides a satisfactory response to this action.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	WSX.PD.A3b	PR14 Totex: Wessex should provide an explanation to support all changes to PR14 final determination and previously reported data.	Wessex Water responds to this action and provides explanations for minor changes to its third party opex costs. These include correcting the allocation of connections costs and an adjustment to its grants and contributions figure relating to Hinkley Point power station.	No intervention required. The company provides a satisfactory response to this action.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
Totex	WSX.PD.A3c	PR14 Totex: Wessex Water is required to provide detailed and numerically sound explanation of its forecasted performance in tables WS15/WWS15.	Wessex Water not respond to this action in its April business plan submission or in subsequent engagement.	No intervention required Wessex Water forecasts an overspend for its water business in the final year of AMP6 which is inconsistent with the underspend in the preceding years. However, its overall forecast underspend of 5% is within the expected range so we do not propose to intervene. For wastewater, its forecast underspend is in line with historical years, so we do not propose to intervene in its wastewater forecast.	In its representation, Wessex 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
Totex	WSX.PD.C006.01	N/A	N/A	Intervention required Wessex Water populates its water transitional costs figure for 2014-15 with a forecast rather than its actual figure.	In its 15 July 2019 submission of table WS15 and totex reconciliation model, Wessex Water includes actual water transitional costs in 2014-15 of £0.511 million as reported in the ' Updated 2010-15 reconciliation document ' (P.44, Table 4.1).	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
Totex	WSX.PD.C006.02	N/A	N/A	Intervention required Wessex Water populates its sewerage transitional costs figure for 2014-15 with a forecast rather than its actual figure.	In its 15 July 2019 submission of table WWS15 and totex reconciliation model, Wessex Water includes actual sewerage transitional costs in 2014-15 of £4.478 million as reported in the ' Updated 2010-15 reconciliation document ' (P.44, Table 4.1).	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
Totex	WSX.PD.C006.03	N/A	N/A	Intervention required Wessex Water populates its business plan table WS15 with incorrect third party opex (water) figures for 2015-16 and 2016-17.	In its 15 July 2019 submission of table WS15 and totex reconciliation model, Wessex Water includes actual water third party opex costs of £1.656 million in 2015-16 and £0.718 million in 2016-17 as provided in its July 2018 submission. These figures exclude s45 connections activity costs and are in accordance with the correct accounting methodology set out in RAG 4.07 Appendix 1.	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

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
Totex	WSX.PD.C006.04	N/A	N/A	Intervention required Wessex Water populates its business plan table WWS15 with incorrect third party opex (sewerage) figures for 2015-16 and 2016-17.	In its 15 July 2019 submission of table WWS15 and totex reconciliation model, Wessex Water includes actual sewerage third party opex costs of £0.237 million in 2015-16 and £0.136 million in 2016-17 as provided in its July 2018 submission. These figures exclude s45 connections activity costs and are in accordance with the correct accounting methodology set out in RAG 4.07 Appendix 1.	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
Totex	WSX.PD.D006.01	N/A	N/A	N/A	In its 15 July 2019 submission, Wessex Water input its 'Water: Final menu choice' and 'Sewerage: Final menu choice' figures 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 103.800 to 103.786 and the 'Sewerage: Final menu choice' figure from 102.900 to 102.934. Our minor interventions reduce the water totex revenue adjustment at the end of the period from - £2.556 million to - £2.555 million and increase the wastewater totex revenue adjustment at the end of the period from - £6.925 million to - £6.940 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	Decisions for the final determination
WRFIM	WSX.PD.A4	PR14 Wholesale revenue forecasting incentive mechanism: Wessex Water is required to resubmit the tables and financial model to remove the inconsistency in the financial model that arise from correcting the adjustments reported in tables WS13/WWS13.	Wessex Water provides updated tables and a financial model in the April 2019 submission.	No intervention required. The company responds to the action and removes the accelerated return of over-recovered revenue values from the 'Data' sheet in its model.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific action.	N/A	N/A
WRFIM	WSX.PD.C005.01	N/A	N/A	Intervention required. We note that the Wessex Water has not used the updated RPI values from table App23 in its model.	In its 15 July 2019 submission, Wessex Water includes updated RPI values in its model that are consistent with its table App23.	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
Revenue adjustments	WSX.PD.C011.01	N/A	N/A	Intervention required. We are standardising the discount factor used to profile revenue adjustments. Companies can choose to apply revenue adjustments either in the first year, or, spread over a number of years in the 2020-25 period to minimise the impact on bills or to generate a bill profile that is appropriate for its customers. We consider the wholesale WACC is an appropriate discount factor as this is a measure of the time value of money that is consistent with the price control framework. We are not intervening in Wessex Water's choices for profiling revenue adjustments in 2020-25.	In its representation, Wessex Water does not raise substantive reasons to change our draft determination in relation to this specific intervention.	Intervention required. We are intervening to reflect our updated view of the wholesale WACC. We are not intervening in Wessex Water's choices for profiling revenue adjustments in 2020-25. Where profiling selections have been made for controls with no revenue (Dummy control and/or Business retail) we have set these selections to '0'. This has no impact on the modelling outputs.	We are using our view of the wholesale WACC (2.92%) as the discount factor to preserve the net present value of the outperformance or underperformance payments due when spreading adjustments over the period.

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

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

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.

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.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

