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Susan Davy
South West Water

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11 February 2020

Dear Susan,

Adjustment to 2020-2025 revenue at the 2024 price review

This letter confirms our intention to make RCV midnight adjustments relating to IFRS 16 for the water and wastewater network plus controls for South West Water at the 2024 price review. This adjustment is to correct for the omission of data the company had provided to us and was not included in South West Water's final determination published on 16 December 2019.

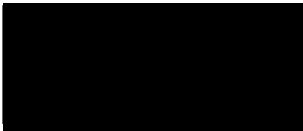
We confirm that the value of the IFRS 16 adjustments to the RCV not included in the 2020 RCV opening balance was £27.378 million (2017-18 FYA (CPIH deflated)). Of this, £13.090 million relates to the water network plus and £14.288 million relates to wastewater network plus (both 2017-18 FYA (CPIH deflated)). These values are derived from the data the company provided.

We therefore confirm that we will make a midnight adjustment at the 2024 price review of £21.772 million (£10.537 million for water network plus and £11.236 million for wastewater network plus) (2017-18 FYA (CPIH deflated)). We set out the detail of this in annex 1. In calculating these values, we take into account the impact of applying run off rates to this portion of the RCV as if it had been included in the final determination.

We calculate the 2020-25 revenue associated with this adjustment to be £11.234 million (2017-18 FYA (CPIH deflated) (see annex 2). We confirm that this will be recovered in the 2024 price review on a NPV neutral basis.

If you choose to report on the basis of this corrected value during 2020-25, we would expect you to report on a consistent basis for the whole of the period. To ensure transparency, you should also make very clear in all published material your approach and the impact of this.

Yours sincerely,



David Black
Senior Director Water 2020, Ofwat

Annex 1 Adjustments to the RCV

£ million (2017-18 prices)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25 Average
Closing RCV per published Final determination ¹	3,205.764	3,197.727	3,205.695	3,216.786	3,222.303	3,215.498	3,211.602
IFRS adjustment	27.378	26.079	24.909	23.811	22.767	21.772	23.868
Closing RCV including IFRS adjustment	3,233.141	3,223.806	3,230.604	3,240.597	3,245.070	3,237.270	3,235.469

¹ including fast track reward of 2.7

Annex 2 Breakdown of 2020-25 revenue adjustment

£ million (2017-18 prices)	Water resources	Water network plus	Wastewater network plus	Bioresources	Total
PAYG Revenue					-
Pension Deficit Recovery Revenue					-
WACC Revenue	-	1.422	1.534	-	2.956
RCV Run-off Revenue	-	2.827	3.347	-	6.174
Tax Revenue	0.027	0.931	1.107	0.023	2.089
Operating Income Revenue					-
Third party & principle service Revenue					-
Adjustment to Wholesale revenue requirement Revenue					-
Revenue solving adjustment Revenue	-	0.010	0.007	-	0.016
Post financeability adjustments Revenue					-
Profile adjustments Revenue					-
Connection charges and revenue from infrastructure charges					-
Total difference	0.027	5.189	5.995	0.023	11.234