

November 2020

# **Thames Water – Adjusting for actual performance in 2019–20: Blind year adjustment, final decisions**

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# 1. Introduction

This document sets out our final decisions on the reconciliation for Thames Water Utilities for the 2019-20 charging year. It includes our final determination under Part 3A of Condition B of the level of change to the price controls in respect of the company's performance in that year against its performance commitments and outcome delivery incentives (ODIs) and the blind year adjustment (TBYA) to be included in the Revenue Forecasting Incentive (RFI) formula. The specific changes, and our reasons for these are set out in full in this document.

In September 2020, we published our PR19 blind year draft proposals in [Thames Water - Adjusting for actual performance in 2019-20: Blind year adjustment](#) (the PR19 blind year draft proposals). This chapter presents an overview of the approach we have taken in developing, consulting, and reaching a final position on our PR19 blind year final decisions.

## 1.1 Background

In PR14, we set mechanisms to incentivise companies to do the right thing for their customers during 2015-20. These financial incentives cover cost efficiency, outcomes performance, revenue forecasting, customer service, water trading and land sales. In setting the 2019 periodic review (PR19) final determinations<sup>1</sup>, we applied reconciliation adjustments to revenues for the 2020 to 2025 period and to the regulatory capital value (RCV) to take account of how companies performed against these incentive mechanisms in 2015-20.

Many of these mechanisms required data for the last year of the price control period, 2019-20 (the blind year), to assess the financial payments between companies and customers. When the 2019 periodic review (PR19) was completed in December 2019, this financial year had not finished. As a result, companies provided forecast data, which we considered and adjusted as necessary, for inclusion in the PR19 final determinations. Companies reported their actual performance for 2019-20 alongside their Annual Performance Reports (APRs), submitted to Ofwat by 15 July 2020.

## 1.2 The PR19 blind year draft proposals

In September 2020, we published our PR19 blind year draft proposals which presented an overview of our assessment of the difference between the 2019-20 performance assumed in the PR19 final determinations and actual 2019-20 performance. It set out the extent to which, for each company, the revenues and RCV adjustments included in the PR19 final determination for 2019-20 needed to be adjusted to reflect actual performance<sup>2</sup>. It also

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<sup>1</sup> The full suite of PR19 final determination documents are available [here](#).

<sup>2</sup> Our approach to the reconciliations, is set out in the '[PR14 reconciliation rulebook](#)' (the 'reconciliation rulebook').

presented our draft proposals regarding any interventions we intended to make, and the rationale for these.

Our published PR19 blind year draft proposals comprised a suite of documents to provide transparency to water companies and other interested stakeholders regarding our decisions and associated rationale. This included an overview document presenting a summary of our proposed sector wide blind year adjustments, an annex for each company presenting their adjustments and interventions, and supporting models for each company.

This document presents our PR19 blind year final decisions with respect to our assessment of the difference between 2019-20 performance assumed in the PR19 final determinations and the actual 2019-20 performance for Thames Water. It sets out:

- the extent to which revenue and RCV for the incentive mechanisms specified in section 1.1, that were presented in the PR19 final determinations, will need to be adjusted to reflect actual performance in 2019-20;
- details of the controls to which these adjustments will apply; and
- the adjustments that will be made ‘in period’ (during 2020-25) or as part of the 2024 price review process (during 2025-30).

As set out in [‘Adjusting for company actual performance in 2019-20 - Blind Year adjustment, Overview’](#), we designated all of the PR14 performance commitments with financial incentives as being in-period for the purpose of applying blind year adjustments for differences between the 2019-20 forecast and actual performance figures. In the PR19 blind year draft proposals we set out that we expected any adjustments from the 2019-20 forecast, to account for actual figures to be modest and that these adjustments should not significantly impact bills. We noted that each company had responsibility for taking measures to smooth the impact for their customers if any impact is larger than originally expected. Further details regarding the responses we received, our final decisions and how / when the PR19 blind year adjustments will be made are presented in Chapter 2.

We have adopted a similar approach to the PR19 blind year draft proposals for our final decision, so alongside this document, we have published final models for each reconciliation, and for the overall RCV and revenue adjustments.

### 1.3 Summary of Thames Water response

In its response to the blind year draft proposals Thames Water commented on three areas.

- **ODI revenue and RCV adjustments:** The company recognised our concerns regarding the need for leakage performance to reflect “real” and not “paper” performance and reiterated that it was confident that this was exactly in line with what it had done. It

also welcomed our decision to remove its underperformance payment associated with AMP6 delivery of its SEMD programme.

- **Treatment of the Thames Tideway Tunnel (TTT) adjustments:** The company noted that we had clarified our intent to process the revenue element of the blind year adjustment for the TTT price control via PR24 which would, in effect, mean it would defer around £2 million of revenue until after 2025 but it accepted this approach.
- **Modelling issues:** The company raised the following modelling-related issues.
  - The blind year in-period adjustment model uses a tax rate of 19% which should be corrected to align to the 0% tax rate used in the PR19 FD.
  - The CPIH indices for AMP7 were left blank in the in-period adjustment model and should be populated with the most recent forecast available.
  - For clarity, the in-period adjustment model should be populated with the K-factors stated in the PR19 FD.
  - A proposed improvement regarding the calculation of the deflation factor associated with ODI payments in the in-period adjustment model.

Each of these issues is discussed in more detail in Chapter 2.

## 1.4 Section 13 Consultation notice

Alongside the PR19 blind year draft proposals, we published a [Section 13 consultation notice](#)<sup>3</sup> which proposed licence changes to allow for any revenue associated with the blind year reconciliation of totex menus to be applied in period by including it in the blind year adjustment figure for the Revenue Forecasting Incentive (RFI) formula.

Our PR19 blind year draft proposals were presented on the basis that the proposed licence modification, as set out in the consultation notice, would be implemented ahead of the 15 November 2020 deadline for ODI determinations. We set out that, if the proposed licence modifications were not made, the blind year revenue adjustments for totex menus would not be corrected for until the 2024 periodic review (PR24).

Thames Water accepted the modification, so any revenue adjustment associated with the blind year reconciliation of totex menus continue to be included in the blind year adjustment figure for the RFI formula in our final decisions.

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<sup>3</sup> Consultation under section 13 of the Water Industry Act 1991 on proposed modifications to Condition B of the licences of 17 water companies.

## 2. Final decision on PR19 blind year adjustment

This chapter presents our assessment of the blind year adjustment for Thames Water, provides an overview of comments submitted in response to our PR19 blind year draft proposals and confirms our PR19 blind year final decisions regarding the application of adjustments to the company.

### 2.1 Our final decisions on PR19 blind year interventions

Each company was required to submit, alongside their APR, its view of the impact that actual reported 2019–20 performance would have on its PR19 revenue allowances when compared to the forecast level of performance that was included as part of its PR19 final determination. Using this information we completed an assessment of the required blind year adjustment.

In making this assessment, we reviewed Thames Water’s blind year submissions and, where appropriate, sought clarity on company information. Where necessary we proposed to intervene to ensure the blind year adjustments were appropriate. Following our assessment of responses we can confirm that we will apply the proposed interventions for Thames Water that were set out in our blind year draft proposals. Our final decisions are summarised in table 1 below and the following section presents an overview of our decision and the associated rationale.

**Table 1 Blind year adjustment interventions (2017–18 prices unless otherwise stated)**

Incentive	Intervention(s)
Outcome delivery incentives (ODIs)	We are intervening to include an underperformance payment for ‘WC2 Leakage’. We are intervening so that no ODI underperformance payment applies for the blind year reconciliation for WB7 (Compliance with SEMD advice notes).
Residential retail revenue	No interventions
Wholesale revenue forecasting incentive mechanism (WRFIM)	
Totex	
Land sales	

#### 2.1.1 ODI revenue and RCV adjustments

In our PR19 blind year draft proposals, we proposed two ODI adjustments.

The first was an intervention to exclude the impact of methodological changes and a data update, applied in Thames Water's 2019–20 APR, from its calculation of ODI incentives related to the 'W-C2 Leakage' performance commitment. This intervention led to a proposed underperformance payment of –£5.850 million (2012–13 prices, net of tax).

We noted that in August 2018 Ofwat accepted undertakings given by Thames Water to address our findings that it had breached two of its legal obligations in relation to its management of leakage reduction<sup>4</sup>. We also advised that, in assessing the company's 2019–20 performance and associated ODI payments, we applied the framework and expectations set out in the PR14 final determination and subsequent policy statements. We said that this applies to all companies and is distinct from the specific undertakings Thames Water had to implement following the investigation.

In the PR19 blind year draft proposals, we explained that methodological changes and data updates can reduce consistency and transparency for customers and other stakeholders. We noted that, when proposing such changes, companies needed to consider IN 16/07 (May 2016). This information notice sets out our policy regarding requests for changes to the performance commitments (in the 2014 price review company specific appendices) and specifies that companies must follow an agreed process. We noted that, prior to making its methodological changes and data update, Thames Water did not follow the processes set out in the Information Notice.

We also highlighted our view that companies' incentive payments should only reflect real performance improvements and that the impact on performance commitments, with and without methodological changes, should be clear. We clarified that we had taken this approach for other companies during 2015–20 and that we would apply this approach during the 2020–25 price control period.

The second intervention removed underperformance from WB7 (Compliance with SEMD advice notes). In this respect, we highlighted that Thames Water had included an underperformance payment in 2019–20 for WB7. We noted that this commitment had been scrutinised in PR19 in detail and that the PR19 final determination included a performance commitment for 2020–25 to deliver outputs that the company advised us during PR19 that it would not deliver by 2019–20. We were of the view that the PR19 performance commitment would expose the company to stronger underperformance incentive rates for non-delivery than would have been incurred under PR14. Therefore we considered that customers' interests would be best served if all outputs that were not forecast to be delivered at the time of the PR19 final determination were reconciled using the PR19 performance commitment to provide strong incentives to deliver.

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<sup>4</sup> Details of our investigation are presented on our [website](#) including the [Notice of Ofwat's imposition of a financial penalty on Thames Water Utilities Limited](#)

## Summary of responses

In its response regarding our proposed intervention on leakage, Thames Water expressed support for our view that performance must be transparent and consistent, noting that it had, at all times, acted in full compliance with the provisions of its PR14 final determinations as well as those set out in IN 16/07. The company considered that it had acted exactly in line with the expectations previously set out by Ofwat, and that its leakage performance:

- reflects ‘real’, not ‘paper’ improvements;
- is measured and recorded consistently;
- is subject to appropriate governance and assurance processes; and
- is transparent.

Thames Water highlighted that it had deliberately taken a conservative approach to reported leakage and suggested that it could have reported significantly lower leakage by including ‘paper’ improvements and/or extending its improved understanding of wastage to a broader set of customers.

Thames Water welcomed our proposed intervention on performance commitment WB7 (Compliance with SEMD advice notes).

## Final position

On the basis of the proposed leakage intervention set out in our draft proposals, and the responses we have received, our final decision is to apply an underperformance payment of –£5.850 million (2012–13 prices, net of tax) for performance on leakage. We maintain that the framework and expectations set out in the PR14 final determination and subsequent policy statements applies for our decision on the blind year adjustment and is distinct from our monitoring of the section 19 undertakings Thames Water had to implement following the investigation into its management of leakage reduction.

For our final decision we note the additional evidence provided in Thames Water’s response and the constructive engagement we have had with the company during the consultation period. The company’s evidence and engagement has enabled us to further understand the approach it has taken in deriving its reported performance for 2019–20.

We have reviewed all of the evidence provided to us and recognise that Thames Water now has a better understanding of the allocation of water between the components of its leakage calculation. The company advised that prior to 2019–20 it had not updated its night use and wastage assumptions since 2006 but that during the 2015–20 price control period it has progressively installed smart meters and introduced ‘Bulk Metered Areas’. The meters reveal new insights into these key components of its leakage calculation<sup>5</sup> and in 2019–20 it considers it has sufficient data to improve its understanding of night use and wastage in

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<sup>5</sup> [Ofwat and WaterUK targeted review of common performance commitments](#)

London. It advises that over a number of years the volume of water that should be allocated to night use and wastage has been increasing, which reduces the volume of water that is allocated to leakage. In 2019-20 the company applied its new understanding of the allocation of water between these components of its leakage calculation to account for increases in night use and wastage since 2015, which results in reported leakage that is 24 MI/d lower than if it had used its original assumptions.

When calculating incentive payments we consider that it is important to maintain key assumptions throughout the 2015-20 price control in order to ensure consistency and transparency for stakeholders. In the case of Thames Water, its historical performance, leakage performance commitment levels and ODI rates for the 2015-20 price control period were calculated using assumptions for night use and wastage which were long-standing (since 2006). Consequently we consider that, when Thames Water made its commitment to its customers at PR14, those assumptions were not expected to change and it was incentivised to deliver reductions in leakage on the same basis. We are therefore intervening to exclude the 24 MI/d impact of the revised assumptions from the calculation of ODI incentives for WC2 for Thames Water. This leads to an underperformance payment of -£5.850 million (2012-13 prices, net of tax).

We also note that, regardless of which night use and wastage assumptions are applied in Thames Water's calculation of leakage, the volume of water that has been taken from the environment remains the same. We therefore do not consider that the 24 MI/d reduction in leakage represents an improvement that the company has delivered for its customers and the environment.

Other companies have approached us with similar issues during 2015-20 and we have consistently required that, for the purpose of calculating ODI payments, the key assumptions made when setting performance commitment levels should be used. We therefore consider that all companies should only receive incentive payments from delivery of performance improvements calculated from application of the key assumptions used when they set their performance commitment levels and ODI rates.

Thames Water's PR14 final determination requires it to incur underperformance payments on leakage above 606 MI/d. To calculate the ODI payment we adjust the company's reported performance of 595 MI/d upwards by 24 MI/d to 619 MI/d. The intervention is calculated as  $((619 - 606) * -£0.450 \text{ million})$ , where -£0.450 million is the underperformance incentive rate (£ million / MI/ day).

On the second proposed intervention to remove the underperformance payment related to WB7 (Compliance with SEMD advice notes), our approach remains unchanged from the blind year draft proposals.

## 2.1.2 Other performance adjustment

On 9 November, Thames Water informed us that it had identified an issue in the reporting of its 2019-20 'Planned network rehabilitation' sub-measure data (part of its WB1 (asset health water infrastructure) performance commitment). While the company continues to review this and the final position is not yet known, Thames Water has indicated that it expects that an additional underperformance payment is due.

We have not included any assumption on potential underperformance payments in our blind year assessment. We will work with the company to understand the correct performance figure and would look to include any performance payment due in future performance measure adjustments or reconcile at the 2024 price review.

## 2.1.3 WRFIM revenue adjustments

In the blind year draft proposals we confirmed that Thames Water had populated the WRFIM model in line with our expectations and that we did not propose any interventions. However, we noted that the company had made an adjustment to remove the element of the WRFIM penalty it incurred as a result of its voluntary deferral of wastewater revenue in 2019-20 (£0.553m 2019-20 prices). We recognised that the WRFIM mechanism was introduced to incentivise companies to avoid revenue forecasting errors by applying a penalty to variations that fall outside a set uncertainty band. As such, we agreed that the company's voluntary deferral of revenue and the associated under-recovery was not attributable to a forecasting error and that the resulting penalty was not appropriate, as the voluntary deferral was in the interests of customers.

### Summary of responses

We did not receive any specific comments on this issue.

### Final position

Our final position remains unchanged from the blind year draft proposals.

## 2.1.4 Totex menu revenue and RCV adjustments

In the blind year draft proposals, we clarified that we had retained a number of interventions from the PR19 final determination model.

### Summary of responses

We did not receive any specific comments on this issue.

## Final position

Our final position remains unchanged from the blind year draft proposals.

### 2.1.5 Other adjustments

In the blind year draft proposals we noted that Thames Water's blind year submission had included an adjustment to its RCV to account for a PR14 corrigenda<sup>6</sup> issued in 2018, which we had excluded from its PR19 final determination in error. We set out that, as this correction related to the company's RCV, it did not fit within the proposed licence modification for unambiguous revenue errors. However, recognising that all blind year RCV adjustments would be made at PR24 we adjusted to account for this error in the blind year totals that we were reporting. We clarified that this adjustment would reduce the RCV by £7.269m in 2012/13 prices (£8.268m in March 2018 prices) at PR24.

#### Summary of responses

We did not receive any specific comments on this issue.

## Final position

Our final position remains unchanged from the blind year draft proposals.

### 2.1.6 Treatment of Thames Tideway Tunnel adjustments

In its response to the blind year draft proposals Thames Water noted that, in discussions following publication of the blind year draft proposals, we had provided clarification of our intent to process the revenue element of the blind year adjustment for the TTT price control at PR24. The company highlighted that this would mean the deferral of around £2 million of revenue until after 2025 but that it would accept our approach in the spirit of collaboration. However, it suggested we should make this position clear in our final decisions document.

## Final position

We will make the blind year revenue adjustment of £1.443 million (in 2017-18 prices) for the TTT control at PR24.

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<sup>6</sup> ["Corrigenda to the company specific appendix that accompanied the Notification by the Water Services Regulation Authority of its determination of Price Controls for Retail Activities and for Wholesale Activities for Thames Water Utilities Limited", Ofwat, May 2018](#)

## 2.1.7 Modelling issues

In its response to the blind year draft proposals Thames Water raised a number of issues regarding the blind year in-period adjustment model. The table below summarises these comments and provides an overview of our response.

Issue	Ofwat response
The blind year in-period adjustment model uses a tax rate of 19% which should be corrected to align to the 0% tax rate used in the PR19 FD.	The company's specific circumstances at the time of the PR19 final determination resulted in a zero tax allowance (and an average tax rate of 0%) for its water network plus price control. Any subsequent adjustments to allowed revenue are subject to the marginal tax rate and not an average. Therefore the blind year in-period adjustment model applies a marginal tax rate of 19% to any adjustments calculated for the purposes of in-period determinations during the 2020–25 price control period.
The CPIH indices for AMP7 were left blank in the in-period adjustment model and should be populated with the most recent forecast available.	We have used HM Treasury CPI forecasts to determine inputs to the in-period adjustment model where inflation inputs are required beyond September 2020. This is consistent with the approach adopted in our PR19 determinations where we set out our assumption that the Bank of England would over the long term achieve its CPI inflation target of 2.0%, and that CPIH will not be systematically higher or lower than this.
The in-period adjustment model should be pre-populated with the K-factor for 2020–21 stated in the PR19 FD for the Dummy control (Thames Tideway Tunnel).	As Thames Water acknowledges, the inclusion of the relevant K-factor has no impact on the allowed revenues or adjustments to K in subsequent years. Considering this and the risk of unintended impacts on the model outputs we have not actioned this suggestion.
An amendment to the calculation of the deflation factor associated with ODI payments in the in-period adjustment model.	We have included this amendment in the final version of the in-period adjustment model.

## 2.1.8 RPI-CPIH wedge

A number of companies noted that in the PR19 final determinations the RPI-CPIH wedge was set on the basis of forecast inflation and should be updated to reflect 2019–20 outturn inflation values. In this respect, the companies highlighted that the blind year adjustment, as calculated, did not appear to take into consideration the impact of changes in actual inflation on the March 2020 closing RCV.

Following an assessment of the responses received, we reviewed the models (a) used in the PR19 final determination, (b) used in the PR19 blind year process and (c) consulted on as part of the PR19 reconciliation rulebook. Our review highlighted that the points raised by these companies were valid and that further RCV and revenue adjustments are required to reconcile the difference in the RPI-CPIH wedge that was forecast in the RCV feeder models. We have included extra calculations in the PR19 blind year adjustments model to calculate the further RCV adjustment that will be included as part of the PR24 midnight adjustment. The associated revenue adjustment for the difference in respect of the return companies would have been allowed during the 2020–25 period had the closing 31 March 2020 reflected actual rather than forecast 2019–20 inflation has not been included in the PR19 blind year adjustments model. We will calculate the revenue difference in respect of the return at PR24 and adjust it for the time value of money within an appropriate model in the PR24 modelling suite.

## 2.2 Implementing the PR19 blind year adjustments

In the PR19 rulebook consultation, we set out how we expected blind year adjustments to be applied. In Annex 2 to the notification of the PR19 final determination for each company, we designated all PR14 performance commitments as in-period to allow us to adjust company price controls to reflect performance in 2019–20. Annex 3 of that notification also sets out the RFI formula for 2020–25 in relation to the network plus and water resources price controls. It includes a blind year adjustment factor that allows PR19 blind year revenue adjustments for other PR14 reconciliation mechanisms to be taken into account.

We have included extra calculations in the PR19 blind year adjustments model to convert, using CPIH, the wholesale revenue blind year adjustments to the price base required for input to the revenue forecasting incentive (RFI) model. The RFI model inputs are defined as ‘base year 2019/20 prices’ that is the November prior to 2019–20 (i.e. November 2018). Companies should use these values as inputs to their RFI models.

Our approach is intended to ensure that any adjustments are made as close as possible to when customers are impacted by company performance. Table 2 below summarises the blind year adjustments for Thames Water and when these will feed into customer bills while table A1–4 in appendix A1 presents the company’s total blind year adjustment (TBYA) allocated to each price control.

Table 2: Summary of blind year adjustment (£ million, 2017-18 FYA CPIH deflated: PR19 base year prices)

Type of adjustment	Total Value (£m)	Control					When it applies
		Network Plus	Water resources	Residential retail	Bioresources	Thames Tideway	
Total ODI revenue adjustments	16.355	16.355	0.000	0.000	0.000	N/A	In 2021-22 through in-period determination of price controls
WRFIM revenue adjustments	16.298	15.285	N/A	N/A	N/A	1.013	Over the last four years of the 2020-25 period and captured within the RFI formula blind year adjustment (BYA)
Water trading revenue adjustments	-0.001	0.000	-0.001	N/A	N/A	N/A	
Totex menu revenue adjustments	0.070	-0.360	N/A	N/A	N/A	0.430	
Other revenue adjustments	0.000	0.000	N/A	N/A	N/A	N/A	
Residential retail revenue adjustments	0.852	N/A	N/A	0.852	N/A	N/A	End-of-period revenue adjustment, captured within the Residential Retail model blind year adjustment (BYA)
Total non-ODI revenue adjustments	17.219	14.925	-0.001	0.852	N/A	1.443	
Total revenue adjustments	<b>33.574</b>	<b>31.280</b>	<b>-0.001</b>	<b>0.852</b>	<b>0.000</b>	<b>1.443</b>	
Totex menu RCV adjustments	3.428	10.470	N/A	N/A	N/A	-7.042	At PR24, flowing through 2025-30 price controls
Land sales RCV adjustments	11.522	11.522	N/A	N/A	N/A	0.000	
ODIs RCV adjustments	-0.021	0.000	-0.021	N/A	N/A	0.000	

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Type of adjustment	Total Value (£m)	Control					When it applies
		Network Plus	Water resources	Residential retail	Bioresources	Thames Tideway	
Other RCV adjustments	-8.198	-8.198	N/A	N/A	N/A	0.000	
2019-20 RPI-CPIH wedge RCV adjustments	51.091	41.670	0.895	N/A	4.575	3.950	
<b>Total RCV adjustments</b>	<b>57.822</b>	<b>55.463</b>	<b>0.874</b>	<b>N/A</b>	<b>4.575</b>	<b>-3.092</b>	

Note  
 No changes are being proposed to the bioresources price control. All bioresource revenue and RCV adjustments are applied to the wastewater network plus control.  
 No changes are being proposed to the Thames Tideway control. All revenue and RCV adjustments for Thames Tideway are applied to the wastewater network plus control.

## 2.3 Change in price controls

As outlined in section 2.2, different elements of the blind year adjustment are recovered in different ways. With the exception of the ODI revenue adjustments, all adjustments are either recovered by companies across the remaining four years of the price control period through the RFI formula, or recovered in the following price control period. For PR19 blind year ODI revenue adjustments, the starting assumption is that these will be recovered in 2021-22 through a performance measure adjustment determination.

Table 3 sets out the changes to price controls for Thames Water to account for the blind year ODI revenue adjustments<sup>7</sup>. We have used the PR19 in-period adjustments model to calculate changes to price controls and the version of the model we use is published alongside this document.

**Table 3: Summary of changes to the price controls for the PR19 blind year ODI revenue adjustments**

Control		2020-21	2021-22	2022-23	2023-24	2024-25
Water resources (K factor)	PR19 final determination		3.90	-1.00	0.67	3.51
	Revised		3.90	-1.00	0.67	3.51
Water network plus (K factor)	PR19 final determination		4.80	2.54	1.30	0.22
	Revised		7.44	0.04	1.30	0.22
Wastewater network plus (K factor)	PR19 final determination		-0.72	-1.69	-0.40	-0.16
	Revised		-0.81	-1.59	-0.40	-0.16
Thames Tideway (K Factor)	PR19 final determination		4.64	2.78	-11.51	-10.68
	Revised		4.64	2.78	-11.51	-10.68
Bioresources (sludge) - Revised total revenue (£m) – 2017-18 Nov CPIH prices	PR19 final determination		160.767	161.621	162.479	163.333
	Revised		No change	No change	No change	No change
Residential retail – Revised total revenue (£m) – nominal prices	PR19 final determination		143.177	146.137	148.468	150.721
	Revised		143.177	146.137	148.468	150.721

To note, in calculating the blind year adjustment, we calculate the adjusted PR14 reconciliation for all relevant mechanisms for the whole of the 2015-20 period using actual

<sup>7</sup> The starting revenue allowances for the Water resources, Water and Wastewater network plus price controls do not change – only the K factors. For the residential retail price control we will adjust allowed revenue by a fixed amount instead of changing the value of any of the elements set out in the final determination of the price control. No changes will be made to the Bioresources price control. All wastewater ODI revenue adjustments will be applied to wastewater network plus.

2019–20 performance data. We then calculate the difference between this updated view and the equivalent information from the PR19 final determination.

## **2.4 Profiling of PR19 blind year adjustments**

IN 20/06 explained that we did not expect companies to submit proposals on spreading ODI adjustments across charging years. This is because we were expecting ODI adjustments to be relatively small (as they would only relate to the variance from forecast performance) and because the blind year revenue adjustments that are applied through the RFI formula provides some flexibility to companies to manage volatility.

In the PR19 blind year draft proposals we set out that if, after reviewing our proposals, the company was of the view that there was a case for spreading the blind year adjustment across two or more years, it should include proposals in its response. Thames Water did not include any comments or requests regarding the potential profiling of PR19 blind year adjustments and the adjustments to the company revenues will therefore apply in 2021–22.

## A1 Appendix 1 Reconciliation of PR14 incentives for 2015–20 for Thames Water

Table A1-1: Reconciliation of PR14 incentives by PR14 price control (£ million, 2017–18 FYA CPIH deflated: PR19 base year prices)

	Wholesale water			Wholesale Wastewater			Residential retail			Thames Tideway		
	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view
<b>Revenue</b>												
Outcome delivery incentives	-140.3	-121.1	-123.7	-7.8	-8.4	-8.4	0.0	0.0	0.0	N/A	N/A	N/A
Residential retail revenue	N/A	N/A	N/A	N/A	N/A	N/A	1.1	1.9	1.9	N/A	N/A	N/A
Wholesale revenue forecasting incentive mechanism	74.7	84.1	84.1	64.8	71.2	71.2	N/A	N/A	N/A	2.0	3.0	3.0
Totex	-5.2	-4.9	-4.9	-1.0	-1.6	-1.6	N/A	N/A	N/A	72.3	72.9	72.9
Land sales	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Residential retail service incentive mechanism	N/A	N/A	N/A	N/A	N/A	N/A	-102.8	-98.6	-103.1	N/A	N/A	N/A
PR09 blind year adjustments	-1.3	-1.3	-1.3	-24.1	-24.2	-24.2	N/A	N/A	N/A	N/A	N/A	N/A
CIS RCV inflation correction	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Water trading	0.5	0.5	0.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>-71.5</b>	<b>-42.8</b>	<b>-45.4</b>	<b>31.9</b>	<b>36.9</b>	<b>36.9</b>	<b>-101.8</b>	<b>-96.7</b>	<b>-101.2</b>	<b>74.2</b>	<b>75.9</b>	<b>75.9</b>
<b>RCV</b>												
Outcome delivery incentives	0.0	0.0	0.0	-148.8	-149.3	-149.3	N/A	N/A	N/A	0.0	0.0	0.0
Residential retail revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wholesale revenue forecasting incentive mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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	Wholesale water			Wholesale Wastewater			Residential retail			Thames Tideway		
	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view	PR19 FD	Company BY view	Ofwat BY view
<b>Totex</b>	308.8	313.1	313.1	86.0	93.4	93.4	N/A	N/A	N/A	-158.2	-165.7	-165.7
<b>Land sales</b>	-31.1	-25.8	-25.8	-17.9	-11.8	-11.8	N/A	N/A	N/A	0.0	0.0	0.0
<b>Residential retail service incentive mechanism</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>PR09 blind year adjustments</b>	17.7	17.7	17.7	-7.7	-7.7	-7.7	N/A	N/A	N/A	N/A	N/A	N/A
<b>CIS RCV inflation correction</b>	-96.3	-96.6	-96.6	-181.5	-182.0	-182.0	N/A	N/A	N/A	N/A	N/A	N/A
<b>Water trading</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Other adjustments</b>	0.0	0.0	0.0	0.0	-87.5	-8.2	N/A	N/A	N/A	-26.5	-26.4	-26.5
<b>2019-20 RPI-CPIH wedge RCV adjustments</b>	N/A	N/A	18.8	N/A	N/A	28.3	N/A	N/A	N/A	N/A	N/A	4.0
<b>Total</b>	<b>199.1</b>	<b>208.5</b>	<b>227.3</b>	<b>-269.8</b>	<b>-344.9</b>	<b>-237.3</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-184.7</b>	<b>-192.1</b>	<b>-188.3</b>

Note:

These adjustments are made in line with the 'PR14 reconciliation rulebook' and reflect the interventions explained in summary in table 4.11 in 'Thames Water final determination' and in detail in 'Thames Water - Accounting for past delivery final decisions'.

Revenue in these tables may not reconcile to the lines for 'Reconciliation of PR14 incentives, 2020-25' in table 4.12 in the 'Thames Water final determination'. This is because the values in table 4.12 reflect adjustments made in the financial model for the tax treatment of the wholesale revenue forecasting incentive mechanism and totex reconciliations, and net present value profiling of the reconciliation adjustments over the 2020-25 period used for setting the allowed revenue. The treatment of tax and profiling are explained in the 'PR14 reconciliation rulebook'. The revenue adjustment values shown in tables 1 and 2 below assume a single year adjustment in the first year of the 2020-25 period.

As well as replacing forecast performance with actual performance in 2019-20, the company's blind year view and our final blind year decisions set out in the above table also replace forecasts of inflation in 2019-20 with actual RPI and CPIH indices.

**Table A1-2: Ofwat's view of PR14 reconciliation adjustments for 2015-20 by PR19 price control (£ million, 2017-18 FYA CPIH deflated: PR19 base year prices)**

	RCV adjustments					Revenue adjustments					
	Water resources	Network plus water	Network plus wastewater	Bioresources	Thames Tideway	Water resources	Network plus water	Network plus wastewater	Bioresources	Residential Retail	Thames Tideway
Outcome delivery incentives	0.0	0.0	-149.3	N/A	0.0	0.0	-123.7	-8.4	0.0	0.0	N/A
Residential retail revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.9	N/A
Wholesale revenue forecasting incentive mechanism	N/A	N/A	N/A	N/A	N/A	N/A	84.1	71.2	N/A	N/A	3.0
Totex	14.9	298.2	93.4	N/A	-165.7	N/A	-4.9	-1.6	N/A	N/A	72.9
Land sales	-1.2	-24.6	-11.8	N/A	0.0	N/A	N/A	N/A	N/A	N/A	N/A
Residential retail service incentive mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-103.1	N/A
PR09 blind year adjustments	0.8	16.9	-7.7	N/A	N/A	N/A	-1.3	-24.2	N/A	N/A	N/A
CIS RCV inflation correction	-4.6	-92.0	-182.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Water trading	N/A	N/A	N/A	N/A	N/A	0.5	0.0	N/A	N/A	N/A	N/A
Other adjustments	0.0	0.0	-8.2	N/A	-26.5	N/A	0.0	0.0	N/A	N/A	N/A

Blind year adjustments, Final decision, Thames Water

	RCV adjustments					Revenue adjustments					
	Water resources	Network plus water	Network plus wastewater	Bioresources	Thames Tideway	Water resources	Network plus water	Network plus wastewater	Bioresources	Residential Retail	Thames Tideway
<b>2019-20 RPI-CPIH wedge RCV adjustments</b>	0.9	17.9	23.8	4.6	4.0	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>10.8</b>	<b>216.5</b>	<b>-241.8</b>	<b>4.6</b>	<b>-188.3</b>	<b>0.5</b>	<b>-45.9</b>	<b>36.9</b>	<b>0.0</b>	<b>-101.2</b>	<b>75.9</b>

Note: These totals exclude any outcome delivery incentive revenue adjustments for business retail performance commitments.

**Table A1-3: Ofwat's view of midnight adjustments to RCV by PR19 price control (£ million, 2017-18 FYA CPIH deflated: PR19 base year prices)**

	RCV adjustments				
	Water resources	Network plus water	Network plus wastewater	Bioresources	Thames Tideway
PR14 reconciliations	9.9	198.6	-265.6	N/A	-192.3
IFRS adjustments	5.6	22.4	26.1	1.9	6.1
2019-20 RPI-CPIH wedge RCV adjustments	0.9	17.9	23.8	4.6	4.0
Midnight adjustments to RCV	16.4	238.8	-215.7	6.4	-182.2

Note:  
The IFRS16 adjustments are unaffected by 2019-20 inflation and out of scope of the blind year reconciliation. They remain unchanged from the 2019 final determination.  
The 2019-20 RPI-CPIH wedge RCV adjustment reconciles the difference in the RPI-CPIH wedge that was forecast in the 2019 final determination RCV feeder model.

**Table A1-4: Ofwat’s view of the blind year adjustment for 2019–20 by PR19 price control for use in the revenue forecasting incentive model (£ million, 2017–18 FYA CPIH deflated: PR19 base year prices)**

	Revenue adjustments				
	Water resources	Network plus water	Network plus wastewater	Bioresources	Thames Tideway
Wholesale revenue forecasting incentive mechanism	N/A	9.111	6.174	N/A	N/A
Totex	N/A	0.264	-0.624	N/A	N/A
Water trading	-0.001	0.000	N/A	N/A	N/A
Other adjustments	N/A	0.000	0.000	N/A	N/A
<b>Total blind year adjustment (TBYA) for use in the RFI formula</b>	<b>-0.001</b>	<b>9.375</b>	<b>5.550</b>	<b>N/A</b>	<b>N/A</b>

Thames Tideway revenue will be recovered at PR24, see section 2.1.6.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
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