

Date

20 October 2021

Contact

Tel

Dear Ofwat

## **Draft determination of Southern Water's in-period outcome delivery incentives for 2020-21**

This is Southern Water's response to Ofwat's consultation on in-period determinations. We note that the draft determination is in line with the position set out in our Annual Performance Report with two minor exceptions on which we comment below.

### **Revision to the CRI penalty**

We agree with the revision to the ODI underperformance payment for CRI, which uses the latest Drinking Water Inspectorate (DWI) data, which was not available at the time we submitted our data.

### **Deferral of leakage penalty**

We agree that deferring the ODI underperformance payment for leakage to 2022 to allow sufficient time to conclude our discussions on the restatement of our leakage data for 2020-21, which are designed to ensure that reported leakage is on a fully consistent basis with the final determination targets.

### **Application of marginal tax rate**

In our correspondence of the 10th September 2021 we requested that you use our marginal tax rate of 0%. This tax rate is based on our latest forecast expenditure over the remainder of the AMP and remains consistent with the Final Determination where we received NIL tax funding (see PR19 FD Ofwat Financial Model). It is therefore incorrect to gross up the ODI penalty in order to remove a tax benefit we do not receive.

We have attached an updated version of the in-period adjustments model with your interventions and alterations but with an updated marginal tax rate of 0%.

### **Profiling of revenues**

In setting draft 2022-23 charges our Board has taken action to defer some revenue and re-profile blind-year adjustments in order to manage some of the customer bill volatility arising from ODI penalties and prior year under-recovery of revenues. We did not request a re-profiling of the in-period adjustments as we felt that we had sufficient flexibility available to us to manage bill impacts in customers' interests. However, we note that under the revenue forecasting incentive mechanism, the action taken by our Board to manage bills in the best interests of customers, may incur a penalty as it would be treated as a mis-forecast. We would like to discuss this issue with Ofwat prior to publication of the in-period final determinations.

Yours sincerely,



**Martin Roughead**  
Director of Corporate Strategy and Regulation