

**WSX-D12 –
Commentary on
data table changes
– Past delivery**

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

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WSX-D12 – Commentary on data table changes – Past delivery

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This document is part of Wessex Water's response to Ofwat's PR24 draft determination.

More information can be found at wessexwater.co.uk

1. Introduction

We have updated the past delivery tables and PR19 reconciliation models on a consistent and proportionate basis to reflect 23/24 (APR) outturn and updated forecasts for 24/25.

We have used the version of the models Ofwat published for DD here ([Draft determinations models - Ofwat](#)) as the basis for our submission. We note these have different functionality in some instances to those publicly available here ([PR19 reconciliation - Ofwat](#)) alongside the PR19 reconciliation rulebook.

The table below summarises the RCV/revenue adjustments:

	Resubmission		FBP		Variance	
	Rev (£m)	RCV (£m)	Rev (£m)	RCV (£m)	Rev (£m)	RCV (£m)
ODI	-16.7	-	- 4.4		-12.3	-
RFI	16.1		6.0		10.1	-
C-MeX	-		-		-	-
D-MeX	-		-		-	-
Residential Retail	-3.2		-0.0		-3.2	-
Business Retail	-		-		-	-
DSRA	4.3		5.9		-1.6	-
New Debt	15.2		16.4		-1.2	-
Water Trading	-				-	-
Gearing outperformance	-				-	-
Land Sales		-2.8		-0.0	-	-2.8
RPI-CPIH Wedge	26.2	57.9	13.8	81.7	12.5	-23.8
WINEP		-0.8		-	-	-0.8
Tax	-34.0		-11.9		-22.1	-
Bio	7.9		0.3		7.6	-
Bio forecasting accuracy	-				-	-
Green Recovery	-	-			-	-
SROs	-1.7	0.2	3.4	2.0	-5.0	-1.7
Totex	15.3	7.7	8.2	- 66.6	7.0	74.3
Other	-	-	-		-	-
Total	29.5	62.2	37.7	17.0	-8.1	45.2

We set out specific changes in the sections below:

2. ODIs

Some minor revisions to 24-25 performance forecasts (these update the 24-25 forecasts in our 23-24 APR) have been included. These are consistent with OUT6 and OUT8 as submitted. Please see OUT8 Statement of Change and Commentary for further information.

We note, the financial impact of PCC in the Ofwat DD model versions is included in these versions, reflecting the draft COVID adjustments made by Europe Economics. These draft adjustments have been fed into our financial modelling. We understand these adjustments will be confirmed in the FD.

To calculate our revenue adjustment, we have summed the total in-period revenue adjustment with the total end-of-period adjustment, split by price control, for each model. We have then totalled the respective outputs for 23/24 and 24/25 and entered them into PD12.

3. Costs reconciliation

PD8 and PD9 have been updated to align with the 23/24 APR (further commentary can be found in our APR documentation) and 24/25 forecast wholesale costs have been correspondingly updated, consistent with other reconciliation models.

With regard to the cost sharing reconciliation model, in particular the PR19 labour RPE, the PR19 Reconciliation rulebook refers to ASHE table 4.1a for Gross Hourly Wages as the model input. Table 4.1a is *actually* weekly pay. We have populated this input instead using ASHE table 4.5a which is hourly pay, including overtime – we look up the mean wages for the *manufacturing* sector. This is consistent with the PR19 Final Determination¹ which sets out “We therefore intend to true up using ASHE all employees, mean manufacturing hourly wages, including overtime” (p.210).

At the time of writing (Summer/24) the latest ASHE data available is 22/23 provisional. The ASHE dataset does not include forecasts. We have forecast the gross hourly wage for 23/24 and 24/25 by using the same method as Ofwat at PR19, by forecasting wage growth as the delta between the OBR forecast of average hourly earnings growth and the OBR forecast of CPI Growth and applying this to the most recent ASHE data.

4. Land sales

We have updated with our latest figures, however there remains material uncertainty around these due to market conditions.

5. RPI-CPIH wedge

We have updated with latest inflation figures and forecasts.

6. Strategic Regional Water resources

We have submitted the SRO model consistent with the latest version shared by Ofwat, shared by email (16th May 2024). We understand from further email correspondence (21st June 2024) that this version will be used for Draft Determinations, although we expect at a least a further iteration of the model given that WSX and the industry have identified that this model has limitations.

¹ [PR19-final-determinations-Securing-cost-efficiency-technical-appendix.pdf \(ofwat.gov.uk\)](#)

We summarise in the table below what we would expect in end-of AMP adjustments for each SRO compared to what the Ofwat model is currently outputting.

£m 17-18 prices	WSX view				Ofwat model		Interpretation
	FD allowed	Expected outturn	Diff	Expected adj. (discounted)	Expected adj. (discounted)		
WCS Sources	£1.5	£0.2	-£1.3	-£1.4	-£2.1		Ofwat expecting more to be returned to customers
WCS Transfers	£1.3	£0.2	-£1.2	-£1.3	-£2.2		Ofwat expecting more to be returned to customers
WCN Sources (Cheddar 2)	£1.5	£1.8	£0.4	£0.4	-£0.3		Ofwat expecting £ to be returned to customers, WSX expecting to collect more
Poole		£1.6		£1.7	£1.6		Ofwat expecting to collect slight more from customers, but two views are close
Mendips		£2.4		£2.6	£1.8		Ofwat expecting less to be collected from customers
Total	£4.2	£6.2	-£2.1	£2.1	-£1.2		

In summary, compared to what customers have so far contributed to through bills (as per the PR19 ex-ante allowances), we would be expecting to collect a further c.£2.1m from customers; however, Ofwat's model suggests we should be returning £1.2m. The assessment varies by scheme.

The PR19 final determination stated that any under or over-spend on the original portfolio of SROs and expenditure on new solutions (such as Mendip quarries) in AMP7 would be subject to reconciliation at PR24. Therefore, the need for a reconciliation model has been known about for five years. It is disappointing that a working reconciliation model is still not available.

For information, we have used the below sources to inform this analysis.

- PR19 allowances: [FM E WW strategic-regional FD.xlsx \(live.com\)](#)
- PR19 expected outturn, the sum of:
 - 4 years AMP to date taken from respective APRs, table 4F
 - Internal view of forecast outturn for 24/25

Finally, to confirm, whilst we disagree with the SRO model outputs, we have included these in the opening RCV and revenue allowances for the purposes of PR24 financial modelling, for which we await direction on regulatory treatment.

7. RFI

PD5 has been updated to align with the 23/24 APR (further commentary can be found in our APR documentation) and 24/25 forecast wholesale revenues have been correspondingly updated.

8. Bioresources

We have updated the actual sludge volumes (20/21-23/24) and provided a revised forecast (24/25) of sludge volumes. This is consistent with our 23/24 APR, and communications to Ofwat.

In terms of reconciling bioresources revenues for PR19, this results in the following changes compared to our Business Plan. We note that data table BIO1 and the Bioresources Reconciliation model formed part of the early submission requirement of the business plan to Ofwat (July/23).

Revenue adjustment - based on July23 BIO1 submission*	£m	24-25 FYA CPIH	£0.29
Revenue adjustment - DD submission	£m	24-25 FYA CPIH	£8.53
Forecasting accuracy incentive penalty - based on July23 BIO1 submission*	£m	17-18 FYA CPIH	£2.1
Forecasting accuracy incentive penalty - DD submission	£m	17-18 FYA CPIH	£0.0

*This was an early submission requirement of the business plan

Going into PR24 we will need to collect c£11m (adjusted for inflation) in revenue from customers to reflect the previous under-statement of actual sludge volumes AMP to date and the subsequent impact this has in terms of reversing the otherwise expected penalty for the forecasting accuracy incentive.

No other changes have been made.

9. Residential retail

We have overwritten tab 'Inputs2', cell AC12 as we believe our residential retail figure is already in the correct price base.

10. Developer services

No changes of note.

11. Cost of new debt

We have updated the yearly average iBoxx forecast to be consistent with those used in the Ofwat DD published versions.

12. Tax

We have updated the model in agreement with Ofwat's published model.

13. Gearing outperformance

We have not submitted as per the guidance set out in DD Past Delivery chapter.

14. WINEP/NEP

As per our correspondence with Ofwat in completing this table, we confirm that with the exception of 7WW200093 Blagdon STW all the other listed schemes are due to meet their regulatory date of 22nd December 2024 (within AMP7). With respect to Blagdon, the EA have agreed a date extension to 22nd December 2026 due to third party issues beyond our reasonable control/influence.