

Business Plan 2020-2025  
Response to Ofwat's July 2019 Draft Determination  
for Slow-track Companies  
**Supporting information**



# Accounting for Past Delivery



**South West  
Water**



**Bournemouth  
Water**

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## SIM Reconciliation

1. We have observed that as part of the July Draft Determination, Ofwat published its SIM reconciliation model which describes for the first time how they will reconcile the SIM mechanism for PR19. This methodology differs to that previously used at PR14 resulting in different under/outperformance payments being applied from those forecasted by all companies.
2. This results in an overall penalty for South West Water of £4.1m reducing to £3.1m when 2018/19 data will be used to calculate Final Determination. Our forecast was an overall outperformance payment of £0.236m (South West Water £0.000m /Bournemouth Water £0.236m).
3. We have been using the methodology established at PR14 over the last four years to help us understand our relative performance within the industry, it has been a key factor in driving management focus on improving customer service during AMP6.
4. We propose that Ofwat continue to apply the methodology first established at PR14 for calculating under and outperformance payments due to companies under SIM, which is also the approach Ofwat will apply to calculating the C-MeX incentive rate in each year. It seems inconsistent to change the methodology for SIM reconciliation and then return to C-MeX methodology for AMP7 which is similar to PR14.
5. We are pleased that despite a relatively slow start to making improvements on SIM, South West Water achieved the 2020 target early ensuring that the average across the four-year incentive period remained within the deadband and therefore forecasted no under and outperformance payments. For Bournemouth Water we retained high levels of customer service resulting in a small outperformance reward being calculated.
6. A review of other water companies September business plan submissions shows that all water companies applied a near identical understanding of the under/outperformance payment methodology.
7. At fast-track Draft Determinations in April Ofwat had, as we had, assumed a zero-performance payment was due for South West Water and a small outperformance due (£0.236m) for Bournemouth Water SIM. Ofwat state that this was because their approach to the SIM reconciliation had not been published at that time. We had forecasted our payments based on the methodology established at PR14.
8. The methodology Ofwat are minded to use for the calculation for the PR19 SIM reconciliation differs to that used at PR14 and what has been used as a comparative measure throughout this AMP. Ofwat has also confirmed that for the C-MeX measure a company's C-MeX incentive rate in each year will depend on how far its C-MeX score is from the average C-MeX score in that year (in technical terms how many standard deviations the company's score is above or below the mean).
9. The table overleaf shows the variance in under/outperformance under the three methodologies as at Draft Determination:

	PR14 methodology – forecast under/ outperformance – Business plan submission	PR19 methodology as implied in July Draft Determination and Yorkshire Water SIM incorrectly stated	PR19 methodology implied for Final Determinations based on actual 4-year average Yorkshire Water SIM corrected	New C-MeX methodology
SWW	0.00m	-4.9m	-4.0m	0.00m
BW	+0.236m	+0.8m	+0.9m	+0.72m
TOTAL	+0.236m	-4.1m	-3.1m	+0.72m

10. We note that Ofwat states all companies’ Final Determinations, including fast track companies will include a SIM performance payment which incorporates the 2018/19 SIM score from the companies’ annual performance reports.
11. Our proposal is for Ofwat to continue to apply the methodology first established at PR14 for calculating under and outperformance payments due to companies under SIM, which is also the approach Ofwat will apply to calculating the C-MeX incentive rate in each year.
12. If Ofwat continue to apply the PR19 methodology, then we believe the total PR19 reconciliation implied would be -£3.1m (South West Water -£4.0m/Bournemouth Water +£0.9m) recalculated to incorporate the 2018/19 SIM score from the companies’ annual performance reports.

