

DATA TABLE COMMENTARY – PRT62 PAST DELIVERY



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TABLE PD1 - Inflation

RETAIL PRICE INDEX

The RPI forecast is based on the OBR data published in March 2023. See path below:

<https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

There is now actual data for Q1 of 2023-24, and then the OBR CPI forecast data is used by quarter for the rest of the AMP. The OBR give the following guidance for the RPI forecast:

2.15 RPI inflation is expected to have peaked in the final quarter of 2022 at 13.9 per cent, 0.2 percentage points lower than the peak assumed in our November forecast. This is largely driven by a lower-than-expected peak for CPI inflation, partly offset by a slightly higher-than-expected wedge between CPI and RPI inflation driven by differences in weights. RPI inflation is also expected to fall rapidly to 4.9 per cent by the final quarter of 2023, as CPI inflation and house prices (which affect the depreciation component of RPI) drop. RPI inflation then eases further in the middle years of the forecast as CPI inflation falls further and mortgage rates (which affect the mortgage interest component of RPI) level off. It then rises in step with CPI inflation to reach 3.1 per cent at the forecast horizon.

This guidance suggests that RPI will be 4.9% in the last quarter of 2024 and will follow the trend for CPI thereafter. We use the same CPI/RPI wedge as for Q4 2023 of 2% to the end of 2024-25.

CONSUMER PRICE INDEX (including housing)

CPIH has been marginally below CPI in the most recent months. However, we are forecasting that these two indices will be broadly the same and then CPIH will return to being marginally higher than CPI, as has historically been the case.

2023/24		*CPI	CPIH	RPI	RPI/CPI wedge
Actual	2023Q2	8.4	7.7	11.2	2.8
Forecast	2023Q3	5.4	5.5	7.4	2.0
Forecast	2023Q4	2.9	3.1	4.9	2.0
Forecast	2024Q1	1.5	1.8	3.5	2.0
Average		4.6	4.5	6.7	2.2

*CPI forecast from OBR

2024/25		*CPI	CPIH	RPI	RPI/CPI wedge
Forecast	2024Q2	0.8	1.1	2.8	2.0
Forecast	2024Q3	0.6	0.9	2.6	2.0
Forecast	2024Q4	0.5	0.8	2.5	2.0
Forecast	2025Q1	0.5	0.8	2.5	2.0
Average		0.6	0.9	2.6	2.0

*CPI forecast from OBR

TABLE PD4 - Analysis of land sales

There have been no land sales relating to protected land in the years 2020-21 to 2024-25.

TABLE PD5 - Revenue reconciliation – wholesale

This table is populated with the data used in the Revenue Forecasting Incentive Model. See commentary on Past Delivery Models Pages 1–4.

The data for 2022-23 is taken from the Annual Performance Report Table 2M.

2023-24 and 2024-25

Line 2: The Grants and Contributions align with the elements in the Developer Services table DS1e which were classified as price control revenue at PR19.

Price Control G&C's	AMP7 methodology		
	2022/23	2023/24	2024/25
S185 diversions	0.009		
Non-s 185 diversions			
New Connections	0.822	0.841	0.841
Infrastructure Charges	0.722	0.636	0.620
Income offset - legacy	-0.573	-0.719	-0.664
Developer Contributions	0.345	0.338	0.338
TOTAL	1.325	1.096	1.135

Forecast Revenue 2023-24 and 2024-25

The forecast revenue for 2023-24 was based on the tariff calculations for that year. These have already been audited. This includes the final determination k factors and actual CPIH for November 2022.

The forecast revenue for 2024-25 was calculated by rolling forward the 2023-24 tariff model and applying the following:

1. Forecast CPIH which aligns to Table PD1 and is 3.125% for November 2023
2. RFI adjustment from 2022-23, using output from the RFI model. This amounts to £1.219m.
3. ODI adjustment to the k factors for Water Resources and Water Network+, using the 2022-23 ODI forecast and the In-period adjustments model for that year.
4. Blind year adjustment based on the Ofwat published numbers for the final 4 years of the period 2020-25. Below is a table of these amounts in outturn prices.
5. Latest forecast of properties, meter numbers and volumes.

RFI CALCULATIONS	Phased Blind Year adjustments in nominal prices					
	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
Wholesale						
WRFIM - connection chgs 19/20		-0.235	-0.253	-0.285	-0.303	-1.076
WRFIM - 2019/20 over recovery		-0.059	-0.064	-0.072	-0.077	-0.273
WRFIM - Ofwat correction		0.255				0.255
Totex menu		0.044	0.048	0.054	0.057	0.203
Water Trading		0.001	0.001	0.001	0.001	0.004
Further 2010-15 rec						
TOTAL ADJUSTMENT	0.000	0.0060	-0.269	-0.303	-0.322	-0.887

The profile of the Blind Year adjustment is even phasing, apart from the WRFIM correction which was taken in full in 2021-22. The rest of this WRFIM correction is due at PR24.

Revenue imbalance PR19

The following table shows the split between customer revenue and Grants and Contributions and therefore where the main imbalances in revenue occur.

PR19 REVENUE RECONCILIATION TO FD			
Outturn prices	2020/21	2021/22	2022/23
Final Determination customer revenue	34.391	34.798	36.767
Final Determination Grants and Contributions	1.237	1.193	1.160
Actual customer revenue	33.595	34.620	37.601
Actual Grants and Contributions	1.900	2.048	1.325
Variance in customer revenue	-0.796	-0.178	0.834
Variance in Grants and Contributions	0.663	0.855	0.165
Total revenue imbalance	-0.133	0.677	0.999

The main variances overall are in Grants and Contributions, where there was an under estimation of Infrastructure Charges in the Business Plan. This was due to the uncertainty in the expected level of Network Reinforcement expenditure at PR19.

The under recovery of revenue in the first two years of the AMP were due to under reporting of non-household revenue by MOSL in the COVID period. There was then a catch-up in 2022-23 amounting to £0.859m.

No significant revenue imbalances are forecast for the last two years of the AMP, as the actual level of Grants and Contributions will reduce by the Income offset adjustments identified.

TABLE PD6 - Water bulk supply information

2022-23

The data for 2022-23 is taken directly from the Annual Performance Report (APR).

Table 4A in the APR is in exactly the same format as PD6 and was used to populate all these numbers.

2023-24 and 2024-25

The forecast for these years was taken from the Company budget process, which was signed off by the Board in February 2023. The volumes for Sussex North are forecast to be higher than for 2022-23 due to an expected increase in demand, but the volumes for the Hampshire supply were particularly high in 2022-23 due to supply issues at Southern Water. This bulk supply is forecast to go back to more normal levels in the last two years of the AMP.

The direct costs associated with these bulk supplies is expected to rise in line with inflation.

The two Leep bulk supplies are forecast to remain the same as these are established developments, but the IWNL supply will increase as the development grows and is completed.

Havant Thicket

The revenue is in line with the PR19 Final Determination and represents the recognition of revenue from Southern Water currently in deferred revenue on the Balance Sheet. This is in line with the agreed treatment in the Annual Performance Report.

TABLE PD8 - Totex Analysis – wholesale

2022-23

The data for 2022/23 is taken directly from the Annual Performance Report (APR).

Table 2B in the APR is in exactly the same format as PD8 and was used to populate all these numbers.

The Additional Control column is used for Havant Thicket data.

2023-24 and 2024-25 Forecasts

OPEX

Base operating expenditure

Lines 1 – 9: The opex for these years is aligned with the Company Budget process, which was signed off by the Board in February 2023.

A complete Accounting Separation exercise was undertaken for the 2022/23 APR, and this is the basis for the allocation of opex across all the Business Units.

Firstly, an exercise was done to allocate the operating costs between Wholesale and Retail, using the 2022/23 allocation percentages by cost category and department. See table on page 3 below.

Secondly, all the Wholesale movements by cost category, from the 2022/23 actuals to the 2023/24 and 2024/25 forecasts, have been identified and collated in a working schedule. These cost categories coincide with the different allocation percentages in the APR, including Electricity, Direct operating costs and Shared Services department costs. The movements are then linked to a working file to correctly allocate them to Business Units. The data from this working file is used to directly populate the Base Operating Expenditure in Table PD8. See table on page 4 below.

Enhancement operating expenditure

Line 10: The only item of enhancement opex is the Catchment Management Plan. This is expected to increase over the last two years of the AMP, in line with the Budget.

Developer Services expenditure

Line 11: This is predominantly expenditure on new connections, offset by income from developers. The forecast reflects the Budget assumptions on new properties.

Third Party Services

Line 13: These costs include Bulk Supply costs and expenditure on Mains Diversions. There are a number of significant mains diversions schemes budgeted for 2023-24 and 2024-25, which is why the costs increase in these years.

Grants and Contributions

Line 15: This is the income from developers relating to new connections and non-s185 diversions income to offset the costs in Third Party Services. The forecast for new connections reflects the Budget assumptions on new properties.

In the table below, the Wholesale costs of £29.968m are in outturn prices. This is £28.683m in 2022-23 prices and agrees to line PD8.14 for 2023-24.

	2023/24 BUDGET £000	2023/24 WHOLESALE £000	2023/24 RETAIL £000
COST OF SALES			
Production Management	82	81	1
Production Operations	1,645	1,645	0
Head of Operations	138	138	
Electricity	5,201	5,201	
Production Technical	1,250	1,238	12
Abstraction charges	1,640	1,640	
	<u>9,957</u>	<u>9,944</u>	<u>13</u>
NETWORK			
Network Operations	1,181	1,179	2
Network Technical	722	554	168
Leakage and Network	1,707	1,707	0
Meter Reading	151	0	151
Network Administration	736	604	132
Water Resources	325	325	
Water Efficiency	296	296	
Head of Leakage and Smart Networks	81	81	
Wholesale Service Desk	152	152	
Network Contractors	1,467	1,370	97
Chargeable Work	2,970	2,970	
Operations Efficiency Challenge	-807	-807	
	<u>8,980</u>	<u>8,430</u>	<u>550</u>
ENGINEERING GENERAL			
Investments	-46	-46	0
Developer Services	262	262	0
Water Regulations	148	148	0
Water Quality	1,950	1,950	0
Pure Excellence	297	297	
Building Maintenance	307	272	35
Property Maintenance	0	0	0
Transport	515	505	10
Drawing Office	51	51	0
Planning department	-15	-15	0
HR department	661	415	246
Procurement	376	373	3
	<u>4,506</u>	<u>4,211</u>	<u>294</u>
- Renewals Expensed	1,833	1,833	
	<u>25,276</u>	<u>24,418</u>	<u>858</u>
GROSS PROFIT	-25,276	-24,418	-858
NET OPERATING EXPENSES			
Regulation department	806	671	135
Finance department	1,009	706	303
Company Secretarial department	782	673	108
I.T. department	1,278	887	391
Printing room	54	11	43
Customer Services department	2,442	8	2,435
Executive Directors	541	379	162
Non-executive Directors	176	123	53
Emergency Planning	80	80	
Rates	1,971	1,819	152
National Insurance	21	15	6
General Administration	223	178	45
	<u>9,382</u>	<u>5,550</u>	<u>3,832</u>
OPERATING COSTS	34,658	29,968	4,690
BUDGET MODEL	34,706		
DIFFERENCE	-48		
Commercial Department	49		
	0		

ANNUAL PERFORMANCE REPORT - BUSINESS UNIT TABLES															
WHOLESALE	OUTTURN PRICES					2022/23 PRICES					2022/23 PRICES				
	NETWORK+					NETWORK+					NETWORK+				
	Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution	Total	Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution	Total	Water Resources	Raw Water Distribution	Water Treatment	Treated Water Distribution	Total
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
DIRECT COSTS															
Employment Costs	20	0	516	2,479	3,016	24	0	622	2,986	3,632	25	0	628	3,018	3,671
Power (includes climate change levy)	1,249	2	145	1,531	2,927	2,025	3	235	2,482	4,745	1,415	2	165	1,735	3,317
Hired & Contracted Services	0	2	16	1,696	1,714	0	2	13	1,436	1,451	0	2	12	1,240	1,253
Materials & Consumables	-	-	819	414	1,233	-	-	670	338	1,009	-	-	715	361	1,076
Abstraction Costs	1,507	-	-	-	1,507	1,570	-	-	-	1,570	1,570	-	-	-	1,570
Other Direct Costs	26	-	129	218	374	107	-	531	896	1,534	41	-	202	341	584
Total Direct Costs	2,802	4	1,626	6,338	10,770	3,726	5	2,072	8,138	13,940	3,050	4	1,722	6,695	11,470
GENERAL & SUPPORT ACTIVITIES															
Land & Property (direct and prorata)	60	1	81	67	209	60	1	81	67	209	60	1	81	67	209
Mechanical & Electrical (direct and prorata)	400	1	365	341	1,107	400	1	365	341	1,107	400	1	365	341	1,107
Production Engineer (on M&E basis)	37	0	34	32	102	37	0	34	32	102	37	0	34	32	102
Personnel Services (FTE's)	47	0	103	210	360	57	0	125	255	437	57	0	125	255	437
Legal & Property (FTE's)	30	0	65	132	226	35	0	77	157	269	35	0	77	157	269
Financial Services (FTE's)	108	0	236	483	827	130	1	285	582	997	130	1	285	582	997
Directors (Activity and Board Agenda)	91	5	93	231	421	97	6	99	245	447	97	6	99	245	447
IT (direct and no of devices)	112	0	292	496	900	111	0	290	492	894	111	0	290	492	894
Operational / Technical Support (GMEAV)	3	0	12	123	138	3	0	12	123	138	3	0	12	123	138
Vehicles & Plant (Closing NBV of assets)	22	0	89	248	359	22	0	89	248	359	22	0	89	248	359
Stores (allocated on direct materials)	-	-	199	101	300	-	-	199	101	300	-	-	199	101	300
Investments not capitalised	6	0	24	248	277	6	0	24	248	277	6	0	24	248	277
Notional Pension Costs	36	5	112	226	380	6	1	18	36	61	(5)	(1)	(17)	(34)	(56)
Operating cost recharge (Head Office)	21	-	-	(177)	(156)	21	-	-	(177)	(156)	21	-	-	(177)	(156)
GENERAL ADMIN															
Other General Admin	81	1	191	165	438	(61)	(0)	(146)	(126)	(333)	(46)	(0)	(109)	(94)	(248)
Enhancement Opex	-	-	-	-	-	-	-	-	(21)	(21)	-	-	-	123	123
Rounding	-	-	-	(1)	(1)	-	-	-	(1)	(1)	-	-	-	(1)	(1)
Total General & Support Costs	1,053	15	1,896	2,923	5,887	924	10	1,551	2,601	5,086	928	9	1,553	2,708	5,198
TOTAL OPERATING COSTS	3,855	19	3,522	9,262	16,658	4,649	15	3,623	10,739	19,026	3,978	13	3,275	9,402	16,668
OTHER BUSINESS ACTIVITIES															
SCIENTIFIC SERVICES	737	4	176	383	1,301	630	4	151	328	1,112	630	4	151	328	1,112
DOUBTFUL DEBTS	696	-	481	626	1,803	710	-	491	638	1,840	738	-	511	664	1,913
GENERAL RATES	481	12	1,178	564	2,235	375	9	917	440	1,741	375	9	917	440	1,741
BULK SUPPLY	-	-	-	272	272	-	-	-	272	272	-	-	-	272	272
FUNCTIONAL EXPENDITURE															
Third Party Costs (RCW)	-	-	-	185	185	-	-	-	2,182	2,182	-	-	-	2,202	2,202
Developer Services Costs	-	-	-	770	770	-	-	-	800	800	-	-	-	783	783
Renewals Expensed	-	-	-	1,238	1,238	-	-	-	1,751	1,751	-	-	-	1,751	1,751
Depreciation Recharges	18	-	-	(50)	(32)	23	-	-	(63)	(40)	18	-	-	(50)	(32)
Total	5,787	35	5,357	13,249	24,429	6,387	28	5,182	17,087	28,683	5,740	25	4,854	15,791	26,409

CAPEX

Lines 16-21: The capex for these years is aligned with the Company Budget process, which was signed off by the Board in February 2023.

The Budget is made up of a detailed list of capital schemes, which have been categorised into Base, Enhancement and Developer expenditure, and then categorised by Business Unit.

n.b. the Enhancement capital expenditure line includes amounts relating to the Accelerated Programme. These are for Smart Metering and the CRM and Billing system. The amounts are included in Water Network+ as follows:

- 2023-24: £6.712m
- 2024-25: £4.753m

Third Party Services

Line 20: There are no capex costs in this category.

Grants and Contributions

Line 22: This is the income from developers relating to new mains and network reinforcement. The forecast is in line with the Budget for these items of expenditure. See commentary on Developer Services data tables. The numbers include amounts for income offset associated with legacy agreements, which is why the totals are so low.

HAVANT THICKET

The most up to date forecast expenditure for this project has been included in this table.

TABLE PD9 - Totex Performance

2022-23

The data for 2022-23 is taken either directly from the APR, the Ofwat Financial Flows Data Source document, or the audited APR working files.

Table 4C in the APR contains most of the data needed, but not all the lines in 4C are included in PD9.

TOTEX (net of business rates, abstraction licence fees and grants and contributions)

Lines 1-5 in PD9 are the same as Lines 1- 5 in table 4C of the APR.

WINEP reconciliation adjustment

Portsmouth Water does not have a PR19 WINEP uncertainty mechanism. This line is zero.

TOTEX – business rates and abstraction licence fees

Final Determination allowed totex

Lines 7 plus 9 in PD9 total the amounts by Business Unit in table 4C Line 15 in the APR.

Business Rates and Abstraction Licence Fees numbers by year are published in the 'Ofwat Financial Flows Data Source' report (in 2017/18 prices). The 'Allowances' tab combines both of these costs, for each Business Unit, but the 'F_Inputs' tab gives the split for the total AMP amounts, which is then evenly phased over the 5 years. Water Network+ does not have any Abstraction Licence Fees, so the number in PD9.7 ties back exactly to 4C.15 in the APR.

Actual totex

Lines 8 plus 10 in PD9 total the amounts by Business Unit in table 4C Line 16 of the APR.

The split of actual Business Rates and Abstraction Licence Fees comes from the APR working files, which have been audited. These numbers are in the published 'Methodology Statement Accounting Separation 2023', in Appendix 2, page 15.

CMA companies only

Portsmouth Water was not one of the companies that went to the CMA.

2023-24 and 2024-25 forecasts

The Final Determination data for lines 1, 7 and 9 are from the Ofwat Financial Flows Data Source, as described above. This data is in 2017/18 prices and was indexed up to 2022-23 prices for these final 2 years of the AMP.

The forecast data is aligned to Table PD8 and comes from the working table included on page 8. The costs not subject to cost sharing are Third Party costs as reported in PD8. These costs do not include costs relating to s185 diversions.

There are no disallowable costs in 2023-24 and 2024-25, as the only items in this category were the FRS17 pension charge, which is no longer applicable.

2023-24 and 2024-25 transition expenditure (and accelerated programme expenditure) is excluded from this table.

Grants and Contributions in PD9.2

The table below shows the reconciliation of the Water Network+ business unit from PD8 to Line 2 of PD9. The remaining Grants & Contributions included in PD9.2 are new connections, infrastructure charges and developer contributions. (See lines in green.)

WATER NETWORK+	2022/23	2023/24	2024/25	
OPEX	18.642	22.296	20.669	PD8.14
Local authority rates	-1.754	-1.366	-1.366	
THIRD PARTY	-0.298	-0.353	-0.353	Bulk Supply and other third party
THIRD PARTY - non s185 diversions	-0.159	-2.100	-2.120	
THIRD PARTY - s185 diversions	-0.009	0.000	0.000	
OPEX G&C's	-0.822	-0.841	-0.841	New connections
OPEX G&C's - non s185 diversions	-0.031	-2.000	-2.000	Non-price control
OPEX G&C's - s185 diversions	-0.009	0.000	0.000	Price control
	15.560	15.636	13.989	
CAPEX	14.498	22.430	19.464	PD8.21
CAPEX G&C's - income offset	0.573	0.719	0.664	
CAPEX G&C's	-1.067	-0.974	-0.958	Infra charges & Dev contributions
	14.004	22.175	19.170	
TOTEX less third party costs and Rates	29.564	37.811	33.159	
Less Accelerated programme		-6.712	-4.753	
Add s185 third party services	0.009	0.000	0.000	
Less Income offset G&C's	-0.573	-0.719	-0.664	
Less non-price control G&C's	0.031	2.000	2.000	
Actual Totex	29.031	32.380	29.742	PD9.2

TABLE PD10 - Capital allowance super deductions for PR19 tax reconciliation

There are no super-deductions to report in this table.



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