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# Overview of the business plan information requirements for PR09

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### Background

#### Introduction

The key information submissions for the 2009 price review (PR09) are:

- cost base return (March 2008);
- draft business plan (August 2008);
- final business plan (April 2009); and
- annual returns in June 2008 (JR08) and June 2009 (JR09).

The proposed PR09 information requirements build upon the process adopted in 2004 and reflect the conclusions of our consultations on the methodology and business plan information requirements for PR09.

#### Business plan

The business plan is the key company submission for the price review. Each company should set its business plan in the context of its strategic direction statement. We will compare, assess and challenge each business plan in order to come to our final decisions on price limits.

In the business plan each company should:

- set down and explain in a consistent and fair way its application for price limits;
- takes account of all the material issues that the company has already identified will arise; or has reasonable grounds to expect will arise in 2010-15 or might impact beyond that period;
- inform us of all the relevant factors that we need to review the challenges facing the company and determine fair and reasonable price limits for the customer and the company consistent with our statutory duties.

We will look for evidence that each company's plan:

- identifies consumer priorities;
- assesses consumer and other priorities using cost benefit analysis;
- delivers what consumers want and are willing to pay for in a sustainable way; and
- is underpinned by a sustainable financing plan consistent with the company's actual capital structure.

We will challenge the scope of any company's plan that does not meet this.

Each company must also take account of our initiatives to promote competition in its business plan.

The company's reporter and, where appropriate, the auditor will also scrutinise the plans and provide us with their views.

## **Draft business plan**

Each company's draft business plan will build on its strategic direction statement showing how its plan for the five-year period 2010-15 takes account of its long-term strategy.

Each company should produce a draft business plan that:

- is consistent with its strategic direction statement and its draft water resources management plan;
- is owned by the company;
- puts in place a package of outputs which will deliver statutory outcomes;
- is in line with consumer priorities for service levels and bills;
- optimises and exposes the costs and benefits of the plan at the overall and component level; and
- is underpinned by a sustainable financing plan consistent with the company's actual capital structure.

Companies should explain material differences between the draft business plan and the strategic direction statement.

We also require additional information for JR08 to provide information on the cost of historic fixed rate debt, the type of debt instruments and their duration held on companies' balance sheets. We will use this information to inform our view on the cost of capital to be used at PR09.

## **Additional draft business plan**

Where a company can see an alternative approach that offers improved overall value – perhaps by contributing to outcomes in an innovative way, or by meeting an outcome early or taking more time to deliver, it should submit an additional draft business plan (at the same time in August 2008).

We would welcome discussions with any company considering submission of a second draft business plan (and its associated financial model).

## **Format of the business plan (draft and final)**

The business plan has three distinct but inter-related parts:

- part A: The company strategy;
- part B: Key components; and
- part C: Supporting information.

### **Part A: The company strategy**

The company strategy is at the heart of the business plan. Each company should explain how and why it believes its strategy reflects consumers' views on services and prices, in particular by explaining:

- why the outputs have been selected for the company's strategy;
- the rationale for the balance of activities chosen to deliver them;
- the resources required allowing for improvements in efficiency, and
- the prices that the company considers its customers should pay.

The company must also explain in its strategy the balance it has struck between the views of its customers/consumers with those of other bodies, such as the quality regulators or the Consumer Council for Water (CCWater).

Each company can choose its own format for this part of the business plan, although it must provide the minimum data tables A1 to A10.

We have designed these tables so that we can understand the activity and expenditure necessary to deliver the outputs, and the revenue required to secure the company's financial viability.

We expect the companies to publish part A in a consumer-friendly way on their websites at the same time as they submit them to us.

## **Part B: Key components**

Part B identifies the information required from companies to provide a detailed explanation of the strategy set out in part A.

### **B1 The post-2010 environment**

Each company should expand on its assessment of the likely environment in which it will have to operate in the AMP5 period and beyond in the following four sections.

No formal tables are required, although the company may draw on or refer to numerical data in other tables.

#### **Section 1: Achievements to date compared with earlier plans**

In setting the scene for both the draft and final business plans the company should set its achievements to date in context, covering both services to customers and maintaining the integrity of its systems and assets.

#### **Section 2: Assessment of the post-2010 environment for the company**

The company should expand on the summary included in part A and explain in more detail its assessment of the post-2010 environment and beyond, including the account it has taken of our initiatives to promote competition. Our methodology paper drew attention to our proposal for accounting separation and cost allocation.

Each company should set down any material differences from its strategic direction statement, together with the reasons for the changes.

#### **Section 3: Managing the key risks and uncertainties**

This section sets out the key opportunities, risks and uncertainties and their impact on the regulated business quantified. The company should explain how it intends to manage these whilst reducing the risks and uncertainties.

#### **Section 4: Achieving the right balance for consumers and the environment**

The company should explain how its overall strategy for the AMP5 period and the longer term achieves the right balance between services and bills for customers and consumers. Parts B4 and B6 look in more detail at the changes in service that the company plans to deliver.

The company should set out how its strategy relates to the views expressed by specific groups, such as business customers or low-income customers, and delivers a cost beneficial programme that meets statutory requirements.

## B2 Improving efficiency

In our methodology paper, '[Setting price limits for 2010-15: Framework and approach](#)' we confirmed that we will use a new 'capital expenditure (capex) incentive scheme' (CIS) to set expenditure assumptions and associated rewards for outperformance. This is based closely on the 'menu regulation' proposals we set out in our consultation. We see greatest benefits in adopting this new approach for capital expenditure (both maintenance and enhancement) since this is where the information asymmetry, and hence benefits of new incentives, are greatest.

For operating expenditure, we will use an evolution of our previous approach to assessing expenditure needs for PR09.

Each company should:

- set out its views on the scope for improvements in efficiency and the evidence on which they are based;
- explain how they lead to its assumptions about cost reductions from current levels that it has included in its strategy; and
- describe how the assumed improvements have been incorporated in the business plan expenditure projections.

These judgements should be informed by the company's view of:

- its expectations for improvements in efficiency which the most efficient company could achieve year-by-year;
- its relative efficiency compared with its peers within the regulated industry;
- the findings of any benchmarking studies it has carried out;
- the pace of improvements over 2010-15; and
- the balance to be struck between customers and shareholders that provides the right incentives to improve its efficiency still further.

The company should make any assessments of relative efficiency using 2007-08 as the base year for both output delivery and costs incurred.

The company should explain how it intends to meet its efficiency assumptions, including where they will be made. It should confirm that its efficiency assumptions can be met without increasing the risk of service or quality compliance failure.

The company may wish to provide details of studies carried out, both to arrive at its relative efficiency assessment and also the scope for general improvement in efficiency in the industry in part C2.

### Outperformance of 2004 assumptions

Our approach to operating cost outperformance is set out in [PR09/04, 'The opex incentive allowance and the outperformance multiplier for 2005-10'](#). Our approach to capital outperformance remains the same as it did at PR04. The calculation of this is performed in the financial model.

## **B3 Maintaining service and serviceability to customers**

Each company should set out its approach to asset management planning to identify outputs and expenditure plans for capital maintenance and operating expenditure. The company must make sure that serviceability to customers is at least stable.

The company should explain its plan according to the principles of the common framework, stating clearly its choice of approach and providing justification for that choice.

The commentary for part B3 should cover the water and sewerage service separately.

### **Planning objectives, direction and delivery**

The common framework enables companies to estimate their future capital maintenance requirements to meet two possible objectives; the cost effective or cost beneficial objective. In this section, the company is required to set out its overall capital maintenance objectives in the context of its current performance, projected outputs and its understanding of consumer preferences.

### **Approach to asset management planning**

The company should set out its approach to asset management planning, specifically relating to capital maintenance planning. The commentary should make it clear where the processes and systems are applied across the entire programme or where aspects only relate to planning in particular sub-services.

### **Business case by asset group**

The company should describe the data it has used and analysis it has carried out to identify the future maintenance expenditure needed to meet the planning objectives and stated outputs.

The company should take an integrated approach to capital maintenance planning, presenting the case for all capital maintenance expenditure within the appropriate asset group as set out in this section.

### **Further commentary**

Each company should use this section to identify any further information we may need to fully understand the company's approach to maintaining service and serviceability.

## **B4 Quality enhancements**

Each company should set out a detailed overview of its proposed quality enhancement programmes for the water and sewerage services.

The company must explain the justification for the work it is proposing and the outcome of the benefits arising from the work alongside the costs. This should include whether the enhancement has received technical support from the Drinking Water Inspectorate (DWI) or has been identified as a statutory requirement by the Environment Agency or Natural England/Countryside Council for Wales.

### **Sections 1 to 3 – quality enhancements (water service)**

The company should explain how its proposals for step changes in the performance of its assets to enhance the quality of drinking water supplied is in line with its strategic direction statement. The guidance for part C8 requires the company to use the cost benefit analysis carried out on its proposals across the whole of the investment sector as justification for the proposed work programme.

The DWI has published Amended Drinking Water Regulations to take effect from December 2007. We do not anticipate further changes to regulations or specific standards and parameters relating to

drinking water quality during the period 2010-15. This means that the drinking water improvement programme will be limited to those instances where either raw water quality has deteriorated significantly or lead levels at consumers' taps makes further work necessary.

We do not expect to make specific additional provision in price limits under the quality enhancement category for any company to maintain or regain compliance with its current drinking water quality obligations, or as a result of reassessing its risk of non-compliance. Where DWI gives technical support for companies to carry out work on assets to reduce the risk of non-compliance, each company should address this when making its capital maintenance plans. Similarly, initiatives such as the Distribution Operation and Maintenance Strategies (DOMS) and Drinking Water Safety Plans are important procedures to cover when identifying and justifying asset maintenance programmes. The balance between risk and investment is central to asset management plans.

We expect that there may be work under quality enhancements in several areas including but not necessarily limited to:

- deteriorating raw water quality;
- distribution system renovation;
- lead communication pipe rehabilitation;
- environmental impact of water abstractions; and
- the Security and Emergency Measures Direction.

#### **Sections 4 to 6 – quality enhancements (sewerage service)**

The company should explain how its proposals for step changes in the performance of its assets to deliver environmental enhancements is in line with its strategic direction statement. The company must also explain how its proposals reconcile with Defra's Statement of Obligations and how it is implementing any relevant ministerial guidance.

We expect that there may be work under quality enhancement in several areas including but not necessarily limited to:

- intermittent discharges;
- improvements to sewage treatment works;
- sewage sludge management;
- first time sewerage;
- investigations; and
- the Security and Emergency Measures Direction.

#### **Shortfalls and logging up/logging down**

The company must give a summary of any changes to the assumptions made at the last price review or subsequent interim determinations as a result of changes in the legal obligations placed on it. The company must also explain and value any outputs which it is late in delivering compared with the assumptions and outputs set down at the final determination in 2004, or in subsequently agreed changes via the change protocol or at interim determinations.

#### **B5 Maintaining the supply/demand balance**

The company should set out its strategy for maintaining the balance between supply and demand for the water and sewerage services.

The focus should be on the implications for the company of maintaining (or restoring) service levels in the face of future influences on the balance between supply and demand. The company should set out how these costs are related to demand forecasts and related revenue expectations.

The company's strategy should be consistent with its draft water resource management plan, leakage appraisal and long-term sewerage least-cost plan. Any deviations must be fully explained and justified.

The company must provide supporting information in part C4, including:

- economic leakage appraisal;
- economics of metering; and
- its long-term least-cost sewerage plan.

## **B6 Customer service strategy and changes in service**

The company should set out its strategy for delivering services to consumers over the AMP5 period and in the longer term. The company should indicate any changes in service that it envisages providing for consumers compared with the position it expects to have achieved by March 2010. Such changes may be the result of the knock-on effects of investment in the quality or capital maintenance programmes, or by seeking a specific additional allowance in the new price limits. The company may also, if it chooses so, indicate any changes it plans to fund if efficiencies beyond those assumed are achieved.

The company should specify the nature and quantify the scale and phasing of service changes that it proposes. It should set down its reasons for proposing the changes (eg, existing poor performance in comparison with the industry or external comparators). Any planned changes should be set in the context of evidence about consumers' views and priorities and, where allowance in price limits is sought, consumers' willingness to pay for them. Where the company seeks specific financing in price limits, the specific measurable outputs and the impact of the proposed changes on both capital expenditure and operating expenditure should be set down.

### **Consumer service strategy**

Each company should describe its overall consumer service strategy. Does the company intend simply to maintain the service levels reached by 2010 or does it envisage changes in service and in which areas of service? Companies should explain how this relates to their broad understanding of consumers' views and priorities with relevant evidence included in Part C1.

Each company should describe its expectations in respect of the main levels of service (DG indicators) and such other elements of consumer service as it wishes to include, such as policy on compensation and customer charters.

### **Proposed changes in service**

The company should set out clearly any plans it has to improve the service its consumers experience. This will include service changes in which the company envisages making without additional funding such as spin-offs from the quality or maintenance programmes, as well as changes for which the company seeks an allowance in price limits. For each planned change the company should indicate a measurable output and set out clearly the performance to be achieved by March 2010, the improvements expected by 2014-15 and the phasing of the output over the period. If a company proposes a downward change in service in any area it must similarly identify the changes and associated operating or capital cost savings, cross referencing to other parts of the business plan as appropriate.

Where funding in price limits is sought, the company should provide evidence that consumers regard the proposed change as important and indicate its priority relative to other proposed changes. Evidence of consumers' willingness to pay for such changes should also be described, including any differences between different income groups and the account that the company has taken of this. The expected impact on bills at the end of the period should also be set out.

Any relevant evidence should be summarised in this chapter and full reports (including detailed results of any market research) should be included in part C1.

## **Sewer flooding**

Each company should set out its strategy to contain and reduce the risk of sewer flooding. This should include the overall approach to targeting investment on customers' priorities in relation to sewer flooding risks. The company should apply cost benefit analysis to the programme of enhanced service level investment that is focused on reducing the flooding risk. The programme should be prioritised for those schemes where the benefits are greatest for the investment.

The registers for properties at risk of flooding twice in ten years or once in ten years are mature and should be maintained at the numbers on the registers at the end of 2009-2010. The registers should be maintained at this level through the base service, with supply/demand investment dealing with potential changes through growth. A further reduction to these registers would be an enhanced service level.

## **B7 Financial projections**

We suggest that this part of the company submission should be divided into three sections.

### **Section 1: The financing plan**

All material assumptions underlying the company's financial projections should be exposed and justified. This will include each company's view on:

- the cost of debt and equity;
- the required return on capital;
- the profile of the regulatory capital value;
- critical financial indicators and covenants;
- the availability and sources of finance;
- capital structure; and
- taxation.

The company should explain its conclusions about its required rate of return and how this links to judgements about the cost of capital and associated financial indicators and capital structure. It should also provide details of any covenants arising from existing loan agreements and explain the assumptions regarding its dividend policy.

Finally, the company should explain how it believes its financing plan gives it continuing access to the capital markets.

### **Section 2: Depreciation and IRC**

Each company must link its depreciation profiles and assumptions to its capital expenditure projections.

For existing assets, the company must demonstrate that its current cost depreciation charges are comparable to its capital maintenance expenditure on above-ground assets over the long term. Depreciation should be consistent with the asset inventory information included in part C3 of the business plan. The company should confirm that asset lives assumed for depreciation purposes are consistent with operational asset lives.

For new capital expenditure, the company should explain the link between the apportionment to asset life categories and capital expenditure projections.

The basis of the calculation of the IRC should be clearly set out.

### **Section 3: Taxation**

This section will cover assumed asset lives, FRED29 and the treatment of group losses. Tax projections should be based on the company's view on capital structure.

### **B8 Customer bills/tariffs**

Our proposal to correct for differences to expected revenue between 2010 and 2015 at the 2014 price review has reduced the need for companies to forecast revenue with the level of detail required in 2004. Revenue projections will be generally calculated mechanistically depending on volume and property information supplied in part B5 and assumptions of non-household tariffs supplied in part C7.

Each company should provide an explanation of the impact that its strategies will have on customers' bills in part A.

Tariff policy will generally be examined on an annual basis through the approval of charges process. The company should set out tariff policy that aims to promote the efficient use of water in part B5 along with its policy on metering.

The company should provide commentary on forecasts of non-tariff basket revenue streams. In particular, it should provide robust evidence if it expects any stream of revenue to reduce.

### **B9 Overlap programme**

We want each company to take a long-term approach to planning its investment programmes that is in line with its strategic direction statement. In order for investment planning to be carried out in an efficient and affordable way, we accept that it is not feasible for all projects to be completed in the five-year price review window.

We believe that companies will be able to manage their investment programme in a more efficient manner if some projects which start in 2010-15 are not completed within that period.

We are offering each company the opportunity to put forward projects in this planned overlap category to help it to lessen the impact of the dip in capital investment that would otherwise be likely to occur at the end of AMP5, thus ensuring smooth workstreams for the various parts of its planning, design and procurement processes leading to efficiencies for the company and hence lower costs to customers.

This planned overlap will not apply to very large projects, such as reservoir building, for which the proposed capital expenditure profile extends beyond 2020. We will discuss such projects with the companies concerned.

### **B10 Large projects**

Companies are asked to identify separately in table B10 forecast capital enhancement, capital maintenance and operating costs associated with large projects.

The criteria for assessing whether to include the cost of a project in this table are that the project should be:

- large
- discrete
- long term (span more than one price review)
- present a different risk profile to the portfolio of projects that constitute the rest of the company's capital programme

The company should describe the basis of the cost estimates included in the table including the level of design that underpins the cost estimate and the company's approach to uncertainty and risk pricing.

## **Part C: Supporting information**

### **C1 Consumers' views**

#### **Evidence of consumers' views**

Each company will need to explain to us how its business plan reflects what its consumers want and are prepared to pay for in the period 2010-2015 and beyond. We expect each company to identify consumers' priorities and explain how its strategy reflects consumers' preferences. Each company should set out what evidence it has used to ascertain consumers' views and how it has used this to inform its proposals.

Each company should describe how it has consulted its consumers, including the involvement of the Environment Agency, Natural England, Countryside Council for Wales, DWI, CCWater or any other bodies. The description should include an explanation of the steps taken to ascertain the views of particular groups, and how these have been used to inform the company's plan.

We expect the company to highlight areas where its business plan is not in line with consumer priorities and preferences. The company should set out the reasons as to why particular service is being proposed if it does not meet consumers' preferences.

#### **Consumers' views and cost benefit analysis (CBA)**

We expect the company's business plans to demonstrate how the views of consumers link with the company's work on cost benefit analysis (CBA). The company should clearly set out how it has used the results of surveys on consumers' preferences to inform its cost benefits analysis (CBA) and its strategic approach.

#### **Conclusions about consumers' priorities**

Each company should summarise the conclusions it has drawn about consumers' views with reference to its business plan (s), for changes in services and any other issues relevant to decisions on future price limits.

### **C2 Cost base, benchmarking and efficiency studies**

#### **Cost base**

The cost base provides companies' key information in support of their future capital investment projections. The main objective of the cost base is to assess the current comparative position of each company in relation to its capital unit costs. The data provided allows us to assess differences in capital unit costs between companies and inform the scope for future efficiency.

The unit costs submitted must be based on sources of information consistent with those the companies use to estimate costs of their forecast capital programmes.

Each company is required to submit an indicative breakdown of water and sewerage investment by asset type projected for the AMP5 period. This should be consistent with forecasts contained in part A.

The judgements arising from the cost base analysis will be used to inform the efficiency assumptions in both capital maintenance and capital enhancement expenditure.

Each company has submitted its initial view of this information in April 2008. We will analyse the company submissions and provide valuable feedback to companies in preparation for their final business plans. We do not require this information at the draft business plan stage.

### **Benchmarking and efficiency studies**

B2 includes judgements on the scope for improvements in efficiency. These judgements are likely to draw on internal or external comparative efficiency studies or investigations as to scope for future improvements or process benchmarking work, as well as our work.

The company should provide in C2 the background evidence to support its judgements in B2.

### **C3 Asset inventory**

The objectives of the asset inventory are to:

- enable the company to summarise the latest investigations and audits of their asset stock, as at 31 March 2008, including the state of the assets, taking account of new assets added since privatisation as part of the enhancement programmes; and
- provide a basis on which to review changes since 1993.

The company is required to carry out a full re-survey of its entire asset base as set out in [RD12/07](#), 'Revaluation of assets for the 2009 price review'. In addition to detailing how the modern equivalent asset values (MEA) have changed within part B7, the company should provide a clear and concise explanation of the process involved in arriving at the new gross and net MEA valuations. It is acceptable to use sampling techniques for this exercise providing they are statistically robust and that the sample adequately reflects the population.

The company is no longer required to provide age profile data on above-ground assets; we do, however, require an age profile of underground assets. This is a new requirement.

### **C4 Supply/demand appraisal**

The company should set out supporting information to its strategy for maintaining the supply/demand balance including:

- changes, if any, since draft water resource plan;
- economic leakage appraisal;
- economics of metering; and
- long-term least-cost wastewater plans.

#### **Economic leakage appraisal**

The purpose of the economic leakage appraisal is for each company to demonstrate that current and future target levels of leakage are based on sound economic analyses that form part of an holistic approach to the supply/demand balance. Equally, the company must demonstrate it has a full understanding of the current level of leakage from all parts of the water supply network.

We would like to monitor all the companies' leakage performance against their own targets set using robust economics. If a company is unable to supply such an analysis then we will set targets pragmatically with reference to the security of supply index.

#### **Economics of metering**

The company should present a business case to justify its assumptions about meter location. This should be based on an economic assessment, taking into account their forecasts of customer preferences, supply pipe leakage effects and relative costs.

Where the company proposes to adopt an active metering policy (eg, on change of occupancy), it should set out the business case for its preferred policy, together with details of key assumptions.

## **C5 Proposed work programmes and expenditure projections for quality enhancement and other significant capital projects**

The company should submit information to support and justify its proposals for investment. As well as the quality enhancement programme, this will include significant capital projects for supply/demand balance, capital maintenance and enhanced service levels.

In its commentary the company is required to give a detailed description of the claim for each new obligation, and its detailed justification for the claim. We also expect the company to demonstrate that it has considered proportional allocation for all expenditure relating to both quality enhancement and other capital projects.

For the draft business plan the company should also complete the projects database(s) to reflect the alternative plan (if submitting). The quality regulators will clarify ministerial guidance to enable site-specific improvements to be included.

### **The water service**

The database for the water service covers statutory drinking water quality improvements, other drinking water quality improvements, the environmental impact of water abstraction, and other significant capital projects.

### **The sewerage service**

The database for the sewerage service covers the National Environment Programme, the treatment and disposal of sewage sludge, first time sewerage schemes under s101A WIA 1991, non-statutory improvements to effluent quality, and other significant capital projects.

### **Forecasting capital expenditure**

The company should set out its approach to forecasting capital expenditure. This should include a description of the overall approach, the specific approach relating to each purpose category and a review of the robustness of a defined selection of capital expenditure estimates.

### **Claims for logging-up**

The company should also include projects or schemes which it wishes to have considered for additional capital expenditure to be logged onto their base line position for the start of the price review.

## **C6 Sewer flooding**

Each company should provide full details of the work planned for AMP5, the costs of the work and the Prioritisation Methodology that will be used for the sewer flooding programme for AMP5.

The company should maintain the number of properties at risk of internal flooding twice in ten years and once in ten years as part of base service, with growth dealt with in supply/demand. Any further net reductions to these registers will be treated as an enhanced service level.

Other sewer flooding registers are younger and may still be immature. If the company believes these registers are likely to grow, it should provide forecasts about the rate of new problems. Investment to reduce the risk of flooding for properties or areas on these registers will be part of enhanced service levels.

Some properties on the twice in ten years or once in ten years registers may not have capital solutions. In these cases, each company should establish what mitigation can be offered to reduce

the risk or impact of sewer flooding. It may be appropriate to consider more complex or expensive mitigation measures than those installed during AMP4.

## **C7 Tariffs and revenue forecast supporting information**

Our approach to revenue forecasts requires less data than we required at PR04. Revenue forecasts will draw on data directly from volume and property data in B5. Only volumetric and rateable charge information for completed charging years are required. Future years' volumetric and rateable value charges will be calculated to satisfy K and the measured/unmeasured differential. Fixed charges for each property will be derived within the model for completed charging years and increased by RPI thereafter.

Revisiting our PR04 revenue forecasts for 2005-06 to 2009-10 and applying this approach shows that the impact on forecast revenue would have been less than 0.5% of turnover in any year for any company. This is insignificant to the actual variances between outturn and forecast revenues that companies experience.

The business plan no longer contains formulae that replicate the tariff basket model. Instead, part C7 will only include inputs for the tariff basket model and information required to implement the revenue corrected price cap. The tariff basket model will calculate revenue and bills, which will populate the business plan.

Further developments to the tariff basket model are that:

- the differential target will also be modelled within the tariff basket model;
- non-household volumetric and rateable value charges will be calculated with reference to household charges; and
- sundry charges have been discontinued and instead will be combined with other fixed charges.

### **Revenue correction mechanism**

In [RD14/07, 'Review of form of price control mechanism'](#), we proposed a revenue correction mechanism. As part of this, we will provide a new incentive for companies to bill all possible properties. At PR14 we will adjust revenues to take account of each company's performance on billing. If the companies either bill more or fewer properties than we expect we will multiply the variance by a factor, the efficient billing factor, that we believe covers the costs of finding and billing extra properties by an efficient company, plus an amount to act as an incentive.

We are therefore collecting information on the costs incurred by the company to bill properties. We believe that these can be split between three broadly different activities:

- connecting and billing a new property;
- finding and billing a formerly occupied void property; and
- finding and billing a formerly unrecorded property.

Each company should report costs based on historic evidence providing commentary on how the costs have been recorded. It must state if any part of the cost is based on an estimate, rather than costs recorded specifically against a specified activity. It must also explain how the estimate has been derived.

### **Measured non-households**

For PR09 we are asking for more information on non-households in case there are developments in the competition regime. This information will also be used in assessing what changes could be made to the competition regime.

### **Balancing amounts**

Our methodology for PR09 is to derive revenue forecasts using historic revenue and volumes and properties reported in section B5. It is important to make adjustments to either revenues or volumes if the reported information will not lead to an accurate revenue forecast. Therefore, we have allowed for a balancing amount which may be positive or negative. We will require a full breakdown and explanation of any balancing amounts that are necessary.

### **C8 Cost benefit analysis and carbon accounting**

Each company should carry out an appraisal of the costs and benefits of its proposals using cost benefit analysis appropriate to the scale of its investment programme. This will provide a firm basis for consumers to have confidence in the outcomes they are paying for and complement the 25-year approach.

We also require each company to carry out, for the first time, carbon accounting for its AMP5 activities. This is a major UK Government policy priority area and the data obtained will inform our policy stance on cost benefit analysis and sustainable development. The initiative is expected to help us move towards a coherent, transparent and robust methodology for reporting of the water industry's carbon footprint and greenhouse gas emissions.

### **C9 Financial modelling datasets**

As part of the process for increasing the transparency of our decisions we will share our financial model with the industry. The definitions of all the data input items for the financial model are contained in the business plan definitions.

If the company is submitting an additional plan with alternative investment proposals at the draft business plan stage it should also submit the modelling run that supports this.

### **Information requirements**

The information requirements are available on our [website](#).





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