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23 May 2013

Dear Stephen

CONSULTATION ON BUSINESS PLANNING EXPECTATIONS FOR THE 2014 PRICE REVIEW

Thank you for the opportunity to respond to your consultation document, ‘Setting price controls for 2015-20 – business planning expectations’.

We support, in principle, the broad aims of Ofwat’s regulatory framework and risk-based review of business plans, which put greater emphasis on delivering what customers want and need, and give companies greater ownership of their business plans. This approach, if implemented effectively, should support TWUL in preparing business plans that achieve a fair sharing of risk with our customers and respond to challenges facing the sector.

We have therefore focused in our response on providing constructive feedback and suggesting solutions that will achieve these aims in the short timescales envisaged. Our views are set out in eight key messages below. The appendices include our responses to Ofwat’s specific questions and list the issues we have submitted to Ofwat on the data tables.¹

We welcome Ofwat’s engagement with companies on the PR14 framework and business planning expectations so far. We are keen to work closely with Ofwat to support it in finalising its framework and business planning expectations.

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¹ We have not responded to questions 10 to 14, which are specific to small companies.

- 1. The timetable for delivering business plans is very tight. We are intent on delivering a high-quality plan that meets the needs of all of TWUL's stakeholders, but to support this, Ofwat should provide firm dates for key milestones in 2013 and 2014 as soon as possible.**
 - We have brought forward our business planning work to meet Ofwat's accelerated deadline for business plans of 2 December 2013.
 - To plan effectively within the time and engage sufficiently with our Board and Customer Challenge Group, we need Ofwat to provide more clarity over dates for key steps in the price review. This includes dates for the following milestones:
 - final methodology – currently expected “early summer 2013”;
 - final business planning expectations and detailed line definitions – currently expected “summer 2013”;
 - final requirements and submission date for August 2013 data submission – requirements currently expected “late May/early June”. We would propose to submit data in late August; and
 - determinations and company representations in 2014 under each company rating (enhanced, standard and resubmission).
 - We would also welcome clarity from Ofwat on when it will provide key information for our business planning. This includes the following items:
 - base case assumptions and scenarios² – we will need to carry out the modelling from early August to mid-September to meet the business plan deadline of 2 December 2013;
 - details on outcomes, targets and incentives for AIM, Leakage and SIM;
 - notional capital structure and financial ratios; and
 - drivers from the National Environment Programme to split capex by purpose.
- 2. We are concerned that Ofwat is not planning to collect all the data it needs to accurately assess TWUL's baseline totex or to take proper account of factors that drive our costs but are outside management control. We would like to work with Ofwat to confirm the necessary information that it requires to consider these items within its cost assessment framework.**

² This includes detailed descriptions of scenarios (e.g. location and timeframe for rainfall scenarios, whether energy prices are wholesale or final delivered prices).

- We have written to Ofwat separately about our concerns. We are keen to work with Ofwat to ensure it is collecting the appropriate data to be able to reflect, for example, the following items in its cost assessment modelling:
 - the ‘London effect’ on productivity – this reflects the impact of London’s urban density, traffic congestion and network complexity on costs, over and above any regional wage effects. These are of the order of 20%, and were allowed for explicitly by Ofgem in its recent RIIO-GD1 determinations with respect to the higher repex costs of working in London;
 - the effect on TWUL’s efficiency of having three discrete water distribution areas rather than a single large network (i.e. TWUL cannot not get all the economies of scale of a single large network);
 - the use of cheaper or more expensive technologies (e.g. desalination); and
 - asset age and condition – clearly, networks that are substantially older (such as TWUL’s) require higher maintenance costs and enhancement capex aimed at achieving modernisation.
- 3. We recognise the importance of testing the resilience of our business plans and how risk would be shared with our customers. We support the principle of Ofwat’s scenario analysis, though consider that it could be better focused and aligned with companies’ own planning – consistent with proportionate and targeted regulation, and giving companies greater ownership for testing plans.**
- In the round, we do not consider that the data requirements represent Ofwat’s aim of a reduced and proportionate regulatory burden. The scenario analysis is one area where we consider the requirements to be disproportionate (e.g. companies would need to assess, model and provide narrative on 19 different scenarios³). Ofwat’s proposed approach would also divert focus from testing the risks that are most important to TWUL (there are only two spaces for company-specific scenarios), and would not be achievable in the now shortened timescales in addition to our own risk testing.
 - An alternative, and better focused, approach would be for Ofwat to specify a smaller number of key scenarios and allow companies to opt to provide a larger number of scenarios. This is consistent with greater company

³ This comprises nine upside scenarios, nine downside scenarios and a base case that may differ from the business planning base case.

ownership of plans, reduces overlap with companies' own balance of risk analysis, is consistent with the principles of proportionate and targeted regulation, and allows companies to put greater focus on the risks that are most important to them.

- For example, we would propose the following set of scenarios:
 - Impact of property growth – this affects both bills and service demand;
 - Impact of higher/lower demand – this would capture the impacts of higher or lower rainfall and other effects;
 - Input costs – this would capture the effects of higher or lower energy and construction prices;
 - Company specific scenarios – e.g. provide space for up to six scenarios. For TWUL, we might expect this to cover:
 - the effect of a greater quality programme requirements under NEP5;
 - unexpected deterioration in infrastructure assets; and
 - Thames Tideway Tunnel planning and delivery risks.
- 4. We are intent on providing a high-quality business plan and support Ofwat in adopting a risk-based approach to scrutinising company plans. We note that Ofwat's approach to risk-based review could be simpler and better balanced – based on options that Ofwat has identified in the consultation – to strengthen incentives for high-quality plans and mitigate timetable risks around the price review. This would be in the interest of customers and consistent with Ofwat's aims of proportionate and targeted regulation.**
- We are intent on providing a high-quality business plan that meets the needs of our customers and provides all of the information identified by Ofwat that is necessary to achieve an 'enhanced' rating.
 - We note that Ofwat's approach could be adapted slightly to provide stronger incentives for high-quality plans across the industry, namely: (i) basing incentives – where feasible – on the ratings of individual business plan elements; and (ii) basing any incentives at the company level on an appropriate mid-point (e.g. statistical *mode*) of the business plan element ratings. We consider that these would provide a better balance of risks and rewards, strengthening the incentives for high-quality plans.

5. The Customer Challenge Group (“CCG”) has been a very important part of TWUL’s planning and challenge process, to ensure that our business plan reflects the needs of customers. We would welcome confirmation from Ofwat that it plans to place appropriate weight on CCG reports in all but exceptional cases.

- We strongly support the CCG engagement process. Both TWUL and the CCG have put significant effort into ensuring that the group works effectively and provides a robust and independent challenge of TWUL’s plans. We would be disappointed if Ofwat did not place appropriate weight on this report in the price review process. We would seek to clarify what Ofwat would do if it chose not to rely on CCG reports.

6. We would welcome confirmation from Ofwat in its final PR14 methodology that TWUL will not be disadvantaged as a result of the requirement to build the Thames Tideway Tunnel (“TTT”). We would like to work with Ofwat to confirm the data and information requirements to achieve this.

We would welcome consideration of the following issues in the final PR14 framework and business planning expectations:

- the approach to assess TTT costs delivered by TWUL (i.e. the category 2 and 3 works). For example, differences in the costs and risk profiles of these costs compared with other investments means that these costs will not fit within the general approach to Wholesale cost assessment and menus;
- there will be a number of consequential TWUL costs that result from the TTT that should also be accounted for in the Wholesale and Retail cost assessment, including impacts on bad debt provision, customer contacts and enquiries, in-house cash collection, billing and cash collection commissions, contract renegotiation, payment commissions, working capital requirements, optional metering and water efficiency services, Ofwat and CCWater fees, developer contributions and tax;
- TWUL’s different approach to customer consultation on TTT (e.g. public consultations) should be allowed for in Ofwat’s assessment of plans;
- TWUL will need to resubmit the infrastructure provider’s (“IP’s”) plans during 2014 for reasons that are not entirely within our control. In doing so, TWUL should not automatically receive a ‘resubmission’ rating for the Wholesale Wastewater plans or be penalised for changes in scope between the parties; and
- specific mechanisms may need to be set up to ensure that TWUL is held neutral to any changes during AMP6 relating to the IP.

7. We understand that Ofwat will undertake a regulatory impact assessment of the final framework. We consider that this work will provide a useful sense-check to make sure that the new regulatory framework is proportionate and avoids unintended consequences (such as an increase in systematic risk).

We welcome Ofwat's plan to provide a regulatory impact assessment alongside its final methodology.⁴ This should provide a useful sense-check and tool for designing the final methodology and business planning expectations. We hope that the impact assessment will examine:

- the relative merits of the different options for risk-based assessment, including TWUL's suggestions under point 4 above, and the impacts of approaches on the cost of raising capital;
- the impacts of different approaches to the framework, including adjustments to the revenue control for Wholesale Wastewater, margin setting and RPI indexation in Retail, and the approach to Wholesale cost assessment; and
- the relative merits of a more focused approach to scenario testing (e.g. the approach we proposed above under point 3).

8. We request clarity from Ofwat on the financial model and whether this will be available to companies to use in business planning. We see provision of this model as a critical step to relieve pressure on the timetable in 2014.

- We are seeking to confirm with Ofwat whether it will provide companies with the financial model for PR14 ahead of business plan submission. For the avoidance of doubt, this is the financial model in Figure 4 of the consultation that is used to calculate the revenue requirement from the relevant inputs, not the cost assessment models. The provision of a model at PR09 was very beneficial to the price review process.
- This model is a key input to understanding how the new PR14 process and incentives will work in detail, so that we can articulate to customers and investors the benefit, cost, reward and risk of our business plans and Ofwat's determinations. It is essential for ensuring that companies have a consistent and accurate interpretation of how the regulatory framework

⁴ Ofwat, "Consultation on Ofwat's section 13 proposals to modify company licences", 21 December 2012, section 2.8, page 14. Ofwat also confirmed this in a workshop on 7 May 2013.

will work in practice. This is consistent with Ofwat's principle of transparent regulation.

- We will need to update our financial model if Ofwat does not provide this. This will be extremely challenging for companies within the four months between the final framework and business plan submission. It is also likely to lead to differences in interpretation of Ofwat's methodology between companies, which will need to be resolved in 2014, where the timetable is already extremely tight.

We hope this is helpful to you. Please do not hesitate to contact me or my team if you have any questions or comments on our response. We look forward to working closely with Ofwat in supporting the development of the final PR14 methodology and business planning expectations.

Yours sincerely



Nick Fincham
Director of Strategy & Regulation

Appendix 1 – Responses to Ofwat’s questions

An incentives-based price review process

Q1 Do you agree with our definition of a high-quality business plan? Is anything missing? Is there anything you would change?

We support Ofwat’s broad definition of a high-quality business plan (on page 8 of the consultation). We are committed to deliver a high quality plan that meets the needs of our customers and other stakeholders.

Later in the consultation, Ofwat also states that it expects “*all information we need to be included in high-quality plans from the outset.*” (page 25). We have every intention of providing the information that Ofwat needs by the time Ofwat needs it. But this requires Ofwat to specify the relevant dates and to provide the necessary information in sufficient time, for example detailed line definitions for the data submissions. We want to avoid a situation where companies are unfairly penalised under Ofwat’s approach because Ofwat’s expectations on information to be presented in the business plans have not been appropriately communicated and therefore have been misunderstood.

A pragmatic approach would be for Ofwat to:

- provide detailed line definitions as soon as possible for new data as these become available (including providing drafts ‘without prejudice’);
- continue to publish the questions it receives from companies and the responses from Ofwat (this was agreed in principle at the Ofwat workshop on 7 May 2013 and Ofwat provided an initial set of responses on 17 May 2013); and
- allow enough time following the data submissions for Ofwat to have an opportunity to ask questions and for companies to have an opportunity to provide Ofwat with additional information and clarification in cases where Ofwat’s requirements were unclear or Ofwat had not provided clarification in a sufficiently timely manner for data to be collated, audited and approved by the Board and for the associated governance processes to be carried out in time to meet Ofwat’s deadline.

Q2 Do you agree that our preferred package of reputational, procedural and financial incentives will incentivise high-quality plans? If not, what do you think we should add to the package, or change?

Please see our response under Question 3 below.

Q3 Which of the options (elements earn procedural and financial rewards; two category approach; two process approach for retail; later decisions on resubmissions) do you think we should use, if any? Why?

We are intent on providing a high-quality business plan that meets the needs of our customers and provides all of the information identified by Ofwat that is necessary to achieve an ‘enhanced’ rating.

Looking across the industry, we note that stronger incentives for high-quality plans could be achieved by adapting Ofwat’s preferred approach to risk-based review by making it simpler and better balanced – based on options that Ofwat has identified in the consultation. This is in the interest of customers and consistent with Ofwat’s aims of proportionate and targeted regulation.

This could be achieved by: (i) basing incentives – where feasible – on the ratings of individual business plan elements; and (ii) basing any incentives at the company level on an appropriate mid-point (e.g. statistical *mode*) of the business plan element ratings. We consider that these would provide a better balance of risks and rewards.

We also note that, for those companies in ‘resubmission’, there is a key risk that the timetable would not be workable if the draft determination is delayed (given the number of steps and amount of engagement required between draft and final determination). For example, companies would have a very limited amount of time to carry out the following steps:

- engage with Ofwat on the short-falling areas;
- prepare well-evidenced revisions and representations;
- discuss revisions and representations with CCGs;
- seek Board assurance; and
- carry out the associated governance processes.

This is particularly true where explicit inputs from third parties are required, such as from the Environment Agency, Drinking Water Inspectorate, Defra (particularly related to the TTT), sub-contractors and/or other stakeholders. A key question therefore is whether Ofwat believes that it has sufficient time to analyse the resubmitted plans before preparing final determinations.

Q4 Do you think that our proposals will be effective in meeting our objective of handing back ownership of the business plans to company Boards?

We strongly support the principle of giving greater ownership of business plans to companies. TWUL’s Board is already fully engaged and committed to assuring our plans.

Please see the response to questions 2 and 3 above for a possible approach to Ofwat’s risk-based review of plans that we consider aligns with this objective.

The risk-based review in detail

Q5 Do you agree with the four high-level groups of test (outcomes, costs, risk and reward, affordability and financeability) are the right ones? If not, what do you think we should add or remove?

Yes, we agree with the four high-level groups of tests.

Q6 Do you think we have set out the right tests in each group? If not, what do you think we should add or remove?

We do not consider that Ofwat has set the right tests in each group. We have provided suggestions below where we consider that Ofwat could improve or clarify its approach.

Tests for Wholesale and Retail costs

- The concept of ‘truth-telling’ is not applicable to forecasts. We consider that the most important test for forecasts is that they are unbiased central estimates based on sound reasoning and the best available information.
- We note that the test requiring consistency between the companies’ retail cost to serve and the industry ACTS will not be appropriate where companies with costs (materially) above or below the industry ACTS are a result of differences in operating circumstances or proposed outcomes. In these cases, companies may fail the test for reasons outside company control and not related to the quality of plan. We would therefore suggest adapting this test to ensure that proposed costs are appropriate and well justified in the context of the particular circumstances of the company in question.

Tests for Financeability

- The tests for undesirable cross-subsidies and financeability of individual price controls need to take account of any cross-subsidies that result from Ofwat’s methodology (e.g. RCV allocation, retail definition, and ‘single margin rule’ for the Household Retail margin).
- The financeability tests should be based on notional capital structure, with actual capital structure being a matter for companies, consistent with Ofwat policy.
- We would welcome clarity from Ofwat on how it defines a “*comfortable* investment grade credit rating” [emphasis added].

Q7 Do you think our proposals for business plan assurance will be effective in meeting our objective of handing back ownership of business plans to company Boards?

We are fully engaged with our Board to provide the necessary assurance on business plans. We agree that Ofwat’s proposals are consistent with this objective.

To support the process of seeking Board sign-off, we would welcome further clarity on the price review timetable for 2013 and 2014, including the expected publication of Ofwat's framework and data requirements.

Delivering focused information requirements

Q8 Our objective in specifying the data tables (and the August submission) is to ask for all the information we need, but no more than we need. Do you think we have achieved this? Is there any information that you think we might not need? Is there any information that you think we will need but have not included in data tables?

The draft data submissions for August 2013 and business plan are both substantial and include a number of new requirements. Some of these were indicated in previous consultations on the PR14 methodology (e.g. Retail ACTS), while others were not (e.g. scenarios and capex split by purpose). In the round, we do not consider that the requirements represent a reduced regulatory burden.

We support Ofwat's aim of asking for all the information it needs and not more than it needs, which is consistent with the principle of proportionate regulation. However, we do not consider that Ofwat has achieved this.

We provide details below on the information that we consider Ofwat might not need, or might need but are not included in the data tables. This is important as, given the tight timescales, we would prefer a 'no surprises' approach to later requests for data.

In Appendix 2 we provide the full list of questions that we submitted to Ofwat on the data tables and the responses from Ofwat.

Information that we consider Ofwat might not need

- The scenario analysis is one area where we consider the requirements to be disproportionate (e.g. companies would need to assess, model and comment on 19 different scenarios⁵). Ofwat's proposed approach would divert focus from testing the risks that are most important to TWUL (there is only space for two company-specific scenarios), and would not be workable in the now shortened timescales in addition to our own risk testing.

An alternative, and better focused, approach would be for Ofwat to specify a smaller number of key scenarios and allow companies to opt to provide a larger number of scenarios. This is consistent with greater company ownership of plans, reduces overlap with companies' own balance of risk analysis, is consistent with the principles of proportionate and targeted regulation, and allows companies to put greater focus on the risks that are most important to them.

For example, we would propose the following set of scenarios:

- Impact of property growth – this affects both bills and service demand;
- Impact of higher/lower demand – this would capture the impacts of higher or lower rainfall and other effects;

⁵ This comprises nine upside scenarios, nine downside scenarios and a base case that may differ from the business planning base case.

- Input costs – this would capture the effects of higher or lower energy and construction prices;
 - Company specific scenarios – e.g. provide space for up to six scenarios. For TWUL, we might expect this to cover:
 - the effect of a greater quality programme requirements under NEP5;
 - unexpected deterioration in infrastructure assets; and
 - Thames Tideway Tunnel planning and delivery risks.
- We are not clear why Ofwat is asking for some data on both a notional and an actual capital structure basis. Consistent with Ofwat's policy on financing and capital structure being a matter for companies, we consider that Ofwat should focus on data on a notional capital structure basis.
- Ofwat has asked for AMP7 (i.e. FY 2020/21 to FY 2024/25) data in a number of cases (e.g. scenarios, Retail ACTS and excluded wholesale costs). We would request that Ofwat reduces the regulatory burden by removing data that are not required (e.g. to assess longer-term outcomes and affordability).
- Ofwat has asked for data back to FY 2000/01 for the Wholesale control costs that we propose should be excluded from cost assessment and/or menus. It is not clear why such a long historical time series is required or would be helpful. Given the already challenging timescales, we suggest that Ofwat reconsiders whether this information is a priority.

Additional information that we consider Ofwat will need

- In addition to excluded costs, we consider that Ofwat will need data on the following factors to robustly assess costs (totex, capex and opex):
 - the 'London effect' on productivity – this reflects the impact of London's urban density, traffic congestion and network complexity on costs, over and above any regional wage effects. These are of the order of 20%, and were allowed for explicitly by Ofgem in its recent RIIO-GD1 determinations with respect to the higher repex costs of working in London;
 - the effect on TWUL's efficiency of having three discrete water distribution areas rather than a single large network (i.e. TWUL cannot not get all the economies of scale of a single large network);
 - the use of cheaper or more expensive technologies (e.g. desalination); and
 - asset age and condition – clearly, networks that are substantially older (such as TWUL's) require higher maintenance costs and enhancement capex aimed at achieving modernisation.
- We would like to confirm with Ofwat that Thames Water will not be disadvantaged as a result of the requirement to build the Thames Tideway Tunnel ("TTT"). We would also like to work with Ofwat to confirm the data requirements to support this. We want to agree with Ofwat an approach that fully addresses the following issues:
 - the approach to assess TTT costs delivered by TWUL (i.e. the category 2 and 3 works). For example, differences in the costs and risk profiles of these

- costs compared with other investments means that these costs will not fit within the general approach to Wholesale cost assessment and menus;
 - there will be a number of consequential TWUL costs that result from the TTT that should also be accounted for, including impacts on bad debt provision, customer contacts and enquiries, in-house cash collection, billing and cash collection commissions, contract renegotiation, payment commissions, working capital requirements, optional metering and water efficiency services, Ofwat and CCWater fees, developer contributions and tax.⁶
- Information on whether outcome incentives are to be applied on an annual basis or only at the end of AMP6.
- Pain/gain sharing mechanisms – this is mentioned in the consultation, but has not been included in the information requests.
- Direct and indirect costs of TTT in the Wholesale and Retail price controls.
- New capex in the Retail controls – we are unclear where to present this information as the tables only include space for opex.
- Detailed information to ensure that obligations under the Water Framework Directive (where these are reasonably certain, cost-beneficial, affordable and supported by customers, the EA and our CCG) are not subject to potential financial penalties. This continuing concern arises from the mismatch between Periodic Review and Water Framework Directive River Basin Planning cycles. The EA considers that Defra's Statement of Obligations offers sufficient support that reasonably anticipated, but unconfirmed, obligations (i.e. that cannot be confirmed until December 2015, when the minister endorses river basin plans) should be included in business plans.

Q9 We aim to collect data on a consistent basis from all companies. Are the data tables clear and well specified? Are there any areas where we need to look again at the way we have asked for the data to remove any ambiguities in the request?

We consider that many parts of the data tables are not clear or well specified.

As discussed at a recent Ofwat workshop, a pragmatic approach would be for Ofwat to:

⁶ These direct and indirect cost impacts should not disadvantage TWUL in the efficiency assessment of the Wholesale and Retail business plan elements. In addition: TWUL's different approach to customer consultation on TTT (e.g. public consultations) should be allowed for in Ofwat's assessment of plans; TWUL should not be disadvantaged by the need to resubmit the infrastructure provider's ("IP's") plans during 2014 – e.g. receiving a 'resubmission' rating for the Wholesale Wastewater business plan as a result, or be penalised for changes in scope between the parties and mechanisms may need to be set up to ensure that TWUL is held neutral to any changes related to the IP during AMP6 including, for example, IDoK thresholds.

- provide detailed line definitions as soon as possible for new data as these become available (including providing drafts ‘without prejudice’);
- continue to publish the questions it receives from companies and the responses from Ofwat (this was agreed in principle at the Ofwat workshop on 7 May 2013 and Ofwat provided an initial set of responses on 17 May 2013); and
- allow enough time following the data submissions for Ofwat to have an opportunity to ask questions and for companies to have an opportunity to provide Ofwat with additional information and clarification in cases where Ofwat’s requirements were unclear or Ofwat had not provided clarification in a sufficiently timely manner for data to be collated, audited and approved by the Board and for the associated governance processes to be carried out in time to meet Ofwat’s deadline.

This process would be proportionate given the amount of new data requirements, and would also minimise the risk that data do not meet Ofwat’s expectations or have been interpreted differently by different companies.

In Appendix 2 we provide the full list of questions that we have submitted to Ofwat on the data tables where we consider further explanation is needed. We have also provided ‘draft’ responses from Ofwat where these have been received.

Appendix 2 – Questions sent to Ofwat on the data tables

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
1 August Submission				
1.1	-	-	Does Ofwat plan to provide line definitions for the tables (in addition to the brief guidance in Appendix 1 of the consultation)?	Line definitions will be provided in the spread sheets - along the same lines as the pre-existing ones currently provided.
1.2	-	-	To confirm, will Ofwat be specifying any specific requirements regarding commentary or confidence grades/levels for data in the submission?	Where commentary is necessary it will be specified, otherwise companies should provide commentary by exception - eg to explain apparent anomalies.
1.3	-	-	What price base are all of the tables/cells to be completed in?	Unless otherwise specified. 2012/13
1.4	A1 & A3	-	To confirm, is the cost information required for Wholesale only (this is specified in A1.6 of the report but not the table titles)?	Yes
1.5	A1 & A3	-	Will Ofwat provide line definitions for the Capex by purpose (to reduce the risk of different interpretations between companies)?	Yes, the definitions for these lines will be issued with the updated guidance for the August submission.
1.6	A1 & A3	Block A	How should we treat capex that is for more than one purpose (i.e. assign to all relevant purposes or allocate all capex to only one purpose)?	Where capex is for more than one purpose (cost driver), then companies should proportionally allocate expenditure to all relevant purposes as this will improve the consistency and comparability of the information. Where expenditure has been allocated across more than one driver the company should provide an appropriate level of explanation in its commentary. We will provide additional commentary on this to all companies in the updated guidance for the August submission.
1.7	A3	Block C	As well as opex for treatment, does Ofwat also require total opex (which is presumably needed for Totex modelling)?	To be clarified in final guidance
2 Questions covering all Business Planning tables				
2.1	-	-	Does Ofwat plan to provide line definitions for the tables (in addition to the brief guidance in Appendix 1 of the consultation)?	see above

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
2.2	-	-	To confirm, will Ofwat be specifying any specific requirements regarding commentary or confidence grades/levels for data in the submission?	see above re commentary. There is no requirement for confidence grades. Business plans assurance by company Boards is set out in section 3.6 of the consultation.
2.3	-	-	In the consultation page 111, Ofwat states that it will use Government forecasts for input costs (e.g. electricity prices). Will we have the opportunity to comment on the forecasts selected?	To be confirmed in final guidance. However if companies have proposals on which forecasts should be used then they should include these in their consultation responses.
2.4	-	-	What price base are all of the tables/cells to be completed in? And how should historic costs and forecasts be restated (e.g. using RPI, COPI, etc)?	We will confirm the position for historic costs in the final methodology /tables.
3 Wholesale Water				
3.1	W1	-	Where Totex is for more than one Outcome/performance measure, should it be entered for each relevant Outcome/measure, or does all Totex need to be allocated to a single Outcome/measure?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
3.2	W1	-	Should the Totex for each Outcome include an allocation of all indirect costs (e.g. overheads) as well as direct costs?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
3.3	W2	-	Will Ofwat provide line definitions and/or a worked example for the Outcome incentives table? This is important as the table is relatively complex and potential for misinterpretation	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
3.4	W2	-	What information are required on costs and benefits for each performance measure (e.g. average or marginal, long-run or short-run)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
3.5	W3	Block C	Is the split of capex required gross or net?	
3.6	W5	-	Are the Bands 1-5 based on size or condition or some other measure?	The asset stock bands 1 to 5 are based on size. Band 1 <=165mm, Band 2 166-320mm, Band 3 321-625mm and Band 4 >625mm.

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
3.7	W9	Blocks B & C	What are the definitions for "Other operating income" and "Other income"?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
3.8	W10	-	Why is a PAYG split for 2020-25 (i.e. AMP7) required?	This is so that we can calculate likely wholesale bills for 2020-25 in order to estimate the effect of incentives on affordability in the next period. This is only indicative; we are not expecting this to be a proposal for us to consider.
3.9	W11	Lines 1-3	Why are two years of AMP7 required for Cost exclusions?	We have asked for 2 years additional data to aid our own internal modelling of costs but we will consider as part of finalising this table whether we need this data.
3.10	W17	Block A, Line 6	What is meant by "win-win tariffs"?	
3.11	-	-	Where do we enter information about other necessary adjustments in cost assessment for company specific factors (e.g. London productivity effect, three separate water distribution networks)?	You need to include this as part of the Cost exclusions table.
4 Wholesale Sewerage				
4.1	-	-	Where do we enter information about other necessary adjustments in cost assessment for company specific factors (e.g. London productivity effect)?	You need to include this as part of the Cost exclusions table.
4.2	S11	-	Table S11 provides space to enter items that should be excluded from cost assessment, cost performance menus and/or the general risk framework. Do we need to specify in the table which of these tools we want the cost to be excluded from?	Yes. Companies should explain exactly how their proposed cost exclusion should be treated in setting price limits. For example should the cost be excluded from price limits and treated as a notified item? Should it be assessed separately, and if so, how? Should it be included in price limits but excluded from the menu and if so, how should these costs be incentivised? Is this a company specific factor you consider we need to take account of when modelling?

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
5	Retail			
5.1	R1	-	To complete "Incremental costs in addition to allowances under ACTS", will we know the allowances under ACTS from the final methodology?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.2	R1	-	Is the implication of "Incremental costs" lines that Ofwat is expecting all ACTS spend to be assigned to SIM Outcome?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.3	R1	Block A, Line 1	Does Total opex include depreciation of new capex?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.4	R3	Block B	Does Ofwat have any requirements for Wholesale funding of water efficiency and CSL activities? And can we include any other activities that could be part funded by wholesale?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.5	R3	Block C	What is meant by metering, i.e. does it include only costs that sit in retail (e.g. meter reading, billing, etc), or all metering costs (i.e. including installation and maintenance)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.6	R3	Block E	What type of marginal cost is required here (e.g. long or short-run, including both opex and capex)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.7	R3	-	Where do we enter any new capex that should be funded through the Household control (excluding working capital which is in the margin table)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.8	R3	-	Where do we include the costs associated with the Thames Tideway Tunnel, which should be excluded from the ACTS calculation?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
5.9	R3	-	Where do we include any other costs that we consider should be excluded from the ACTS calculation?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.10	R3	-	Why are the data requested for AMP7 as well as AMP6?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.11	R4	-	Where do we enter any capex that should be funded through the Non-Household control (excluding working capital which is in the margin table)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
5.12	R5	Block B, Lines 7 & 8	What is the difference between "Working capital financing cost" and "Working capital cost"?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
6 Appointees				
6.1	A1	Block D	The calculations of Average total bills do not seem to reference the correct lines. Can Ofwat clarify these calculations?	This is an error - the calculation for average total bill should be line 6 + line 9 (water) and line 8 + line 9 (water). This could vary depending on the methodology statement, as we haven't concluded on the denominator for retail households (and this could affect the retail component).
6.2	A1	Block D	Are average total bills for Households only?	Yes, they are. Asking companies to calculate an average non-household bill isn't particularly useful, as this can vary so much.
6.3	A2	-	Should Wholesale financing be prepared on the basis on notional or actual capital structure (presumably notional)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
6.4	A3	-	For the tax calculations, are details required on how we have calculated the inputs requested, e.g. details of all non-allowable expenditure or non-taxable income?	No set requirements - but it is up to companies where they are making decisions with material impacts how much evidence they choose to back up their plan.

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
6.5	A3	Block D, Line 9	The inputs include 'indexation of index-linked loans'. How does this feed into the tax calculation?	Follows PR09 process.
6.6	A3	Block A, Line 1	We understand that Ofwat plans to split opening capital allowance pools between Water and Wastewater. How will this be done? Are other allocations of tax adjustments required?	Table will be revised so companies make the split. No other allocations needed.
6.7	A3	Blocks A, B and C	Does Ofwat want average capex writing down allowances by year as well as an average for 2015-20 (to better match the tax funding to actual tax payments each year)?	Yes will expand input cells
6.8	A5	-	Does Ofwat also want information on defined benefit pensions for AMP6?	No.
6.9	A6	-	Will line definitions be provided for the totex water quality and environmental obligations?	Yes
6.10	A7	-	Do the adjustments for RCV for Land Sales need to be split for Water and Wastewater?	No
6.11	A7	-	Does Ofwat require information on the tax impacts of Land Sales (so only counted once)?	No - do not include tax effects in this table.
6.12	A10, A11, A14 & A19	-	Should the financial statements (e.g. income statement, balance sheet, cash flow, op profit and dividends) be prepared on an IFRS basis?	Should be prepared on whatever basis you are following for UKGAAP for 2015-16 onwards.
6.13	A10, A11, A14 & A19	-	Should the financial statements (e.g. income statement, balance sheet, cash flow, op profit and dividends) be prepared on a notional or actual capital structure basis (presumably notional)?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
6.14	A11 & A12	-	To confirm, which Financial Years do the columns represent in the Balance Sheet and Trade receivables tables?	Year ended 31 March...
6.15	A12 & A13	-	What should we assume for payment terms to complete tables on trade receivables and working capital?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.

ID	Table no.	Line reference	Questions	Ofwat's 'draft' answers
6.16	A15	-	Should Fixed assets table be based on historic or current costs?	Should be prepared on whatever basis you are following for UKGAAP for 2015-16 onwards.
6.17	A17	-	What is meant by "Off-balance sheet debt"?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
6.18	A18	-	What is meant by "received" and "used" in the grants and contributions table?	These tables and their guidance will be confirmed in the final methodology / tables. We will take account of these points where appropriate.
6.19	A20	-	For the Scenarios, what is the purpose of the "Probability weighting" column?	To indicate that for all scenarios we are talking about a 10% chance of the key risk factor(s) being higher or lower than the assumptions used for the scenario. (See consultation document, p. 112-113.)
6.20	A20	-	To clarify, are the Scenarios to test how we would <i>plan</i> differently for PR14 (i.e. as if we are expecting the shock, so as if the high or low cases were the base case in our plans), or how we would <i>react</i> if these shocks materialised in-period? In other words, <i>when we know</i> about the shock is important.	The scenarios test how a company would react to an unexpected event, which materialises after business plans have been agreed and prices set.
6.21	A20	-	Why are data for two years of AMP7 required under the scenarios? May be to capture true-ups (e.g. for incentives) but not clear	To capture true-ups (e.g. for incentives).