

August 2014

**Setting price controls for 2015-20
Draft price control determination notice:
technical appendix A1 – introduction**



OFWAT

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A1.1 Navigating the draft determination documents

As part of this price review, we stated in ‘[Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans](#)’ (our ‘final methodology statement’) that we would be setting separate price controls for wholesale and retail elements of the appointee business. We explained that these separate controls would be binding, in line with the modifications made to the price setting elements of companies’ licence conditions.

This means that the companies cannot recover more revenue than allowed under each specific price control. The revenue allowance for each price control is determined by our assessment of the relevant costs specific to setting that particular price control. As a result, companies cannot move costs or revenues between controls. This creates important benefits for providing more effective incentives and supports the development of the relevant markets – in particular, those provided for by the Water Act 2014.

We have developed the draft determinations in line with our final methodology statement and our statutory duties. We have also had regard to relevant guidance from the UK Government and the Welsh Government, and the principles of best regulatory practice to be transparent, accountable, proportionate, consistent and targeted.

The draft determinations are structured on an element-by-element basis and are separated into:

- wholesale water;
- wholesale wastewater, where applicable;
- household retail; and
- non-household retail.

To support its June business plan, Thames Water proposed a separate price control for the Thames Tideway Tunnel. We discuss our proposals for Thames Water in the relevant company-specific appendix.

The structure of the company-specific appendices reflects the separate controls to which each company is subject to.

For each price control element, the company-specific appendices set out:

- the outcomes we expect companies to deliver under each price control;
- the costs we are assuming the company will incur and, where appropriate, the assumptions we have made to arrive at the allowed revenue for wholesale price controls;
- the costs we are assuming the company will incur and, where appropriate, the assumptions we have made to arrive at the allowed revenue for retail price controls;
- any additional adjustments that we are making – for example, the adjustments we are making to the wholesale water, and where applicable, wastewater price controls to reflect the company’s performance in 2010-15; and
- our assumptions on risk and reward, including uncertainty mechanisms.

In addition, they then consider affordability and financeability at an appointee level, taking account of the proposals for each price control element.

There are four companies that have already received their draft determinations.

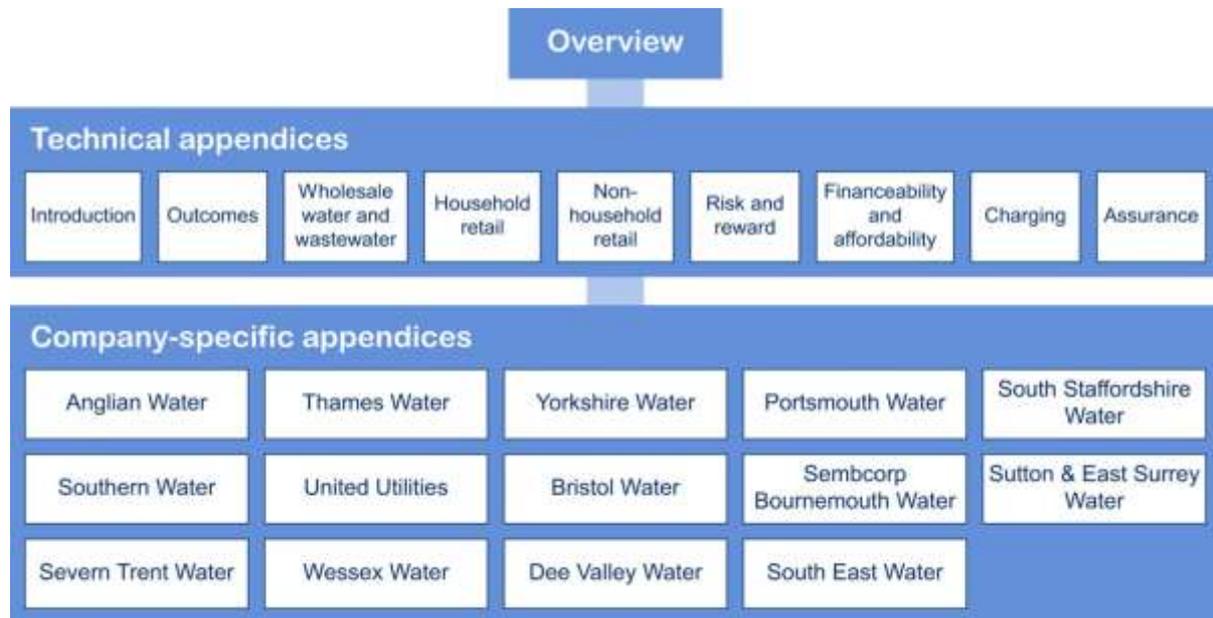
- Affinity Water and South West Water, as enhanced companies, received their draft determinations on 30 April 2014.
- Dŵr Cymru and Northumbrian Water received their draft determinations on 30 May 2014.

The company-specific appendices are supported by the technical appendices, which set out details of the industry-wide framework applied to our draft determinations under the following headings.

- Outcomes.
- Wholesale water and wastewater.
- Household retail.
- Non-household retail.
- Risk and reward.
- Financeability and affordability.
- Charging.
- Assurance.

Figure A1.1 below sets out the overall structure of our draft determination documents.

Figure A1.1 Overview of document structure



Throughout our draft determination documents, figures are in 2012-13 average prices except where otherwise stated.

A1.2 Company abbreviations

Throughout our draft determination documents, some of the company names may be abbreviated. For ease of reference, we set out these abbreviations below.

AFW	Affinity Water
ANH	Anglian Water
BRL	Bristol Water
DVW	Dee Valley Water
NES	Northumbrian
PRT	Portsmouth Water
SBW	Sembcorp Bournemouth Water
SES	Sutton & East Surrey Water
SEW	South East Water
SRN	Southern Water
SSC	South Staffordshire Water
SVT	Severn Trent Water
SWT	South West Water
TMS	Thames Water
UU	United Utilities Water
WSH	Dŵr Cymru
WSX	Wessex Water
YKY	Yorkshire Water

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water sector in England and Wales provides customers with a good quality and efficient service at a fair price.



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