



Pre-qualification decisions – conference call 10 March 2014

Speech by Sonia Brown

Good morning and thank you very much for joining us. Today I'm joined by Keith Mason, Senior Director of Finance and Networks and Graham Taylor, Ofwat's City Adviser.

I am here today to talk you through our decision to pre-qualify South West Water and Affinity Water for enhanced status. We have also reached the conclusion of our risk-based review testing for all companies and I will also explain the process for reaching draft determinations for companies that are not pre-qualified for enhancement.

Overall we are delighted to see the quality of the business plans that companies developed in consultation with their customers and other stakeholders. We see evidence of a real change, with companies going to great lengths to engage with their customers and to develop plans that reflect their priorities.

We have no doubt that the plans are significantly better than they would have been at this stage in previous price controls.

This morning I will quickly:

- remind you about the risk-based review;
- explain why South West Water and Affinity Water business plans stood out;
- explain the financial prize and process for enhanced companies; and
- briefly outline some key information on the outcome of the risk-based review for other companies.

I would like to take this opportunity to remind everyone of what the risk-based review is, and what it is not.

The risk-based review was intended to identify business plans which were strong and well-justified in **all** respects, a bar that was consciously set very high. Our tests assessed whether the company had delivered outcomes that customers wanted at a level that they were willing to pay.

Through undertaking the risk-based review we are able to reduce our regulatory burden on those companies that meet that bar and to focus our challenge and scrutiny on business plans where it was needed more.

To be absolutely clear, the business plans that did not pre-qualify were not fundamentally flawed – very far from it. This is a step in a process that will run through the end of 2014.

With that said, I am delighted that this morning we are able to announce that two companies have pre-qualified for an enhanced status by offering their customers business plans of a consistently high quality in the round.

South West Water's business plan met our expectations of a high-quality plan across the plan.

One of the reasons South West's plan stood out from most other companies was the strong focus on engagement and balancing the need to keep customers' bills affordable while also investing in the environment and service improvements.

South West Water demonstrated in its business plan how successive rounds of engagement fed into further engagement and its plan. After finding that less than two-thirds of its customers found its initial proposals acceptable, the company reduced its proposed average bill at the end of the period by £31. It did this by scaling back investment in areas such as the duplication of strategic water mains, sewer separation and smart metering and challenging itself further on efficiency. The company also has a comprehensive range of schemes in place to support customers who would still find its proposals difficult to afford, including a social tariff it put in place in 2013-14.

The focus on affordability and efficiency, through the use of new technology, partnership working and innovative approaches, is also evident in other areas of the company's plan.

South West Water is also proposing to deliver its proposed improvements to its retail service at no additional cost to its customers and absorb cost increases through efficiency savings.

Finally, the company's plan also stood out because of a desire to build legitimacy with its customers. The company partly demonstrated this through its engagement with customers, but also through its approach to measuring and sharing performance over 2015-20.

South West Water's business plan contains a Board pledge to share the benefits of success fairly between customers and investors. In line with this it is proposing an independently monitored and transparent performance sharing framework called 'WaterShare'. This framework would involve the company publishing a scorecard on an annual basis that summarises its performance and would allow for the sharing of net gains with customers in a timely manner.

Within our assessment we identified that South West Water has some actions to resolve.

- Performance commitments for its wholesale water and wastewater proposals (relating to only a small number of criteria).
- Proposed bad debt adjustment to the average cost to serve.

Affinity Water's business plan met our expectations of a high-quality plan across the plan.

Affinity Water's business plan identified the major challenges it faces over the forthcoming regulatory period. Affinity Water sought views from its customers, as well as the wider consumer interest, to shape its business plan.

For example, the company identified that it would face a supply/demand deficit due to increasing demand and the need to leave more water in the environment. Affinity Water operates in an area of serious water stress and has agreed with the Environment Agency to reduce the amount of water it abstracts by 42 million litres a day by 2020 – nearly 5% of its supply. Affinity Water's customers told the company that they prefer demand management options over supply-side options. As a result, Affinity Water is proposing to reduce demand through metering and a water efficiency programme. However, the company is also proposing to use water more efficiently, including a proposed cut in leakage by 14% by 2020.

Affinity Water also identifies affordability as a key challenge going forward. The company engaged with its customers and provided convincing evidence that its plan is affordable. However, it acknowledges clearly that the impact of the Thames Tideway Tunnel is going to make the combined water and wastewater bill unacceptable. In response to this, Affinity Water has agreed with its customer challenge group that it will devise a comprehensive communication programme to

inform customers of potential price changes and take steps to mitigate the impact on vulnerable and low-income customers. The company is committing to introduce a social tariff in April 2014, which it expects will attract up to 30,000 more vulnerable households.

Affinity Water provided convincing evidence that its plan is efficient. It has delivered significant efficiencies during the past four years that are incorporated into its totex (total expenditure) projections, which include further significant efficiencies across your wholesale base totex. It is also proposing to deliver efficiencies in retail costs to offset any input price pressure.

Both Affinity Water's plan and company vision (to be the UK leading community-focused water company) are innovative. The company will report its performance at a community level as well as at a company level. This is intended to enable customers within their communities to judge how well Affinity Water is meeting the expectations it set itself and to better hold it to account.

Within our assessment we identified that Affinity Water has some actions to resolve.

- Performance commitments for its wholesale water and retail household proposals (relating to only a small number of criteria).
- Allocation of costs between the different controls.
- Adjustments to reflect actual performance in the 2010-15 period.

Both South West Water and Affinity Water will now have to decide whether to accept the risk and reward guidance and address the small number of actions within their business plans that we have identified.

They will need to come back to us by 17 March to confirm that they accept our risk and reward package, and to amend their business plans to reflect this. As you will recall from the January document, this includes adopting a 3.7% allowed return in the wholesale controls, a 1% margin in household and a 2.5% margin in non-household retail. We explained in January how for a company of average size this adds up to a 3.85% return at the appointee level, with an additional 6 bps for the new competitive non-household retail control.

We should mention the additional financial benefit from enhancement which we set out for the first time today.

In our final methodology, we said that we would provide enhanced companies with a greater share of cost outperformance within our menu approach, and ensure that they would be better off overall than other companies. Specifically, we have decided

to offer any enhanced companies a 5% increase in their cost sharing rate, so that they will earn 55% rather than 50% of any cost outperformance or underperformance. That incentive is symmetrical, but we note that both pre-qualifying companies have proposed costs significantly below our baseline. In addition, we will offer an initial award worth £11 million to South West and £4 million to Affinity.

Moving away from the pre-qualifying companies, we have today also published the outcome of the risk-based review across key test areas for all companies. We are publishing this information ahead of our plan. But further more detailed information will follow on 4 April.

As I have already discussed, a high-quality plan will meet or exceed customers' expectations across all the areas that we have tested. I will quickly run through key test areas and some of the key information for you.

The move away from outputs to companies producing outcomes is one of the core components of the 2014 price review (PR14). I have already mentioned that overall we saw companies really rising to the challenge of engaging with their customers to develop these outcomes. Once an outcome, like clean safe drinking water, is developed it is important that a performance commitment – or promise – to customers is developed. In total we saw over 500 of these performance commitments developed by companies across the sector – of diverse styles. Some companies have developed really stretching and innovative performance commitments. Whereas others have presented more conservative approaches which sometimes featured more of a quantity rather than a quality of evidence. It will be important across the sector for there to be real ongoing focus around performance commitments. This is obviously very important for a number of reasons including that under the risk and reward guidance companies will potentially need to be paid rewards or penalties from customers for the delivery of these performance commitments.

Our assessment of costs is undertaken across the different price controls that we are introducing for the first time in the water sector as part of PR14.

We have calculated the two wholesale price controls for a water and wastewater company using a totex approach. We have used a variety of models to project an estimate of forward-looking costs. This cost threshold is then adjusted for a number of factors – including, for example, business rates – and we also investigate whether the company has requested that any costs should be considered outside of the totex models and, if so, there is a strong evidential base for the inclusion of these costs to the overall threshold.

For clarity, these cost thresholds do not represent the baselines that we will use when setting the price control. In the case of some of these cost items, companies did not provide sufficient and convincing evidence for us to assess the costs through our risk-based review. It would be wrong to conclude that a gap between the thresholds we have used for the risk-based review and the company's business plan costs implies either that the company is inefficient or that we will ultimately disallow any of the costs put forward by the company. Gaps between our thresholds and company cost projections highlight areas where there are opportunities for the companies to provide further information and evidence. There are still opportunities for the companies to make representations before we use the thresholds to set the price control.

A good example here is with wastewater, where we have not included the NEP5 costs in a number of plans because we require more evidence from the companies.

Moving on from wholesale, we have also examined retail costs. There are two key tests here. The first is very important for the opening up of the business customer market for competition in 2017 and relates to retail cost allocation. The second test applies where some companies made the case for an adjustment to the efficiency incentive on the household retail price control in the form of average cost to serve. The adjustments that companies proposed covered a number of areas including input price pressure and bad debt.

As part of the risk-based review process no company has been able to successfully make a case for an adjustment to the ACTS.

You will also see test scores in the other key areas of the risk-based review including affordability and the adjustments that companies are proposing for price controls in 2015-20 to take account of various incentives under PR09. Finally we have been pleased to see the change in the sectors approach to Board assurance in response to the challenge that we have set out.

In all of the companies that did not pre-qualify there were also areas where we feel that further dialogue is necessary to understand certain key aspects of their business plans. As the regulator, we need to be able to understand these areas to ensure that customers' interests are protected.

We have decided on the basis of the facts in front of us, that it would not be appropriate for companies that have not pre-qualified to be categorised into standard and resubmission.

Instead, we are giving all companies the option to resubmit their business plans in early May for a draft determination in June if they wish, where they decide that the evidence we require to complete the evaluation of their plan is readily available or where they can quickly address issues we have raised. Obviously we reserve the right to reject a request if we felt that the company had not fully and completely addressed the areas we have identified as part of the risk-based review. This is not a third shot at enhancement, but a recognition that some will have less work to do than others, and that reducing the regulatory burden where possible is good for everyone.

For all other companies the draft determination will remain in August.

We look forward to working with all of the companies over the coming months.

Thank you very much for listening and at this point, operator, I would like to open the line to questions.

Questions and answers

Operator: Thank you. If you would like to ask a question please press *1 on your telephone keypad. If you find that your question has been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We'll take the first question from Guy MacKenzie from Credit Suisse.

Guy MacKenzie: Good morning, just a couple of questions. Firstly on the do no harm principle, you sort of suggested in January that the WACC was more or less set at 3.85% and you talk about potential movements in the market affecting that decision. I was wondering if you would say anything about any kinds of thresholds you would be looking at or how set that number is right now? Secondly, on the average cost to serve adjustments, obviously no companies scored very well on the bad debt or input price adjustments. These have been ongoing issues I guess for the past couple of years since the average cost to serve methodology was proposed and you're still saying what you were saying at the time: that more evidence needs to be provided. I was just wondering if you could say anything on whether the evidence was getting better, whether you were getting any closer to coming to an agreement on this? Just very finally a technical point, on the "up to 6 million or 3.3 million" on totex outperformance that you estimate for South West and for Affinity respectively, can you just clarify whether that's an annual amount or cumulative over the five year period?

Sonia Brown: Thanks very much Guy. I will answer the first two questions and then I will hand over to Graham to pick up the third one that you asked. On the first one

with regard to 'do no harm' we have actually included quite a lot of information in what we've published today to try to be clearer about what we mean by do no harm. We aren't, however, proposing to introduce any form of thresholds around the cost of capital for reopening it in any way, shape or form. What we said on 27 January and I repeat today is that that cost of capital is a genuine forward-looking cost of capital and we would only be expecting to make any adjustments to it if there were fundamental movements in capital markets, and that message is repeated today. But what you can also see in the annex is that we've clarified some of the broader issues about the fact that, if we end up with enhanced companies they will be proceeding at a faster pace through the process and how that will interact with the do no harm principle.

On the second issue of average cost to serve adjustment, I think that we have received quite a lot of evidence through part of the risk-based review process. The proposal that has been put forward by South West Water, which is obviously specific to them, we think that they have overcome a number of the evidential hurdles that we put in place but there are still some details within the requests that they have made around that average cost to serve adjustment that we would like to be able to discuss further with the company, which is why we have indicated that that's an action that will need to be incorporated as part of this overall process. We don't have very high-quality evidence at the moment with regards to input price pressure, and I have already explained that both Affinity and South West Water are absorbing any form of input price pressure, but obviously it will be open to the companies to come back with more information on that as we proceed through the review. Graham?

Graham Taylor: Guy, you asked about the value of the higher share of outperformance. That's a present value. We're talking about 6 and 3 million for South West and Affinity, respectively. If you do the maths I think you'll find that that's broadly in line with where they'd arrive if they delivered their plan – which, if you look at the wholesale cost tables in the document, is considerably better than our threshold. The 'up to' in the document is a bit misleading.

Guy MacKenzie: Ok, thanks, that's helpful.

Operator: The next question comes from Dominic Nash from Macquarie. Please go ahead.

Dominic Nash: Good morning guys, a couple of questions from me please. Firstly on the process itself, on the business plan resubmissions in May, is that an option by the companies or are you making it obligatory for all companies to do it? Following on that process are you concerned that there might be a challenge to a differential cost of capital if there was ever to be sort of a CC commission referral which was my

first question. The second question is on the allowed returns. On 27 January I think you said you expected the RoRE to have a band of about ± 400 basis points around the 5.65% return. Do you think that still sort of stands and where would you expect to see a fast-track company be within that banding?

Sonia Brown: Ok, thanks very much Dominic. Just on the first question regarding May, it's completely an option. We are not identifying the companies that we think would be most able to get there or any of those things. It's up to the companies to look at the feedback – which is part of the reason why we published the information today – assess for themselves the areas where we need to have further dialogue, how substantive that is and to let them form their own view on whether they want to go for an earlier draft determination. In doing so, we think there's probably some reputation benefit and most importantly it means that they can get on with trying to run their businesses rather than going through a regulatory process a couple of months longer, which obviously has a value associated with it.

I'm not really sure that I understand how we're going to end up with differential costs of capital because the risk and reward guidance will be something that will be adopted throughout the whole of the sector. It's not just something that we're going to be applying to the pre-qualifying companies. With regards to the likely ranges or where we're going to end up on RoRE ranges, I think that we'll have to wait until 4 April for that, in the event that we have any enhanced companies. We will be able to explain to you at that point what their overall package of risk and reward looks like.

Dominic Nash: Ok, thank you.

Operator: The next question comes from James Brand from Deutsche Bank.

James Brand: Hello. I just had a question or two on the wholesale cost assessment. You provided some detail in one of the appendices, focusing on the listed companies. It looks like United Utilities has been all D-rated on the wastewater scores and Severn Trent has been all D-rated on the water wholesale cost assessment and it might be that you don't want to provide any more details at this stage behind that but I was just interested to the extent that you are willing to give any more disclosure: whether there is anything you could tell us about what the causes for that was or if there's anything we should bear in mind when looking at those ratings?

Sonia Brown: I think going back to what I said, it is really important that we understand that there's a big difference between these cost thresholds and what we will be using as the baseline going forward associated with this. You will have seen from the plans of the companies that there are some large capital programmes being

suggested by both of the companies in different areas, water and wastewater. I'm not going to go into the specifics at this time but what I have already said on the call is that we need to make sure that we've got evidence to support large capital schemes, convincing and compelling, and if we get that evidence then it's completely possible that those cost thresholds will increase and that the gaps that is there at the moment between ourselves and any company can be resolved as part of this process. So I would really caution you in drawing anything into this other than the fact that it's a signal of where we need to have the conversations with both of those companies.

James Brand: Ok, thank you very much.

Operator: The next question comes from Lakis Athanasiou from Agency Partners.

Lakis Athanasiou: Hi, just two or three questions. One on output incentives: it seems that you want companies to come back with some kind of reward approach in what they're proposing. Two things on that, one is the customer challenge groups seem en masse not to want penalties, rewards to companies for something like this; and secondly that you're going for rewards, you therefore need bill increases if it's coming through the revenue. If you can give us your thoughts on that. Secondly you seem to be suggesting that on project cost we shouldn't be drawing any conclusions where the enhanced companies would end up on the totex matrix – that it could either be above 100 or below 100, if you could just confirm that. Also with regard to totex mechanisms will there be also an additional reward if companies come in below 100 revenue reward? Finally I may be missing something here but I don't really understand why a higher cost sharing for the enhanced companies is an incentive unless you believe there is fat in their costs and a skewed risk to under-spending, otherwise I can't see what the benefits are for giving them a higher cost saving and in fact if they come in enhanced because their costs are good, maybe they have underbid. Maybe there's a skew to overspending in which case giving them a higher cost sharing thing would be a penalty.

Sonia Brown: Ok, thanks ever so much Lakis. I think Graham is indicating he'd like to have a go at your last question and I will try and answer the other ones for you. I think that outcome delivery incentives and the overall package of risk and reward has been an area where it has been really difficult to engage with customers, and it doesn't surprise me really when you think about it because I think all of us spend an awful lot of our time trying to engage on this and we still manage to tie ourselves up in knots on occasion. So I think that the initial view of customers, you're absolutely right, was that they really liked the idea of penalties but weren't so keen on any form of reward for outperformance. The dialogue has progressed a bit since that point and a number of companies are now reporting back to us that their customers directly –

and also some of their customer challenge groups – are now supporting a more balanced approach to risk and reward which features, obviously, a lower cost of capital and therefore less incentive or less ability to financially outperform, as well as a higher rate of potential outperformance around outcomes and delivery. And I think that those customers are really attracted to the idea of paying more for the things that they actually want to happen within the companies. I think that in terms of the structure of the rewards between revenue and RCV, this is real area where I think that some companies may well come forward with some quite innovative proposals and we might see them putting forward proposals which aren't necessarily all revenue related and I think that kind of makes sense, bearing in mind that some of these outcomes are longer term in their idea of delivery for customers.

Then on totex the reason why we're not saying where the pre-qualified companies will be is because it's their choice as to where to position themselves on the menu. Graham, if you want to...

Graham Taylor: I think Sonia touched on a bit of it there, Lakis. You asked some questions about menu construction. We haven't published the menu today. We will shortly, but you can look at how menus have worked within Ofwat before and how the additional income has operated where companies have chosen a number away from 100.

You also asked whether a symmetrical increase in the cost sharing factor is really a benefit. Two things to say to that: in the context of the two companies which have been pre-qualified, you can see that they are talking about costs below our baselines on water of 16% and 5% respectively, and roughly in line on wastewater, so they think they're on the right side of that. Also, that's why there are two parts to the reward for enhancement. There's the significant initial award, which we think significantly reduces the risk that a company might find itself worse off as a result of the increase in the cost sharing factor. It is a risk that we were conscious of.

Lakis Athanasiou: So what you're suggesting is that the totex matrix will look something like the CIS matrix: that if you're below the baseline you get a bit above what you bid for on your costs and if therefore you're correct on what you're bidding you will automatically underspend is what you seem to be suggesting?

Graham Taylor: Let's get you the details in the next couple of weeks.

Lakis Athanasiou: Ok, thank you.

Sonia Brown: Thank you.

Operator: We'll now take the next question from Adam Gileski from Goldman Sachs Asset Management.

Adam Gileski: Thank you very much. Just one quick one, I apologise because I missed the first 20 minutes of the call so I hope you didn't mention this, but do the companies know how many companies in your mind would benefit from going through the resubmission process, in other words how many companies are kind of close?

Sonia Brown: I think that what we're doing today is setting out the high-level scores against the key test criteria, and you can see that there are some companies that have got overall very good and strong plans but we need to have a conversation around, for example, wholesale cost assessment. So it's going to be evident to the companies, I think, as to how close they are to being able to come back and have a conversation. Obviously depending upon the scale of that challenge and whether they think they can easily explain it I think will depend upon how fast they decide that they want to go through this process and whether they want to go for the June draft determination or August draft determination. Whichever route they choose to go through, we're here to have that construction dialogue with all of the companies.

Adam Gileski: Thanks.

Operator: We will now take the next question from Jamie Tunnicliffe from Redburn.

Jamie Tunnicliffe: Good morning. Two questions: is the South West Water action to resolve on bad debt mainly an issue about some sort of deficiency of information or is it sort of more about method of calculation? The second question is: is the 6 million based on performing at Ofwat's baseline?

Sonia Brown: I'm going to take the first one and I will pass to Graham on the second. The issue with the South West Water bad debt adjustment to average cost to serve relates to the detail of the calculation of it, and we just need to have some further dialogue with the company – now that it is pre-qualified company we can do that – and seek to understand how that will actually operate. But I haven't had that conversation yet with South West Water, so I'd rather have that first with them if that's ok Jamie.

Graham Taylor: On the value of outperformance, Jamie, we were intentionally vague on this but as I said it was broadly based on them achieving their bid.

Jamie Tunnicliffe: So it's based on their baseline, not your baseline?

Graham Taylor: Our threshold is used as the baseline and their bid uses their bid.

Jamie Tunnicliffe: Ok, thanks.

Operator: We'll now take the next question from Maurice Choy from RBC.

Maurice Choy: Hi, good morning. Just two questions from me. The first question is on the June draft determinations. If a company were to submit early and therefore get its June draft determinations, should we expect them to get additional benefits as an enhanced company; maybe not as big but something, a little bit of a benefit from financials? The second question is on South West Water – can you discuss on any reasons why a company such as South West Water may not want to receive the enhanced rating? Thanks.

Sonia Brown: Ok, no problem. I think I tried to be quite clear when I was speaking, the June draft determination is not a third shot at enhancement. There will be no incremental financial reward for getting to a June draft determination. It is purely about trying to make this process as efficient as we can for everybody. I say again that if companies get regulatory certainty early I think it must give them more of a chance of being able to outperform during the next regulatory period, which I think is an indirect financial benefit, but there will be no direct financial incentives associated with that June draft determination.

I think really the question around South West Water is more one for them than it is for me. I think that they obviously have done an awful lot of work to produce something that is a high-quality plan. I know that they have been re-engaging with their customers around the risk and reward package and I guess that we'll all hear next week what their board have decided with regards to whether to go forward for an enhanced company status.

Maurice Choy: Great, thank you.

Operator: We will now take the next question from Verity Mitchell from HSBC.

Verity Mitchell: Good morning everybody. I just have a question about the table on page 33, which is the backward looking one, adjustments to 2015-20. Could you talk a bit more about your conclusions here and then perhaps what the companies need to do when they are resubmitting because clearly there have been some issues identified in this process?

Sonia Brown: No problem, thanks ever so much Verity. This is quite interesting actually because these are simply – well, we thought simply – the adjustments that the companies need to make to the next period's price limits for performance during this price control period. Obviously it covers a range of different incentive mechanisms ranging from the SIM right the way through to explaining whether you have successfully delivered all of the outputs that you said that you were going to deliver and during PR09. What we have identified during this process is a couple of things. One is that there are just some data issues, so sometimes we're saying we need to have a further conversation because there are ongoing data issues with companies with regards to what we're calling legacy adjustments. Then the second issue is that in some areas it comes back to this convincing and compelling evidence: companies have explained that they delivered some of their outputs but they haven't explained that they've delivered all of their outputs, and so obviously when we're forming a view about what the appropriate adjustment might be, we need to get 100% or as near as we can to 100% of the information.

Verity Mitchell: Great. So this will be an area for clarification rather than a judgement. It's a preliminary view, more database than a conclusion?

Sonia Brown: Yes. All of the scoring that we've put forward is very much indicating areas for further dialogue and conversation. It isn't judgements around it, but what we knew is that we had to be in a position where the number of conversations that we had to have with pre-qualifying companies were rather limited, because otherwise it would mean that we wouldn't be able to do the draft determinations at the end of April.

Verity Mitchell: Great, thank you.

Operator: We'll now take a follow-up question from Lakis Athanasiou from Agency Partners.

Lakis Athanasiou: Hi guys. On bad debt just to understand exactly what you're saying, you said today that the case hasn't been made in the business plans for adjustments to bad debts, particularly for deprivation. Are you saying that's a kind of final thing or is it still kind of open as to whether there will be adjustments for deprivation or not?

Sonia Brown: It's very much still open. We very much want to have the conversation with South West Water about the very specific details of their calculation and we saw a real range of different approaches coming forward from companies with regard to the evidence on bad debt adjustments, so I think of course it will still be open. I think that companies will look closely, I suspect, at what

happens with South West Water, but it is obviously company by company, adjustment by adjustment, and they have to make the case, importantly, that every company is materially affected in their own right rather than it being something that then becomes a pass-through item across the whole of the sector.

Lakis Athanasiou: Ok, thank you.

Operator: As there are no further questions I'd like to hand the call back over to Miss Brown for any additional or closing remarks.

Sonia Brown: There's no additional closing remarks from ourselves other than to say thank you very much and we very much look forward to continuing the conversation around PR14. Thank you.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.