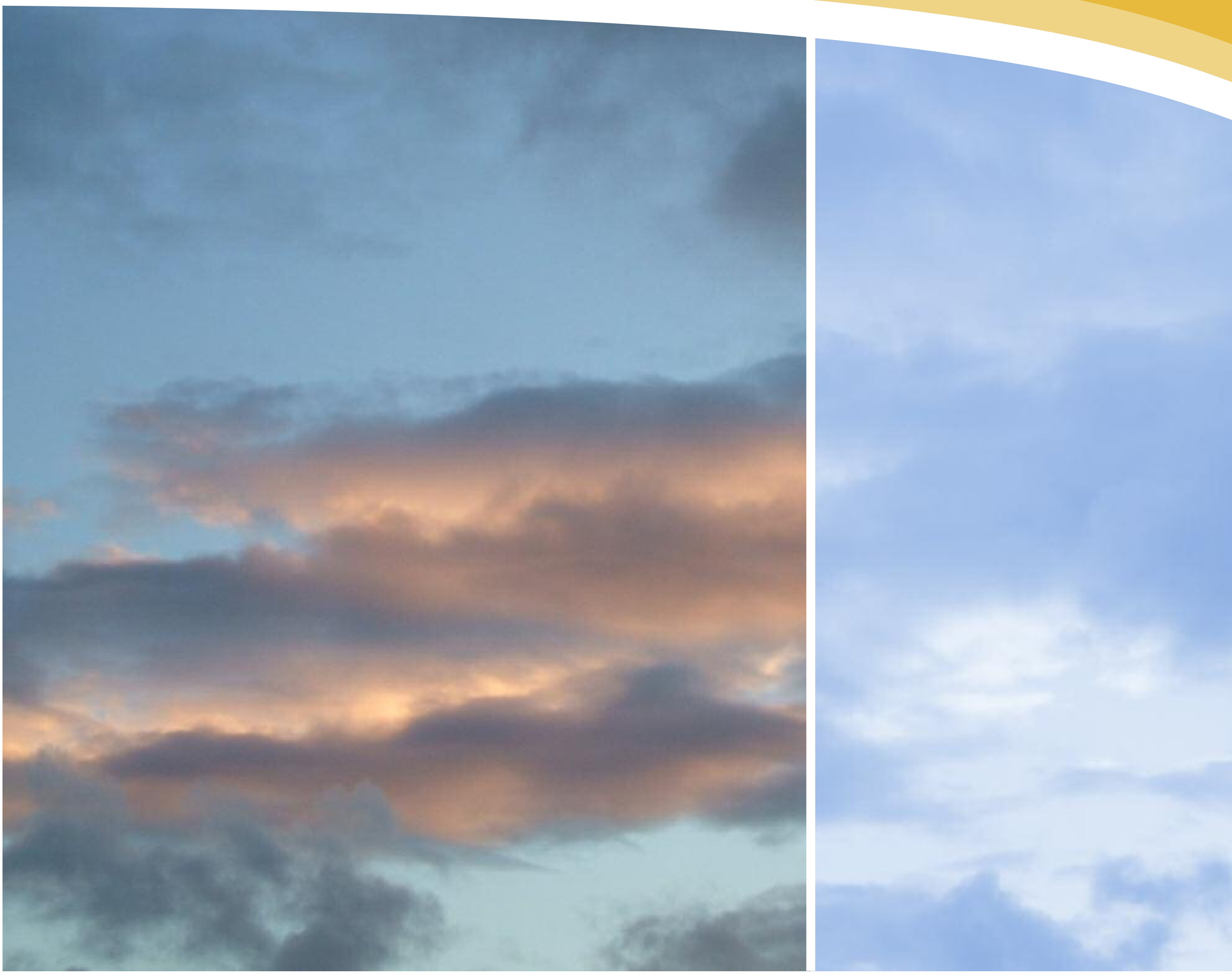
April 2014

Setting price controls for 2015-20 – further information on reconciling 2010-15 performance



About this document

This document provides further information on how 2015-20 price controls will reflect companies' actual performance during 2010-15. It:

- highlights good practice, drawing on the risk-based review;
- sets out the steps companies must take ahead of draft and final determinations; and
- explains how performance in 2013-14 and 2014-15 will be taken into account in 2015-20 price controls, including how we will deal with performance in 2014-15 for price controls that come into force in April 2020.

Contents

1. Background

In 'Setting price controls for 2015-20 – final methodology and expectations for companies' business plans' we said that we would adjust 2015-20 price controls to reflect companies' actual performance during the 2010-15 price control period.

We confirmed that we would make adjustments in line with the 2010-15 incentive tools, which were designed to manage the risks to customers and companies from uncertainty, and to encourage efficiency and outperformance in the delivery of FD09 commitments. We also said we would make adjustments to:

- account for differences between the RCV projections we made in 2009 and companies' outturn positions (for example, 'midnight' adjustments in 2009-10);
- recover any assumed costs at the 2009 price review of issuing new equity during 2015-20 where these costs did not materialise or have not been returned to customers already (this only applies to the small number of companies we assumed would need to issue new equity); and
- recover any tax benefits arising from in-period changes in capital structures.

The 2010-15 price control incentive tools are set out in table 1 below.

Table 1 Incentive tools included in the 2010-15 price control

Incentive tool	Purpose
Service incentive mechanism (SIM)	A financial incentive that encourages customer service delivery. The comparatively better performing companies are rewarded, and poorer performers are penalised.
Revenue correction mechanism (RCM)	A tool to deal with differences between actual revenue collected and our assumptions for allowed revenue at the 2009 final determinations (FD09). Introduced to incentivise water efficiency.
Operating expenditure (opex) incentive allowance (OIA)	An incentive to encourage companies to achieve sustained outperformance of our regulatory assumptions on opex.
Capital expenditure (capex) incentive scheme	An incentive used for capex, designed to reward both cost outperformance and accurate business plans.
Change protocol (logging up and down, shortfalls, overlap programme)	Tools used to deal with material changes in delivery from our assumptions at FD09.

Each company had to provide its view of its performance during 2010-15 in its business plan submitted on 2 December 2013. It had to explain what this would mean for the services for customers, and whether its revenues for 2015-20 should be adjusted to reflect actual performance. We assessed the way in which companies had done this as part of our risk-based review. Section 2 of this document sets out some of the high-level themes from our assessment.

Following the risk-based review, companies will now need to provide updated information on their proposed adjustments to 2015-20 price controls. All companies will need to provide an update on performance for 2013-14 and 2014-15 as new information becomes available. Some companies will also need to address issues identified in the risk-based review. Section 3 and the appendices to this document set out the information that companies will need to provide.

2. Examples of good practice drawing on the risk-based review

The high-level results of our risk-based review assessment were set out in our pre-qualification decision document. We explained that some companies had met all of our requirements by applying all of the incentive tools correctly and providing a full and well evidenced account of their performance in 2010-15, including information explaining any differences between the PR09 determination and actual performance. Other companies had not met all of our requirements and would need to provide further information as part of their revised business plan submissions.

We have now published further details on our risk-based review assessment of all company business plans including our assessment of companies proposed adjustments to 2015-20 price controls.

Table 2 below summarises examples of good practice that we identified from the risk-based review for each incentive tool. We set out these examples to facilitate company preparation for submitting further information.

Table 2 Examples of good practice in connection with the incentive tools

Incentive tool	Examples of good practice
SIM	Either a penalty or reward is applied to represent the companies' view of how they performed. The basis for the reward or penalty is explained, including how it relates to guidance on the SIM, companies' performance, and the company's assumptions on the industry average. Calculations correctly reflect our methodology.
RCM	Variances between actual revenues and forecast revenues from 2010-11 to 2012-13 are fully explained. Revenue forecasts for 2013-14 and 2014-15 are consistent with the trend for the remainder of the period and fully explained. Such forecasts are justified, fair and reasonable. All models are completed (using the latest version of the model) and input data are accurate and explained. There is consistency between the data used in the company's populated RCM model and business plan tables.

Incentive tool	Examples of good practice
OIA	Companies use 2013-14 as the constraining year and apply the correct effective tax rate. Companies review and apply appropriate pension adjustments.
Change protocol	Comprehensive information and supporting evidence on all FD09 outputs, for example: a separate and easily-identified chapter/appendix in the business plan which identifies and explains any differences between PR09 determination and actual performance (including outputs delivered, those delayed or no longer required). Individual logging up/down claims have evidence to support both the need and the basis of efficient costs for the adjustment. Comprehensive supporting evidence to justify serviceability judgements.
CIS	A full CIS true-up assessment is completed and submitted, and for merged companies the CIS true-up is assessed for each of the former operational areas. Where the CIS revenue adjustment is spread beyond 2015-16 the profiled adjustments are equivalent (in net present value – NPV – terms) to the single-year adjustment. Data in the CIS true-up fully aligns with the business plan information on capital expenditure and inflation assumptions. Commentary clearly sets out the scale of any reward or penalty due on the performance, the scale of the revenue adjustments arising and how these are applied in the company's modelling of the 2015-20 allowed revenues and the scale of any RCV adjustments.
Other – tax and smoothing	Revenue adjustments are fully explained and supported by evidence, including justifying the need and appropriateness of the adjustment having regard to the other legacy tools. Revenue adjustments associated with tax issues are supported by detailed explanation or an understanding of how these align with the overall company tax position. Revenue smoothing is NPV neutral. Where companies have proposed operating cost adjustments associated with company specific criteria, these are reviewed to ensure they reflect efficient costs.

3. Next steps

3.1 Overall timeline and submissions

As set out in 'Setting price controls for 2015-20 – decisions on enhanced companies and next steps' and 'Setting price controls for 2015-20 – policy and information update', we will make draft determinations at three different times. Enhanced companies will receive draft determinations on **30 April 2014**. Companies that are not enhanced can seek a draft determination by **25 June 2014** or by **29 August 2014**. We plan to publish final determinations for all companies on **12 December 2014**.

To inform draft and final determinations, companies will need to:

- address issues identified through the risk-based review process; and/or
- provide updated information on 2013-14 and 2014-15 performance as new information becomes available.

Companies that are enhanced will only need to provide updated information in relation to 2013-14 and 2014-15, as there are no further actions for them to address from the risk-based review.

The updated performance information should accurately reflect the performance in 2013-14 and include robust forecasts for 2014-15. Submissions should be easily accessible, covering all the relevant tools, preferably within a single document and narrative covering 'adjustments to the 2010-15 period'.

We have published updated business plan data tables – including some new tables – to collect the revised information we need to allow us to collect information on company performance in 2010-15.

Table 3 below outlines our revised data requirements in relation to company performance in 2010-15.

Table 3 2010-15 company performance data requirements

Date	Data requirements by incentive tool	Companies required to submit data
2 May 2014	Information on SIM performance for 2013-14.	All companies
2 May 2014	Updated information to address issues identified through the risk based review process and reflecting 2013-14 performance and updated 2014-15 forecasts. This includes information on RCM, OIA, change protocol, serviceability information and CIS (data for 2010-15, tables and models).	Companies seeking a June draft determination
27 June 2014	Updated information to address issues identified through the risk based review process and reflecting 2013-14 performance and updated 2014-15 forecasts. This includes information on RCM, OIA, change protocol, serviceability information and CIS (data for 2010-15, tables and models).	Enhanced companies and August draft determination companies

A table detailing the specific submission dates and submission requirements for each of the three draft determination timelines is set out in appendix 1.

Further information on the specific requirements for each tool is set out in the sections below. Links to the latest feeder models and guidance for each specific tool can be found in appendix 2.

3.2 Service incentive mechanism (SIM)

By 2 May, all companies (including enhanced companies) should provide their 2013-14 SIM performance data using business plan table A24.

Companies will know their own three-year SIM performance, but will only have industry statistics for two years. Companies should make their best predictions on that basis, as we have described in ‘Setting price controls for 2015-20 – pre-qualification decisions: Appendix 5 – service incentive mechanism (SIM) for 2010-15 and 2015-20’.

We will review each company's three-year SIM performance against the industry comparative information provided by all companies on 2 May 2014. This will be assessed against the proposed adjustments made by each company and reflected in our draft determinations made in June and August. For enhanced companies' 30 April draft determinations, we will use the two-year SIM comparative information since the three-year information will not yet be available.

When updating their SIM adjustments, all companies should:

- state explicitly both a percentage of assumed reward/penalty and a 2015-20 revenue adjustment associated with their SIM performance based upon their performance in 2011-12, 2012-13 and 2013-14, and the revenue predictions provided in table A19 and reflect this in their view of price controls even if their view is for a zero adjustment;
- set out the basis for their proposed adjustments, relating this to the guidance set out by Ofwat on the SIM and their performance in 2011-12, 2012-13 and 2013-14, and the company's assumptions with regard to the industry average;
- provide in table A19 their updated forecast of 2014-15 appointee revenue predictions, with commentary to explain any differences to those provided previously in business plan table A19; and
- set out the revenue adjustments in tables W20 and S20, with commentary to explain where these are different to that assumed in 2 December business plans.

All data should be fully assured and with Board sign-off. Companies should state explicitly what assurance is in place alongside their submission.

A number of companies presented sensitivity analysis for the SIM score in their 2 December business plans, taking into account their own performance and the expected movement of both the industry average and other water companies. We considered that this sensitivity analysis helped demonstrate that the company had explored the likely range of rewards and penalties, and had included an appropriate central estimate within its business plan submission. Companies should consider the use of such analysis within their submissions.

3.3 Revenue correction mechanism (RCM)

When updating their RCM proposals, companies should do the following.

- Provide new data tables and populated RCM models to reflect updated actual revenue data for 2013-14 and updated revenue forecasts for 2014-15.

- Use the latest published RCM model to calculate their RCM annualised adjustment amounts for water and wastewater (see appendix 2 for details). In their December business plans some companies had used an out-of-date version of the RCM spreadsheet for their calculations.
- Ensure consistency between the data used in the company's populated RCM model and business plan tables – namely W17, S17 (if applicable), R3, and A9. Companies should take care to ensure data consistency between tables and models. Companies should provide separate business plan tables and models for pre-merger companies, where appropriate.
- Explain the reasons for any significant revenue variances from their forecasted revenues at FD09 and provide commentary on the underlying source of the actual revenues reported in W17 and S17. This should cover the whole period. We expect the reported actual revenues to be consistent with the companies' regulatory accounts.
- Where a variation occurs at 2010-11 and is maintained throughout the period, companies should explain the circumstances that have resulted in this difference between FD09 and 2010-11.
- Explain the underlying basis of forecasts for 2014-15 and provide assurance that these are based upon appropriate central estimates and are consistent with actual revenues between 2010-11 and 2013-14. We will need to be satisfied that such forecasts are justified, fair and reasonable before draft determinations are applied.
- Confirm and explain any impacts to the RCM associated with choices companies made in respect of 2014-15 charges and commitments made to customers.

4.3.1 Forecast revenues for the measured non-household groups under and over the tariff basket threshold of 50 Ml (or 250 Ml)

In the RCM spreadsheet, the under and over 50 Ml (or 250 Ml) threshold input lines should refer to the measured non-household group below or above the 50 Ml (or 250 Ml) tariff basket threshold.

This is because we would expect any cross-boundary movements of revenue to occur in the groups that lie immediately either side of the tariff basket threshold. We expect the numbers to have been derived from the tariff basket model, on a K=K basis, which we used for PR09. Note that the tariff basket model held in Reservoir was on a K=0 basis. The company should populate the '091126 PR09 FD TBM Excel beta' file to generate the K=K basis to use as inputs to the RCM feeder model. This Excel beta file was included in the published FD09 documents on 26 November 2009.

3.3.2 Discount rates

The discount rate for PR14 is the vanilla wholesale WACC. The discount rate for PR09 should be the same as those published in FD09 supplementary reports for the respective company.

3.3.3 Corporation tax rate

The tax rate applied in the RCM models should be the same as HMRC's published tax rates for each year.

3.3.4 Industry assumptions

Companies should have used the industry assumptions set out in table 4 in their RCM spreadsheets.

Table 4 Industry assumptions for companies' RCM submissions

	Industry assumptions	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
BB4200	Corporation tax rate				28.0%	26.0%	24.0%	23.0%	21.0%
PB00113	FD assumption RPI	208.59	214.78	212.98	217.23	223.74	229.78	235.53	241.42
L10011	Efficient billing factor: proportion of average bill				42.0%	42.0%	42.0%	42.0%	42.0%
L10012	Proportion to maintain billing incentive				0.0%	50.0%	100.0%	150.0%	0.0%
L10013	Discount rate (PR14)								3.7%

3.4 Operating expenditure (opex) incentive allowance (OIA)

When updating their OIA proposals, all companies should:

- update the analysis to take account of actual opex and costs incurred in 2013-14 and any revised forecasts for 2014-15;
- update the analysis (where applicable) based on the constraining year, recognising that the 2013-14 year is the constraining year in the calculation;
- apply the appropriate effective tax rate and pension adjustments;
- provide a commentary to explain the calculation and company position given the actual operating cost data for 2013-14; and
- submit tables W16 and S16 in 2012-13 prices following the indexation method set out in the business plan table guidance.

The line definitions relating to logging up, down and shortfall adjustments to the final determination opex clearly set out that these adjustments should be post-efficiency. In their December business plans, many companies entered the same adjustments as those derived in the logging up, down and shortfall tables W13 and S13, which are pre-efficiency.

Companies should ensure the logging up, down and shortfall adjustments for opex derived in tables W13 and S13 are adjusted for FD09 operating efficiencies before being input into the opex incentive allowance tables W16 and S16.

3.4.1 Application of the constraining year outperformance

The constraining year in the OIA analysis is 2013-14. Outperformance should be constrained by the outperformance achieved within 2013-14. Outperformance is to be retained for six years, including the year in which it is achieved.

3.4.2 Pension adjustments

In their December business plans companies adopted differing approaches to adjusting their actual expenditure for pensions. The line definitions in the business planning guidance state that the purpose of this adjustment is to adjust actual expenditure to ensure comparability with FD09. At PR09, we made an allowance on a cash basis for defined benefit pension costs, both the ongoing service costs and pension deficit repair costs, but companies' actual expenditure includes the pensions charge on a FRS17 basis.

Our expectation is that companies would need to make an adjustment to convert the charge to cash in calculating any outperformance.

We expect companies to deduct the accounting charge included in opex in the regulatory accounts (the ongoing profit and loss charge based on FSR17), then add both the actual and forecast cash contribution (the ongoing service cash charge) and the actual and forecast cash contributions to deficit recovery.

Companies should review the pension adjustments they have made and be satisfied that these are fair and appropriate for the purposes of calculating any outperformance incentive allowance due to them.

3.4.2 Effective tax rate

On 23 September 2013, we issued updated guidance on the effective tax rate that should be used in calculating the OIA (Q14 refers). This confirmed that the actual effective tax rate for 2012-13 should be included for all years in AMP6 in tables W16 and S16. These figures are available on our website in additional data table 5 relating to companies' performance in 2012-13.

When updating their submissions the companies should update the OIA calculation with the effective tax rate for 2013-14.

Where the tax rate had a negative value in 2012-13 (and therefore was effectively a tax credit), companies substituted a zero value in their calculation. We consider this an acceptable and fair approach to take.

3.5 Change protocol

When updating their change protocol proposals, companies should:

- provide evidence and commentary to demonstrate FD09 outputs have been delivered (or are due to be delivered) in the 2010-15 period, and accurately reflect the companies' 2013-14 actual performance and 2014-15 forecasts;
- provide information on performance for the serviceability measures and outputs delivered in the 2010-15 period, reflecting the 2013-14 actual performance and 2014-15 forecasts (tables W21 and S21 are new tables created specifically to support serviceability draft determinations);
- provide commentary to explain the serviceability judgements for the whole 2010-15 period given the actual performance data for 2013-14 (through the application of the serviceability toolkit and guidance provided in section 2 of the FD09 supplementary report);
- where serviceability is less than stable, determine the size of any shortfall and set out in their commentary their justification for this being fair and reasonable;

- update change protocol claims to reflect 2013-14 actuals and forecast costs – providing companies with an opportunity to update changes in the investment programmes (tables W13 and S13);
- update overlap programme and transition investment tables to reflect 2013-14 actuals and 2014-15 and 2015-20 forecasts – providing companies with an opportunity to update changes in the overlap and transition programmes (tables W3a, W14, S3a and S14); and
- submit tables W13 and S13 in 2012-13 prices following the indexation methods set out in the business plan table guidance and using indices consistent with table A9.

Companies should update their proposed adjustments for each claim to take account of actual capex and opex incurred in 2013-14, and any revised forecasts for 2014-15. We do not expect companies to identify additional claims that did not form part of their original business plan, but if companies wish to include further claims in their updated tables they should provide a clear explanation and justification for these in their table commentary.

We expect companies to follow the business plan guidance which states that "companies should enter the net change in capex and opex from the pre-efficiency expenditure set out in the final determination supplementary reports".

Companies must provide assurance to ensure that any one- and two-sided adjustments that are made in the CIS reconciliation are both fair and appropriate.

When we set price controls in 2009, we set out both the changes in prices allowed over the 2010-15 period and the outputs that companies needed to complete. Where outputs were not met, we said we would adjust price controls at the next review. To reconcile a company's performance against its PR09 final determination, we require a company to state its performance against the outputs specified in section 2 of its FD09 supplementary report.

Companies that did this well provided:

- a separate easily-identified chapter or appendix on their AMP5 investment programme, identifying outputs delivered, those delayed or no longer required;
- a report on actual performance against the individual outputs stated in the tables in their supplementary report against actual performance, splitting performance into historic and forecast where relevant;
- information explaining any differences between the PR09 determination and actual performance; and

- outputs differentiated between different requirements within a supplementary report table (for example, differentiating between internal, 1 in 20 and external outputs and net reductions for the sewer flooding programme).

3.6 Capital expenditure (capex) incentive scheme (CIS)

When updating their CIS proposals, companies should:

- include updated actual capital expenditure data for 2013-14 and updated capital expenditure forecasts for 2014-15 and provide new populated CIS models to reflect this data;
- include a commentary on their CIS analysis, setting out the scale of any reward or penalty due on the performance, the scale of the revenue adjustments arising and how these are applied in the company's modelling of the 2015-20 allowed revenues and the scale of any RCV adjustments;
- ensure, where the revenue adjustments are spread over the 2015-20 period, that the profiled amounts are equivalent (in NPV terms) to the single year adjustment; and
- provide separate business plan tables and CIS models for the former areas where companies have merged since 2009 (where appropriate).

To help companies with revenue profiling, we have added a simple profiling tool in the latest version of the CIS model (published in the 'feeder models' area). Companies' business plans used various methods to profile revenue; some of these were not NPV neutral. Companies should satisfy themselves that the profiling they have selected is NPV neutral.

Companies should also note the following when populating the CIS true-up model:

- actual capital expenditure to 2013-14 (and 2014-15 forecasts) must match table W15 and S15. The price base in these tables is "outturn" and projected 2014-15 figures should reflect the inflation assumptions used in table A9;
- logging up/down inputs within the CIS true-up models should reflect items identified in table W13 and S13; and
- RPI and COPI details in section 4.1 must match table A9.

3.7 Other adjustments

When updating their proposals for other adjustments, all companies should set out:

- the basis of any tax adjustments, justifying the need for these and demonstrating these are appropriate given the overall company tax position;
- an account of differences between the RCV projections we made in 2009 and companies' outturn positions;
- if any, assumed costs of issuing new equity during 2015-20 should be returned to customers where these costs did not materialise and have not already been returned to customers (this only applies to the small number of companies we assumed would need to issue new equity);
- any tax benefits arising from in-period changes in capital structures;
- where additional smoothing of revenue has been undertaken companies should set out what and the benefit of this to customers, and demonstrate that this has been undertaken in an NPV neutral manner;
- an explanation of any further revenue adjustments that companies believe are appropriate – the company should provide evidence that these are justified alongside the legacy tools described above; and
- any operating cost adjustments associated with company specific criteria – the company should demonstrate why it considers these are appropriate under the PR09 methodology and justify that the costs are economic and efficient.

4. How we expect to reconcile 2014-15 performance as part of the price review in 2020

At each price review we have to deal with the fact that actual performance in the final year of the price control is not known until after we make our final determinations. For this price review, while companies must make a robust assumption of expected performance for 2014-15, we take actual performance into account in price controls from April 2020 where it is materially different from the assumed performance. This process applies for all companies including enhanced companies.

This mainly affects:

- the revenue correction mechanism – we will undertake a reconciliation in the summer of 2015;
- the change protocol and serviceability – we will review these in the summer of 2015; and
- the capital incentive scheme – this will be reconciled in the summer of 2016.

The revenue correction mechanism reconciliation will require companies to submit actual revenue information in the summer of 2015, which will be reconciled using the same legacy tools and mechanisms used within the price review. We will consult shortly on the appropriate mechanism for managing differences between actual and forecast wholesale revenue in the next regulatory period consistent with the basic form of wholesale control set out in our final methodology.

The change protocol and serviceability review will require companies to submit information identical to that sought through PR14 about the delivery of the FD09 outputs and serviceability measures for 2014-15. Any material differences between FD09 outputs and actual deliverables will then be reconciled through the CIS reconciliation in the summer of 2016. This reconciliation will not affect PR14 price controls and any changes (where material) will be applied through the following price review in 2019-20.

Finally, the CIS reconciliation will examine differences between outputs and costs against FD09 assumptions, taking into account final COPI indexation and will determine final rewards and penalties for the CIS, with final revenue and RCV adjustments being determined. Where these are materially different to those assumed at the PR14 final determination then the differences will be reconciled at the following price review in 2019-20.

Appendix 1: Summary of data submissions for 2010-15 performance

Table 5 below summarises for each group of companies when we require further information from them. An explanation of the table reference numbers is set out in table 11.

Table 5 Summary of information on 2010-15 performance requirements

Date	Enhanced companies	Companies seeking June draft determinations	Companies seeking August draft determinations
2 May 2014	Companies submit SIM data set A24 (fully assured).	Companies submit revised business plan, including • SIM data (A24); • 2010-15 adjustments – water data set (A7, A9, W3a, W13, W14, W15, W16, W17, W20, W21); and • 2010-15 adjustments – wastewater data set (A7, A9, S3a, S13, S14, S15, S16, S17, S20, S21). (Fully assured data required 2013-14 actuals and updated 2014-15 forecasts.)	Companies submit SIM data set A24 (fully assured).

<table>
<tr><th>Date</th><th>Enhanced companies</th><th>Companies seeking June draft determinations</th><th>Companies seeking August draft determinations</th></tr>
<tr><td>27 Jun 2014</td><td>Companies submit assured 2010-15 information, including:
2010-15 adjustments – water data set (A7, A9, W3a, W13, W14, W15, W16, W17, W20, W21); and
2010-15 adjustments – wastewater data set (A7, A9, W3a, S13, S14, S15, S16, S17, S20, S21).
(Fully assured data required 2013-14 actuals and updated 2014-15 forecasts.)</td><td></td><td>Companies submit revised business plan, including:
2010-15 adjustments – water data set (A7, A9, W3a, W13, W14, W15, W16, W17, W20, W21); and
2010-15 adjustments – wastewater data set (A7, A9, S3a, S13, S14, S15, S16, S17, S20, S21).
(Fully assured data required 2013-14 actuals and updated 2014-15 forecasts.)</td></tr>
<tr><td>15 Jul 2014</td><td colspan="3">Companies publish risk and compliance statements, performance reports and regulatory accounts.</td></tr>
<tr><td>Summer 2015</td><td colspan="3">Companies submit assured full 2010-15 information, including:
2010-15 adjustments – water data set (A7, A9, W3a, W13, W14, W15, W17, W20, W21); and
2010-15 adjustments – wastewater data set (A7, A9, S3a, S13, S14, S15, S17, S20, S21).</td></tr>
<tr><td>Autumn 2015</td><td colspan="3">RCM reconciliation, change protocol and serviceability adjustments for 2014-15 variations.</td></tr>
<tr><td>Summer 2016</td><td colspan="3">CIS reconciliation of rewards and penalties (to be reconciled at the next price review if material).</td></tr>
</table>

Table 6 Key for business plan table references in table 5 above

All services	Water service	Wastewater service
A7 – Adjustments to RCV from disposals of land	W3a – Water service transition investment	S3a – Wastewater service transition investment
A24 – SIM legacy performance	W13 – Water service logging up, logging down and shortfalls	S13 – Wastewater service logging up, logging down and shortfall
A9 – Inflation measures	W14 – Water service overlap programme	S14 – Wastewater service overlap programme
	W15 – CIS reported and projected actual expenditure for water service	S15 – CIS reported and projected actual expenditure for wastewater service
	W16 – Opex outperformance	S16 – Opex outperformance
	W17 – Revenue correction mechanism for the water service	S17 – Revenue correction mechanism
	W20 – Water service legacy reconciliation table	S20 – Sewerage service legacy reconciliation table
	W21 – Water service serviceability	S21 – Sewerage service serviceability

Appendix 2: Links to guidance, tables and models

During the price review process we have published a range of material that supports our work on 2010-15 actual performance. Table 7 below summarises relevant links for this.

Table 7 Summary of links and guidance relevant to 2010-15 performance

Area	Links
Summary of models and modelling suites	1. Feeder models page. Clicking on a model on the diagram will open into that model's user guide. On the last page of the user guide there is a hyperlink to the blank model Excel file. 2. PR14 method and modelling page.
Service incentive mechanism (SIM)	1. Our latest guidance can be found in 'Setting price controls for 2015-20 – pre-qualification decisions: Appendix 5 – Service incentive mechanism (SIM) for 2010-15 and 2015-20'. 2. Blank SIM feeder model. 3. SIM feeder model user guide.
Revenue correction mechanism (RCM)	1. RCM related published documents. 2. Blank RCM feeder model. 3. Revenue correction mechanism feeder model user guide.
Opex incentive allowance (OIA)	1. The opex incentive allowance methodology is set out in annex A of our PR09/04 letter to Regulatory Directors. 2. Business plan tables W16 and S16.

Area	Links
Change protocol (logging up/down, shortfalls and overlap)	1. 'PR09/38: Serviceability outputs for PR09 final determinations'. 2. Business plan tables W13, W21 and S13, S21. 3. The feeder model to CIS model is the legacy aggregation model. 4. The legacy aggregation model has two feeder models: • logging up/down/shortfall; and • overlap. 5. If there is no overlap programme then the values produced by the logging up/down/shortfall model will be the values that come into the CIS model.
Capital expenditure incentive scheme (CIS)	1. Blank CIS feeder model. 2. CIS true-up feeder model user guide. This version of the CIS model now includes the calculation to rebase the revenue adjustment to 2012-13 for use in the financial model. The CIS revenue adjustment result can be fed in to the financial model as a single year adjustment or profiled across the 2015-20 period. This version of the CIS model contains some options for profiling based on the methods observed in companies' business plans.

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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Photograph © Stockvault
Printed on 75% minimum de-inked post-consumer waste paper
April 2014

ISBN 978-1-908116-72-7

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

This document is also available from our website at www.ofwat.gov.uk.

OGL

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