



## Template for gap analysis for non-enhanced companies

As we explained in '[Setting price controls for 2015-20 – policy and information update](#)', which we published on 4 April, companies will need to submit a 'gap analysis' to us, either by 17 April if they are seeking a June draft determination or by 13 June if they are seeking an August draft determination.

This gap analysis should indicate all of the areas in their business plans they have revised, or intend to revise, ahead of submitting their revised business plan information. In carrying out this analysis companies should consider the information set out in the policy and information document and the associated documents, including our [internal methodology](#)<sup>1</sup> and the relevant scoring guidelines.

This analysis should be comprehensive and allow Ofwat to gain a clear understanding of how the additional information provided will:

- bridge the gaps identified in our risk-based review - whether by providing more evidence (and, if so, what type of evidence), increased assurance, and/or by adjusting the substance of their business plan proposals where required; and
- address issues raised by the risk and reward guidance, the other guidance and rules relevant to the 2014 price review (PR14) we have published since business plans were submitted in December, additional customer engagement (including with CCGs), or the availability of new information.

This gap analysis will form a useful basis for dialogue between companies and Ofwat. It will also help companies to consider whether a revised submission on 2 May will be feasible. For August companies, the gap analysis will help focus their effort and better target engagement with stakeholders.

We would like the majority of the gap analysis to be provided in the format shown by tables 1 (a to e) and 2 below:

---

<sup>1</sup> This sets out the principles applied when scoring the risk-based review tests and criteria and describes our detailed assessment methodology for each of those tests.

- in tables 1a, 1b, 1c, 1d and 1e, we ask that, for each element of the business plan subject to different price controls, companies assess the issues raised by the risk-based review and how they will be addressed in their revised business plan; and
- in table 2, companies should consider other changes they are proposing to their business plans as a result of the risk and reward guidance, the other guidance and rules relevant to PR14 we have published since business plans were submitted in December, additional customer engagement (including with CCGs), or the availability of new information.

Any further information provided in addition to these tables should be clearly referenced within the tables themselves.

**Table 1a Gap analysis highlighting issues raised by the risk-based review for wholesale water**

Wholesale water Risk-based review tests	Risk-based review criteria	Ofwat comment from risk-based review documentation	Proposed updates to company business plan			
			Business plan adjustment		Additional evidence (please elaborate/reference)	Additional assurance (please elaborate/reference)
			Nature of adjustment	Data tables affected		
1. Customer engagement and willingness to pay (WTP) evidence	1.1					
	1.2					
	1.3					
2. Performance commitments	2.1					
	2.2					
	2.3					
	2.4					
	2.5					
	2.6					
	2.7					
	2.8					
4. Wholesale cost assessment	4.1					
	4.2					
14. Adjustments to 2015-20 price controls	14.1					
	14.2					

**Table 1b Gap analysis highlighting issues raised by the risk-based review for wholesale wastewater (where applicable)**

Wholesale wastewater Risk-based review tests	Risk-based review criteria	Ofwat comment from risk-based review documentation	Proposed updates to company business plan			
			Business plan adjustment		Additional evidence (please elaborate / reference)	Additional assurance (please elaborate / reference)
			Nature of adjustment	Data tables affected		
1. Customer engagement and willingness to pay (WTP) evidence	1.1					
	1.2					
	1.3					
2. Performance commitments	2.1					
	2.2					
	2.3					
	2.4					
	2.5					
	2.6					
	2.7					
	2.8					
4. Wholesale cost assessment	4.1					
	4.2					
14. Adjustments to 2015-20 price controls	14.1					
	14.2					

**Table 1c Gap analysis highlighting issues raised by the risk-based review for household retail**

Household retail Risk-based review tests	Risk-based review criteria	Ofwat comment from risk-based review documentation	Proposed updates to company business plan			
			Business plan adjustment		Additional evidence (please elaborate/reference)	Additional assurance (please elaborate/reference)
			Nature of adjustment	Data tables affected		
1. Customer engagement and willingness to pay (WTP) evidence	1.1					
	1.2					
	1.3					
2. Performance commitments	2.1					
	2.2					
	2.3					
	2.4					
	2.5					
	2.6					
	2.7					
	2.8					
5. Retail cost allocation	5.1					
6. ACTS adjustments	6.1					

**Table 1d Gap analysis highlighting issues raised by the risk-based review for non-household retail**

Non-household retail Risk-based review tests	Risk-based review criteria	Ofwat comment from risk-based review documentation	Proposed updates to company business plan			
			Business plan adjustment		Additional evidence (please elaborate/reference)	Additional assurance (please elaborate/reference)
			Nature of adjustment	Data tables affected		
1. Customer engagement and willingness to pay (WTP) evidence	1.1					
	1.2					
	1.3					
2. Performance commitments	2.1					
	2.2					
	2.3					
	2.4					
	2.5					
	2.6					
	2.7					
	2.8					
5. Retail cost allocation	5.1					

**Table 1e Gap analysis highlighting issues raised by the risk-based review for whole company tests**

Whole company Risk-based review tests	Risk-based review criteria	Ofwat comment from risk-based review documentation	Proposed updates to company business plan			
			Business plan adjustment		Additional evidence (please elaborate/reference)	Additional assurance (please elaborate/reference)
			Nature of adjustment	Data tables affected		
13. Affordability	13.1					
	13.2					
15.Board assurance of a high quality business plan	15.1a					
	15.1b					
	15.2					

**Table 2 Gap analysis highlighting issues raised by the risk and reward guidance (which we published in January 2014), CCG engagement or availability of updated information**

Reason for proposed change		Proposed updates to company business plan			
		Business plan adjustment		Additional evidence (please elaborate/ reference)	Additional assurance (please elaborate/ reference)
		Nature of adjustment	Data tables affected		
Risk and reward guidance	Appointee weighted average cost of capital (WACC) (equivalent to the PR09 WACC)				
	Retail profit margins: household/non-household				
	Wholesale WACC				
	Outperformance				
	Uncertainty mechanisms				
Other additional Ofwat guidance and rules since December					
Further customer engagement since December					
Updated company information					