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By e-mail: PR14reconciliation@ofwat.gsi.gov.uk

Dear Tim,

Consultation on the PR14 reconciliation rulebook – WRFIM new formula

Thank you for sharing the revised formula for the WRFIM model. In our response to the Reconciliation Rulebook consultation we noted that there were two areas of concern with the WRFIM model:

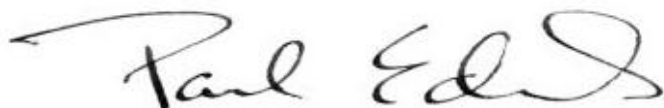
1. The inputs were light, not well defined and require alignment with the revised RAGs; and
2. The mechanism for rolling out/underperformance did not appear to have been implemented effectively.

Your 'potential solution' is a reasonable remedy to the latter and we are comfortable with the 'potential implications' you have noted.

A further potential issue has arisen, however, with the publication of "*Licensing and policy issues in relation to the opening of the non-household retail market – a consultation*", in particular proposal 9.3 that wholesalers publish "by July each year" indicative wholesale charges for the following year. The consultation considers that the indicative wholesale charges would only be adjusted for any discrepancy between the forecast and actual RPI. The 'potential implications' of adopting this proposal include reducing the confidence levels around the wholesale revenue forecast and may mean that the tolerance levels within the WRFIM mechanism would need to be revisited in order to maintain the incentives.

Please give me a call if you wish to discuss further.

Regards



Paul Edwards
Head of Economics & Charges