

Ofwat's approach for calculating CIS true up adjustments – flowchart

Inputs

- Company capital expenditure forecast from previous determination
- Baseline capital expenditure from previous determination
- Closing regulatory capital value (RCV)
- Final determination indexation assumptions
- Company claim of capital expenditure logged up/(down)
- Ofwat view of capital expenditure logged up/(down)
- Company forecast of capital expenditure in IDoK application
- Allowed IDoK capital expenditure
- Shortfalled capital expenditure
- Actual company capital expenditure
- Outturn indexation assumptions

Logic

Ex ante assumptions

- Allowance capital expenditure
- Ex ante company bid ratio
- Ex ante allowance ratio
- Ex ante additional income

Is there any adjustment to capital expenditure for change protocol IDoKs RUVKRUWIDQJ?

No

Yes

Calculate adjusted company forecast of capital expenditure
 = Company forecast of capital expenditure
 + Company forecast of capital expenditure in IDoK application
 + Company claim of logging up/(logging down)

Calculate adjusted baseline view of capital expenditure
 = Baseline capital expenditure
 + Baseline capital expenditure allowed in IDoK
 + Baseline view of logging up/(logging down)
 - Shortfalled capital expenditure

Calculate restated ex ante company bid ratio
 Divide adjusted company forecast of capital expenditure by adjusted baseline view of capital expenditure

Calculate outturn ratio
 (2007-08 prices using outturn notified index)
 Divide actual capital expenditure by adjusted baseline view of capital expenditure

Calculate ex post reward/penalty
 Adjusted baseline capital expenditure restated to 2007-08 prices (using outturn notified index)
 x % reward/penalty (as per CIS matrix)
 - Ex ante additional income

Calculate RCV adjustment
 Actual capital expenditure
 - Allowance capital expenditure (including IDoK) adjusted for FD COPI assumptions

Is there an IDoK adjustment or any agreed logging up/(down)?

Yes

No

Is there any shortfalled capital expenditure?

Yes

No

Calculate financing cost on under/overfunded gross capex
 = Capex under/overfunded (difference between actual capex in 2007-08 prices (using outturn notified index) and allowance capex (inc IDoK) in 2007-08 prices (using FD NI assumptions))
 x PR09 post tax rate of return (vanilla)

Calculate NPV of ex post revenue adjustment
 Future discounted value (as at 2014-15) of sum of ex post reward/penalty and financing cost of under/overfunded capex

Outputs

Midnight RCV adjustment

NPV ex post revenue adjustment