

Information notice

IN 15/17 December 2015



This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

Expectations for company reporting of 2014-15 actual performance against 2010-15 incentive mechanisms

This information notice sets out the way in which we expect the 18 largest appointed monopoly water-only and water and wastewater companies to report their actual expenditure and performance for 2014-15. We need this information to reconcile the rewards and penalties ('incentive mechanisms') they should face for their actual performance in 2014-15 and the whole 2010-15 period.

Background

Ofwat sets the price and service packages ('price controls') that each monopoly company must deliver every five years. Our process for doing this is known as a 'price review'. In the 2009 price review (PR09) we set price controls for the five years between 2010-15. In the 2014 price review (PR14) we set price controls for 2015 to 2020.

Our final decisions at PR09 ('final determinations') included financial incentive mechanisms designed to protect customers by encouraging companies to improve the quality and efficiency of their services and to manage uncertainty in 2010-15. We made adjustments to take account of each company's performance against these mechanisms at PR14.

The adjustments we made were based on actual company data for 2010-14. As

companies' actual performance in 2014-15 (the final year of the PR09 price control) would not be known until after we made our final determinations for 2015-20 (published in December 2014), the adjustments we made for 2014-15 were based on assumptions companies made about their expected performance. We committed to reconcile these calculations once data on companies' actual performance became available. We will take this into account when we set the price controls that will apply from April 2020 (the '2019 price review' (PR19)). This process applies for all companies including those companies that we categorised as 'enhanced' at PR14.

In '[The PR14 reconciliation rulebook](#)', which we published in July 2015, we set out how, at PR19, we expect to make adjustments to revenue and regulatory capital values (RCV) to reflect companies' actual performance during 2015-20. The reporting requirements that we

have published alongside this information notice are designed to collect the necessary information to achieve this.

The reconciliation will be performed for the following PR09 incentive mechanisms.

- Revenue Correction Mechanism (RCM).
- Capital expenditure incentive scheme (CIS).
- Change Protocol and overlap programme (to be included in the CIS reconciliation).
- Serviceability.

Companies will also need to report their actual 2014-15 expenditure on transition schemes (where they made early investment ahead of the 2015-20 period). We will obtain the information for the 2014-15 reconciliation of land sales from each company's regulatory accounts.

We said in '[The PR14 reconciliation rulebook](#)', which we published in July 2015, that 2014-15 RCM adjustments would be addressed through the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM). But following our additional consultation on the WRFIM in the reconciliation rulebook policy document, we are reconsidering these issues and we will publish further detail on this in early 2016.

Reporting requirements

In table 5 of '[Setting price controls for 2015-20 – further information on reconciling 2010-15 performance](#)', which we published in April 2014, we set out the revised business plan tables that companies would need to update

with fully assured information in order for us to reconcile 2014-15 performance.

The measures of inflation used in the reconciliations – Retail Price Index (RPI) and Constriction Output Price Index (COPI) – are common to all companies and are available from official publications. For these reasons we have not included table A9 in the tables we are asking the companies to update.

We confirmed in the PR14 Reconciliation rulebook that the service incentive mechanism (SIM) (table A24) did not require further adjustment.

So, the tables we require each company to provide are:

- W3a, W13, W14, W15, W17 and W21 (water service);
- S3a, S13, S14, S15, S17 and S21 (wastewater service); and
- R3 (Block E only).

We will send each company a template of the tables we need them to complete with 2014-15 data.

Assurance

Each water company's board are accountable for the quality and transparency of the information they provide on their performance. Companies should set out the assurance processes they have followed in providing the information required by this information notice. Companies should refer to our [company monitoring framework](#) for further information.

Next steps

We will send each water company their table template populated with the historic data from their revised business plan submissions. Companies are requested to provide commentary on their performance where they consider it relevant to our assessment.

The pre-populated data for actuals in the years 2010-11 to 2013-14 and 2014-15 forecasts is locked in the table template to prevent editing. The data is sourced from company business plans, but in some cases we have updated this in response to company representations or query responses made ahead of the final determinations. Companies should confirm their completed tables and that the historic data reflects their actual position in the associated commentary.

We expect companies to complete the tables with actual data for 2014-15. If companies consider data prior to 2014-15 should be amended, this should be set out clearly in the

table commentary with an appropriate level of explanation.

Companies should return their completed tables and associated commentaries and assurance statements to us by 29 February 2016.

We anticipate sharing the draft outcome of our analysis with companies in summer 2016.

Submissions

Companies should return their completed tables and associated commentaries and assurance statements to PR14reconciliation@ofwat.gsi.gov.uk by 29 February 2016.

Enquiries

If you have any questions about this information notice, please send them to PR14reconciliation@ofwat.gsi.gov.uk.

More information

[2009 price review](#) and [2014 price review](#) webpages and documents

[Setting price controls for 2015-20 – further information on reconciling 2010-15 performance](#), April 2014

[The PR14 reconciliation rulebook](#), July 2015

[Information and assurance](#) webpages and [monitoring and assuring delivery](#) report

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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