

February 2014

Setting price controls for 2015-20 – guidance on revised data table requirements for pre-qualifying companies



OFWAT

1 Introduction

This document sets out guidance for the revised business plan tables that we expect pre-qualifying companies to complete.

The [business plan tables we published in July 2013](#) covered the whole business plan – including wholesale and retail costs as well as outcomes and financial information. Our [risk and reward guidance](#) explained that pre-qualifying companies would not be able to propose any changes to wholesale or retail costs, and so only 30 of the original tables are included – relating to outcome delivery incentives and financial information.

These tables now include data validation. We have introduced this across the tables to allow us to assess revised plans quickly and with minimal queries to companies. This affects the tables in five ways.

1. Companies must complete all of the essential cells in the tables, even if these are zero. For the financial tables, this means that most lines must be completed.
2. Companies should complete the tables using numbers in the correct ranges specified by the table definitions – for example, expenditure in some tables should be shown as negative. This prevents some of the queries we had about data formats.
3. There are a series of cross-checks between the tables – which make sure that tables reconcile as a whole. This includes making sure that items such as revenue, borrowings, and trade payables/receivables are consistent between tables.
4. Some tables previously had blocks that could be repeated – for example, for each outcome, or for each proposed cost exclusion. Since we now know how many of these items companies are likely to propose in these tables, we have fixed the number of rows in each table and used expandable groups. For these repeating blocks, companies do not need to fill in every row; they can use as many blocks as they need.
5. We have included calculations (as Excel formulas) where the product is derived from cells elsewhere in the tables.

General guidance

Each pre-qualified company must resubmit all 30 tables (or 23 tables for water only companies), whether or not all or some of the table remains unchanged. Companies should mark any changes from the original business plan tables by changing the font colour to red.

The data must be entered into the [revised Excel template](#). For the validation checks to function correctly, macros will need to be enabled – the macros simply protect each worksheet while allowing companies to use the grouping/ungrouping functionality in the outcomes and other tables. We have also hidden some additional sheets within these tables for the purpose of loading this data to our systems.

Companies should only enter data into beige input cells, and should not enter additional columns or rows. For clarity, all other cells have been locked.

If companies need to enter more data than is allowed for in the tables (for example, more cost exclusions than allowed for in the table), they should contact their portfolio lead and we will send a new set of tables.

Companies should not submit their revised tables if the validation checks are showing errors. This would be highlighted on 'data validation checks' tab as orange cells or on individual tables as red. If companies believe that there is a good reason that the validation checks should not apply, they should contact their portfolio lead to explain this before submitting tables. Further information on the validation checks are set out below and in the following table specific sections.

Specific guidance for each set of tables is set out in this guidance document. These explain any changes from the original tables as well as giving specific information on the validation checks applied.

As set out in our risk and reward guidance, **pre-qualifying companies** should send their completed Excel table template along with any supporting information and commentary to price.review@ofwat.gsi.gov.uk by 10am on Monday 17 March.

Validation checks – guidance

Each table has validation checks built in, located to the right of the input cells. These test the data entered in the cells for each line, using four possible tests.

1. Completion errors – this checks to make sure that all required cells have been completed.

2. Formatting errors – for example, checking that numbers have been inserted instead of text. For all cells, zeros or blanks should be used rather than entering dashes or N/A.
3. Range errors – for example, checking that liabilities and expenditure have been entered as negative values where tables ask for this.
4. Consistency – this checks that there is consistency within and between tables. For example, that trade receivables are consistent between tables A11 and A12.

The blue cells to the right of the data entry cells display the number of cells on each line that are currently failing the validation tests. For example, the blank table A10 shows that there are five completion errors for each line (that is, the table hasn't been filled in for any year) but no errors for either formatting or ranges.

These errors are summarised in the 'data validation checks' sheet, which describes the error in more detail.

Water-only companies can use the drop-down box in the 'data validation checks' sheet to customise the validation checks to ignore wastewater lines. We do not expect water-only companies to populate the wastewater tables.

In addition to these checks, we have included Excel formatting for each cell to the correct number of decimal places. In particular, percentages should be formatted as a percentage in Excel (that is, the underlying number should be expressed as 0.5 or 50% rather than 50).

2 Outcomes tables

Table 1 Outcomes tables at a glance

	Data table	Contents
Wholesale water	W1	Outcomes, performance measures, and associated expenditure
	W2	Outcome delivery incentives
	W2a	Outcome delivery incentives - costs and benefits
Wholesale wastewater	S1	Outcomes, performance measures, and associated expenditure
	S2	Outcome delivery incentives
	S2a	Outcome delivery incentives - costs and benefits
Retail	R1	Outcomes, performance measures, and associated expenditure
	R2	Outcome delivery incentives
	R2a	Outcome delivery incentives - costs and benefits

The new outcomes tables contain the same lines as the original business plan tables, and should be completed in a similar way. There are several key differences.

1. For the water service, we have included blocks A to P for each outcome, allowing for ten performance measures for each outcome. For the sewerage service, we have included A to H for each outcome, allowing for eleven performance measures for each outcome. This reflects the maximum number of outcomes and performance measures submitted by companies in December. Companies should contact their portfolio leads if they expect to include more outcomes or performance measures than the table allows.
2. We have added grouping to the tables, so that the lines for each outcome can be maximised or minimised using the +/- buttons to the left of the table. This makes the table easier to view. Please note that we will include all data entered in these tables as part of the submission, whether it is sent maximised or minimised.
3. We have included validation which helps to explain which cells we require to be completed. For example, validation on table W1 requires that the name of each outcome and performance measure is completed if data has been filled in elsewhere in these lines. This should help companies to fully complete these tables.

4. The names of outcomes and performance measures in tables 2 and 2a are now linked to the titles entered in table 1, for each of water and wastewater. We have also linked other items that are consistent between these tables, such as the units, performance commitment levels, and 2014-15 starting levels. Companies should be consistent between these three tables – that is, outcome D should refer to the same outcome in all three tables.

In addition to these changes, we have included the capacity for up to two reward incentive rates and two penalty incentives rates in tables W2 and S2. We have also included capacity for up to five assessed performance levels in tables W2a and S2a. These are both based on the maximum number of incentive rates and performance levels proposed in business plans.

Our [risk and reward guidance](#) explained that pre-qualifying companies should only revise their proposals on performance commitments (tables W1 and S1) where this is necessary to support their revised ODIs. We do not expect companies to revise their totex allocated to each outcome.

Pre-qualifying companies are required to complete these new outcomes tables in full – even where the information has not changed from the original submission.

3 Wholesale tables

Table 2 Wholesale tables at a glance

	Data table	Contents
Wholesale water	W9	Wholesale forecast revenues
	W10	Cost recovery rates
	W11	Proposed costs excluded from cost assessment and menus
	W18	Weighted average cost of capital for wholesale water
Wholesale wastewater	S9	Wholesale forecast revenues
	S10	Cost recovery rates
	S11	Proposed costs excluded from cost assessment and menus
	S18	Weighted average cost of capital for wholesale wastewater

Our [risk and reward guidance](#) said that companies should not revise or resubmit information on totex and cost composition – so most of the wholesale tables are not required again with the exception of the following.

Tables **W9** and **S9** include details of wholesale revenues and capital contributions, and we would expect this to change with new assumptions about the cost of capital. These tables have been linked more closely with table A19, which builds up appointee revenue in much the same way as our financial model. We expect tables W9 and S9 to be consistent with the revenues included in this table.

These tables have been revised slightly to group some lines into ‘third party income’.

Companies should complete every line in these tables, even if these are zeros.

Tables **W10** and **S10** include companies’ proposals about regulatory capital value (RCV) run-off rates and PAYG ratios. In our risk and reward guidance, we explained that pre-qualifying companies could vary their PAYG and run-off rates in revising their plans.

These tables now also allow companies to choose between entering a single rate for five years, and entering an individual rate for each year in 2015-20.

Companies should enter either ‘Straight line’ or ‘Reducing balance’ in line 2 of this tables (no abbreviations).

Tables **W11** and **S11** include information about costs excluded from cost assessment and/or menus, but also costs affected by proposed uncertainty mechanisms. Our risk and reward guidance said that companies should not revise or resubmit information on totex and cost composition – and this includes cost exclusions and menu exclusions. But companies can revise their information on uncertainty mechanisms.

The revised tables should be completed in full, with **all** cost exclusions, menu exclusions and associated uncertainty mechanisms included – but companies should only change blocks relating to revised uncertainty mechanisms. It would be helpful if companies could set these out in the same order as in their December submissions, and using the same names – but this is not essential if there are reasons why this needs to change.

Companies do not necessarily need to complete any lines in this table (that is, if they are not proposing any cost exclusions, menu exclusions or uncertainty mechanisms). The validation checks test if any blocks are partially complete – for example, if they include a name but no information.

Tables **W18** and **S18** ask for information on the cost of capital, under both the companies’ actual and a notional structure. These should be completed according to the risk and reward guidance.

The validation checks require all cells to be completed with a number or percentage. We have added ‘percentage of index linked debt assumed’ as an extra line for the assumed notional structure, to help us to understand the assumptions companies have made.

4 Appointee tables

Table 3 Appointee tables at a glance

	Data table	Contents
Financeability	A1	Proposed price limits and average bills
	A2	Appointee financing
	A3	Wholesale tax
	A8	Financial ratios
	A10	Income statement
	A11	Balance sheet
	A12	Trade receivables
	A13	Trade payables
	A14	Cash flow statement
	A15	Fixed assets
	A19	Cost recovery
	A20	Scenarios
	A20a	Outcome delivery incentive impacts
	A22	Share capital and dividends
	A23	Debt and interest costs
Retail	R5	Household retail margins

Our risk and reward guidance explained that companies would need to provide sufficient evidence to demonstrate their revised business plans are financeable. This includes resubmitting most of the financial tables.

Table A1

This table collects information about revenues and average bills. This does not collect any new data but now links directly to table A19 for wholesale revenues.

Table A2

This table collects the projected RCV values for each year during the 2015-20 period. Companies should note that the 2014-15 RCV should be the figure at 1 April 2015 – that is, including any midnight adjustments.

Although we do not expect any changes to the opening RCV, changes to the PAYG rates could mean that the year-end values could change during the 2015-20 period.

Table A3

Following IFRS adoption/ UKGAAP transition to IFRS, we understand that the accounting treatment of certain grants and contributions will change, with most companies capitalising and amortising these.

As the tax treatment will follow the accounting treatment, we have added a line to table A3 to separately identify the amortisation of grants and contributions that will be taxed in the year.

Table A8

This table has not changed significantly, though we have added space for up to 20 financial ratios under the company's actual capital structure. Companies do not need to complete every line, but should complete the title, price base, units and decimal places for each ratio.

The financial ratios under the notional capital structure should reflect the notional financial position of the business taking into account the notional level of gearing and the notional weighted average cost of capital (WACC).

The notional financial position of the company should also take into account the cost of debt and the cost of equity embedded within the WACC.

As set out in our methodology statement, company's proposals for taxation should take account of debt interest payments by using the higher of the company's actual proportion of debt financing and the proportion of debt financing assumed in the notional capital structure, and should reflect the notional cost of debt.

Section A6.3 of our [risk and reward guidance](#) gave more details about how to calculate return on regulatory equity (RoRE) (line 23 of table A8).

Table A10

This table has not changed significantly, though we have added links to other tables:

- depreciation (line 4) is set equal to the movement in accumulated depreciation from table A15; and
- deferred tax (line 15) is set equal to the movement in deferred tax from table A11.

We have corrected the calculation for effective tax rate.

This table should be completed on a nominal price base, and should follow accounting conventions (that is, income should be positive and expenditure should be negative).

Table A11

This table has not changed significantly, though we have added links to other tables:

- tangible fixed assets (line 1) is set equal to the total net book value in table A15; and
- called-up share capital (line 29) is set equal to the same line in table A22.

This table also makes some validation checks that compare with other tables.

- The sum of trade receivables (current and non-current) should be equal to the sum of retail and wholesale trade receivables in table A12.
- The sum of trade payables (current and non-current) should be equal to the total trade payables in table A13 (multiplied by -1).
- The capex creditor (line 13) should be calculated from the capex creditor days in table A13 and fixed asset additions in table A15.
- The sum of current and non-current borrowings should be consistent with the debt lines in block A of table 23.

This table should be completed on a nominal price base, and should follow accounting conventions (that is, assets should be positive and liabilities should be negative).

Table A12

This table has changed since the original business plan requirements – rather than asking for retail debtor days directly, we have asked companies to provide more break-down. We have added a new block C which asks for revenues from

measured/unmeasured households and non-households. This is used to calculate retail debtor days in the new block D.

We have also moved the ‘measured income accrual rate’ lines from table A13 to table A12, and calculated these from the data in blocks A and C.

Table A13

This table has changed since the original business plan requirements – we have added lines on trade payables and advance receipts in block A in order to calculate the creditor days in block C.

We explained in our financial model rule book that we would assume no dividend creditors in 2014-15 – and so the business plan table reflects this assumption.

This table should be completed on a nominal basis. In order to make this table easier to complete and read, trade payables should be expressed as positive numbers (rather than negative).

Table A14

This table has not changed significantly, though we have added links to other tables:

- operating profit (line 1) is now linked to the same line in table A10;
- depreciation (line 2) is now linked to the same line in table A10 (multiplied by -1);
- changes in retirement benefits scheme provision (line 5, previously called ‘pension contributions’) is now linked to the movement in retirement benefit obligations in table A11; and
- changes in provisions (line 6, previously called ‘provisions’) is now linked to the movement in current and non-current provisions in table A11.

Note that lines 18 and 20 were previously linked to table A2 in the original table – but the change in price base for table A14 means that this link no longer holds.

This table should be completed on a nominal basis. We expect the capex lines in block F to be negative numbers.

Table A15

This table has changed since the original business plan requirements – we have asked for more information to allow us to calculate average asset lives. So the new blocks B and C ask for additions and disposals of fixed assets.

Our calculation of average asset lives in the financial model is set out in the validation tests for this table – that is: cost minus (additions divided by 2); all divided by the movement in accumulated depreciation. Our validation check allows a tolerance of 5% from this calculated figure for the average asset lives in block F – please explain any difference from this calculation.

This table should be completed on a nominal basis. We expect the fixed assets in this table to reconcile to the capex totals already submitted in tables W3 and S3 (though we do not expect these to be identical as they are in a different price base).

This table should be completed net of any assets which have been funded by grants.

Table A19

This table has changed significantly since the original business plan requirements, in order to make it simpler to understand.

Many of the same lines are included, but this data is now sorted into blocks for each control, with columns for each year – this is now consistent with other tables.

Block A sets out the wholesale water costs. These were included in the table before, except for line 7 for legacy adjustments. Although these are not costs, these adjustments should be made in order to calculate the wholesale charges and are one of the components that make up the wholesale controls.

Block B uses the third party, operating and other income from table W9. The financial model deducts this income from the revenue requirement when calculating the wholesale controls, and the table now reflects this treatment.

Block C asks for the breakdown of wholesale water charges into unmeasured and measured charges. This split already existed in table A19, but we have asked for additional splits into household and non-household to help us to assess the retail controls too.

We have added 'connection charges' in line 19 – this should include any connection charges treated as revenue in table W9, but not capital contributions (which are added in line 58 instead). The total of lines 13, 16 and 19 should equal line 20 (that is, the total of block A minus the total of block B).

Blocks G and H set out the retail costs. This includes the net margin, tax and interest (note that this is everything covered by the EBIT margin).

Block I sets out the revenues for each control (wholesale, retail household and retail non-household). These are calculated from the charges in the earlier blocks.

We have asked for the breakdown of retail revenues into measured and unmeasured components. These should sum to the total revenues for each retail control (and should not include wholesale charges).

Block J adds the capital contributions for connection charges back onto the revenue for each wholesale control. As we explained in the methodology statement, the wholesale controls will include these capital contributions – and this is consistent with the treatment in our financial model.

The total wholesale control lines in block K are used in table A1 to calculate wholesale controls. These include any legacy adjustments.

Table A20

Table A20 has changed since the original business plan requirements – as discussed in the [risk and reward guidance](#), this now only includes Block I (the combined scenario). There are also some minor changes since this table was resubmitted following queries in January 2014.

- We have added calculations in lines 10, 11, 48, and 49 to reflect the calculations already described for these lines.
- We have moved the individual outcome delivery incentive impacts to table A20a, leaving totals in table A20.
- We have added lines for financing performance impact.

Table A20a

This is a new table since the original business plan requirements. This table allows companies to enter the individual impacts for each outcome delivery incentive (ODI) – with the total impact used in table A20. This is consistent with the query in January 2014.

We have allowed space for 25 wholesale water ODIs, 25 wholesale wastewater ODIS, and 10 retail ODIs.

Table A22

This table has changed since the original business plan requirements – we have included new lines asking for the share premium and the total number of preference shares.

Table A23

This table has not changed since the business plan requirements.

Values should reconcile to the borrowings figures included in A11 (including both current and non-current liabilities) and should exclude any amounts which have been reported as derivative financial instruments.

Table R5

We have removed most of the lines in this table, as we do not need these revised. Lines 1 to 3 in the new table are consistent with the original business plan requirements, but the table now calculates the retail margin using new lines copied from table A19 (the household wholesale charge and household retail costs).

Line 7 calculates the household retail service revenue using the margin in line 6 and costs in lines 4 and 5, according to the formula shared at the [retail workshop in September 2013](#).

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.



Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7699
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

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

ISBN 978-1-908116-65-9

© Crown copyright 2014

You may reuse this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence v2.0. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/2> or email psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

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.



www.ofwat.gov.uk