



## PR14 financial model release note September 2014 (version 6.0)

### Summary

On 6 June 2014, Ofwat published version 5.0 of our PR14 financial model. Since then the model has been subject to development to reflect companies' usage of version 5.0 of the financial model and revisions made during the draft determination modelling.

This release note accompanies version 6.0 of the PR14 financial model.

### Changes

Changes to the financial model fall into the following main categories:

- 1) **Additional functionality.** Where we have added additional functionality to the model.
- 2) **Input adjustments.** Changes made to the model to enable us to make changes to the base inputs that are entered into the model.
- 3) **Refinements.** Changes made to the model as a result of reviewing the way in which companies used the model, clarity in policy implementation and to improve accuracy.

In the sections below we list the main changes to the financial model under each of the three headings.

**Table 1 Additional functionality**

Reference	Description	Worksheets affected
A15	Two additional post-financeability adjustments added, "Other tax adjustments" and "Other adjustments"	F_Inputs, F_Inputs Copy, Input Real, Input Nominal, Dashboard, Water Real AR, Waste Real AR
A16	Retained earnings error check augmented to include version that ignores opening debt adjustments on Adjustments sheet	Input Nominal
A17	Added average HH bill re-profiling section for Phase 8 at the bottom. These are hard-coded values which are pasted in at the end of Phase 8 and when 'Overwrite Bankable Profiles' is run	Exec Summary
A18	Inclusion of workflow for index-linked debt macro after PAYG updates	VBA ThisWorkbook_Activate, F_Inputs, Input Real and Input Nominal Deactivate, modConstants, modILDAj (ILDChange), modSolvingControl (ClearStage)
A19	Change to allow the index-linked debt tax adjustments to target taxable revenue rather than operating profit	Index linked debt macro
A20	New option to base Phase 1 and 2 opening recommended dividend (under dividend growth method) on Gearing input	Adjustments, Water Nominal, Wastewater Nominal, Wholesale Nominal

**Table 2 Input adjustments**

Reference	Description	Worksheets affected
B13	Interim Dividends F_Input relinking. Formulae on the adjustment sheets altered to ensure blank values flow through as blanks rather than zeros, and to ensure links flow to Input nominal correctly.	Adjustments, Input Nominal
B14	Updated formatting and tolerances of Section 12 Model Parameters	Input Nominal

**Table 3 Refinements**

Reference	Description	Worksheets affected
C46	EBIT less Current Tax charge (building blocks method) for financial indicators updated to include "Resource Grants" and "Income from Other Sources"	Water Nominal, Wastewater Nominal, Wholesale Nominal, Appointee Nominal, Appointee Fin Stats
C47	NHH Debtor days amended to feed off NHH Retail Service Revenue by Tariff calculated on RPO Checks sheet, not NHH Calcs, since revenues vary by Phase.	RPO Checks
C48	Removed ABS() on non-distributable reserves to be consistent with BPTs	Appointee Nominal, Wholesale Nominal, Water Nominal, Wastewater Nominal, Appointee Fin Stats
C49	Set opening trade debtor to be equal to sum of component parts of opening trade debtor on Adjustments sheet	HH Fin Stats, NHH Fin Stats
C50	Incorporated retail prepayments into other debtors, and removed retail prepayments line, to improve consistency of treatment of retail prepayments between opening balance and ongoing prepayments	Adjustments, F_Outputs
C51	Amended calculations for 6 ratios in Exec Summary for	Exec Summary

	columns 2015-20, 2020-25 and 2015-25. These include: Adjusted cash ratio cover; Funds from operations/debt; Retained cash flow/debt; Dividend Cover; Return on Capital Employed (RoCE) (Building blocks); and Return on Regulatory Equity (RoRE) (Blocking blocks).	
C52	Updated VBA in modConstants to add constant gcstrAvgHHBillPhase9 and gcstrAvgHHBillPhase8Fix, and in modRibbonTarget (tlbBankableProfile routine) to fix Phase 8 bill values	VBA modConstants, modRibbonTarget (tlbBankableProfile)
C53	Updates to user messages for resetting to Stage 1 and backtracking	VBA modUtils (checkBackTracking, CheckInputs)
C54	Addition of a final re-running of the Retail Phase Outputs after solving	VBA modSolving (NrSolve, NrSolve2)
C55	Amended calculations for 2015-20 and 2020-25 ratios for Return on Capital Employed (RoCE) (Building blocks)	Exec Summary
C56	Updated reference to point to total taxable profit including all prior phases	Index linked debt macro
C57	Regulated earnings : Regulated equity has been updated to reflect real interest on average net debt to be consistent with the return on regulated equity calculated under the building block method	Water Nominal Wastewater Nominal Appointee Nominal Appointee Financial Statements
C58	Default tariff margin Fountain codes updated to reflect the feeder model codes as opposed to Business Plan Template	F_Inputs
C59	Re-ordering of Fountain output codes to line item outputs	F_Outputs
C60	Water RCV 2024-25 (year average) included as an output	F_Outputs
C61	Model name and time stamp included as an output	F_Outputs



## PR14 financial model release note June 2014 (version 5.0)

### Summary

On 25 April 2014, Ofwat published version 4.0 of our PR14 financial model. Since then the model has been subject to further development to reflect feedback from companies and ongoing review of the model.

This release note accompanies version 5.0 of the PR14 financial model.

### Changes

Changes to the financial model fall into the following main categories:

- 1) **Additional functionality.** Where we have added additional functionality to the model.
- 2) **Input adjustments.** Review of the data submitted by companies in the BPTs indicates that they have taken different approaches to calculating individual data items. We have added override and adjustment lines to enable us to ensure that we can more closely reconcile the BPTs to the Financial Model calculations, and to enable us to more easily put companies on a notional basis.
- 3) **Refinements.** Changes made to the model as a result of reviewing the way in which companies used the model, clarity in policy implementation and to improve accuracy.

In the sections below we list the main changes to the financial model under each of the three headings.

**Table 1 Additional functionality**

Reference	Description	Worksheets affected
N/A		

**Table 2 Input adjustments**

Reference	Description	Worksheets affected
B12	New override on RCV additions asset lives added	Adjustments

**Table 3 Refinements**

Reference	Description	Worksheets affected
C28	Ratios re-ordered	Exec Summary
C29	Formula for the pre-tax return on RCV updated to trap possibility of a 'divide by zero' error	Exec Summary
C30	Revenue requirement building blocks updated to reflect Phase 9 on Exec Summary	Exec Summary
C31	Amendments made to remove local range names that existed for some debt overrides in the input nominal sheet	Input Nominal
C32	Retained earnings error check updated to reflect forced signage convention on Other Creditors in Adjustment sheet	Input Nominal
C33	Adjusted formula for interest cover interest ratio for Phases 2-9 to pick up Phase 2 RCV depreciation	Appointee Nominal
C34	Other Income (incl 3rd party income) presented in financial statements updated to include "Revenue Grants" and "Other Sources"	Water Nominal, Wastewater Nominal, Wholesale Nominal, Appointee Nominal

Reference	Description	Worksheets affected
C35	NHH Retail margin based on calculated, rather than input, share of Wholesale revenue.  "Updating Retail Outputs" macro amended to monitor RPO Checks sheet to confirm resolution of circularity between Wholesale and Retail.	Calc NHH; Retail Phase Outputs; RPO Checks
C37	New comparison check on total interest as a percentage of average debt added.	Appointee Nominal
C38	Memo calculation of what index-linked debt is as a percentage of opening net debt.	Input Nominal
C39	Correction to presentation of Phase 7 adjustments to real revenues in building blocks analysis	Exec Summary
C40	Change made to master error check on RPO Check sheet to handle unpopulated model	RPO Checks
C41	Updates to integrate with OFWAT fountain updates	"ThisWorkbook" VBA module
C42	Updates to manage issues with opening in protected view for some companies.	"ThisWorkbook" VBA module
C43	Updated calculation of EBIT less Current Tax charge (building blocks method) to include HH and NHH retail service expenditure	Appointee Fin Stats
C44	Removed netting off of some elements of other and operating income (which relate to land sales and rental income) from the wholesale charge	Input Nominal, Exec Summary, RPO Checks
C45	Two additional post-financeability adjustments added: "Other tax adjustments" and "Other adjustments"	F_Inputs, F_Inputs Copy, Input Real, Input Nominal, Dashboard, Water Real AR, Waste Real AR



## PR14 financial model release note April 2014 (version 4.0)

### Summary

On 7 April 2014, Ofwat published version 3.0 of our PR14 financial model. Since then the model has been subject to development to reflect feedback from companies on version 3.0 of the financial model and revisions made during the draft determination of enhanced companies. We would like to take this opportunity to thank all of those companies that responded with comments on the financial model.

This release note accompanies version 4.0 of the PR14 financial model.

### Changes

Changes to the financial model fall into the following main categories:

- 1) **Additional functionality.** Where we have added additional functionality to the model.
- 2) **Input adjustments.** Review of the data submitted by companies in the BPTs indicates that they have taken different approaches to calculating individual data items. We have added override and adjustment lines to enable us to ensure that we can more closely reconcile the BPTs to the Financial Model calculations, and to enable us to more easily put companies on a notional basis.
- 3) **Refinements.** Changes made to the model as a result of reviewing the way in which companies used the model, clarity in policy implementation and to improve accuracy.

In the sections below we list the main changes to the financial model under each of the three headings.



**Table 1 Additional functionality**

Reference	Description	Worksheets affected
N/A		

**Table 2 Input adjustments**

Reference	Description	Worksheets affected
B11	Retirement benefit obligations updated to allow for pension assets (i.e. a negative liability)	Adjustments

**Table 3 Refinements**

Reference	Description	Worksheets affected
C23	Apportionment of the wholesale charge and opening balances between Household and Non Household has been updated so that the calculation is drawn entirely from the A19 table (as opposed to A1)	HH Calc, NHH Calc, HH Fin Stats, NHH Fin Stats, Input Nominal, RPO Checks
C24	Additional outputs added to F_Ouputs allowed retail service outputs added C000726 to C00741	F_Outputs
C25	Other Income and Operating have been netted off from the wholesale charge figure that feeds into the retail section of the model	RPO Checks, Input Nominal
C26	Taxable profit adjusted for pension contributions to net off all 1) pension deficit repair allowances and 2) cash contributions in excess of charge ongoing. Pension DB contributions no longer netted off taxable profit but included in opex.	Water Nominal, Wastewater Nominal, Wholesale Nominal
C27	NHH controls revised to calculate from model wholesale charge as opposed to company BPT wholesale charge under default tariffs	Calc_NHH



## PR14 financial model release note April 2014 (version 3)

### Summary

In February 2013, Ofwat published version 2.0 of our PR14 financial model. Since then the model has been subject to development to reflect the revisions to the business plan tables (BPT) and feedback on version 2.0 of the financial model. We would like to take this opportunity to thank all of those companies that responded with comments on the financial model.

This release note accompanies version 3.0 of the PR14 financial model.

### Changes

Changes to the financial model fall into the following main categories:

- 1) **Additional functionality.** We have added additional functionality to the model. For example we have automated the index linked debt adjustments as part of the notionalisation process.
- 2) **Input adjustments.** Review of the data submitted by companies in the BPTs indicates that they have taken different approaches to calculating individual data items. We have added override and adjustment lines to enable us to ensure that we can more closely reconcile the BPTs to the Financial Model calculations, and to enable us to more easily put companies on a notional basis.
- 3) **Refinements.** Changes made to the model as a result of reviewing the way in which companies used the model, clarity in policy implementation and to improve accuracy.

In the sections below we list the main changes to the financial model under each of the three headings.

**Table 1 Additional functionality**

Reference	Description	Worksheets affected
A13	Tax effect on the change in allowed in revenue during reprofiling in phase 9, is not fed back into the allowed revenue.	Phase 9 - Water Nominal, Wastewater Nominal
A14	Pension deficit repair costs included in the revenue requirement separate to Totex. This is included as fast money.	F_Inputs, Input Real, Input Nominal, Water Real AR, Wastewater Real AR

**Table 2 Input adjustments**

Reference	Description	Worksheets affected
B5	'Trade and other payables' separated in to Trade payables and Other payables to align with revised business plan templates	F_Inputs, Input Nominal, Input Real
B6	Opening preference share balance input created to align with Balance Sheet feeder model	F_Inputs
B7	Updated the signage of Accumulated Depreciation in the first year to ensure consistency with F_Inputs	Input Nominal, Adjustments
B8	Included override on opex for water and wastewater	Input Real, Adjustments
B9	Replace input rows A1001 and A1002 with A19016ww and A19016ws respectively. These lines are used for the apportionment of Household water / wastewater revenues from total revenues. Household revenues are stated pre-legacy adjustments and including capital connection charges and wholesale charges, this change ensures the total revenues are on the same basis.	F_Inputs
B10	Share premium included in F_Inputs and broken back into the share price to enable Share capital on balance sheet to include share premium.	Input_Nominal, Adjustments, F_Outputs

**Table 3 Refinements**

Reference	Description	Worksheets affected
C15	Measured Income Accrual brought forward balances separated into Household and Non-household per business plan tables. New inputs created on F_Inputs	F_Inputs, Adjustments, HH Fin Stats, NHH Fin Stats, F_Outputs
C16	Amortisation of grants and contributions included for tax purposes into grants and contributions tabale on receipt	F_Inputs, Adjustments, HH Fin Stats, NHH Fin Stats, F_Outputs
C17	Updated checksum for Retained Earnings to account for the change in sign for Accumulated Depreciation, and the override changes applied to Other Creditors	Input Nominal, Adjustments
C18	Converted real dividend growth rate to be uplifted to a nominal dividend growth rate, see input nominal.	Input Nominal, Input Real
C19	Separated out other income and operating income to allow them to be netted off from revenue requirement	Input Nominal, Input Real, Exec Summary, Water Nominal, Wasterwater Nominak, Water Real AR, Wastewater AR
C20	Updated the recommended dividend under the growth method for phase 3 onwards to take into the net debt impact of the gearing adjustment	Exec Summary, Water real, Waste real
C21	Included limits on gearing bounds in solving algorithm	VBA
C22	Revenue grants and income from others updated to be netted off of the revenue requirement.  Revenue grants are no longer netted off average household bills on the Executive summary to avoid double counting issues.  Revenue from connection and infrastructure charges are added back to allowed revenue in addition to capital	Input Real, Dashboard, Exec Summary

contributions

Other sources income were previously not considered by the model.



## PR14 financial model release note February 2014 (version 2)

### Summary

On 17 October 2013, Ofwat published version 1.0 of our PR14 financial model. Since then the model has been subject to development to reflect the outcome of an Ofwat commissioned external review and the business plan table (BPT) submissions received from companies on the 2 December 2013. A number of companies have provided detailed feedback on version 1.0 of the financial model, and this feedback has been very useful to us. We would like to take this opportunity to thank all of those companies that responded with comments on the financial model.

This release note accompanies version 2.0 of the PR14 financial model.

### Changes

Changes to the financial model fall into the following main categories:

- 1) **Additional functionality.** We have added additional functionality to the model. For example we have automated the index linked debt adjustments as part of the notionalisation process.
- 2) **Input adjustments.** Review of the data submitted by companies in the BPTs indicates that they have taken different approaches to calculating individual data items. We have added override and adjustment lines to enable us to ensure that we can more closely reconcile the BPTs to the Financial Model calculations, and to enable us to more easily put companies on a notional basis.
- 3) **Refinements.** Changes made to the model as a result of reviewing the way in which companies used the model, clarity in policy implementation and to improve accuracy.

In the sections below we list the main changes to the financial model under each of the three headings.

**Table 1 Additional functionality**

Reference	Description	Worksheets affected
A1	<p>Included calculation of retail margins on an EBIT margins basis, rather than carrying this out in a separate model.</p> <p>Headroom check updated at the aggregate level to work with an EBIT margin.</p>	<p>Calc HH, Calc NHH, RPO checks</p> <p>Headroom check</p>
A2	<p>Included calculations to support financial indicators for:</p> <ul style="list-style-type: none"> <li>• Phase 8 Post financeability adjustments; and</li> <li>• Phase 9 re-profiling of allowed revenues.</li> </ul> <p>In Phase 8, the change in tax in response to the impact of the post-financeability adjustments is included as part of Allowed Revenue. In Phase 9, the change in tax in response to the change in Allowed Revenue as a result of re-profiling is not included in Allowed Revenue. Updated financial statements and tax reconciliation to reference additional phases 8 and 9, reflecting the inclusion of the additional phases.</p> <p>Whether it is a cash balance or an overdraft balance is now based on the cash brought forward figure in Phase 9, rather than Phase 7, reflecting the inclusion of the calculations to support financial indicators in phases 8 and 9.</p>	<p>Water Nominal, Wastewater Nominal, Wholesale Nominal</p> <p>Appointee Fin Stats, Tax Reconciliation</p> <p>Wholesale Nominal</p>
A3	<p>Included retail dividends to enable the retail business to dispose of any cash surplus/retained earnings build-up.</p>	<p>FS Extract, RPO Checks</p>
A4	<p>Comparison check between calculated and input opening retained earnings now carried through to Error Checks sheet and included as part of Master check.</p>	<p>Error Checks</p>
A5	<p>Included overrides to allow annual PAYG and run-off rate inputs as opposed to the single rate per AMP.</p>	<p>Input Nominal, Water Nominal, Wastewater Nominal, Water Real AR, Waste Real AR</p>
A6	<p>Index Linked Debt Macro: a macro is triggered when the Debt.Index.Adj named range is amended. This is to automate the manual tax adjustment that must be calculated to remove the impact of changing the opening index-linked debt on the allowed tax charge.</p>	<p>Input Nominal, Index Linked Debt Macro</p>

A7	New depreciation approach added that includes accumulated depreciation when calculating depreciation. A switch has been added to the Input Nominal sheet which is used to control this manually.	Input Nominal
A8	The number of NHH tariffs has increased from 30 to 60, in order to cope with the maximum number of tariffs revealed in the business plan submissions.	F_Inputs, Input Nominal, Calc NHH, Price Limits NHH, Headroom check, RPO Checks, F_Outputs
A9	Additional named ranges defined to support the Notionalisation process.	Input Nominal, Appointee Nominal
A10	Calculation of average bill now excludes revenue from connection charges and requisition grants	F_Inputs, Input Real, Exec Summary
A11	Integrated financial statements produced for HH and NHH retail. These replace calculations on previous sheets FS Extracts, Customer Cash In and Cashflow.	HH Fin Stats, NHH Fin Stats
A12	Option to automatically calculate NHH retail service revenue from margin on Wholesale charge now included. This option is only available when using the default tariff overrides.	Adjustments, Calc NHH, Retail Phase Outputs, RPO Checks

**Table 2 Input adjustments**

Reference	Description	Worksheets affected
B1	<p>Included overrides for:</p> <ul style="list-style-type: none"> <li>all opening debt balances, movements and interest rates (Section 6).</li> <li>all dividend lines (Section 7.2)</li> <li>single override for cash and overdraft interest rates, also applied to Retail</li> </ul> <p>These overrides enable different scenarios to be explored whilst preserving the original values on the F_Inputs sheet.</p>	Input Nominal



B2	<p>Adjustment sheet added to allow adjustments to be made to data submitted in BPTs. Adjustment lines exist for:</p> <ul style="list-style-type: none"> <li>• opening balance positions</li> <li>• global override for NHH revenue, NHH opex and NHH debtor days</li> <li>• override for interim dividends should the user wish to return a blank instead of zero. The blank will trigger the conditional override in the Input Nominal sheet.</li> <li>• override for trade creditor payable days</li> <li>• applying retail margin on retail opex and wholesale opex</li> <li>• creditor days and measured income accrual</li> <li>• measured income proportions and debtor day override</li> </ul>	Adjustments
B3	Input codes updated to reflect feeder model code changes.	F_Inputs, Input Real, Input Copy, Input Nominal
B4	<p>Absolute values formulae added to ensure inputs enter model with correct signage:</p> <ul style="list-style-type: none"> <li>• to absolute the RCV depreciation average asset life to cater for negative value inputs</li> <li>• to absolute the different totex figures (capex and opex) for water and wastewater</li> </ul>	Input Nominal, Input Real

**Table 3 Refinements**

Reference	Description	Worksheets affected
C1	A number of corrections have been made to formulae or labelling in response to review findings on the initial model, to address bugs in the initial formulae or labels. No change in the functionality of the model has been made as a result of these general changes.	General
C2	Updated calculation of EBIT less tax, it no longer deducts deferred tax, only current tax.	Water Nominal, Wastewater Nominal, Wholesale Nominal, Appointee Fin Stats

C3	Updated apportionment method for Other Creditors and Other Interest Receivable, to include default Water/Waste split if no drivers populated. Change prompted by review findings where test data showed the “no drivers populated” option had not been considered in the initial model.	Water Nominal, Wastewater Nominal
C4	Total retail costs on this tariff (excluding financing costs) for each tariff band replaced by the bottom up calculations of allowed revenue by band (charge multipliers x tariffs). Removed original inputs, now redundant, from the F_Inputs sheet.	F_Inputs, Calc NHH, Error Checks
C5	Measured income accrual (MIA) calculations simplified to use a Measured income %, removing the current calculated pro-rate assumption.	F_Inputs, Adjustments, HH Fin Stats, NHH Fin Stats
C6	Corrections to dividend capping formulae.	Appointee Nominal, Water Nominal and Wastewater Nominal
C7	Formulae corrections applied to avoid working capital interest charge being overstated in Retail. Affects opening retail balance sheet, and calculation of annual interest charges.	Retail sheets
C8	Amended RoRE financial indicator approach to interest (to real cost of debt * average net debt) and revised RoRE and RoCE financial indicators to use an amended EBIT calculation.  EBIT less Current Tax charge (building blocks method) used in calculation of financial indicators now includes retail depreciation.	Water Nominal, Wastewater Nominal, Wholesale Nominal, Appointee Fin Stats
C9	Revised Regulatory Equity/Regulated Earnings financial indicator to use the amended EBIT calculation.	Water Nominal, Wastewater Nominal, Wholesale Nominal, Appointee Fin Stats
C10	Opening fixed, floating and indexed link 2014-15 carried forward debt figures amended to pull from Opening position	F_Inputs, Input Real, Input Copy, Input

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	in 2015-16. These previously referenced Opening 2014-15. Update the labels to reflect "2014-15 closing debt figures" in the Input Real, Input Nominal and Input Copy sheets.	Nominal
C11	Trade and other receivables (Debtors.2015.Bf) remapped to match retail opening receivables.	Input nominal
C12	Corrected apportionment of tax interest charge in wholesale tax calculations.	Water real and Wastewater real
C13	Updated the customer numbers used in the average bills calculation to remove economies of scope factor.	F_Inputs, Input Real
C14	Additional types of 3rd party income included within "Other Income", now relabelled throughout model.	F_Inputs, Input Real