

# Information notice

IN 17/01 10 January 2017

ofwat

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.

## Allocation of RCV to water resources and bioresources at 31 March 2020

This information notice sets out our process for companies to consider their proposed allocations of the historic Regulatory Capital Value (RCV) between price controls at PR19. It provides advanced notice of our timetable for reviewing proposed allocations in advance of company business plan submissions.

### Background

The [May 2016 Water 2020](#) publication set out our decision to introduce a binding separate price control for water resources and bioresources at PR19.

This will inform, enable and encourage effective markets by revealing improved information that will help us to set better targeted incentives; support company decision-making; mitigate cross-subsidy concerns; and help to foster a more commercial culture and focus within companies.

We require an explicit Regulatory Capital Value (RCV) allocation at 31 March 2020 to enable the separate water resources and bioresource price controls. The nature of the water resource and bioresource controls and the related markets are different. This is reflected in the approach to how the RCV will

be allocated from the water and wastewater network plus controls.

The allocation of the RCV for the purposes of setting separate price controls does not imply any legal separation from the appointed company.

### Process

Each company will propose its own allocation and we will carry out a proportionate and risk-based review to ensure outcomes are in customers' interests. We plan to carry out initial reviews in advance of PR19 plan submissions.

We propose a different approach and timetable for water resources and bioresource that reflect the differences in assets and markets associated with these controls.

For the purposes of RCV allocation, we will use the upstream services definitions in [RAG 4.06](#).

## Water resources allocation of RCV

We confirmed in May 2016 that an unfocused approach represented the most appropriate methodology, in which the RCV allocation is based on the proportion of the assets used in the business relative to the total assets of the business.

There are a number of alternative approaches to the historic split of water RCV to water resources based on net Modern Equivalent Asset Values (MEAVs). Companies will need to consider the weight placed on information from alternative approaches. We will be publishing a technical note to provide guidance to companies on their approach to valuation in late January 2017.

We do not require companies to undertake a revaluation of their water assets for the purposes of RCV allocation.

Once we have published guidance on the water resource RCV allocation issues, we plan to hold meetings with companies to understand their approach to the valuation.

We do not intend to collect information on company proposals for their water resource RCV allocations until after draft Water Resource Management Plans have been developed. This will allow companies to fully consider the relationship between their RCV allocation and access pricing, water resource markets and wholesale tariff structures.

### Box A Water resources RCV allocation timetable

January 2017 – Ofwat publishes water resource RCV allocation technical guidance note.

April and May 2017 – Ofwat meet companies to understand its approach in response to the technical guidance.

July 2017 – Ofwat sets out the information we intend to collect alongside the Water 2020 methodology consultation.

End of January 2018 – Companies submit water resources RCV allocation information.

End of April 2018 – Ofwat provides feedback to companies on their allocation to inform their PR19 business plans.

December 2019 – Ofwat decision on RCV allocations as part of PR19 final determinations.

## Bioresource allocation of RCV

For the bioresource allocation of RCV we are taking a focused approach, where the RCV allocation is based on the economic value of the assets.

We intend to collect information from companies on the MEAV of their sludge transport, treatment and disposal assets and how this relates to its economic value in advance of the submission of PR19 business plans.

We will consult on guidance to inform company valuation of sludge assets. The valuation will be carried out as at 1 April 2017, with companies setting out assumptions of how they expect this to roll forward to 31 March 2020.

### **Box B Bioresources RCV allocation timetable**

Early March 2017 – Consultation on draft guidance.

Early April 2017 – Consultation closes on draft guidance.

Late April 2017 – Ofwat publishes final guidance.

By 29 September 2017 - Companies to submit bioresource asset valuation and RCV allocation and assurance information to Ofwat.

January 2018 – Ofwat provides feedback to companies on their asset valuation and proposed RCV allocation to inform their PR19 business plans.

December 2019 – Ofwat decision on RCV allocations as part of PR19 final determinations.

## **Enquiries**

If you have any questions about this information notice, please email [rcv.allocation@ofwat.gsi.gov.uk](mailto:rcv.allocation@ofwat.gsi.gov.uk)

## **More information**

[Water 2020: our regulatory approach for water and wastewater services in England and Wales](#), May 2016

[Regulatory Accounting Guidelines \(RAG\) 4.06](#), October 2016

[Targeted review of sludge and water resources](#), March 2016

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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