11 July 2017

Trust in water

Delivering Water 2020: consultation on PR19 methodology Guidance on business plan data tables

Supporting document to the proposed data tables

Ofwat

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About this document

This document consults on the draft business planning data tables and guidance we intend to use to set price controls at the 2019 price review (PR19). The tables support the PR19 methodology consultation.

We are seeking the views of all interested parties on the consultation questions below and welcome feedback on our data proposals by 30 August 2017.

Consultation questions

Q1. Are the business plan and data requirements clear and sufficiently specified?
Q1a. Are there any areas we need to look at again?

Q1b. Is there any data missing or included but not required?

Contents

1. Summary

In Chapter 13 Securing confidence and assurance of the PR19 methodology consultation, we set out our expectations for companies' business plans, data tables, company narratives and assurance and governance arrangements.

This supporting document contains a guide on our proposals for the business planning data tables that we intend to use for price limit setting in PR19. It sets out why we need to collect the information and how we will use it.

We expect companies' regulatory teams to have a keen interest in this guidance, as it helps further explain the basis of reporting in the proposed data tables.

We also expect the guidance to be of value to stakeholders such as the quality regulators and Customer Challenge Groups (CCGs). They will be able to see and comment upon the type and granularity of information we propose to collect for PR19.

We want to deliver a proportionate and targeted price setting process that focusses on key information supported by strong evidence that is both clearly explained and well-reasoned.

To do this, we need a consistent, accurate and assured set of information across companies to carry out analysis, run financial and feeder models and complete our assessments for each price control. We propose to obtain this information through a common set of data tables that we describe in sections 3 to 6 of this document.

Table 1 Summary Box – PR19 proposals for business plan information requirements

Proposal Topic	Our thinking and proposal
The supporting data tables	Companies should complete a full set of data tables covering each price control, together with suitable explanations and commentaries. Companies should highlight and explain any changes to previously reported data and explain the steps they have taken to communicate and reconcile such changes with their customers and stakeholders. Companies should ensure consistency between their business plan tables, the supporting feeder models and the financial model. Small companies are not expected to complete and submit the proposed tables.
Assurance and governance arrangements	Companies should provide evidence that the data and information provided within the plan has been subject to good assurance processes to ensure it is consistent and accurate.
Submission process	Companies will be able to complete their data tables, narratives and commentaries using our new secure data capture platform.
Expectations for transparency	Companies should publish the whole of their business plans and will need to provide very good reasons should they choose to excise information.

2. Introduction

Companies' business plan narratives will provide us, customers and stakeholders with a broad overview of what companies' proposals are for the 2020-2025 period.

But to carry out our initial assessment of their plans, assess their costs and outcomes and set different price controls through the use of our published financial model and other feeder models, we need consistent and reliable data.

We propose to collect this data along with associated commentaries, using the 100[1] data tables identified in this document and contained in the accompanying five excel files.

This document provides a guide to our proposals for the business planning data tables we will use for price setting in PR19. It includes specific descriptions of the data tables we consider are needed to set price controls for:

- water resources;
- water network plus;
- wastewater network plus;
- bioresources;
- residential retail activities for English and Welsh companies[2];
- business retail activities for non-exited English companies; and
- business retail activities for Welsh companies.

The document is structured around the following sections:

- the appointed business tables (section 3);
- the wholesale water service tables (section 4);
- the wholesale wastewater service tables (section 5);
- retail tables (section 6); and
- early information submissions (section 7).

For PR19, we are setting two additional price controls and our proposed cost assessment approach requires more information than in PR14. Although we are

[1] 100 tables for a water and sewerage company, 71 for a water only company,
[2] English companies are companies whose area of appointment is wholly or mainly in England, Welsh companies are companies whose area of appointment is wholly or mainly in Wales.

collecting more information than at PR14, we have sought to minimise data requests and focus the business plan data requirements to only that which we need.

We discuss the tables within key policy areas of costs, outcomes and customer engagement, risk and return, financeability and past delivery.

We have included a number of tables that collect information specific to reconciling companies' performance during 2015-20. These tables are consistent with the data requirements set out in the PR14 reconciliation rulebook published on our website.

For the first time we are consulting on the inclusion of two specific tables that explain the 2019 Final Determination across the water and wastewater services.

The purpose of these tables is to collect useful information across a range of environmental and customer focussed metrics, in a fully consistent and comparable way. Our aim is to be able to clearly explain to customers and stakeholders in England and Wales, at an industry level, what the 2019 Final Determination will deliver for customers and the environment over the 2020-25 period.

2.1 Basis of financial reporting

For 2017-18 and all subsequent years, we require that the regulatory accounting guidelines (RAGs) prevailing for that reporting year for companies' annual performance reports should be used. We consulted on these and will be publishing the final versions in autumn 2017.

For 2015-16 and 2016-17 the boundaries for price control units should reflect the latest version set out in the RAGs for 2017-18. Where we have introduced additional granularity over the period 2015-18 in the annual performance report, then companies should follow these requirements for all years.

For 2014-15 and earlier data, we expect the underlying financial data to follow whichever basis of reporting companies were using under the UKGAAP[3] regime in force at that time.

[3] UKGAAP stands for the Generally Accepted Accounting Practice in the UK (UK GAAP) and is the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC). A new financial reporting framework in the UK came into effect on 1 January 2015.

2.2 Information relating to the 2025-30 period and beyond

Some tables capture cost and other information for the 2025-30 period and beyond. We want to understand companies' long term ambitions and be able to assess affordability through the expected change in bills after 2025 and the impact of the companies' proposals for both current and future customers.

Being able to take a long-term view is important where incentives and cost recovery ratios in the current period can affect bills in future periods. Although we will not hold companies to account for the information they provide in these future years, we are seeking evidence that companies' business plans consider these impacts in the longer term.

2.3 Small companies

As described in section 13.5 of the PR19 methodology consultation, small companies with annual turnovers of less than £6.5 million, are not required to complete and submit the tables set out in this document.

2.4 Merged companies

We expect a single business plan from South West Water who acquired Bournemouth Water on 1 April 2016. But to carry out the reconciliations of the PR14 incentives, we will require those specific tables to be completed for the two former companies. This will ensure that the right rewards and penalties are applied, for example, from the different menu choices and Pay As You Go (PAYG) rates made at the time of the 2014 final determination.

For Severn Trent Water and Dee Valley Water, we require two separate business plans supported by separate data tables and commentaries.

2.5 Thames Tideway Tunnel

The Thames Tideway Tunnel (TTT) control that is within Thames Water to deliver its activities on the Tideway, requires the same inputs to the financial model as the wastewater network plus control.

We have identified ten specific tables that we consider Thames Water needs to complete for the TTT. We clearly indicate these in the relevant summary tables.

2.6 Publication of populated tables

We want companies to make their business plans accessible to us, customers, stakeholders and other regulators. We therefore expect them to publish the whole of their business plans including their populated tables at the same as they submit their plans to us. If a company considers some information should not be published, for example as it is commercially sensitive information, then the company will need to provide strong, robust reasons for this that are specific to the piece of information concerned.

2.7 Price base

The base year for the business plan is 2017-18.

The price base for financial cost information is either outturn (nominal) prices or base year prices indexed using the financial year average Consumer Price Index (including housing costs) i.e. 2017-18 prices FYA (CPIH adjusted). Each table confirms the price base of cost information contained within it.

3. The appointed business tables

Our draft proposals include 30 data tables for the appointed business.

Table 2 Appointed business tables

Policy area	Table number	Contents	Purpose
Outcomes and customer engagement	App1	Performance commitments (PCs) and outcome delivery incentives (ODIs)	Assessing outcomes and performance commitments
	App2	Leakage additional information and old definition reporting	
	App3	Abstraction Incentive Mechanism - surface and ground water abstractions under the AIM threshold	
	App4	Customer metrics (proposed)	
Summary	App7	Proposed price limits and average bills	Comparison with bill impacts
Risk and return and financeability	App8	Appointee financing	Financial modelling assumptions (financing)
	App10	Financial ratios	
	App11, 11a	Income statement based on the actual and a notional company structure	Financial modelling assumptions (accounting information)
	App12, 12a	Balance sheet based on the actual and a notional company structure	
	App13	Trade receivables	
	App14	Trade and other payables	
	App15, 15a	Cashflow based on the actual and a notional company structure	
	App16	Fixed assets	
	App17	Appointee revenue summary	
	App18	Share capital and dividends	
	App19	Debt and interest costs	
	App20	Cost of debt / analysis of debt	
	App23	Inflation measures	Input to cost, risk, reconciliation and financial models
	App26	Scenario sensitivities	Risk modelling
	App28	Developer services (wholesale)	Financial modelling assumptions
	App29	Wholesale tax	
Costs	App21	Direct procurement for customers	Project cost assessment

	App22	Pensions	Setting baselines (wholesale and retail cost assessment)
	App24 / App 24a	Input proportions and real price effects (RPEs) and productivity assumptions	
Past delivery	App9	Adjustments to RCV from disposals of land	Reconciling 2015-20 performance
	App25	PR14 reconciliation adjustments summary	

Notes
Tables App5, App6 and App27 are not used.
Tables App1 and App25 will be required for the Thames Tideway Tunnel control.

3.1 Outcomes and customer engagement

The outcomes and customer engagement tables, App1 to App4, collect relevant information on outcomes, performance commitments (PCs), outcome delivery incentives (ODIs) and supporting data, relating to all the price controls. At the last price review, PR14, we collected this information in tables at price control level. At PR19 we are proposing to collect this information in appointee-level tables.

Data table	Contents
AppValidation	Companies should select the company name from the drop-down list in row 2. This is used to display the company name at the top of the App1 to App4 worksheets. No other data should be amended on this worksheet – it contains the values used in the drop-down lists in tables App1 to App4.
AppPCview	Displays values for a single, specified PC. When the company PC reference is entered in cell A3, the worksheet will auto fill the PC and ODI data from table App1. This is followed by company-level PC and ODI totals. The worksheet defaults to printing on two pages (A3 landscape).
App1	Outcomes, PCs and ODIs
App2	Leakage additional information and old definition reporting
App3	Abstraction Incentive Mechanism (AIM)
App4	Common customer metrics on affordability, vulnerability and customer engagement

App1 – Performance commitments and outcome delivery incentives

This table collects information on the companies' proposed outcomes, PCs and ODIs. Companies can include as many outcomes as they need to and each outcome can have as many PCs as required. Companies should not make structural changes to the table.

The table has been designed to hold the detail for a single PC on one row. It is a similar format to the companies' outcomes, performance commitments and outcome delivery incentives spreadsheet that we publish each year, so companies should be familiar with the format. We have included a 'PC viewer' worksheet, to allow the details for a single PC/ODI to be viewed on one page. The viewer also includes some basic graphs and charts of the data.

Companies should provide a definition of their outcomes and PCs as part of their business plans, as well as demonstrate that the proposed PCs are appropriate for the outcome.

For each PC, companies should identify the appropriate unit used to measure performance and set out the historic performance (where data is available), proposed PR19 committed performance levels, and also their longer-term projections. For the common PCs, companies should use the measurement units that apply to the standard definitions.

Companies should include their committed performance levels for each PC, until the end of the next price control period (2024-25). Companies do not have to commit to a level of performance in each year (and so do not need to complete every cell), but each PC should have at least one PC level within the period. Companies should not set 'indicative only' PC levels – that is, PC levels that are not considered to be either met or not met at the end of the financial year. We expect companies to demonstrate that their PC levels are sufficiently stretching and reflect engagement with their customers and challenge from their CCGs.

Companies' performance commitments for 2020-25 should be supported by long-term projections for at least a further ten years. These projections will encourage companies to consider their long-term ambitions and will help customers and stakeholders engage on longer-term issues.

Allocation across price controls

Companies need to demonstrate how their PCs cover all their price controls[4]. A PC may be allocated over more than one price control if it is appropriate for the same performance levels to apply to each of the relevant price controls for all the relevant years.

Where a PC is allocated over more than one price control companies should explain clearly in the business plan commentary how the allocation has been derived. If performance levels are different at a price control level, there should be separate PCs.

We are consulting on setting a three-year price control for residential retail activities at PR19 to allow for the possible opening of the residential retail market in England during 2020-25. Therefore, companies in England should not allocate a PC with an associated financial ODI over more than one price control if it includes the residential retail price control.

The total allocation across the relevant price controls must equal 100%. For PCs with associated financial ODIs, these percentages will be used to allocate rewards and penalties across the price controls.

Retail performance commitments

We do not expect companies to propose any retail PCs for business customers that are able to choose their retail supplier. This applies to water companies operating wholly or mainly in England. For water companies operating wholly or mainly in Wales we expect those companies to propose PCs for the business retail price control.

Outcome delivery incentives

We want to make ODIs more powerful to better align the interests of company management and investors with those of customers.

[4] Water resources, water network plus, wastewater network plus, bioresources (sludge), residential retail, business retail, direct procurement for customers

Companies should propose the ODIs associated with delivering each PC in table App1. We require companies to provide information on the strength, form and duration of the proposed ODIs, as well as the frequency of performance assessment.

Incentive types

For each PC, the company should select which of the four incentive types is appropriate:

- no financial incentive;
- penalty-only financial incentive;
- reward-only financial incentive; and
- reward and penalty financial incentive.

For non-financial ODIs, companies are required to provide a reason why a financial penalty and/or reward is not appropriate.

ODIs usually apply to PCs and so different incentive types can be used for different PCs within a single outcome.

In-period versus end-of-period ODIs

For each financial PC companies will need to propose whether the ODI will operate in-period or end-of-period. We expect companies to use in-period ODIs as a default position for each financial ODIs. Companies who propose using an end-of-period ODI will need to justify why. Companies will also need to explain their overall balance between in-period and end-of-period ODIs in their business plans.

Frequency of assessment and application

Companies need to complete table App1 for the frequency with which performance will be measured, as well as the frequency that associated ODIs will be applied.

Companies should set out over which years, performance will be assessed and the PC levels in each of these years. Where performance is only proposed to be determined in one particular year of the price control period, companies should leave the PC fields blank in the other years. Companies should justify their approaches in such cases given that the default position is that companies should have financial ODIs and that these should apply in-period.

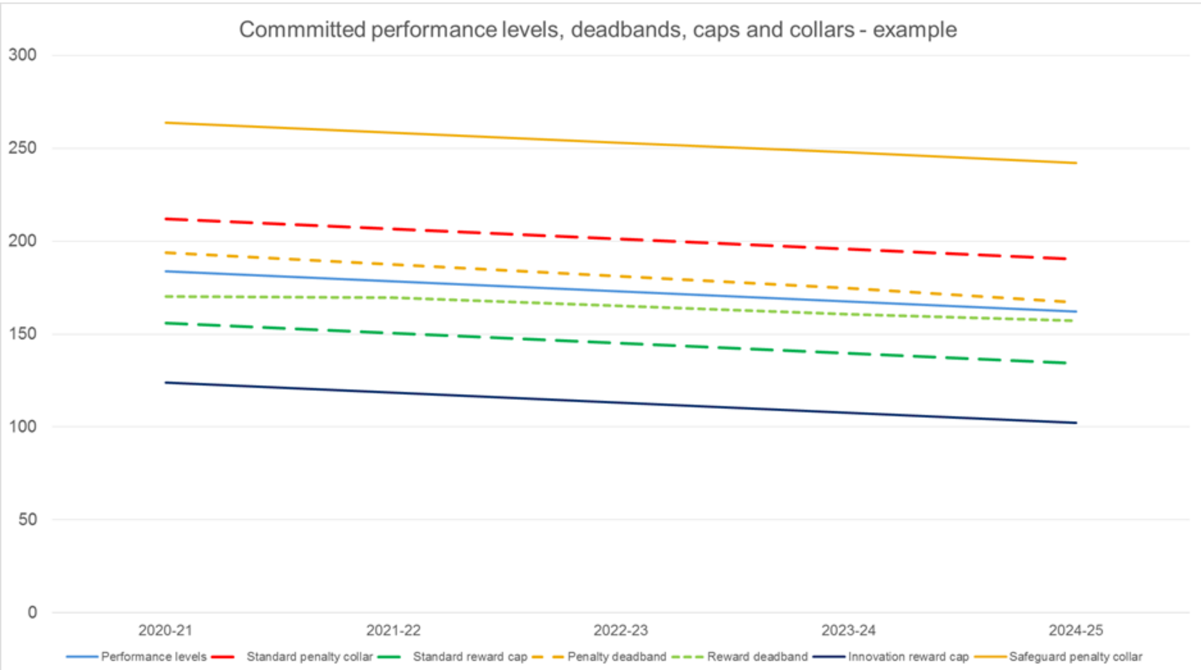
If performance is being monitored and measured by the company in a particular year we would expect it to set a PC level. This applies to all PCs including those with financial ODIs in years where an ODI will not accrue or apply.

Deadbands and caps and collars

Companies can propose 'deadbands' i.e. a range around the PC level in which no incentive rates apply. Companies will need to set out why their proposed approach is in the best interest of customers.

Outside the deadband range, the proposed incentives should apply automatically based on performance during the next price control period – subject to any limits on incentive size proposed by companies.

Companies can propose limits on the size of the individual ODI incentives: a cap on rewards and a collar on penalties. Appendix 2 Delivering outcomes for customers provides more detail on when individual ODI caps and collars might be appropriate.



Incentive rates

Companies complete table App1 with the financial incentive rates (if any) they are proposing at different levels of service delivery.

Table App1 allows for four incentive rates:

- The standard penalty rate – this applies between the penalty deadband and the standard penalty collar
- The standard reward rate - this applies between the reward deadband and the reward cap
- The enhanced penalty rate - this applies between the standard penalty collar and the enhanced penalty collar
- The enhanced reward rate - this applies between the standard reward cap and the enhanced reward cap

Appendix 2 Delivering outcomes for customers provides some guidance on how companies should calculate these penalty and reward rates. Companies should explain how they have calculated their penalty and reward rates taking account of our guidance.

Incentive units

Companies should set out the proposed incentive units for each PC for which a financial ODI is proposed to apply. Where the incentive rate applies only where there are discrete changes in service, such as for every 10 incidents, companies should also explain this.

Marginal willingness to pay and marginal cost

We are encouraging companies to use a wide set of customer information when setting their PCs and ODIs. However, we expect companies are likely to still use marginal stated preference willingness to pay and marginal cost information to set at least some of their PCs and ODIs. Companies should provide this information in Table App1, where they have collected it, to help with our assessment of how companies have set their PCs and ODIs.

Where companies have used wider customer preference information in setting their PCs and ODIs this should be explained in their business plan commentary on their PCs and ODIs.

App2 Leakage additional information and old definition reporting

Leakage additional information

The table captures additional information on leakage. At PR19 all companies will need to propose stretching PC levels for leakage based on the new consistent definition developed by companies working together, co-ordinated by Water UK and working with UKWIR. We supported this work. The information in this table will help us to assess whether companies have proposed stretching PCs for leakage over the price control period. Companies will need to follow our approach, set out in the Appendix 2 Delivering outcomes for customers, when proposing their leakage PCs.

Our leakage approach requires companies to propose leakage service levels at either a company level or regional level. Companies must provide leakage information at the same level of its proposed leakage service levels. Companies must justify why it has chosen regional or company service levels.

Table App3 requires companies to provide additional information to support their proposed leakage PCs using the new consistent metric. This includes:

- Water Resource Management Plan (WRMP) leakage projections;
- Lower, central and upper estimates of companies' sustainable economic levels of leakage (SELL);
- Leakage per property per day
- Leakage per km of main per day

We expect the move to reporting leakage using the new metric will have an impact on both the reported levels of leakage as well as companies SELL. Therefore we require companies to also provide this information using their old definition. Companies will need to explain what impact moving to the new consistent measure has on its reported leakage performance and trend. This will help us to understand the impact that moving to the new metric has on companies reported performance.

Reporting against old definitions

The table also includes additional information on common performance commitments for leakage, supply interruption and sewer flooding data based on old definitions. The information in this table will help us to assess whether companies have proposed stretching targets on their common performance commitments over the price control period.

Companies have been working together, co-ordinated by Water UK and supported by Ofwat, to develop consistent reporting guidance for three metrics (leakage, supply interruptions and sewer flooding) to help inform the setting of the performance commitments from 2020 onwards. UK Water Industry Research Ltd (UKWIR) commissioned an independent review of the draft reporting guidance to provide assurance of the definitions and finalise the consistent reporting guidance, which they are publishing on the same day as this methodology consultation.

Companies are calculating the following data for the first time against this consistent reporting guidance for 2016-17: leakage; supply interruptions; internal sewer flooding; and external sewer flooding. We will have limited historical data on the new consistent data to understand how performance is likely to change over time. Therefore, we require companies to provide us with information using their old definitions as well. We also require companies to explain what impact moving to the new definition has had on its performance trend compared to its old definition. This will help us to assess whether companies have proposed stretching performance commitments for the metrics with new consistent definitions.

App3 Abstraction Incentive Mechanism - surface and ground water abstractions under the AIM threshold

The abstraction incentive mechanism (AIM) has the objective of encouraging water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce. The AIM started in reputational form from **1 April 2016**.

The Guidelines on the abstraction incentive mechanism (Ofwat, February 2016) explain that in order for water companies to operate the AIM they need to:

- Identify the abstractions sites to which the AIM applies;
- Identify the trigger points for each AIM site;
- Identify the abstraction baseline for each AIM site;
- Capture abstraction data at each AIM site; and
- Report the data through their annual performance report.

Appendix 2 Delivering outcomes for customers provides further details on how companies should complete the steps above, including guidance on financial incentives for the AIM for 2020-21 to 2024-25.

Companies should complete table App3 with the required information for the AIM. This will provide customers, CCGs and us with transparent information on each company’s proposed approach to the AIM for 2020-25.

App4 Common customer metrics

Table App4 is used to collect metrics on affordability, vulnerability and customer engagement.

Affordability

We are proposing that companies provide data on measures to demonstrate the affordability of their plans. We are considering the use of common measures of affordability to provide greater transparency and to allow us to make comparisons between companies, taking into account differences between companies and the quality of the data. Table App4 collects data on our proposed common measures for affordability.

Vulnerability

In Chapter 3 Addressing affordability and vulnerability of the PR19 methodology consultation, we are inviting views on suitable common measures for addressing vulnerability and the associated benefits and drawbacks of these measures. Table App4 collects data on our proposed common measures for vulnerability.

Customer engagement

We are collecting one item on customer engagement. This is the number of customers companies have engaged with during PR19. The engagement is through all forms of customer engagement such as focus groups, surveys etc. We are collecting this statistic from companies because we were asked about the extent of customer engagement at PR14 and we want to have this figure available at PR19. We recognise that the raw number of customers engaged with is a simple metric and does not reflect the depth of engagement that occurred. We propose to use this figure for engagement and briefing purposes rather than assessment purposes.

3.2 Risk and return and financeability

We need to consider some elements of the business plans for each appointed company as a whole to enable us to meet our duties under Section 2 of the Water Industry Act 1991.

This includes the ability of efficient companies to finance their functions and the impact of company proposals on both the affordability and profile of customer bills.

To enable us to do this we are asking companies to provide us with certain information using both the Ofwat designated notional capital structure (including both gearing and financing costs) and their actual capital and financing structure.

We will test financeability at the level of the appointed business along with the impact on total customer bills, taking into account the overall outcomes for customers. We will also carry out a cross-check to make sure there is enough cash flow headroom in each wholesale and retail price control to allow each one to operate on a stand-alone basis

We have a primary duty to ensure that efficient companies can finance their functions. When setting price controls, we interpret this duty as having two parts:

- To allow an efficient company a return consistent with a cost of capital that takes into account the risk in a given price limit package.
- To allow price controls that provide an efficient company the revenues, profits and cash flows that are sufficient to allow it to raise finance on reasonable terms.

Our approach to financeability will assess whether revenues, relative to allowed costs, are sufficient for a company to finance its investment on reasonable terms, while securing the interests of customers now and in the long term.

This section explains the business plan table information we propose to collect to confirm that each company has a financeable business plan in the context of:

- risks being allocated to those best able to manage them; and
- risks being borne by the company and its investors being rewarded at rates commensurate with the risks concerned.

We will consider a company’s view of the potential risks facing its business. And we will make use of scenario analysis to look at the impact on the returns which the company may earn.

App7 Proposed price limits and average bills

This table shows the impact of the company’s business plan on residential customers, across all the price controls.

Block A contains a company's proposed revenues in each year from 2019-20 to 2024-25. Companies should input forecast figures for 2019-20, but for 2020-25 these are calculated from the associated revenue projection tables for each price control.

Block B contains a company's revenues but with the company's PR14 reconciliation adjustments included. These figures are copied directly from the revenue projection tables for each price control.

In Block C companies should input their proposed wholesale K factors for each wholesale price control and for bioresources, the average revenue requirement per tonne of dry solids.

Block D shows the average wholesale bills for residential customers for each price control. These figures are calculated from the revenue projection tables for each price control.

Block E shows the average residential retail bill for water and wastewater services. These figures should be derived from retail tables R1 and R5.

Block F calculates the average total residential bill for water and wastewater services.

Block G provides a summary of revenue at the total appointee level.

To meet our statutory duties, including our duty to have regard to the interests of customers with low incomes, we will evaluate whether companies' proposed total residential bills are affordable. To help in this assessment, companies should provide evidence showing that the proposed total residential bills are affordable for customers, including those on low incomes. They should also describe any efforts to mitigate affordability risks, including any social tariff scheme or schemes that currently apply or that they intend to apply during 2020-25.

In addition to this evidence, companies should provide information on the implications of their current spending plans for the affordability of future customers' bills after the current price control period. Several of the tables include information for 2025-30, which will use to examine the impact of choices made at this price review on bills beyond 2020.

App8 Appointee financing

This table contains a summary of financial information for which the majority is either copied from other PR19 business plan tables or is a calculated cell.

The table provides information about the opening net debt, equity dividends payable over the price control period and any cash flows relating to equity issues for use in the financial model.

We use this table to calculate the water and wastewater RCV closing balances at 31 March 2020 post-midnight adjustments and establish the 1 April 2020 opening balances for each wholesale price control. Thereafter the table summarises how the RCV develops over the price control period.

The RCV adjustments model is used to prepare the 2019-20 inputs in the required price base for the table.

App10 Financial ratios

This table sets out the information that we are asking companies to provide regarding their forecast financial metrics. These metrics are defined in Chapter 11 Aligning risk and return: financeability of the PR19 methodology consultation. Detailed calculations of each metric are also included in the published financial model.

We are asking companies to use these metrics to demonstrate how they are consistent with the target credit rating that underpins the business plan.

Companies should provide this information to on both the notional capital structure and each company's projected actual capital structure.

Companies may also provide further information to us, which may include the use of alternative financial ratio calculations in support of their plan and proposed target credit rating where appropriate.

For the avoidance of doubt, "funds from operations" is defined as cash flows from operating activities excluding working capital movements.

App11/11a Income statements based on the actual and a notional company structure

These tables contain the income statements in an IFRS[5] format based on the actual and a notional company structure. Companies will use their financial projections to populate these tables.

The terms and lines definitions are the same as those set out in the 'Income statement' contained in the Annual Performance Report (APR).

Companies' financial projections should be based on the RAGs that exist for the base year 2017-18 annual performance report. We have consulted on these and will be publishing the final versions in autumn 2017.

Signage should follow accounting conventions in that income should be positive and expenditure should be negative.

App12/12a Balance sheet based on the actual and a notional company structure

These tables contain the balance sheet in an IFRS format based on the actual and a notional company structure. They comprise companies' projected positions for 31 March 2019, with the remaining years coming from financial modelling projections. Balances should be as at 31 March.

The terms and lines definitions are the same as those set out in the 'Statement of financial position' in the APR.

Companies' financial projections should be based on the RAGs that exist for the base year 2017-18 annual performance report. We have consulted on these and will be publishing the final versions in autumn 2017.

Signage should follow accounting conventions in that assets should be positive and liabilities should be negative.

App13 Trade receivables

[5] IFRS stands for the International Financial Reporting Standards. These are accounting standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

This table is the analysis of the trade receivables figure from the balance sheet. It comprises companies' projected positions for 31 March 2020, with the remaining years from their financial projections. The total retail and wholesale trade receivables included in this table should match the trade and other receivables line in the balance sheet. The 'debtor days' figures for all years entered in lines 19-24 should be the same as companies have used to calculate the receivables figures.

Signage should follow accounting conventions in that assets should be positive and liabilities should be negative.

App14 Trade and other payables

This table contains an analysis of the trade and other payables and other working capital assumptions based on the actual company structure.

This table contains the company's projected position at 31 March 2020, with financial projections for 2020-25. The total sum of trade and other payables included in this table should match the sum of current liabilities in the balance sheet.

Signage should follow accounting conventions in that assets should be positive and liabilities should be negative.

App15/15a Cashflow based on the actual and a notional company structure

These tables are the cash flow statements based on the actual and a notional company structure. They are in part an IFRS format, but have been tailored to give categories that are commonly used in the water and sewerage sectors – in particular, in the breakdown of capital expenditure. Companies' will use their financial projections to populate these tables.

App16 Fixed assets

This table contains the fixed asset closing position for each year in the 2020-25 period, broken down between each wholesale and retail price control. For wholesale, fixed assets are also split between infrastructure and non-infrastructure assets. It contains the company's projected position at 31 March 2020, with financial projections for 2020-25.

App17 Appointee revenue summary

This table automatically calculates appointee level revenue based on revenues for the different price controls input in other tables within the business plan. The definitions for each line can be found in the appropriate lines in tables Wr3, Wn3, WWn5, Bio4 and R7.

RAG4, appendix 1 contains further detail on the basis of reporting of third party revenue, non-price control income from third parties and non-price control income from principal services. The income from charges calculated in this table should equal the wholesale revenue requirement less price control income from other sources.

App18 Share capital and dividends

This table contains information regarding the companies' share structure and its anticipated dividend policy which need to be input into the financial model. The financial model permits companies to apply three methods for calculating ordinary dividends as follows.

1. The growth method: the previous year's dividends multiplied by inflation plus real growth. In this method, companies should complete the opening ordinary dividend figure in line 8 for 2019-20 and the real dividend growth rate in line 10.
2. The distribution method: distributable profit for the year multiplied by percentage distributed. In this method, companies should complete line 11.
3. Ordinary dividends payable in each year are entered directly in line 8.

Companies can set interim dividends as a proportion of ordinary dividends by inputting a rate into line 13 or entering direct into line 8.

This table should be completed in nominal prices except for line 10 'Real dividend growth' which should be entered on real price basis i.e. 2017-18 Financial Year Average (CPIH adjusted).

If there is more than one type of share in issue, the nominal share value should be the weighted average nominal value of all the shares in issue at the year end.

Total equity dividends paid in the year as described in section B of the table should reconcile to line 2 of App8 Appointee Financing allowing for indexation.

We are treating preference shares as debt.

App19 Debt and interest costs

Companies are required to complete this table with their assumptions regarding the type and level of debt held and the associated interest costs which are reflected in their financial model. Debt should be categorised as fixed rate, floating rate or index-linked. The interest rates reported for the fixed rate and index-linked debt should be the coupon rate before indexation.

This table should reconcile to the borrowing figures entered in App12 Balance sheet and should exclude any amounts which have been reported as derivative financial instruments. If companies have capitalised any interest in any year, then this should be reported as debt issued during the year.

The interest rates reported for the fixed rate debt should be the coupon rate and for index linked debt should be the coupon rate (before indexation).

App20 Cost of debt / analysis of debt

This table updates our previous information request (May 2017) on companies debt instruments. Our guidance and the template are unchanged. Companies should update the information provided alongside the 2017 APR for debt instruments issued between 01 April 2017 and 31 March 2017, and debt instruments that have matured.

Basis of reporting

Companies should classify each item of debt on its statement of financial position as:

- fixed rate (block A);
- floating rate (block B);
- RPI index linked (block C); or
- CPI index linked (block D).

Companies should include a brief description alongside each item of debt to make it possible to identify the specific debt instrument used. In each case this description should provide the following details as a minimum:

- where available the instrument identifier (ISIN),
- where available the credit rating of each instrument,
- the remaining years to maturity,

- the coupon, and for floating rate instruments details of the market index to which the instrument is tied;
- the currency in which the debt is designated (if not in sterling), as well as any assumptions used around exchange rates to derive the instrument's sterling cost;
- whether the debt is subordinated (class A/class B); and
- any other significant information regarding the structure of the debt which is required to enable the nature of the debt instrument to be fully understood (for example, mezzanine funding).

For floating rate debt companies should report in the 'Reference Interest Rate' column the relevant reference rate as of 31 March 2018. Companies should also report separately what the reference rate is (e.g. LIBOR).

Companies may add as many rows as required to report all relevant debt instruments. Companies should not add any columns to the table.

Derivatives

We expect companies to provide details of all relevant financial derivatives. Where companies have used financial derivatives in a designated hedging arrangement (or economic hedging arrangement), we expect companies to report these together with the debt instruments to which the derivative(s) relate (i.e. report the debt instrument details net of the impact of the hedging arrangement). If companies are using any other financial derivatives, including for example interest rate swaps, inflation swaps or forex swaps not as part of a designated (or economic) hedging arrangement, we expect companies to report these separately.

Companies should include these swaps in the table by reporting both the paid and received legs separately in the appropriate lines. For all financial derivatives we expect companies to clearly report all relevant information, for example the date at which any derivatives expire, as well as any credit breaks and the frequency thereof.

Companies may (but are not required to) combine derivatives to simplify reporting where derivatives are of the same type and nature (e.g. two interest rate swaps with the same maturity). For the avoidance of doubt if companies are unclear or unsure as to whether combining derivatives is appropriate, companies should report each instrument individually.

Index linked debt and inflation

We have separated index linked instruments into RPI and CPI linked issuance.

We have included columns (‘Real RPI coupon’ and ‘Real CPI coupon’) for companies to report the relevant real CPI or real RPI coupon rate. Companies should also convert the rates of fixed and floating rate instruments into both real CPI and real RPI terms. For the purposes of these calculations we expect companies to use an assumption for RPI of 2.8% per year and CPI of 2% per year.

For the avoidance of doubt, by asking companies to report CPI linked instruments we are not indicating a preference for moving to CPI instead of CPIH for PR19. We are aware of some CPI linked issuance in the sector; we are unaware of any CPIH linked issuance. Therefore we do not consider it would be efficient to include space in the data table for companies to report CPIH linked issuance.

Additional clarifications

Companies should report all current (as of 31 March 2018) debt instruments (issued between 01 April 2017 and 31 March 2018) irrespective of maturity date. Where companies have forward starting instruments we expect companies to report these. Companies should report the start date in the start date column. Please note that this column only applies to forward starting instruments – we do not expect companies to report the start date of existing instruments.

Companies should also report all quasi-debt, including, for example, finance leases or preference shares. Operational leases that will be categorised as finance leases under IFRS16 should also be reported. As with forward starting instruments, companies should also report the date at which these leases will become debt instruments. Companies should indicate clearly using the ‘Further Information’ column if the debt instrument is an operational lease etc.

We do not require companies to report cash in this table.

We expect companies to report any revolving credit facilities in the relevant part of the table. Companies should report the interest rate of any such facilities; any additional ‘commitment costs’ can be captured in the column for unamortised issuance costs. The principal sum outstanding for any revolving credit facilities should reflect the amount drawn as of 31 March 2018.

If companies have any unamortised debt issuance costs which are included on the statement of financial position, and which are being amortised over the period of the debt, companies should include these in the relevant column and provide detail to explain these. Companies should also report any unamortised debt issue premiums or discounts alongside unamortised issuance costs.

If companies are using instantly callable debt instruments, they should classify these as loans due in less than one year (e.g. 0.1 years to maturity) and clearly indicate that the instrument is instantly callable.

Instruments with no fixed maturity date that are not instantly callable should be reported with a maturity of 25 years. Companies should also clearly indicate that this instrument has no fixed maturity date.

Companies should report all debt relevant to regulated company, even where this has been taken out by an associate or financing subsidiary. Inter-company loans should be matched with the relevant instrument at group level at the external borrowing rate (i.e. companies should report the relevant external rate not the intra-group rate). Companies should also report the relevant ISIN of the external debt instrument associated with the inter-company loan.

If it is not obvious how the instruments reported in this table align with a company's annual performance report or statement of financial position, we expect companies to clearly reconcile the two in the information they provide.

For amortising debt, companies should report the weighted average time to maturity, rather than the final maturity. Companies should clearly indicate where the debt instrument is amortising.

App23 Inflation measures

We confirmed in our May 2016 decision document Water 2020: Our regulatory approach for water and wastewater services in England and Wales that we will be changing our indexation for customer bills and companies' assets to a more legitimate measure of inflation, the consumer price index (CPI, or CPIH).

This table contains companies' assumptions about CPIH and RPI inflation during the current price control period and for the ten years 2020-30. This allows us to adjust the price base of business plans and compare across companies on a consistent basis – without prescribing assumptions about inflation.

We will provide published index numbers for each year from 2011-12 to 2018-19.

App26 Scenario sensitivities

As discussed in Chapter 10 Aligning risk and return of the PR19 methodology consultation, companies should have a good understanding of the key upside and downside risks affecting their business and how to model the impact of these. One way for companies to develop and demonstrate this understanding is through scenario analysis.

This table requests the minimum level of scenario data required as a result of running both a high and low case as variants of the main business plan. Companies may choose to model further scenarios as part of their business planning process and provide details of these in their business plan.

This modelling contains several distinct elements which are described in Appendix 13 Aligning risk and return. The purpose is to assess both the risks to which the company is subject and the balance of risk and reward between the company and its customers.

The table consists of seven key elements on which a sensitivity analysis should be carried out based on a P10/90 analysis of potential outcomes. The calculation of the Return on Regulated Equity (RoRE) is carried out within the financial model.

For the purpose of RoRE analysis, scenarios in the financial model are calculated off the notional gearing, which is consistent with the approach we adopt in guidance for monitoring annual performance.

Each required element appears as a pair in the table with a high and low case compared to the company's business plan e.g. water resources total expenditure (totex) in sections B (high case) and J (low case).

These upside case and downside cases are at the P10 and P90 levels relative to the company's business plan (which is assumed to comprise the 'base' case). For each sensitivity pair, we have specified a standard set of data requirements.

Unless otherwise specified in the definitions table, companies should provide information on the effects relative to the base case and provide accompanying commentary / rationale – if there is no impact, they should explain why.

The guidance notes in the table itself contain details about the sign conventions (+/-) that companies should use when entering the data in the table fields. Companies should pay particular attention to this to ensure the RoRE impact is calculated correctly.

In assessing the effects, companies should consider the full range of financial impacts for each scenario. This includes any direct impacts, but also take account of any efficient management responses to the relevant change in business conditions.

Companies should provide commentary to support their assessment. This should include details of any calculations used to estimate the impacts – for example, those relating to variations in customer numbers. The commentary should also describe management responses to the change in business conditions and any mitigation plans in place.

Companies should also explain their assumptions on how incentives are calibrated and make clear any assumptions regarding payment of rewards or penalties for totex, ODIs, Customer measure (C-MeX) and Developer measure (D-Mex) in their base case business plans further guidance on this is provided in Appendix 13 Aligning risk and return.

The table makes provision for companies to assume that some of the costs incurred (or saved) in the downside or upside scenarios are covered by uncertainty mechanisms such as interim determinations or the substantial effects clause within company licences.

App28 Developer services (wholesale)

This table collects actual and forecast expenditure and activity information on developer services. We will use forecast information on expenditure, charges and activity to inform our assessment of costs for the network plus price controls.

The table also asks for information relating to a company's future programme of network reinforcement to serve new developments. We will use this information to understand how this has informed forecasts of revenue to be collected through the new redefined infrastructure charges.

Blocks B, F and lines 10, 12, 26 and 28 are consistent with the information included in the 2017-18 Annual Performance Report currently under consultation.

App29 Wholesale tax

This table contains the assumptions used to drive the tax calculations in companies' financial projections.

Allowed tax will be calculated separately for water resources, water network, wastewater network and bioresources for the first time, as we will be setting separate price controls. Companies should separate the 'brought forward' pools in blocks A and B over the four controls.

For additions in the 2020-25 period, following feedback from companies we propose to move away from the simplified approach to calculating capital allowances used at PR14. Instead, to drive the capital allowance calculations, we require companies to supply the proportion of new capital expenditure for each control that qualifies for each of the following categories of general pool, long life pool, full deduction (100% pool) and no deduction.

In relation to deductible IRE we expect the tax calculation to reflect what is accounted for as operating expenditure. But we understand a minority of companies may have different arrangements with HMRC, so Block D in the table allows companies to include an adjustment if required.

3.3 Costs

Cost assessment is a critical part of PR19. It is important that the business plans put forward by companies are affordable and the interests of customers is protected.

So that we can set an independent baseline estimate of required expenditure to deliver proposed performance commitments, we need to collect information on costs and volumes for a range of expenditure drivers – both for the 2015-20 and 2020-2025 price control periods. We will use this information to establish efficient baselines.

At the appointee level, there are four tables containing information relevant to cost assessment which we discuss below.

App21 Direct procurement for customers

This table collects data on those projects companies consider are suitable for Direct Procurement for Customers (DPC). We expect companies to use direct procurement for customers for suitable enhancement schemes with a whole-life totex value of more than £100 million. Chapter 7 Targeted controls, markets and innovation: direct procurement for customers of the PR19 methodology consultation provides further guidance on potential direct procurement projects at PR19.

The table has capacity for companies to include 3 DPC schemes, but this may be expanded to include more schemes if required.

We require companies to report two categories of their costs in this table.

1. Pre-construction costs.
2. Tender and procurement costs for DPC schemes.

We also require companies to report the expect value of their payments to the successful bidder (i.e. the revenue stream) over each year in the 2020-25 period. We require this to assess the customer bill impact of DPC schemes.

Further guidance on our proposed direct procurement policy, including these cost types, can be found in Appendix 10 Direct procurement for customers.

For the avoidance of doubt we do not expect companies to include any costs for DPC projects in other data tables on PR19 costs. Companies should report all relevant costs in the table App21.

App22 Pensions

This table asks for actual and forecast pension liabilities for the period 2012-13 to 2024-25. The table allows us to understand the accounting charge for pensions in companies' regulatory accounts and model cash contributions to the scheme in our price controls. The information requests data for both on-going service costs and deficit recovery payments.

App24 Input proportions

This table asks companies to report forecasts of expenditure for the following input price categories for each price control:

- labour;
- energy;
- chemicals;
- materials, plant, equipment; and
- other prices.

We will use this information in our assessment of real price effects within cost assessment.

App24a Real price effects (RPEs) and productivity gains

This table identifies real price effects and productivity assumptions for each price control. We expect companies to provide evidence on how their assumptions were derived. We will use this information to set an ex ante allowance that reflects an efficient view of these assumptions, which will ensure allowances in the baselines are efficient.

Please note that where applicable, costs reported in the wholesale and retail expenditure tables[6] should **include** real price effects (RPEs) net of assumed productivity improvements. We will use the information provided in App24a and App24b to adjust cost data for modelling purposes. Companies should be clear that we will be expecting significant productivity improvements and these should be reflected in the business plans submitted.

3.4 Past delivery

In PR14 we set a series of incentive mechanisms. These incentive mechanisms will generate RCV and revenue adjustments for the next control period. The PR14 reconciliation rulebook explains how we will take account of performance over 2015-20, along with those factors not reconciled from the 2009 price review (PR09), at PR19.

The rulebook describes the approach to the reconciliation of the following mechanisms.

- Outcome delivery incentives – rewards for companies that stretch and meet performance targets and compensation for customers if performance is below performance targets.
- Wholesale totex sharing – where company over- and underperformance is shared with customers.
- Wholesale revenue forecasting incentive mechanism (WRFIM) – financial incentives for companies to make accurate forecasts, ensuring under- and over-recovery is reconciled.
- Residential retail – the total revenue allowance is adjusted for actual customer numbers.
- Final 2010-15 reconciliation – for performance against the PR09 incentive mechanisms.

[6] For wholesale water tables WS1 to WS10 and where applicable Wr1, Wr2, Wr7 and Wr8. For wholesale waste water tables WWS1 to WWS10 and where applicable WWn1 to WWn5 and Bio1 to Bio3. For retail tables R1 to R5.

- Land disposals – adjusting the RCV to share any proceeds from land sales equally with customers.

In addition the PR19 methodology consultation document describes the reconciliation for the service incentive mechanism (SIM).

At the appointee level, there are two tables containing information relevant to the PR14 reconciliation which we discuss below. Tables relating to other mechanisms are covered later in this appendix.

App9 Adjustments to RCV from disposals of land

This table derives the adjustment needed for the RCV for disposals of land expected in the current control period 2015-20. The benefits of such proceeds are split 50:50 between the company and customers (on an NPV neutral basis). Actual disposals for 2014-15 are compared to the estimate used in PR14 and the difference adjusted at 1 April 2020. Disposals of land include the creation of an interest or right in or over land – for example, the granting of leases and wayleaves. Proceeds from all such transactions are included.

App25 PR14 reconciliation adjustments summary

This table summarises all the adjustments arising from the final 2010-15 reconciliation and from each of the PR14 reconciliations of performance in the period ending 31 March 2020. The table copies values entered in the tables for each of the PR14 reconciliation mechanisms.

4 The wholesale water service tables

Our draft proposals include 18 data tables for the wholesale water service (prefixed WS), eight specific tables for the water resource price control (prefixed Wr) and five for the network plus price control (prefixed Wn). We discuss each table under the policy areas of costs, RCV allocation, risk and return and past delivery.

Table 3 Wholesale water service tables

Policy area	Table number	Contents	Purpose
Costs	WS1	Wholesale water operating and capital expenditure by business unit	Setting baselines (wholesale cost assessment)
	WS2	Wholesale water capital enhancement expenditure by purpose	
	WS2a	Wholesale water cumulative capital enhancement expenditure by purpose	
	WS3	Wholesale water properties and population	
	WS4	Wholesale water other (explanatory variables)	
	WS5	Other wholesale water expenditure	
	WS7	Wholesale water local authority rates	
	WS8	Third party costs by business unit for the wholesale water service	
	WS9	Wholesale water special cost factors	
	WS10	Transitional spending in the wholesale water service	
RCV allocation	WS12	RCV allocation in the wholesale water service	Financial modelling
	WS12a	Change in RCV allocation in the wholesale water service	
	WS12b	Wholesale water charges impact assessment	
Past delivery	WS13	PR14 wholesale revenue forecast incentive mechanism for the water service	Reconciling 2015-20 performance
	WS14	PR14 outcome delivery incentive reconciliation for the water service	
	WS15	PR14 wholesale total expenditure outperformance sharing for the water service	
	WS17	PR14 water trading incentive reconciliation	
Summary information	WS18	Explaining the 2019 Final Determination for the water service	External communication

Notes:
Tables WS6, WS11 and WS16 are not used.

Table 4 Wholesale water resource tables

Policy area	Table number	Contents	Purpose
Costs	Wr1	Wholesale water resources (explanatory variables)	Setting baselines (wholesale cost assessment)
	Wr2	Wholesale water resource opex	
	Wr3	Wholesale revenue projections for the water resources price control	Financial modelling
	Wr4	Cost recovery for water resources	
	Wr6	Water resources capacity forecasts	Form of control and access pricing for the bilateral market
	Wr7	New water resources capacity ~ forecast cost of options beginning in 2020-25	
	Wr8	Water resources forecast charging and equalisation payments	
Risk and return	Wr5	Weighted average cost of capital for the water resources control	Financeability tests

Table 5 Wholesale water network plus tables

Policy area	Table number	Contents	Purpose
Costs	Wn1	Wholesale water treatment (explanatory variables)	Setting baselines (wholesale cost assessment)
	Wn2	Wholesale water distribution (explanatory variables)	
	Wn3	Wholesale revenue projections for the water network plus price control	Financial modelling
	Wn4	Cost recovery for water network plus	
Risk and return	Wn5	Weighted average cost of capital for the water network plus control	Financeability tests

4.1 Water service costs (cost assessment)

Cost assessment is a critical of PR19. It is important that business plans put forward by companies are affordable and the interests of customers is protected.

We are requiring historic and forecast information. This will provide a continuous data set over a period of time, which will enable our view on the efficiency of costs for PR19.

We have worked with water companies, using working groups to develop data tables. Our tables for the Business Plan closely align with the Information Requests issued in 2016 and 2017. We are also aligning our tables with the Annual Performance Report (APR) for 2017-18 consultation published April 2017.

There are 14 tables containing information relevant to cost assessment which we discuss below.

WS1 Wholesale water operating and capital expenditure by business unit

This table asks for a breakdown of actual and forecast water operating expenditure and capital expenditure by business unit for the period 2011-12 to 2024-25.

The main purpose of this table is to identify atypical expenditure for wholesale water.

WS2 Wholesale water capital enhancement expenditure by purpose

This table asks for actual and forecast water capital enhancement expenditure and associated operating expenditure by purpose and split by business unit for the period 2011-12 to 2024-25.

WS2a Wholesale water cumulative capital enhancement expenditure by purpose

This table calculates cumulative values of actual and forecast expenditure based on the inputs to table WS2. Calculating cumulative totals allows us to relate spend by project to outcomes. Companies should report the cumulative total for projects completed. A simple example below demonstrates how it works.

	A	B	C	D	E	F
				20X1	20X2	20X3
		Start	Finish	Spend (£m)	Spend (£m)	Spend (£m)
1	Project A	20x1	20X2	6	1	
2	Project B	20X2	20X2		4	
3	Project C	20X2	20X3		2	8
4						
5	**Year Total**			6	7	8
6	**Cumulative Total**			0	11	10
7						

A company runs 3 projects (A, B and C) over 3 years (20X1, X2 and X3). If the company was reporting total year end capital expenditure for projects it would show the total for each reporting year – 20X1 £6m, 20X2 £7m and 20X3 £8m – as given in Row 5.

Reporting cumulative capital expenditure shows the cumulative spend for projects completed in the year.

For 20X1, no projects were completed so zero is reported.

For 20X2, 2 projects were completed (Project A at £7m and Project B at £4m), so £11m is reported.

For 20X3, Only Project C was completed, so £10m is reported.

Overlap schemes

Overlap schemes are projects on which capital expenditure is incurred across control periods.

In the case of expenditure incurred before the control period, any pre-control period capex will contribute toward the 'Cumulative Totals' but NOT the 'Year Totals'.

In the case of expenditure after the end of the control period, any within-control period spend will contribute toward the 'Year Totals' but NOT the 'Cumulative Totals.'

WS3 Wholesale water properties and population

This table asks for actual and forecast numbers of properties and residential and business properties along with activity information for the period 2011-12 to 2024-25. The table captures the physical characteristics of companies' wholesale water activities.

WS4 Wholesale water other (explanatory variables)

This table asks for actual and forecasts relating to maintaining a supply demand balance for the period 2011-12 to 2024-25. The table captures additional non-financial data which we will use in assessing costs.

WS5 Other wholesale water expenditure

This table asks for a breakdown of actual and forecast operating expenditure on wholesale water assets for the period 2011-12 to 2024-25. This information will be used to derive unit costs.

WS7 Wholesale water local authority rates

This table asks for actual and forecast business rates for the water service for the period 2012-13 to 2024-25. Companies are able to include additional lines to cover other types of adjustment to their wholesale water business rates.

WS8 Third party costs by business unit for the wholesale water service

This table collects actual and forecast data on third party costs by wholesale water business units for the period 2011-12 to 2024-25. We will use this information to assess financeability and to ensure these costs are excluded from our benchmarking models.

WS9 Wholesale water special cost factors

This table identifies any costs that the company considers should be excluded from comparative cost modelling (special cost claims). Companies will be able to provide details for up to 16 proposed costs that they think should be excluded from our comparative cost assessment modelling, the cost performance incentives or the general risk framework. These tables allow companies to provide some high level information on cost adjustment claims. Companies should consider the impact claims may have on their enhancement status under the Initial Assessment of Plans (IAP) stage of PR19.

WS10 Transitional spending in the wholesale water service

This table allows companies to identify any accelerated (or transition) water capital expenditure they would like to make in the last year of the current price control period (2015-20). Such expenditure must contribute to the early delivery of outcomes proposed for the next price control period (2020-25).

Transition expenditure can be associated with delivering any aspect of the future investment programme but must be compiled on the same basis, using the same process and approaches, as the forecasts of expenditure reported in tables WS1 and WS2.

Companies will need to provide independent assurance and justification to demonstrate that the schemes being put forward under this mechanism are efficiently associated with performance commitments to be delivered in the next price control period.

Wr1 Wholesale water resources (explanatory variables)

This table asks for information on explanatory variables relating specifically to water resources which we will use to develop cost assessment models.

Wr2 Wholesale water resource opex

This table provide further analysis of operating expenditure for water resources.

Wn1 Wholesale water treatment (explanatory variables)

This table asks for information on explanatory variables relating specifically to water treatment which we will use to develop cost assessment models.

Wn2 Wholesale water distribution (explanatory variables)

This table asks for information on explanatory variables relating specifically to water distribution which we will use to develop cost assessment models.

4.2 Other water service cost information

Wr3 Wholesale revenue projections for the water resources price control

This table breaks down total revenues that a company expects to receive in providing wholesale water resource services and cross checks this revenue requirement against the total income the company expects to recover from retail and business customers' charges.

The table also asks for projected income from 3rd parties and income from outside the price control associated with providing water resource services.

Block A, line 1 calculates water resource PAYG revenue based on forecast totex from table WS1 multiplied by the PAYG rate for water resources calculated in table Wr4.

Line 2 asks for projected revenue contributions to repair pension deficits.

Lines 3 and 4 ask for projected revenue based on the run-off and returns on companies' investment in the post 2020 RCV. Lines 5 to 8 ask for projected revenues based on the run-off and returns on the proportions of the RCV in place at 31 March 2020 that is indexed either by RPI or CPIH. Line 9 asks for projected tax and line 10 asks for the PR14 reconciliation adjustments associated the water resources. The total wholesale water resources revenue requirement is then calculated in line 11.

Block B contains just one line 12 and asks for other price control income from providing services to 3rd part services.

The lines in block C ask companies to include projected allowed revenue from measured and unmeasured charges. The overall total in line 17, should equal the total water resources revenue requirement in line 11 less the 3rd party income in line 12.

Blocks D and E asks for projected non-price control income associated with water resources. We have separated bulk supplies into two lines, distinguishing between revenue from qualifying agreements signed before or on/after 1 April 2020.

Block F asks for the element of grants and contributions associated with water resources for both price control and non-price control as reported in the developer services table App28.

Line 26 calculates the total price control revenue for the wholesale water resources control.

Wr4 Cost recovery for water resources

This table asks companies to provide their PAYG rates relevant to the water resources totex projected in table Wr3. These should be expressed as a percentage of totex forecast in each year.

It also asks companies to provide their proposed run off rates for both the proportion of the RCV which is indexed by RPI and the proportion of the RCV which is indexed by CPIH.

Totex expenditure which is not recovered in the period through PAYG is to be added to “Post 2020 Investment”. We are asking companies to provide run off rates for this too.

For each of the PAYG and run off rates which are included in the table we are asking companies to provide a breakdown of the proposed rate which should be analysed as follows:

- the “natural rates” - rates which reflect the economic substance of the investment;
- any adjustments companies consider are required to address issues arising from the transition from RPI to CPIH as the primary inflation index; and
- adjustments that companies wish to make to enable them to address or issues, including the smoothing of bills.

We are asking companies to provide annual figures for each PAYG and run off rate and to provide justification for the rates that they have chosen.

In respect of the run off rates companies could also confirm if they wish to apply these on a straight line or a reducing balance basis and to explain their choices.

The table asks for PAYG rates for 2020-25 and expected PAYG rates for 2025-30. The information for 2025-30 is required to help us assess the expected change in bills after 2025.

Wr6 Water resources capacity forecasts

This focuses on capacity forecasts for the water resources control and looks over a 25 year period consistent with water resources planning. The first part of the table summarises company level information for forecast water resources capacity which should be a sum of all company water resource zones (WRZs) across all of its licensed areas. The second part captures the breakdown of capacity forecasts across individual WRZs.

Wr7 New water resources capacity ~ forecast cost of options beginning in 2020-25

This table captures the forecast costs of options which are planned to begin (i.e. costs will be incurred) during 2020-25 and will increase water resources capacity. The table is on a WRZ basis and looks over a 25 year period consistent with water resources planning. Options to manage demand or leakage will not be related to water resources investment and do not need to be included in the table. The benefits, in terms of capacity and the costs of each option within the WRZ should be reported. This is then totalled for a WRZ view and to allow the annualised unit cost of post-2020 capacity to be calculated.

Wr8 Water resources forecast charging and equalisation payments

This table captures information on forecast future charges for water resources and indicative equalisation payments which form part of our approach to access pricing for the English bilateral market. These forecasts are required for a five year period consistent with the length of the water resources control.

Wn3 Wholesale revenue projections for the water network plus price control

This table is identical to table Wr3, except that it covers the water network plus price control and the run-off and return post 2020, is based on totex additions to the RCV.

Wn4 Cost recovery for water network plus

This table is identical to table Wr4, except that there is no totex to be recovered outside the PAYG rates relevant to water network plus assets.

4.3 RCV allocation in the water service

WS12 RCV allocation in the water service

This table allows companies to set out the roll forward of the net MEAV[7] and its proposal of the wholesale water RCV allocation.

Companies should consider the guidance provided in Appendix 8 Water resources legacy RCV allocation: initial submission when completing these tables.

WS12a Change in RCV allocation in the wholesale water service

This table asks companies to explain the differences between its proposed RCV allocation and that which it proposed in its initial submission in January 2018.

WS12b Wholesale water charges impact assessment

This table allows companies to provide information to help assess the potential impact on wholesale charges from its proposed RCV allocation.

4.4 Risk and return in the water service

Wr5 Weighted average cost of capital (WACC) for the water resources control

This table sets out company assumptions on the cost of capital for the provision of wholesale water resources. This should be set out on both a pre-tax cost of debt/post-tax cost of equity basis (vanilla) and a fully post-tax basis. Companies should provide this on the basis of:

- the company's actual capital structure which might, for example, be a more highly geared securitised structure; and
- an assumed 'notional' structure with levels of gearing consistent with their expectations of an appropriate capital structure.

[7] MEAV stands for the Modern Equivalent Asset Value and represents the cost of replacing water industry assets with those of similar capabilities.

In our final methodology we will set out details of both the notional capital structure and our view of the appointee and wholesale WACC for PR19. We will also set out our view on the WACC for each price control.

Companies should explain why there are differences between the cost of capital stated by Ofwat in the final methodology and the costs of capital for different price controls and/or between actual and notional capital structures (if any).

Wn5 Weighted average cost of capital for the water network plus control

This table sets out company assumptions on the cost of capital for the provision of wholesale water network plus assets. The format of the table is the same as Wr5 and so the same guidance applies.

Companies should explain why there are differences between the costs of capital for different price controls and/or between actual and notional capital structures (if any).

4.5 Past delivery in the water service

Part of PR19 will be the calculation of the reconciliation adjustments to take account of past performance and PR14 incentives. There are four tables containing information relevant to the wholesale water controls.

WS13 PR14 wholesale revenue forecast incentive mechanism for the water service

This table contains the water service inputs used for populating the PR14 WRFIM model and the penalties arising as calculated by the WFRIM model. The WRFIM model calculates in outturn prices and is converted to 2017-18 prices in the revenue adjustments model.

We expect companies to publish their populated WRFIM models with associated explanation with the regulatory accounts reporting in July 2018.

WS14 PR14 outcome delivery incentive reconciliation for the water service

This table contains the water service inputs used for populating the PR14 ODI model and the total reward / (penalty) arising as calculated by the ODI model. The ODI model calculates in 2012-13 prices and the adjustments are converted to 2017-18 prices in the revenue adjustments model and the RCV adjustments model.

We expect companies to publish their populated ODI models with associated explanation with the regulatory accounts reporting in July 2018.

WS15 PR14 wholesale total expenditure outperformance sharing for the water service

This table contains the water service inputs used for populating the totex menu model and the total reward / (penalty) arising as calculated by the totex menu model. The totex menu model calculates in 2012-13 prices and the adjustments are converted to 2017-18 prices in the revenue adjustments model and the RCV adjustments model.

We expect companies to publish their populated totex menu models with associated explanation with the regulatory accounts reporting in July 2018.

WS17 PR14 water trading incentive reconciliation

This table contains the water service inputs used for populating the water trading incentive reconciliation model and the penalties arising as calculated by the water trading incentive reconciliation model. The water trading incentive reconciliation model calculates in outturn (nominal) prices and is converted to 2017-18 prices in the revenue adjustments model.

We expect companies to publish their populated water trading incentive models with associated explanation with the regulatory accounts reporting in July 2018.

4.6 Summary information

For this review, we are seeking to obtain consistent information on which to clearly explain what the final determinations mean for customers and stakeholders in England and Wales. Rather than create this key information from the business plans after they have been submitted to us, we are proposing to collect the information in advance, in collaboration with the industry. That way, we can ensure consistency and comparability of the information when deriving the industry picture.

WS18 Explaining the 2019 Final Determination for the water service

In this table we have included some proposals for the water service focussed around the 4 key themes of PR19. We think customers and stakeholders would find these useful to explain what the final determination will deliver at an industry level.

The table includes actual delivery in years 2015-16 to 2018-19 for comparison with company forecasts for 2019-20 to 2024-25. Actual information should be consistent with the company's Annual Performance Report where relevant. For forecast information, we anticipate that companies will be able to populate many of the lines either from data directly input into other tables or from information contained within their narratives. We welcome views and suggestions on these initial proposals.

5 Wholesale wastewater service

Our draft proposals include 16 data tables for the wholesale wastewater service (prefixed WWS), seven specific tables for the network plus (prefixed WWn) and six for the bioresources price control (prefixed Bio). We discuss each table under the policy areas of costs, RCV allocation, risk and return and past delivery.

Table 6 Wholesale wastewater service tables

Policy area	Table number	Contents	Purpose
Costs	WWS1	Wholesale wastewater operating and capital expenditure by business unit	Setting baselines (wholesale cost assessment)
	WWS2	Wholesale wastewater capital enhancement expenditure by purpose	
	WWS2a	Wholesale wastewater cumulative capital enhancement expenditure by purpose	
	WWS3	Wholesale wastewater properties and population	
	WWS4	Wholesale wastewater other (explanatory variables)	
	WWS5	Other wholesale wastewater expenditure	
	WWS7	Wholesale wastewater local authority rates	
	WWS8	Third party costs by business unit for the wholesale wastewater service	
	WWS9	Wholesale wastewater special cost factors	
	WWS10	Transitional spending in the wholesale wastewater service	
RCV allocation	WWS12	RCV allocation in the wastewater service	Financial modelling
	WWS12a	Wholesale wastewater charges impact assessment	
Past delivery	WWS13	PR14 wholesale revenue forecast incentive mechanism for the wastewater service	Reconciling 2015-20 performance
	WWS14	PR14 outcome delivery incentive reconciliation for the wastewater service	
	WWS15	PR14 wholesale total expenditure outperformance sharing for the wastewater service	
Summary information	WWS18	Explaining the 2019 Final Determination for the wastewater service	External communication

Notes:
Tables WWS6, WWS11, WWS16 and WWS17 are not used.
Tables WWS2, WWS4, WWS9, WWS10 and WWS15 will be required for the Thames Tideway Tunnel.

Table 7 Wholesale wastewater network plus tables

Policy area	Table number	Contents	Purpose
Costs	WWn1	Wholesale wastewater sewage treatment operating expenditure	Setting baselines (wholesale cost assessment)
	WWn2	Wholesale wastewater large sewage treatment works explanatory variables and operating expenditure	
	WWn3	Wholesale wastewater network (explanatory variables)	
	WWn4	Wholesale wastewater sewage treatment (potential explanatory variables)	
	WWn5	Wholesale revenue projections for the wastewater network plus price control	Financial modelling
	WWn6	Cost recovery for wastewater network plus	
Risk and return	WWn7	Weighted average cost of capital for the wastewater network plus control	Financeability tests

Notes:
Tables WWn3, WWn6, and WWn7 will be required for the Thames Tideway Tunnel.

Table 8 Wholesale bioresources tables

Policy area	Table number	Contents	Purpose
Costs	Bio1	Wholesale wastewater sludge (explanatory variables)	Setting baselines (wholesale cost assessment)
	Bio2	Wholesale wastewater sludge treatment process and disposal routes	
	Bio3	Wholesale wastewater sludge opex	
	Bio4	Wholesale revenue projections for the wastewater bioresources price control	Financial modelling
	Bio5	Cost recovery for bioresources	
Risk and return	Bio6	Weighted average cost of capital for the bioresources control	Financeability tests

5.1 Wastewater service costs (cost assessment)

Cost assessment is a critical part of PR19. It is important that business plans put forward by companies are affordable and the interests of customers is protected.

Our approach for the wastewater service is the same as that described for the water service in section 4.1. We need to establish an independent baseline estimate of wastewater expenditure and will need accurate historic and forecast information on costs and volumes for a range of expenditure drivers to develop our cost assessment approach.

There are 17 tables containing information relevant to cost assessment which we discuss below.

WWS1 Wholesale wastewater operating and capital expenditure by business unit

This table asks for a breakdown of actual and forecast wastewater operating expenditure and capital expenditure by business unit for the period 2011-12 to 2024-25.

The main purpose of this table is to identify atypical expenditure for wholesale wastewater.

WWS2 Wholesale wastewater capital enhancement expenditure by purpose

This table asks for actual and forecast wastewater capital enhancement expenditure and associated operating expenditure by purpose and split by business unit for the period 2011-12 to 2024-25.

WWS2a Wholesale wastewater cumulative capital enhancement expenditure by purpose

This table calculates cumulative values of actual and forecast expenditure based on the inputs to table WWS2.

We provide additional guidance on this below.

Cumulative Total allows Ofwat to relate spend by Project to Outcomes. The licensee should report the cumulative total for projects completed. A simple example below demonstrates how it works.

	A	B	C	D	E	F
				20X1	20X2	20X3
		Start	Finish	Spend (£m)	Spend (£m)	Spend (£m)
1	Project A	20x1	20X2	6	1	
2	Project B	20X2	20X2		4	
3	Project C	20X2	20X3		2	8
4						
5	Year Total			6	7	8
6	Cumulative Total			0	11	10
7						

A company runs 3 projects (A, B and C) over 3 years (20X1, X2 and X3). If the company was reporting total year end capital expenditure for projects it would show the total for each reporting year – 20X1 £6m, 20X2 £7m and 20X3 £8m – as given in Row 5.

Reporting cumulative capital expenditure shows the cumulative spend for projects completed in the year.

For 20X1, no projects were completed so zero is reported.

For 20X2, 2 projects were completed (Project A at £7m and Project B at £4m), so £11m is reported.

For 20X3, Only Project C was completed, so £10m is reported.

Overlap schemes

Overlap schemes are projects on which capital expenditure is incurred across control periods.

In the case of expenditure incurred before the control period, any pre-control period capex will contribute toward the 'Cumulative Totals' but NOT the 'Year Totals'.

In the case of expenditure after the end of the control period, any within-control period spend will contribute toward the 'Year Totals' but NOT the 'Cumulative Totals

WWS3 Wholesale wastewater properties and population

This table asks for actual and forecasts of non-financial data for the period 2011-12 to 2024-25 which we will use in assessing costs.

WWS4 Wholesale wastewater other (explanatory variables)

This table asks for actual and forecasts of non-financial data for the period 2011-12 to 2024-25 which we will use in assessing costs.

WWS5 Other wholesale wastewater expenditure

This table asks for a breakdown of actual and forecast operating expenditure on wholesale wastewater assets for the period 2011-12 to 2024-25. This information will be used to derive unit costs.

WWS7 Wholesale wastewater local authority rates

This table asks for actual and forecast business rates for the wastewater service for the period 2012-13 to 2024-25. Companies are able to include additional lines to cover other types of adjustment to their wholesale wastewater business rates.

WWS8 Third party costs by business unit for the wholesale wastewater service

This table collects actual and forecast data on third party costs by wholesale wastewater business units for the period 2011-12 to 2024-25. We will use this information to assess financeability and to ensure these costs are excluded from our benchmarking models.

WWS9 Wholesale wastewater special cost factors

This table identifies any costs that the company considers should be excluded from comparative cost modelling (special cost claims). Companies will be able to provide details for up to 16 proposed costs that they think should be excluded from our comparative cost assessment modelling, the cost performance incentives or the general risk framework. This table allows companies to provide some high level information on cost adjustment claims. Companies should consider the impact claims may have on their enhancement status under the Initial Assessment of Plans (IAP) stage of PR19.

WWS10 Transitional spending in the wholesale wastewater service

This table allows companies to identify any accelerated (or transition) wastewater capital expenditure they would like to make in the last year of the current price control period (2015-20). Such expenditure must contribute to the early delivery of outcomes proposed for the next price control period (2020-25).

Transition expenditure can be associated with delivering any aspect of the future investment programme but must be compiled on the same basis, using the same process and approaches, as the forecasts of expenditure reported in tables WWS1 and WWS2.

Companies will need to provide independent assurance and justification to demonstrate that the schemes being put forward under this mechanism are efficiently associated with performance commitments to be delivered in the next price control period.

WWn1 Wholesale wastewater sewage treatment operating expenditure

This table asks for actual and forecast operating costs for sewage treatment works by asset size for the period 2011-12 to 2024-25.

WWn2 Wholesale wastewater large sewage treatment works explanatory variables and operating expenditure

This table asks for actual and forecast operating costs for the larger sewage treatment works by individual named works for 2017-18.

WWn3 Wholesale wastewater network (explanatory variables)

This table asks for actual and forecast information on companies’ network characteristics for the period 2011-12 to 2024-25. This information will support cost assessment modelling.

WWn4 Wholesale wastewater sewage treatment (potential explanatory variables)

This table asks for actual and forecast information on numbers of sewage treatment works and the loads received for the period 2011-12 to 2024-25. This information will support cost assessment modelling.

Bio1 Wholesale wastewater sludge[8] (explanatory variables)

This table asks for actual and forecasts of physical information relating to sludge operations for the period 2011-12 to 2024-25. This information will support the development of cost assessment modelling.

Bio2 Wholesale wastewater sludge treatment process and disposal routes

This table asks for actual and forecast information on sludge treatment processing for the period 2011-12 to 2024-25 which we will use to facilitate cost assessment modelling.

Bio3 Wholesale wastewater sludge opex

This table provides further analysis of operating expenditure for wastewater sludge.

5.2 Other wastewater service cost information

WWn5 Wholesale revenue projections for the wastewater network plus price control

This table is identical to table Wn3, except that it covers the wastewater network plus price control.

WWn6 Cost recovery for wastewater network plus

This table is identical to table Wn4 but covers the wastewater network plus price control.

Bio4 Wholesale revenue projections for the wastewater bioresources price control

[8] Sludge describes certain assets and certain sub-processes within the bioresources market which is consistent with the RAGs. Tables Bio1, Bio2 and Bio3 relates to these assets and sub-processes.

This table is identical to table Wr3 and as for water resources, projected revenues includes the run-off and returns on companies' proposed investments in bioresources post 2020.

Bio5 Cost recovery for bioresources

This table is identical to table WWn6. But as for water resource assets, asks companies to identify totex expenditure on bioresources which is not recovered in the period through PAYG but is to be added to "Post 2020 Investment."

5.3 RCV allocation in the wastewater service

WWS12 RCV allocation in the wastewater service

This table allows companies to set out its update of the net MEAV for bioresources and its proposal of the wholesale wastewater RCV allocation. It asks it to explain the differences between its proposed RCV allocation and that which it proposed in September 2017.

Companies should use the guidance provided in 'Economic asset valuation for the bioresources RCV allocation at PR19' when completing these tables.

WWS12a Wholesale wastewater charges impact assessment

This table allows companies to provide information to help assess the potential impact on wholesale wastewater charges from its proposed RCV allocation.

5.4 Risk and return in the wastewater service

WWn7 Weighted average cost of capital for the wastewater network plus control

This table sets out company assumptions on the cost of capital for the provision of wholesale wastewater network plus assets. The format of the table is the same as Wr5 for which the guidance is the same.

Companies should explain why there are differences between the costs of capital for different price controls and/or between actual and notional capital structures (if any).

Bio6 Weighted average cost of capital for the bio-resources control

This table sets out company assumptions on the cost of capital for the provision of bioresources. The format of the table is the same as Wr5 for which the guidance is the same.

Companies should explain why there are differences between the costs of capital for different price controls and/or between actual and notional capital structures (if any).

5.5 Past delivery in the wastewater service

Part of PR19 will be the calculation of reconciliation adjustments to take account of past performance and PR14 incentives. There are three tables containing information relevant to the wholesale wastewater controls.

WWS13 PR14 wholesale revenue forecast incentive mechanism for the wastewater service

This table contains the wastewater service inputs used for populating the PR14 WRFIM model and the penalties arising as calculated by the WFRIM model. The WRFIM model calculates in outturn prices and is converted to 2017-18 prices in the revenue adjustments model.

We expect companies to publish their populated WRFIM models with associated explanation with the regulatory accounts reporting in July 2018.

WWS14 PR14 outcome delivery incentive reconciliation for the wastewater service

This table contains the wastewater service inputs used for populating the PR14 ODI model and the total reward / (penalty) arising as calculated by the ODI model. The ODI model calculates in 2012-13 prices and the adjustments are converted to 2017-18 prices in the revenue adjustments model and the RCV adjustments model.

We expect companies to publish their populated ODI models with associated explanation with the regulatory accounts reporting in July 2018.

WWS15 PR14 wholesale total expenditure outperformance sharing for the wastewater service

This table contains the wastewater service inputs used for populating the totex menu model and the total reward / (penalty) arising as calculated by the totex menu model.

The totex menu model calculates in 2012-13 prices and the adjustments are converted to 2017-18 prices in the revenue adjustments model and the RCV adjustments model.

We expect companies to publish their populated totex menu models with associated explanation with the regulatory accounts reporting in July 2018.

5.5 Summary information in the wastewater service

As explained in section 4.6, we also want consistent information on which to clearly explain what the final determinations will deliver for wastewater customers and stakeholders in England and Wales.

WWS18 Explaining the 2019 Final Determination for the wastewater service

This table sets out some proposals for the wastewater service focussed around the four key themes of PR19. We welcome views and suggestions on these initial proposals.

6 Retail

Our draft proposals include 10 data tables associated with the retail price controls. We discuss each table under the policy areas of costs, risk and return and past delivery.

Table 9 Retail tables

Policy area	Table number	Contents	Purpose
Costs	R1	Residential retail	To set cost baselines and assess business default tariffs
	R2	Residential retail special cost factors	
	R3	Residential retail ~ further information on bad debt	
	R4	Business retail ~ Welsh companies	
	R5	Business retail ~ non-exited companies operating in England	
	R6	Business retail special cost factors	
	R7	Revenue and cost recovery for retail	Financial modelling
Risk and return	R8	Net retail margins	Financeability tests
Past delivery	R9	PR14 reconciliation of household retail revenue	Reconciling 2015-20 performance
	R10	PR14 Service incentive mechanism	

6.1 Retail costs

Guidance on retail cost assessment is the same as that explained in section 4.1 for the water service.

R1 Residential retail

This table asks for actual and forecast cost information on the residential retail market for the period 2017-18 to 2024-25.

R2 Residential retail special cost factors

This table asks for historic and forecast cost information for the period 2012-13 to 2024-25 associated with those costs a company considers should be excluded from our comparative cost modelling (special cost claims).

In Appendix 12 Securing cost efficiency of the consultation on PR19 methodology document, we set out the potential use of special cost claims and the need for companies to provide compelling evidence to support any proposed exclusions.

R3 Residential retail ~ further information on bad debt

This tables asks for a breakdown of debt management costs and outstanding revenues for the period 2012-13 to 2024-25. We will use this information to assess the efficiency of bad debt management practices.

R4 Business retail ~ Welsh companies

This tables asks for business retail information for companies who operate in Wales. We will use this information to assess business retail costs for our control.

R5 Business retail ~ non-exited companies operating in England

This tables asks for business retail information for non-exited companies who operate in England. We will use this information to assess business retail costs for our control.

R6 Business retail special cost factors

This table asks for historic and forecast cost information for the period 2012-13 to 2024-25 associated with those business retail costs a company considers should be considered as part of our assessment of business retail costs (special cost claims).

The table allows companies to provide some high level information on cost adjustment claims. Companies should consider the impact claims may have on their enhancement status under the Initial Assessment of Plans (IAP) stage of PR19.

R7 Revenue and cost recovery for retail

This tables asks for operating costs, revenues and financial items including tax and interest. We will use this information to understand margins in the retail markets.

6.2 Risk and return in retail

R8 Net retail margins

This table asks companies for information around retail margins. We will set out in our final methodology an indicative view on retail margins for both residential and relevant business retail activities at PR19. We discuss our approach further in Appendix 13 Aligning risk and return of the PR19 methodology consultation. The purpose of this data table is for companies to provide details of their proposed retail margins. If this differs from our initial retail margin that we provide alongside our final methodology, we expect companies to clearly explain why it is different.

6.3 Past delivery

Part of PR19 will be the calculation of reconciliation adjustments to take account of past performance and PR14 incentives. There are two tables containing information relevant to the retail control.

R9 PR14 reconciliation of household retail revenue

This table contains the inputs used for populating the household retail revenue reconciliation model and the penalties arising as calculated by the household retail revenue reconciliation model. The household retail revenue reconciliation model calculates in outturn (nominal) prices and is converted to 2017-18 prices in the revenue adjustments model.

We expect companies to publish their populated household retail revenue reconciliation models with associated explanation with the regulatory accounts reporting in July 2018.

R10 PR14 service incentive mechanism

We require companies to forecast their SIM score and ranking in 2018-19 in their business plans because this impacts on companies' bill forecasts. Final results for 2018-19 will be available during PR19 to inform the application of rewards and penalties.

We will require companies to forecast their SIM score and ranking in 2019-20 as this informs whether they have met their own performance commitments with reputational ODIs.

7 Early information submissions

As explained in section 13.5 of the PR19 methodology consultation, we are planning to collect some information before companies submit their business plans to us in September 2018. These submissions are summarised in table 10 below.

This will enable us and companies to improve the quality and consistency of data and resolve any queries more quickly. It will also help us to refine our methodologies and make an early start on key elements of the initial assessment of business plans.

Table 10 Early submission summary

Data required	Purpose	By when	How	Reference
2016-17 cost and explanatory variable information	To inform our cost assessment work.	15 July 2017	Separate information submission with the 2017 Annual Performance Report	IN17/03 'Expectations for monopoly company annual performance reporting 2016-17', February 2017
Debt costs	To help us analyse water companies' borrowing costs and provide an indicative cost of capital alongside our final methodology document.	15 July 2017	With the 2017 Annual Performance Report	Information request emailed to Regulatory Directors on 23 May 2017
Companies' proposed allocations of historical RCV for bioresources	To give companies feedback on their asset valuations and proposed RCV allocations (by the end of January 2018).	29 September 2017	Tables set out in 'Economic asset valuation for the bioresources RCV allocation at PR19', April 2017	IN17/01 'Allocation of RCV to water resources and bioresources at 31 March 2020', January 2017
Companies' proposed allocations of historical RCV for water resources	To give companies feedback on their allocations before they submit their business plans (by the end of April 2018).	31 January 2018	Separate tables set out in PR19 Draft methodology - Jan 18 RCV	
Companies' performance commitment definitions	To give companies feedback ahead of business plans, reducing ambiguity and improving consistency.	3 May 2018	Document similar to appendix 4 of the PR14 final determination company-specific appendices	'Water 2020: our regulatory approach for water and wastewater services in England and Wales', May 2016

Data required	Purpose	By when	How	Reference
			Spreadsheet similar to table App1 in the accompanying spreadsheet file.	
Cost adjustment claims	To assist the cost assessment review process – it will provide valuable additional time to take into account companies' cost adjustment claims in the initial assessment of business plans.	3 May 2018	Separate information submission	
PR14 reconciliation information	To help us understand and review the data on which companies have calculated adjustments for their performance during the 2015-20 period.	15 July 2018	With the 2018 Annual Performance Report	

For the submission of companies' proposed RCV allocations, we have included specific tables within this methodology consultation for companies to complete and submit to us in January 2018.

We are also providing guidance on the early information we are proposing to collect on outcomes and performance commitments. We discuss both of these submissions below.

7.1 Proposed RCV allocation in the water

In information notice IN17/01 Allocation of RCV to water resources and bioresources at 31 March 2020 (January 2017), we set out the process for companies to consider their proposed allocations of the historic Regulatory Capital Value (RCV) between price controls at PR19. This provided notice of our timetable for reviewing proposed allocations before companies submit their business plans.

Each company will propose its own allocation and we will carry out a proportionate and risk-based review to ensure the proposed allocations are in customers' interests. We plan to carry out initial reviews and provide feedback to companies on their allocations by the end of April 2018.

WS12 RCV allocation in the water service

We want companies to use this table to set out their roll forward of the net MEAV and proposed allocation of the wholesale water RCV.

WS12b Wholesale water charges impact assessment

In this table companies will provide information to help assess the potential impact in wholesale water charges from their proposed RCV allocations.

7.2 Outcomes and performance commitments

We are planning to collect some information relating to outcomes and performance commitments in May 2018, in advance of the business plan submissions in September 2018.

We want customers to be able to trust the definition of PCs and be able to rely on them being fair to customers. We confirmed in Water 2020: our regulatory approach for water and wastewater services in England and Wales (May 2016) that we expect companies to submit their performance commitment definitions ahead of business plans. We are proposing that companies should submit the definitions – but not the targets or any associated incentives – for their PCs in early 2018 before they submit their business plans to enable early comparison and clarity on definitions.

This will allow us time to review the definitions and provide any feedback to companies ahead of the submission of business plans in September 2018. By exception, a company may choose not to submit a definition early if a performance commitment is new, innovative or requires extensive customer engagement. These definitions will be scrutinised more closely during the initial assessment of business plans at PR19 as a result of not being seen early.

Early feedback on PC definitions will allow companies to:

- refine their PC definitions (for example, ambiguity) ahead of submitting their business plans;
- revisit their PC mitigation / exceptions and make any other changes needed to their plans to reflect this; and
- amend their PC coverage in certain areas.

We are proposing that companies submit their PC definitions in May 2018 by providing a document similar to appendix 4 of the PR14 final determination company-specific appendices and Excel worksheets similar to table App1 (outcomes, PCs and ODIs). Reviewing these documents in advance of business plans will enable our assessments and discussions during the price review to focus on what matters to customers rather than looking at the detail of PC definitions.

We are proposing that companies submit the following information early:

Area	**Early submission of outcomes and PC information**
Outcomes, PCs and ODIs	• PC definitions in a document similar to appendix 4 of the PR14 final determination company-specific appendices • Excel worksheet similar to table App1 (outcomes, PCs and ODIs)
Leakage additional information and old definition reporting	No early submission of information
Abstraction Incentive Mechanism (AIM)	No early submission of information
Common customer metrics on affordability, vulnerability and customer engagement	No early submission of information

The following pages include our proposed template for the early submission of PC definitions. Business plan table App1 includes a header row titled “Early submission” to indicate the information that companies would submit early in the Excel spreadsheet.

If, by exception, a company chooses not to submit a PC definition early, then the early submission of PC data should include as much information as is available and a brief note to explain why the definition is not being submitted early.

The box below includes the proposed template for the early submission of PC definitions.

Outcome XX: XX [ID and name of outcome]

Performance commitment XX: XX [PC reference and name]

Description

XX

Definition

XX (for common performance commitments enter "As detailed in the appendix on definitions for common performance commitments")

Measurement units

XX (e.g. Megalitres per day (Ml/d))

Mitigation / exceptions

XX (explain whether and how any mitigating factors (e.g. weather, third party actions or exceptional events) have been applied and the justification for applying these)

Common performance commitment

XX (e.g. No – bespoke, Yes – leakage)

Special cost factor

XX (Yes or No)

Incentive type

XX (e.g. Financial - reward and penalty, Reputational)

Price control allocation (yes/no)

Water resources	Water network plus	Wastewater network plus	Bioresources (sludge)	Residential retail	Business retail	Direct procurement for customers

Note: in the business plan we will require allocation percentages in this table

Any other information or clarification

XX