

Overview of the PR19 draft methodology

19 July 2017

I want...

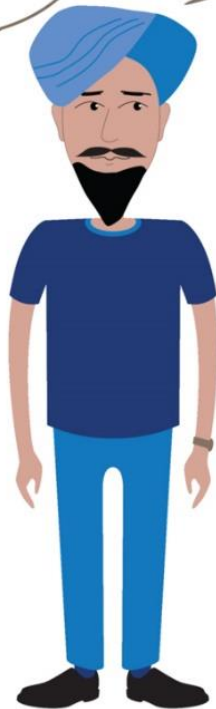
...an app
for that



...lower bills,
affordable
for all



...help 24/7



...better
customer
service



...a cleaner
environment



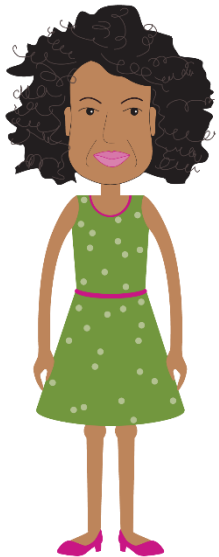


Aim

To explain draft methodology to assist your response

To take clarification questions – not for views on methodology (this is for your response)

We will provide stops in the presentation to allow questions



Structure

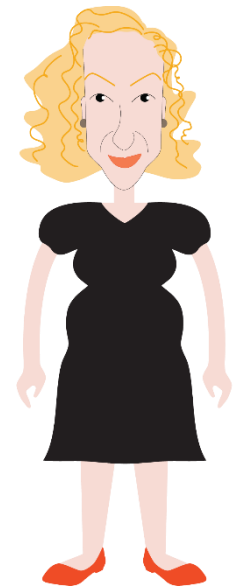
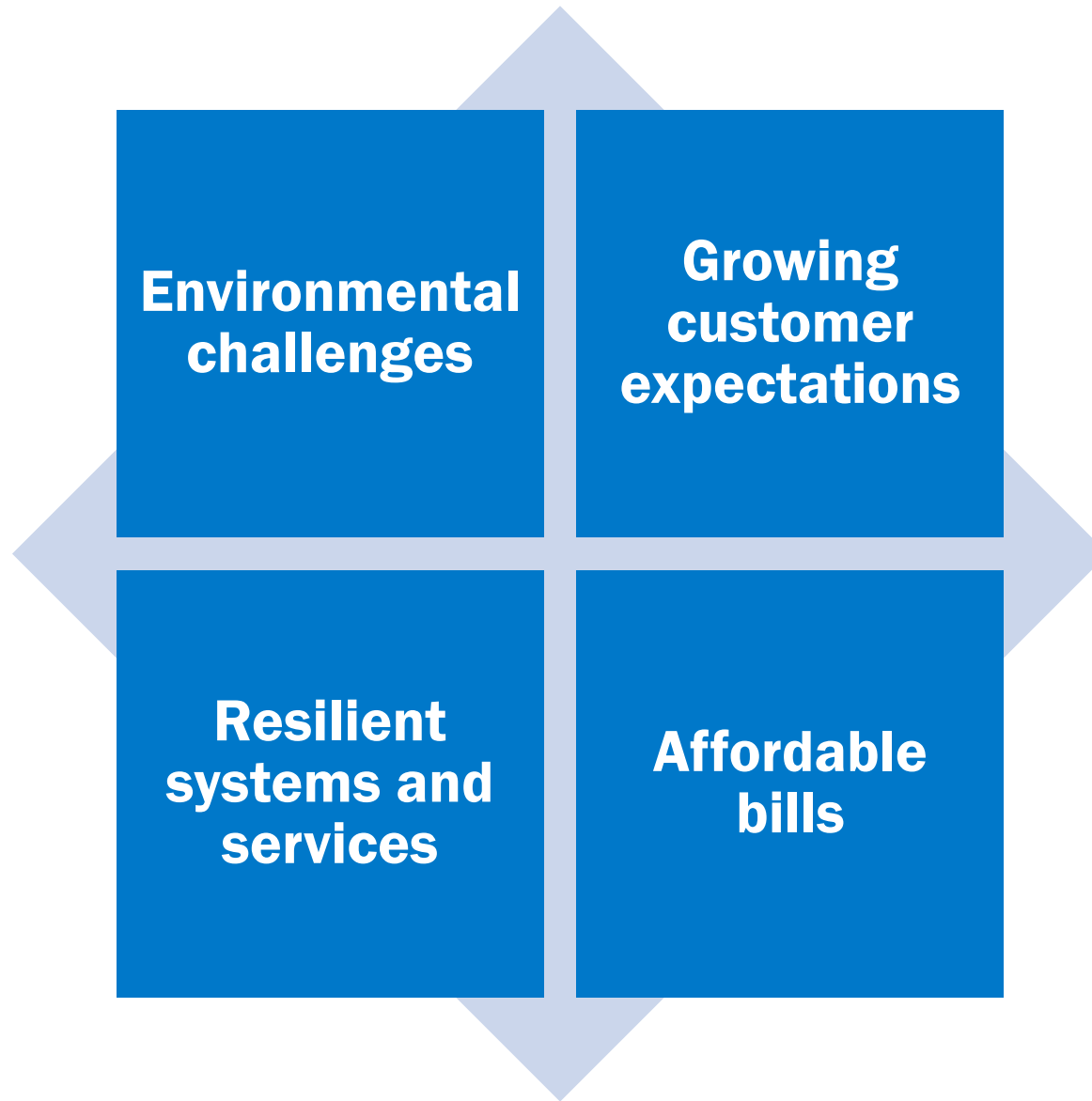
Key themes of the PR19 methodology

Our overall approach to PR19

Initial assessment of business plans

Key elements of the PR19 methodology

Timeline





PR19 methodology

Sets our approach to PR19 and our expectations and requirements for company business plans

Initial assessment of business plans

Tests company business plans against our expectations and requirements

Draft and final determinations

Price, service and incentive package for each company. Based on company business plans, with our interventions to protect customers

Business plans

A **high quality** business plan will mean we are confident that customers will get a good deal from it, with little or no intervention from us.

An **ambitious** business plan will push boundaries in ways that are important to customers

An **innovative** plan will show capability and readiness to innovate

We will categorise business plans into the following four categories:

significant scrutiny: fall well short and major interventions required

slow tracked: material interventions in some areas required

fast tracked: high quality but not ambitious

Exceptional: high quality, ambitious and innovative

“Exceptional” is a high bar, and it’s possible no companies will reach it

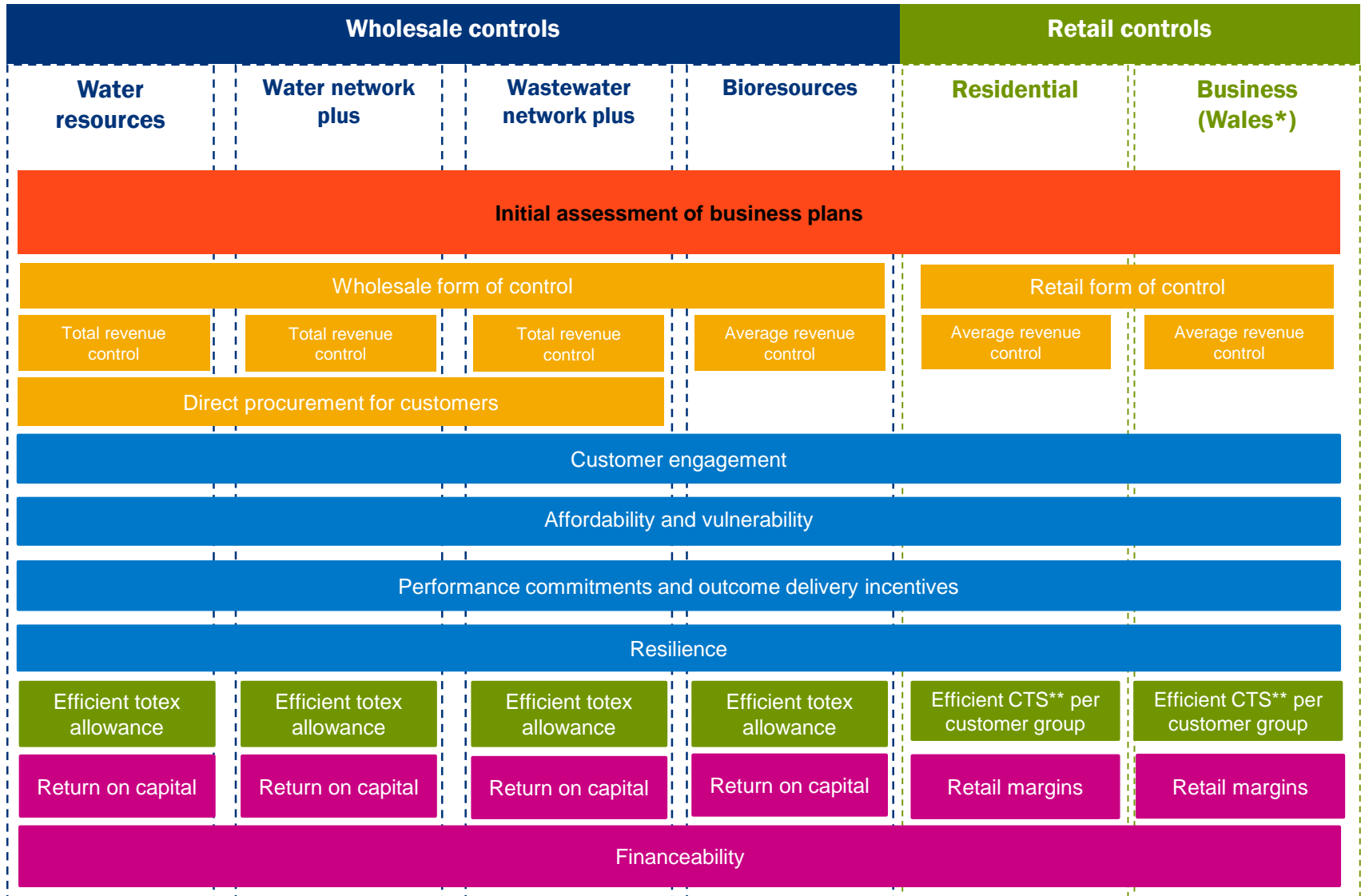
Exceptional companies will get:

- a financial reward equivalent to a +0.2% RoRE reward
- an early draft determination in March/April 2019
- a reputation as exceptional compared to their peers
- little or no intervention from us

Fast-tracked companies will get:

- an early draft determination in March 2019
- little or no intervention from us

Structure of our PR19 draft methodology



* We will continue to consider setting price controls for business retail activities of incumbent companies in England and Wales that are subject to competition

** Cost-to-serve

High-level view of our PR19 methodology key proposals

		Chapter #
Initial assessment of business plans: test areas	Initial assessment of business plans: key test areas, characteristics, categories and incentives	14
Targeted controls, markets and innovation	Four separate wholesale revenue controls Encouraging use of markets with clarity on post 2020 investments where markets apply 3 year retail controls	6, 7, 8
	Direct procurement for customers: focus through principles; tendering models	
Engaging customers	Enhanced customer engagement; customer participation; engaging customers on long-term issues including resilience	2
Addressing affordability and vulnerability	Affordability and vulnerability: affordability key areas, principles and sources of information, vulnerability tests	3
Delivering outcomes for customers	Stretching performance commitments, including new customer experience measures; powerful outcome delivery incentives	4
Securing long-term resilience	Resilience 'in the round'; clarified principles; focus through business plan tests and outcomes	5
Securing cost efficiencies	Step change in efficiency; Increased efficiency challenge; more symmetric adjustment process; benchmarking with historical and forecast data; cost-sharing incentive; benchmarking retail costs	9
Aligning risk and return	Sharper incentives; cost of debt indexation; tax pass-through mechanism; increased focus on assessment of risk CPIH as a legitimate measure of inflation	10, 11
	Financeability	
Securing confidence and assurance	Business plan expectations: data and assurance	12
Accounting for past performance	2015-2020: reconciliation; confidence in business plans	13

Executive summary

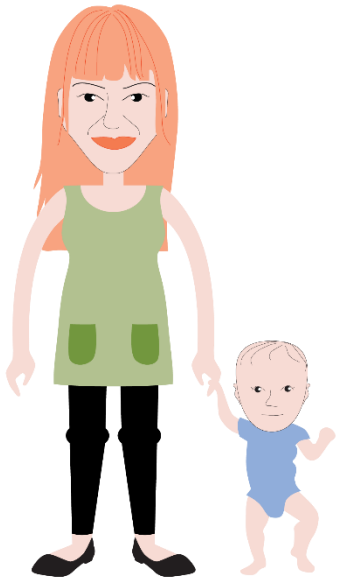
PR19 methodology consultation document

PR19 draft methodology appendices

**How the PR19 methodology delivers UK and Welsh
Government priorities**

Business plan data table requirements

PR19 draft financial model and rulebook



2017	
11 July	PR19 draft methodology consultation published
July-August	Continued engagement through consultation period
30 August	PR19 draft methodology consultation closes
Mid December	Final PR19 methodology published
2018	
3 September	Companies submit business plans to Ofwat
2019	
January	Initial assessment of business plans published
March/April	Draft determinations (exceptional and fast track plans)
April	Companies submit revisions to business plans (significant scrutiny and slow track)
July	Draft determinations (Slow track and significant scrutiny)
December	Final determinations published

Any questions?