
PR19 final methodology queries and answers 9 April 2018

A price review is when water companies and their customers create plans for the future that will deliver customers' wants and needs. Our role is to:

- set the framework and methodology;
- check and challenge the plans; and
- set out our decisions on the five-year price, service and incentive package for each company.

We have published our [final methodology for the 2019 price review](#) (PR19), setting out:

- our expectations and requirements for companies preparing their business plans to meet the needs of their customers from 2020 to 2025 and beyond;
- how these expectations form the basis for how we assess company business plans;
- the approach that we will use if we need to intervene in those plans to ensure that companies deliver the step change required by customers; and
- how our assessment will flow through into companies' price limits, service commitments and the wider incentive framework.

In the PR19 final methodology we stated that we will run a queries process until 31 March 2018 for specific questions about the methodology. We stated that if a query was raised which we think is relevant to other stakeholders then we will publish the query and our response on our website. This document sets out our response to the fifth set of queries we have received on the PR19 final methodology. We will publish our response to other queries we have received in due course. We will publish a further update to the data tables in May 2018.

Ref No.	Topic	Query	Response
31	Design	<p>I am interested in understanding the level of information that will be published as part of the PR19 public consultation.</p> <p>In the context of Open Water I am interested in the new investments planned under the Water Resource Management Plans. I believe that this period (before investment is initiated) is critical in providing price and investment signals to the market that investments are required.</p> <p>I understand that the Water Companies provide Business Plan Data Tables. I would like to be able to review the current proposed water tables for new resources issues for review as this summarises their proposed projects and timescales. Would it be possible to have copies of the current PR19 BP Water spreadsheet data tables for review during this consultation?</p>	<p>The consultation on the content of the company data tables for the next price review ran in parallel with our completion of the PR19 final methodology. The company data tables that will be submitted to Ofwat are available on our website under PR19 (see Business plan data tables).</p> <p>As you note, companies will identify planned investment through their water resources management plans (WRMPs) and the draft WRMPs are due to be published in February for consultation in England. These will be available on the company websites. The documents and associated data tables outline the need for any investment (if any) and the preferred solution set that the companies are planning to deliver.</p> <p>To further the transparency and consistency of water resources information that is publicly available, as part of our work programme we have required companies to publish water resources market information. This data will be published on company websites at the same time as their draft WRMPs and will then be updated within 1 month of the final WRMPs being published. This information will be similar in scope to that presented in the WRMP data tables, but also includes additional details at a company level, and contextual information about the sources and options to support third parties in identifying where opportunities may exist. More information on the water resources market information is published on the Ofwat website and companies will use a standard template we have prepared for this publication.</p>

Ref No.	Topic	Query	Response
45	Data tables	<p>We have queries regarding the following tables:</p> <p><u>App 11 Line 4 – amortisation</u></p> <p>Do we include amortisation of grants & contributions? (In APR this is included as operating income (line 5)). Do we include profit/loss on disposal of fixed assets here or in line 5 (definitions unclear)?</p> <p><u>App 12 Line 17 – provisions</u></p> <p>Do we allocate the long-term element of our deferred grants & contributions income to line 20 "trade and other payables" or line 24 "provisions", or should it all be in line 17? Statutory treatment would be to include in lines 12 and 20.</p>	<p><u>App11 line 4</u></p> <p>We have reviewed the basis of reporting in this line and made changes to the business plan table to align with APR format.</p> <p><u>App12 line 17</u></p> <p>We have reviewed the basis of reporting in the table in relation to these lines and have made changes to the business plan table to align with APR format.</p> <p>We have included these changes in the updated version of tables App11, App11a, App12 and App12a issued in March 2018.</p>
51	Risk and return	<p>In App 9, lines 4 and 15 use WACC figures taken from line 24 on W_{r5} and W_{n5}.</p> <p>This is the nominal WACC based on the notional structure, fully post-tax. To calculate the discount factor used in calculating the present values in App9, this WACC is then added to the average financial year % RPI increase for each year in AMP6 (2015-2020) (actual and forecast) taken from App23.</p> <p>Given that the WACC used is already in nominal terms, please could we clarify whether it is correct to add a further inflation figure?</p>	<p>Companies should input the applicable, real fully post tax WACC that applied at PR14. Later calculations in the table inflate this real figure to a nominal discount factor using an assumption for RPI.</p> <p>We have corrected the line definition for lines 4 and 15 and converted the cells from input to pre populated cells.</p>

Ref No.	Topic	Query	Response
60	Design	There are a number of options included in our WRMP which are Network+ only options and do not increase water resources capacity. Can you confirm that we are not required to include these options in table WR7? They are not option to manage demand or leakage.	Any WRMP19 options that only have network plus investment would be excluded from table Wr7 reporting (e.g. leakage, demand management, other network plus options). The tables should only include 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 (measured in water resources yield).

Ref No.	Topic	Query	Response
62	Retail	<p>We are seeking clarification in regard to section 8.5 of the final methodology 'Gap sites and voids'. The paragraph states:</p> <p>“Accordingly, we expect water companies to come forward with bespoke performance commitments to manage their voids and gap sites for the residential market and business market or explain why they have not.”</p> <p>Is there an expectation to have a bespoke performance commitment on voids and a separate bespoke performance commitment on gap sites, or;</p> <p>To have a bespoke performance commitment on both gap sites and voids, or;</p> <p>Is the expectation to have a bespoke performance commitment in this area?</p>	<p>In our December Methodology document, we said that we expect water companies to come forward with bespoke performance commitments (BPCs) to manage their voids and gap sites for the residential market and business market or explain why they have not.</p> <p>Water companies are responsible for ensuring their BPCs are designed in an appropriate way. However, we discuss some possibilities water companies could consider below.</p> <p>1. A water company could have four BPCs, one for each of the following categories:</p> <ul style="list-style-type: none"> • residential market: voids; • residential market: gap sites; • business market: voids; and • business market: gap sites. <p>2. A water company could have one or more BPCs covering a subset of the categories above, if they explained why they have not covered the other categories.</p> <p>For example, in our December Methodology document we said that water companies should consider providing a financial incentive to retailers in the business market to identify gap sites and occupied voids, if they have not already done so. If a water company chose to introduce such a financial incentive, it might decide that a BPC covering voids and gap sites in the business market was no longer required. This would then leave them needing to consider just one or two BPCs for voids and gap sites in the residential market.</p> <p>3. A water company could have a BPC covering all categories (or some subset, as discussed above), if it was workable and consistent with our policy that companies should not aggregate a number of metrics into a performance commitment. If a water company did this, they should explain how such an approach would work.</p>

Ref No.	Topic	Query	Response
110	Risk and return	<p>Within the accounting for past delivery chapter, the methodology outlines that residential retail revenue adjustment from the PR14 reconciliation rulebook should be allocated to the residential retail price control.</p> <p>Within the financial model there are lines for this adjustment in each of the wholesale price controls (water resources, water network plus, wastewater network plus, bio resources and dummy control), however there does not appear to be a line for the retail price control for making the adjustment to the allowed retail revenue.</p> <p>Our interpretation is that there should not be an adjustment for residential retail revenue in the wholesale controls and this adjustment should apply in total to the residential retail control. Please could you confirm how we should approach this in the financial model?</p>	<p>There is functionality in the financial model to apply revenue adjustments to residential retail (see InpOverride!\$E\$1272). Companies should use this to make the residential retail revenue adjustment from the PR14 reconciliation rulebook.</p>

Ref No.	Topic	Query	Response
120	Form of control	<p>Several lines on the WR6 data table require us to input 'cumulative capacity'. We think that what Ofwat intend is for this to be the annual value (i.e. total of all capacity in that year) rather than cumulative over the period?</p> <p>For example; If our capacity was 200MI/day in 2020/21 and we increased this by 10MI/day in 2021/22, do we put 410MI/day being the cumulative from the two years, (i.e. 200 from 20/21 plus 110 from 21/22); or 210MI/day (being the annual total capacity rather than the cumulative?)</p>	<p>As you identify our aim is to have your second value (210MI/d) reported in the example provided. For the avoidance of any confusion we have removed the word 'cumulative' from the line descriptions (e.g. lines 3, 4, 5, 6 and 10 to 13). We have also amended the definitions so that rather than cumulative totals, we refer to total capacity available and we have added the following text to the guidance section:</p> <p>"The post-2020 capacity should be the total available up to and including the year being reported for. For example, if 20MI/d of new capacity was available in 2020-21, then the reported post-2020 capacity for that year would be 20MI/d. If a further 10MI/d is made available in 2021-22, then that years reported post-2020 capacity would be 30MI/d."</p> <p>We have also removed 'cumulative' from each line 7 in table Wr7.</p>
121	Form of control	<p>We have a query on table 'Wr7'. Whilst we note Ofwat has increased the number of WRZ on this table to 12, we have 15 WRZ. Are we able to add further blocks? If not, could Ofwat please extend this table (we note WR6 allows for up to 28 WRZ)</p>	<p>We have increased the number of WRZs to 15 in response to query 44 (published in batch 3 replies 22 February 2018). Options only need to be completed for a WRZ where it has water resource options which will begin (i.e. costs will be incurred) during 2020-25 and will increase water resources capacity, in line with the table guidance.</p> <p>We have included these changes in the updated version of the final business plan data tables issued in March 2018.</p>

Ref No.	Topic	Query	Response
127	Past delivery	<p>Our query is about table 'APP27'. This table provides the reconciliation for AMP6 ODI penalties and rewards. Where we have agreed to delay the reward into AMP7, where should we include the carried over values in this table?</p> <p>The feeder model will not take account of these delayed payments, so if we use the feeder model output the values will not correspond to amounts actually paid. Alternatively the data table will not agree to the feeder model.</p>	<p>A company can deal with any in-period ODIs that are being delayed from AMP6 to AMP7 by recording them when they accrue and ensuring the delayed amount is appropriately reflected in column M "Total to be applied at PR19". This is consistent with our guidance at the bottom of App27 where we state:</p> <p>"When completing the 'total to be applied at PR19' column companies should be careful to ensure they only enter the amount they want to claim for PR19."</p> <p>Using this approach will treat the delayed in-period ODI payments as being applied at PR19. This is the same approach we are using for the in-period ODI payments for 2018-19 which will be reconciled as part of PR19 rather than through a separate in-period ODI determination.</p>
146	Form of control	<p>In table 'Wr6', lines 3 to 6 - should a transfer from another company be reported in lines 3 and 4, or 5 and 6? Please provide further clarification on third party and incumbent.</p>	<p>Lines 3-4 should capture the forecast post-2020 capacity of the incumbent water company that is completing the table. Lines 5-6 should capture the forecast capacity provided by third parties in the bilateral market.</p> <p>Traded raw water is reported in the capacity of the importer (the incumbent water company that benefits from the trade). It should be excluded from the exporter's capacity (if this is another incumbent). Note that treated water trades are not included in water resources capacity. Further guidance on the water resources yield calculation will be provided in an appendix to RAG 4.08 to be published this spring.</p>

Ref No.	Topic	Query	Response
147	Form of control	In table 'Wr7', line 15 – is this utilisation or capacity for opex costs?	<p>Reflecting the current definition for line 15, we expect the costs to represent the likely utilisation of the water resource scheme, rather than the costs of operating at full capacity. However, we have edited the text referring to WRMP reporting as we accept that some companies have costed the opex of schemes based on capacity in their WRMP. The revised line definition now reads:</p> <p>“Water resources control average opex reported on an annual basis (allocated in line with the water resources activity envelope). The average opex should reflect the options forecast operation in the planning period reflecting variation in usage based on expected climatic conditions. This will be consistent with company WRMP reporting where opex costs based on utilisation have been reported.”</p>

Ref No.	Topic	Query	Response
190	Outcomes	<p>The PR19 methodology states that the enhanced outperformance and underperformance payments should not be available for bespoke performance commitments.</p> <p>Of the fourteen common performance measures, it appears that enhanced outperformance payments would only potentially be available for five, since:</p> <ul style="list-style-type: none"> • C-Mex and D-Mex are Ofwat measures. • It is unlikely that comparable data will be available for the wastewater resilience measure. • The water resilience measure cannot exceed 100%. • The scope for outperformance payments may be limited on the four asset health measures. • The CRI measure is penalty only. <p>Therefore there are five measures where enhanced incentive rates may be possible (internal sewer flooding, water supply interruptions, per capita consumption, leakage, and pollution incidents).</p> <p>Do you agree with this interpretation?</p>	<p>Page 62 of the PR19 methodology document states: "Enhanced outperformance and underperformance payments are only appropriate for the common performance commitments,..."</p> <p>Of the 14 common performance commitments we agree that enhanced outperformance and underperformance payments are not appropriate for:</p> <ul style="list-style-type: none"> • C-MeX and D-MeX because these are Ofwat incentive mechanisms. • The Compliance Risk Index because, as we say on page 61 of Appendix 2, "CRI is a measure of water quality compliance and the performance commitment level should be set at zero." This allows no scope for outperformance payments. <p>In relation to the "Risk of severe restrictions in a drought" and "Risk of sewer flooding in a storm" common performance commitments, we state on page 48 of the PR19 methodology document that: "We are, however, cautious about requiring companies to have financial ODIs related to the two forward-looking resilience metrics, because they are at relatively early stages of development and so lack historical and comparative performance data. Companies should only propose financial ODIs related to these two common performance commitments if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances."</p> <p>In relation to asset health ODIs we state on page 64 of the PR19 methodology that: "Companies can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences."</p>

Ref No.	Topic	Query	Response
191	Data tables	<p>We have six questions regarding RPI-CPI wedge true-up model (Dec 2017) (queries 191 – 196):</p> <p>Ref: columns M:P and lines 18, 20, 22, 27 - 29 / sheet 'InpC'. It is unclear from the instructions why these values would be anything other than those stated in column L. I don't think that they should be values outside of AMP7, as this causes error checks in the 'Calc' worksheet.</p>	<p>We would not expect any of these values to be outside of the AMP7 period. Users can replace the data in these lines. The model has also been amended with the dates shown being only within AMP7.</p>
192	Data tables	<p>RPI-CPI wedge true-up model (Dec 2017)</p> <p>Ref: lines 34 and 36 / sheet 'InpC'. It is unclear from the instructions tab why these values would be anything other than that stated in line 32.</p>	<p>We agree at that the inputs in line 34 and 36 should be the same as those in line 32. This has been amended in the model.</p>
193	Data tables	<p>RPI-CPI wedge true-up model (Dec 2017)</p> <p>Ref: cells L37, L109, L164 / sheet 'calcs'. There is no opening RCV balance, therefore an average cannot be calculated. This then feeds through to the following calculations to produce misstated (lower) revenues.</p>	<p>The model only uses the average RCV balances in the forecast period with the closing balance in column L (2019/20) only used as an opening balance for the first forecast period (2020/21). The model has been amended to not calculate revenue and true ups for the pre-forecast period.</p>
194	Data tables	<p>RPI-CPI wedge true-up model (Dec 2017)</p> <p>Ref: E117 / sheet 'calcs'. Should this be titled "Actual average RCV balance"?</p>	<p>We agree with the comment, this line has been renamed in the model.</p>

Ref No.	Topic	Query	Response
195	Data tables	<p>RPI-CPI wedge true-up model (Dec 2017)</p> <p>Ref: L70 / sheet 'calcs'. Should this instead be: =IF(L67=1, L68, 0)? For the model to work, this cell must be equal to the final year of pre-forecast revenue, i.e. cell L68.</p>	<p>This formula takes the first forecast period revenue forecast and deflates to equal the final pre-forecast period revenue. No change is expected to be made.</p>
196	Data tables	<p>RPI-CPI wedge true-up model (Dec 2017)</p> <p>Ref: L186 / sheet 'calcs'. The model calculates a true-up in 2019/20 revenue, but shouldn't as the mechanism is only applied from 2020/21 onwards. If there is a difference between actual and forecast wedge, no true-up is required, but the model produces an error check in cell L188.</p>	<p>The model should only calculate a true up for the forecast period. The model has been amended to reflect this so it will no longer produce an error in 2019/20.</p>
215	Data tables	<p>We have a question about 'Table: WR3 / G26 / total revenue ~ wholesale water resources control'.</p> <p>Does this line need to be amended to take into account the revenue that is collected from non price controls (i.e. change to reflect impact of lines B12/D22/E23)?</p>	<p>At this stage we believe the tables are working correctly. If you still feel they require changing, can you provide further explanation on the reason for the change?</p>
216	Data tables	<p>We have a question about 'Table: WN3 / line G26 / total revenue ~ wholesale water resources control'.</p> <p>Does this line need to be amended to take into account the revenue that is collected from non-price controls (i.e. change to reflect impact of lines B12/D22/E23)?</p>	<p>At this stage we believe the tables are working correctly. If you still feel they require changing, can you provide further explanation on the reason for the change?</p>

Ref No.	Topic	Query	Response
217	Data tables	<p>We have a question about 'Table: WWN5 / line G26 / total revenue ~ wholesale wastewater network plus control'.</p> <p>Does this line need to be amended to take into account the revenue that is collected from non-price controls (i.e. change to reflect impact of lines B12/D22/E23)?</p>	<p>At this stage we believe the tables are working correctly. If you still feel they require changing, can you provide further explanation on the reason for the change?</p>
218	Data tables	<p>We have a question about 'Table: BIO4 / line G26 / total revenue ~ wholesale wastewater bio resources control'.</p> <p>Does this line need to be amended to take into account the revenue that is collected from non-price controls (i.e. change to reflect impact of lines B12/D22/E23)?</p>	<p>At this stage we believe the tables are working correctly. If you still feel they require changing, can you provide further explanation on the reason for the change?</p>
219	Data tables	<p>We have a question about 'Table: App17 / line G26 / Total revenue control ~ wholesale'.</p> <p>Does this line need to be amended to take into account the revenue that is collected from non-price controls (i.e. change to reflect impact of lines B12/D22/E23)?</p>	<p>At this stage we believe the tables are working correctly. If you still feel they require changing, can you provide further explanation on the reason for the change?</p>

Ref No.	Topic	Query	Response
223	Data tables	<p>We have a query regarding table 18 / worksheet WR/WN / Cell: #943:</p> <p>The 'RCV CPIH+RPI wedge - Real' is being calculated by deflating from the 'RCV CPIH+RPI wedge - nominal' using the 'CPIH + RPI wedge' deflator. This does not give a true 2017-18 CPIH real position which the model is based on.</p> <p>The RPI wedge component of the RCV balance should be deflated by the CPIH deflator, thereby giving a balance which is higher than the initial (real) CPIH balance.</p>	<p>In the period up to 2020 the model assumes the wedge between RPI and CPIH to be zero, as such we do not propose to amend the model.</p>

225	Data tables	<p>We have a number of queries relating to the PR19 data tables:</p> <p>It seems the tables and definitions have been adapted from the annual return tables, without defining how the forecasts for the next 7 years should be calculated. As an example, in table 'WR1' some lines ask for prediction forward for DI and APH using the methodology and guidance used for annual return, which only allows actual data to be used (no estimates or inferred data). The definition for DI mentions actual amount of water distributed (definition from JR which looks at past performance), not prediction. The only information we will have at this time would be deployable output, not distribution input.</p> <p>We have queries about the definition for the following specific tables:</p> <p><u>WN1 Line 32 - APH – treatment</u></p> <p>The definition only allows for actual data to be used, rather than estimated data based on equipment rating. Any forecast would have to use rating of pumps and projected water levels, rather than actual data from pressure sensors.</p> <p><u>WN2 all lines and line 36 APH definition</u></p> <p>All refer to the past and historic performance – not projection.</p> <p><u>WR1 Lines 1-6 DI and lines 21-22 APH</u></p>	<p>The lines are those from the APR tables, but we do appreciate that future years will be forecasts rather than actuals.</p> <p>We expect companies to estimate how operating strategies and capital investment decisions will impact these lines and forecast appropriately.</p>
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Ref No.	Topic	Query	Response
		The definitions refer to actual distribution input in the year, for future years. Could deployable output be used instead?	

226	Data tables	<p>Our question relates to tables WS2, WS2a and WS10. The definitions for the above in lines 1 and B35 are shown as:</p> <p>Line description - WINEP / NEP ~ Making ecological improvements at abstractions (Habitats Directive, SSSI, NERC, BAPs). Definition - capital / operating expenditure to deliver projects required to deal with the environmental impact of water abstraction during the report year.</p> <p>In the CAT table 2 line 1, line description - Making ecological improvements at abstractions (habitats directive, SSSI, BAPs). Definition - capital expenditure to deliver environmental investigations, carry out options appraisals and implementation of projects required to deal with the environmental impact of water abstraction during the report year. [Refers to expenditure to deliver the outputs included in the water quality enhancement schedule (annex 4 of the company supplementary report 2009) or amendments confirmed at an interim determination of prices for environmental investigations, options appraisals and the implementation of projects (PR09 driver codes Hw 1-3, lw1-3, BAPw1, Wfw1-3, Lw1-3).]</p> <p><u>Question:</u></p> <p>Previously we have reported Water Resource Management Plan and Drought Plan Expenditure in the CAT table 2 along with our NEP expenditure. Please could you confirm the PR19 table only requires NEP schemes to be included? If so please could you confirm where</p>	<p>We would expect WRMP or drought plan expenditure to appear in these tables, where this spend is to provide an environmental benefit (relating to the following drivers: Habitats Directive, SSSI, NERC, BAPs) to offset company abstraction activities. This can also include non-WRMP or drought plan identified expenditure where environmental improvements are made.</p> <p>Expenditure identified in their WRMP or drought plan for supply/demand balance purposes (increasing supplies/reducing demands), should be reported against the relevant category in these tables (e.g. line 7-10 in table WS2).</p>
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Ref No.	Topic	Query	Response
		should we report the expenditure for WRMP and Drought Plan?	
227	Data tables	<p>Ref: 20 / Worksheet: InpOverride / Cell :#739 - Under notionalisation:</p> <p>The model currently seems to set the 'bank interest receivable' to the 'cost of debt (notional)' i.e. InpOverride #739 refers to InpOverride #726 'Notional Cost of Debt override (nominal)' . This seems a gross overestimation of a bank interest rate on deposits and influences the subsequent notionalised calculations.</p>	When the model is notionalised it is designed to be indifferent to different types of cash, debt and overdraft. We therefore do not propose to amend the model.
228	Data tables	<p>Ref: 21 / Worksheet: Summary Calc and Graph Data / Dashboard / Cell: #1136 - average bills calculation:</p> <p>We're not sure why this line multiplies by (1- WoCswitch) giving a zero average bill. This results in no average bill calculation for WoCs and nothing in the dashboard.</p>	We have amended the average bill to be split into a WoC and a WaSC average bill on the summary calculation sheet. This change has also been added to the dashboard.
229	Data tables	<p>Ref: 22 / Worksheet: Summary Calc and Graph Data / Dashboard / Cell: #1136 - related to the above:</p> <p>Why isn't the retail contribution included in the calculation for WoCs?</p>	We have amended the calculation in the latest version of the model to include the retail aspect for WoCs.

Ref No.	Topic	Query	Response
230	Data tables	<p>Ref: 23 / Worksheet: WR/WN / Cell: #218 - return on regulated equity:</p> <p>The current formula is incorrect: 'EBIT less current tax' - 'cost of debt RORE calcs' x 'Av <u>RCV</u>'.</p> <p>The correct formula should be: 'EBIT less current tax' - 'cost of debt RORE calcs' x 'Av <u>net debt</u>'.</p>	<p>We agree that this is calculating incorrectly and has been updated in the model to look up average net debt.</p>
231	Data tables	<p>Ref: 24 / Worksheet: WR/WN / Cell: #432</p> <p>See above formula correction in query 230.</p>	<p>We agree that this is calculating incorrectly and has been updated in the model to look up average net debt.</p>
232	Data tables	<p>Ref: 13 / Worksheet: Wholesale / Cells: #451 and #460:</p> <p>The average reported for the required gearing for tax adjustment does not calculate correctly. It includes WWN, BR, DUMMY in the calculation which are all zeros.</p>	<p>We agree that this is calculating incorrectly. The model has been updated to calculate using only controls that are in use based on a company choosing WoC and WaSC on the InpActive sheet. An additional control has been added to allow companies to select whether the Dummy control is in use.</p>

Ref No.	Topic	Query	Response
233	Data tables	<p>Ref: 14 / Worksheet: Water Network / Water Resources / Cell: #26 and Water Network #135:</p> <p>'Revenue requirement excluding tax charge' does not include other income (incl. 3rd party revenue) in the formulae. Only 'other operating income' is deducted. However the executive summary #177 'wholesale allowed revenue breakdown post....' for WR and WN does include deducting 'third party revenues'. As a result, the executive summary #214 'revenue solving adjustment' returns a balance equal to the other income (incl. third party services). This is because the summary calculation #463, which it links to, is picking up the WN #135 revenue requirement figure.</p>	<p>We agree that the revenue requirement should include third party revenues. This has been amended in the latest iteration of the model.</p>
237	Data tables	<p>Ref: 1 / Worksheet: Financial Model / Cell: K1920, F1916:</p> <p>If the WaSC/WoC switch in cell F1916 is set to WoC ("1") this formula always returns a zero and the balance sheet is incorrect. WoCs have share capital too!</p>	<p>We agree that this is calculating incorrectly and has been updated in the latest iteration of the model.</p>
238	Data tables	<p>Repeat of query 237.</p>	<p>We agree that this is calculating incorrectly and has been updated in the latest iteration of the model.</p>

Ref No.	Topic	Query	Response
239	Data tables	<p>Ref: 3 / Worksheet: F_Inputs / Cells: N130, O134 and O138:</p> <p>There are inconsistent input columns for opening data between debt types.</p>	<p>We agree that the model is currently pulling through the inconsistent inputs. This has been updated in the model for 'Floating rate debt (opening)' to pick up cell O130.</p>
246	Data tables	<p>Ref: 10 / Worksheet: Water Resources / Water Network / Cell: WR/Network # F515 - Wholesale trade debtors (from retail):</p> <p>The opening balance is calculating incorrectly. This relates to the item above (query 245). The opening wholesale trade debtors is incorrectly being taken as the whole retail debtor from customers.</p> <p>Subsequent years are correctly calculated as 12.5% of wholesale revenue based on the 1.5/12 months debtor months.</p> <p>An input value for the opening balance is required for the wholesale creditor balance for residential and business - it can be the same input as used for the issue above.</p>	<p>A new input for 'Wholesale Trade debtors initial balance - nominal' has been added to the model to replace the calculation on Wholesale global.</p>
247	Data tables	<p>Ref: 11 / Worksheet: Retail Residential / Cell: K687 - K700):</p> <p>I do not understand the calculation being presented here. It would be much more representative of reality to simply have an opening balance input for this retail retained earnings b/f at Mar 20 figure.</p>	<p>A new input for 'Accumulated profit reserve b/f - nominal' has been added to the model in replacement of the current calculation block. The same approach has been taken for business retail.</p>

Ref No.	Topic	Query	Response
248	Data tables	<p>Ref: 12 / Worksheet: Inp. Override FinStat_W/S, FinStat_Appt / Cell: InpOverride #574, FinStat W/S # 104, FinStat Appt # 102:</p> <p>Other liabilities balance sheet entry: Entered as negative in InpOverride#574, then appears on wholesale b/s #104 as positive (correct) and on apt. b/s #102 as negative (incorrect).</p>	<p>Wholesale operates correctly with a NEG to POS sign change calculation block. This has been added to Appointee.</p>
252	Risk and return	<p>Our query is about negative RCV additions:</p> <p>The RCV balance summary includes a CHECK flag if the RCV associated with additions in AMP7 is negative. Is this CHECK flag necessary? It is possible that the TTT price control may have negative additions in AMP7 (given it may be forecasting significant disposals of project land that is no longer required once construction of the TTT is complete). Is the model able to reflect such a situation?</p>	<p>We agree that there may be instances of a negative RCV addition. We propose amending the model for this CHECK flag to become an ALERT flag. This change will not be made in version of the model published in March 2018 but will be made in later version of the model.</p>

Ref No.	Topic	Query	Response
253	Outcomes	<p>My query is about APP 4, Line 7 'Benefits of applying affordability assistance measures':</p> <p>Can Ofwat please clarify their definition of benefit? Otherwise there may be different interpretations between companies that will arise.</p> <p>By affordability assistance measures, can Ofwat confirm whether this includes or excludes measures such as 'discretionary leakage allowances'?</p>	<p>We have set out our definition of "benefits" at the bottom of Table App4 in line definition 7. We state the following:</p> <p>"Benefits of applying affordability assistance measures. By this we mean the aggregate benefits that would be used in a cost benefit assessment."</p> <p>We are not referring just to the narrow benefits of increased revenue from a customer who was previously not paying his/her bill but who is now making some regular payments, but also other benefits. These benefits could include those listed in the UK Government's guidance on social tariffs (June 2012) and the Welsh Government's guidance on social tariffs (June 2014).</p> <p>We have set out our definition of "affordability assistance measures" at the bottom of Table App4 in line definition 7. We state:</p> <p>"By affordability assistance measures we mean any measure that a company provides to assist customers to pay their bill. It is not confined to, for example, social tariffs."</p> <p>If you consider that the particular "discretionary leakage allowances" you are referring to meet this definition, then you can include them as an affordability assistance measures.</p>

Ref No.	Topic	Query	Response
267	Bio resources	<p>This query relates to 4R.26 of the RAG and table 'Bio 1: Line 4' of the business plan tables - "Percentage of sludge produced and treated at a site of STW and STC co-location".</p> <p>The definition clarifies that a sludge treatment centre is a site where thickening to >10% dried solids, and/or dewatering and or microbial reduction is undertaken.</p> <p>Do you classify as co-located the STW sites where there is a STC which produces untreated raw sludge that is thickened to greater than 10% dried solids but the sludge goes on for treatment at another STC before it is disposed?</p> <p>If your intention is to use the variable as a proxy of transportation costs in the modelling, we believe that the variable should refer to the final treatment sites rather than thickening sites that is transported for further treatment.</p>	<p>Yes, we do classify as co-located STW sites where there is a STC which produces untreated raw sludge that is thickened to greater than 10% dried solids, but the sludge goes on for treatment at another STC before it is disposed. That is the reading of the definition as it stands. We note that some companies are proposing econometric models using Bio1 Line 4 as a cost driver. It is therefore not appropriate to change the definition at this stage, even though we agree that as a proxy of transportation costs a better variable would refer to the final treatment sites rather than also including intermediate thickening sites.</p>
275	Past delivery	<p>This table is fed by the Outcome Delivery Incentives spreadsheet found on this page: https://www.ofwat.gov.uk/publications/the-pr14-reconciliation-rulebook/</p> <p>The rulebook suggests this spreadsheet is for illustration purposes only. Will you be providing an updated version of this spreadsheet in order that we can complete the App27 table? Thanks.</p>	<p>Please see our response to query number 36 published in batch 3 of replies on 23 February 2018.</p>

Ref No.	Topic	Query	Response
279	Outcomes	<p>We have a query about 'Table: App4 Customer metrics'.</p> <p>Ofwat have requested we provide information on the common metrics for the 2017/18 financial year and have asked for historical information where available. We currently don't report on all of the App4 metrics and some will require customer surveys. Is this a problem if we are only able to provide data from one survey undertaken this year?</p>	<p>Note 5 of 'Table App4' says: "We expect companies to complete the information for the 2017-18 financial year, and for future years (2018-19 to 2024-25)."</p>
280	Outcomes	<p>We have a query about 'Table: App 4 Customer metrics' lines B18 and B19:</p> <p>It would be useful to clarify the definitions of two App 4 customer metrics – line B18 'security' and B19 'other needs'. Does security encompass schemes for managing bogus callers? Does 'other needs' include anything provided that does not come into special assistance (a) to (d) lines B15 to B18?</p>	<p>We are not providing any further guidance on lines B18 and B19 beyond what we say in Table App4, which states the following:</p> <p>B18: "Customers receiving services through the SAR/PSR: (d) support with security including, but not limited to, password schemes and identity checks. Companies should count each individual receiving support; this means there could be more than one customer counted as registered on the priority service support scheme in a property."</p> <p>B19: "Customers receiving services through the SAR/PSR: (e) support with 'other needs' including support offered through the SAR/PSR not captured in (a) to (d) [APP4015RR - APP4018RR] above. Companies should count each individual receiving support; this means there could be more than one customer counted as registered on the priority service support scheme in a property."</p>

Ref No.	Topic	Query	Response
281	Outcomes	<p>We welcome the inclusion of complaints as a gateway for the additional reward in Cmex. We are aware that a number of questions were raised in the Cmex working group as to how this would operate in practice. As this isn't an aspect being looked at by the Cmex pilot, we were wondering when we will receive clarity on how the gateway will work?</p>	<p>The PR19 methodology statement main document (pages 65-66) says: "We are not defining satisfactory performance on complaints in detail in our PR19 final methodology, but we intend to work with stakeholders to do this as part of the C-MeX piloting process."</p> <p>We discussed the issue of the complaints "gate" for accessing the higher tier of C-MeX performance payments at the C-MeX working group on 23 May. We have included a draft proposal for the complaints "gate" for comment in the minutes of that meeting. We will continue to work with the C-MeX working group on the definition of the complaints "gate".</p>
282	Outcomes	<p>Regarding the UK Customer Satisfaction Index (UKCSI) conversation for Cmex – was the methodology you published after the last working group the final version? If not, when will receive the final version?</p>	<p>We have not finalised the approach to the cross-sector threshold for accessing the higher tier of C-MeX performance payments. We discussed this issue at the C-MeX working group on 23 May and will continue to liaise with the working group before we decide on a final approach.</p>
283	Outcomes	<p>Our query is about Cmex data tables. As Cmex will be a completely different measure from SIM, we are not clear what information is expected for forecast Cmex performance, particularly since it hasn't been piloted.</p> <p>This applies to current AMP and forecast performance. Does Ofwat require companies to put in a forecast for Cmex even though the PC hasn't been defined yet, or can this be left blank (since it will be a comparative measure)?</p>	<p>We are not expecting companies to forecast C-MeX performance. We agree this is not currently possible because we have not developed C-MeX yet.</p>

Ref No.	Topic	Query	Response
284	Outcomes	<p>Our query relates to 'Table: R10 / SIM CMEX':</p> <p>In table R10 we are asked to forecast our SIM scores through to 2020. However, in the appendix 3, page 6, of the methodology Ofwat have advised us that they will be running the shadow Cmx for 2019-2020. Therefore, are we required to still forecast our SIM performance based on today's methodology?</p>	<p>We are still expecting companies to forecast their SIM performance for 2019-20 as a number of companies have reputational performance commitments on SIM in 2019-20.</p> <p>We are not running the SIM survey in 2019-20, but intend to use the shadow C-MeX contact survey to enable companies to calculate their SIM scores for 2019-20 for reporting against their reputational performance commitments on SIM in 2019-20.</p>
285	Outcomes	<p>We have been asked to enter the revenue adjustment for SIM performance. At present only high level detail has been provided on the SIM methodology. To support more accurate forecasts, will more detailed information be provided? We think this would be helpful as it would reduce the need for interventions</p>	<p>We will not be providing more detail on the SIM revenue adjustments until during PR19. We will take this into account when considering companies' forecast revenue adjustments for SIM performance.</p>

286	Outcomes	<p>We have a question about 'Table: App 4 Customer metrics line A7':</p> <p>Have you got any further clarification on the affordability common metrics titled 'Benefits of applying affordability assistance measures' to ensure we have interpreted it consistently to other water companies? We have assumed it would include all assistance schemes for customers who are struggling to pay – i) those that reduce the value of the bills; ii) those that help clear previous charges; iii) those that help give customers space whilst they are struggling (e.g. payment breaks or payment concession plans) but do not actually reduce charges. Is this correct?</p> <p>To calculate the benefits do you mean all of the following:</p> <p>i) if a customer was paying us £10 p.a. because they couldn't afford their water bill and were on a payment plan, so we then put them on the social tariff and subsequently received £30 in the year from them, then there would be a cash benefit to us of £20 for that given year which is attributable to the social tariff.</p> <p>ii) Reduction in bad debt write offs as a result of having a customer on an affordability assistance scheme versus if they weren't on a scheme. The difference would be the benefit.</p> <p>iii) A final type of benefit is any reduction in our costs. For example, if a customer at the start of the year was on a payment plan (which is quite admin heavy and therefore has a high associated cost) and we then put this customer</p>	<p>Please see our response to query 253 published above in this batch of replies.</p>
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Ref No.	Topic	Query	Response
		<p>on the social tariff, which reduces the admin work we do relating to this customer, then there is a cost saving. This cost saving would be a benefit to us.</p> <p>iv) Other cost savings would be reduction in debt collection costs as a result of having these affordability assistance measures.</p>	

Ref No.	Topic	Query	Response
287	Outcomes	<p>Have you got any further clarification on the affordability common metrics titled 'Costs of applying affordability assistance measures' to ensure we have interpreted it consistently to other water companies?</p> <p>We have assumed it would mean the costs of running payment assistance schemes including things like:</p> <ul style="list-style-type: none"> i) The cost of monitoring and running the schemes, including contract/commission costs we incur with 3rd parties. ii) People costs for our specialised support team. iii) Any costs we incur in paying third parties to administer our schemes. iv) Cost of charitable donation (e.g. £3m) made to the trust fund. v) System costs that we incur e.g. if all customers who need financial assistance are recorded in a specific system and we incur some sort of annual licence cost. vi) System development costs to implement new assistance schemes. vii) Debt written off as part of a payment assistance scheme – for example through a payment matching scheme. 	<p>We have set out our definition of "costs" at the bottom of Table App4 in line definition 8 we state the following:</p> <p>"Costs of applying affordability assistance measures. By this we mean the aggregate costs that would be used in a cost benefit assessment [...] The costs include revenue foregone and operating expenditure (opex) costs."</p> <p>The costs you mention in your query all appear to fit with our line definition 8.</p>

Ref No.	Topic	Query	Response
315	Outcomes	<p>In relation to AIM, we recognise Section 2.4.4 of Appendix 2, whereby companies can seek to design an appropriate version of AIM with support from customers and stakeholders. We have sought to develop a bespoke approach suitable for sandstone aquifers. Our query relates to this proposal - we recognise the May definitions submission might be regarded as a more appropriate forum (so apologies).</p> <p>Our proposed AIM methodology is to propose 5 year average abstraction targets at relevant sites based on our assessment of the long term sustainable rate of groundwater abstraction, rather than annual or in-year targets triggered by specific low flow thresholds. The targets would be based on sustainable abstraction limits agreed with the Environment Agency. We recognise that this approach has some variations from Ofwat's outlined principles on PCs, hence our query is:</p> <ol style="list-style-type: none"> 1. Is the approach proposed above appropriate as an innovative way of accelerating some of our long term unsustainable abstraction changes? 2. Is the use of AIM without river flow triggers supported? 3. Would Ofwat support a 5 year average measure for AIM? 	<p>On page 33 of Appendix 2 to the PR19 methodology statement we state: "We expect each company to suggest a bespoke performance commitment, in line with the AIM guidelines we published in February 2016 (updated for improvements to site identification as described below)."</p>

Ref No.	Topic	Query	Response
317	Outcomes	<p>Please consider this scenario:</p> <p>Company X seems to be trying to follow your guidance and follow the 'Common' Performance Commitments steer. However, this has meant that they have tried to 'fudge' the AIM performance commitment by putting WINEP delivery within it, instead of linking to an AIM site (because they don't have one).</p> <p>Forcing WINEP delivery into the AIM PC doesn't look or feel right. It feels like they should have an Environmental PC/ODI associated with WINEP delivery in its own right, rather than shoe-horning it into the AIM heading 'just to make sure they have covered AIM for Ofwat' (which is what they imply to me).</p> <p>Please can you help me understand if Company X is right to put WINEP delivery in the AIM 'box' or whether they simply justify not having an AIM PC because that don't have AIM sites and thus have WINEP delivery separate.</p>	<p>On page 33 of Appendix 2 to the PR19 methodology statement we state: "We expect each company to suggest a bespoke performance commitment, in line with the AIM guidelines we published in February 2016 (updated for improvements to site identification as described below)."</p> <p>On page 36 of Appendix 2 we state: "If, following the application of well-justified checks, a company does not have any suitable sites for AIM, a company should consider sites not identified in the WINEP lists for inclusion in the AIM. For example, companies could consider sites where there is evidence that current abstraction rates are causing harm and that reductions in abstraction at low flows will provide environmental benefit. Companies should also engage with their local stakeholders on such sites."</p>

Ref No.	Topic	Query	Response
320	Outcomes	<p>I understand that water companies will be sending their draft PR19 performance commitments and ODIs to OFWAT by 3rd May 2018.</p> <p>Please can you confirm whether this information will be collated and published by Ofwat shortly thereafter, either in full or in a redacted format that provides stakeholders with the headlines/descriptions/level of ambition, but removes any confidential financial detail?</p> <p>Given the importance of PCs in driving investment, innovation and improvement in the sector we are keen to be able to compare the planned PCs across the sector.</p>	<p>We will not be publishing the definitions of the bespoke performance commitments water companies will be providing to us on 3 May. However, we expect that companies will be sharing their bespoke performance commitments and their definitions with their Customer Challenge Groups and will be engaging with customers on their performance commitments, the levels they are proposing for them and the associated outcome delivery incentives (ODIs).</p>

321	Outcomes	<p>Page 47 of the methodology statement says that more detail on common PCs is provided in appendix 2 and on the definitions webpage (https://www.ofwat.gov.uk/outcomes-definitions-pr19/).</p> <p>We have the following queries and requests for clarification (set out over 3 queries 321 – 323):</p> <p>1. CRI</p> <p>We have checked the three page definition dated 5 Dec 2017 on the webpage. Regarding the parameter score, we note that there are some slight differences between the parameter scores listed in Annex A and the parameter scores given in the post consultation presentation on CRI by the DWI in Feb 2017. We assume that the parameter scores given in the last definition take precedence.</p> <p>Section iii describes the impact score and states that, “For failures in water quality zones, the impact depends on the population affected and defaults to the population of the relevant supply zone”. However in the final presentation to the industry the position for single property failures was clarified, in particular for lead. Our understanding is that, where it can be demonstrated that a failure is an isolated lead failure, the impact score for a single property is 2.4 and for a public building is 50.</p> <p>We would be grateful for confirmation that we have interpreted the guidelines correctly and would suggest that the definition is updated accordingly.</p>	<p>Our intention is that the definition and reporting guidance companies should use for their PR19 performance commitments on CRI should be the same as those they use for reporting to the DWI.</p> <p>To avoid any confusion we have linked our PR19 definitions webpage (https://www.ofwat.gov.uk/outcomes-definitions-pr19/) to the DWI website for the definitions of CRI and ERI to ensure companies use the same definition for both their PR19 performance commitments and for reporting to the DWI.</p>
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Ref No.	Topic	Query	Response
322	Outcomes	<p>2. Customer contacts about water quality</p> <p>The webpage states that the latest definition is on Discover Water, but Discover Water does not include a definition. For clarity we use the definition included in DWI information letter 1/2006 dated 6 January 2006. (http://dwi.defra.gov.uk/stakeholders/information-letters/2006/01_2006.pdf)</p> <p>As an asset health measure, we are proposing to use consumer contacts about the appearance of water. At PR09 the serviceability assessment included customer contacts about black, brown and orange water. Customer contacts about appearance includes black, brown and orange as well as blue/green, particles and white water, as per the DWI's information letter above. Therefore, we consider this to be an appropriate measure of asset health, related to the distribution network.</p> <p>The measure will be expressed as customer contacts about appearance per 10,000 population as per Discover Water.</p> <p>We would be grateful for confirmation that we have interpreted the methodology correctly.</p>	<p>We have updated our PR19 outcomes definitions webpage (https://www.ofwat.gov.uk/outcomes-definitions-pr19/) to refer to the DWI information letter 1/2006 dated 6 January 2006: http://dwi.defra.gov.uk/stakeholders/information-letters/2006/01_2006.pdf.</p> <p>We have now included two rows in the table: one for appearance contacts; and one for taste and odour contacts.</p> <p>It seems sensible to us to express your measure as customer contacts about appearance per 10,000 population, which is the same approach as on Discover Water and is comparable across companies.</p>

Ref No.	Topic	Query	Response
323	Outcomes	<p>3. ERI</p> <p>ERI is a very new measure proposed by the DWI. The proposed method was briefed to the industry on 5 October 2017. The definitions webpage includes a two page definition dated 24 November 2017.</p> <p>We note that at present no full year data is available and that ERI is still developing. We have some concerns about how events related to media interest (seriousness score 2 and 1) will be assessed, as media interest has the potential to be very variable and changeable going forwards with the increase in social media.</p> <p>Section iii includes a one line definition of the impact score. However, in the presentation to the industry the basis of estimating the population affected and the time was also described, including the default time for single properties. We would suggest that the definition is updated accordingly.</p>	<p>Our intention is that the definition and reporting guidance companies should use for their PR19 performance commitments on ERI should be the same as those they use for reporting to the DWI.</p> <p>To avoid any confusion we have linked our PR19 definitions webpage (https://www.ofwat.gov.uk/outcomes-definitions-pr19/) to the DWI website for the definitions of CRI and ERI to ensure companies use the same definition for both their PR19 performance commitments and reporting to the DWI.</p>

Ref No.	Topic	Query	Response
332	Outcomes	<p>We have a query about 'Table App 4', specifically the definition of customers who have a repayment plan.</p> <p>Are these customers who have made one or more payments towards a debt, and have agreed to make further payments? Do we include people who cleared their debt with a single payment, and were counted in the previous item as 'customers in debt'?</p>	<p>Please see the response to query 160, published in batch 4 of replies on 15 March 2018, where we say:</p> <p>"Continue to pay' means the customer making regular payments, even where it is a lower amount.'</p>
333	Outcomes	<p>Regarding 'Table App 4': what is Ofwat's definition of arrears? For example, how long does a customer need to owe us money beyond their expected payment date before we count them as being in arrears? Do they need to have been warned about arrears etc?</p>	<p>Please see the response to query 160, published in batch 4 of replies on 15 March 2018, where we say:</p> <p>'Companies should use the RAG 2.07 table 2.6.1 definition where debt management is referred to as debt outstanding for more than 30 days.'</p>
335	Outcomes	<p>My query relates to 'Table: App1 – Performance commitments (PCs) and outcome delivery incentives (ODIs) / Column Reference 30 / customers' relative priority / importance / free-format text with no validation. Examples: high/medium/low, quartiles, quintiles, 1 to 10'.</p> <p>Please explain the ranking/scale in your business plan commentary? Please can you provide further information on what is required in this column? Is it linked to our customer research?</p>	<p>In this column we are seeking to capture any information companies collected through their customer engagement of the relative priority customers attached to the companies' different performance commitments.</p> <p>At PR14 some companies provided a ranking of their customers' service priorities and others used high / medium / low. However, this column is free form because we are not prescribing that companies must provide this information, nor how they capture this information from their customer engagement. If companies have included commentary around their customer priorities in their business plans they could include a page reference in this cell.</p>

Ref No.	Topic	Query	Response
361	Outcomes	<p>My question is about consistency measures. The KPMG report on consistency identifies that there remain a number of outstanding definition issues on the outage measure (Under the RAG status is classified as Red).</p> <p>Please will you advise whether Ofwat will be issuing further guidance on how this measure should be applied, and will it be financial or reputational? When can companies expect this guidance?</p>	<p>We published the final reporting guidance for unplanned outage on our PR19 outcomes definitions webpage (https://www.ofwat.gov.uk/outcomes-definitions-pr19/) on 27 March 2018.</p> <p>On that webpage we explain that we have made some changes to the guidance as included in the March 2018 report for Ofwat and Water UK: “Targeted review of common performance commitments”. These were to clarify that the metric relates to unplanned outage, not all outage and the metric relates to peak week production capacity, not dry year peak week production capacity.</p> <p>Our guidance on how to set performance commitments and ODIs for the common performance commitments is set out in the PR19 methodology statement and in appendix 2 on outcomes. We recognise companies will not have a time series of historical data for this new consistent reporting guidance and that some companies will take time to become fully compliant with the final reporting guidance. We provide some guidance on setting performance commitment levels for metrics that lack a continuous times series of historical data on pages 58-60 of appendix 2.</p>