
PR19 final methodology queries and answers 24 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 sixth 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
14	Risk & Return	<p>I have a query about cost of debt.</p> <p>The PR19 Final Methodology (p177) indicates:</p> <ul style="list-style-type: none"> • a cost of new debt which is lower than the cost of embedded debt, and; • an average ratio of embedded to new debt of 30:70 <p>The Business Plan tables WR5, WN5, WWn7 and Bio6 support the WACC calculations for each of the 4 wholesale controls. The constituent figures making up the WACC are input as a single figure for the 5 years, and the calculations of the weighted average cost of debt are linked to the main model F_Inputs.</p> <p>However, Appendix 12, page 173 says that:</p> <p>“For the purposes of setting a notional cost of debt, our assumption is that the proportion of new debt would not be 30% for each year of the price control. It would be 30% on average, over the period. This means we would expect new debt to be less than 30% of a company’s debt liabilities in the first year, and more than 30% in the final year. It means the actual, allowed cost of debt will vary in each year.”</p>	<p>Please note that we have recently updated our cost of debt indexation model. A link is available here: https://www.ofwat.gov.uk/publication/new-cost-debt-reconciliation-model/</p> <p>a) The indexation mechanism is an extended trailing average which assumes build up of new debt at a constant rate over AMP7 with an average share of new debt over the period equal to the global notional assumption used. This can be verified by comparing cell F49 of 'InpC' with an average of cells K67:O67 from 'InpR'.</p> <p>b) Start and end period notional new debt shares are calculated in cell range K65:O66 of 'InpR'.</p> <p>c) The costs of debt in Table 10.2 represent an average for 2020-25 based on the 30:70 ratio.</p> <p>d) No - the financial model will apply a fixed 'ex-ante' cost of debt based on a fixed new to embedded share over the period covered by AMP7 to generate a provisional revenue allowance which will be trued-up using the indexation model. This is depicted in the green tabs under the heading 'FD Allowance'.</p> <p>e) Assuming cell references for the old model, cell F49 of InpC is for the notional new to embedded debt ratio. Cell F50 of InpC does not require an input but allows</p>

Ref No.	Topic	Query	Response
		<p>Please could you clarify:</p> <p>a) How the modelling mechanism will work such that the allowed cost of debt can vary by year, given the inputs are an average for the period?</p> <p>b) How the start of period and end of period notional ratios for new to embedded debt are to set (as used in the cost of debt indexation model)?</p> <p>c) Whether the cost of debt (and thus the WACCs calculated) in Table 10.2 represent an average over the period 2020-2025 based on an average 30:70 ratio of new to embedded debt, or whether they represent the starting position (and if so, what initial debt ratio is it based upon - is that the average for year 2020/21 or the starting position at 1 April 2020)?</p> <p>Also, related to these queries, the cost of debt indexation model shows the how the end of period true-up (for the cost of new debt) will be calculated:</p> <p>d) Is it also the intention that this true-up model will be the mechanism through with the proportion</p>	<p>modelling of an initial balance of new debt. Rows 60-67 of InpR show the assumed notional share of new debt at the start and end of each year, and the in-year average. We have reviewed the relevant formulae and confirm that they are working as intended. For instance, entering 30% in input cell F49 of the 'InpC' tab will populate these cells. The average of row K67:O67 in tab 'InpR' (an average of year-average shares of new debt across AMP7) gives 30%, as intuition would suggest.</p>

Ref No.	Topic	Query	Response
		<p>of notional new to embedded debt will vary across the period?</p> <p>e) The model requires inputs in cell F49 and F50 on sheet InpC. It appears that the intention is a linear increase in the initial proportion over the period, however the resulting calculations on InpR, rows 60-67 are not intuitively correct. Please could you clarify whether these formulae are correct and what are these figures intended to show?</p>	
75	Cost Assessment	Where the company, rather than customers, is funding pension contributions, can Ofwat confirm that these are not required to be brought into account for tax purposes?	The tax calculation in the financial model only takes into account tax deductions arising from any deficit recovery payments funded by customers.
86	Cost Assessment	<p>Re table WS4, line 11:</p> <p>There is no detailed methodology available on how zonal exceedances will be scored on the size factor for this measure. (For example – coliform exceedances where resamples are satisfactory, lead exceedances, plumbing issues, coliforms and odour failures, all at single properties). Please clarify the details behind how population will be scored for such exceedances?</p>	<p>Table WS4 lines 11 and 12:</p> <p>The third common performance commitment on our Common performance commitment definitions webpage is “Water quality compliance - The DWI’s Compliance Risk Index (CRI)”. We are using the same definition of CRI as the DWI to ensure consistency of reporting to Ofwat and the DWI. We published the most up-to-date information we had on CRI from the DWI at the time of the methodology statement on 13 December 2017 on our definitions webpage. We will liaise with the DWI to make sure we keep our webpage</p>

Ref No.	Topic	Query	Response
		<p>Re table WS4, lines 12:</p> <p>The methodology published by ofwat under outcome definitions varies from the methodology published on the DWI website with regard to the event seriousness score. We have received no detailed information on our performance to date, or any detailed method on how time and population will be calculated for each event. Please confirm which seriousness score will be used from these two published documents? Please confirm how we should forecast future and predict current performance without a detailed method available?</p>	<p>up to date with the latest definition of CRI and ERI. Where there are any differences we suggest you use the DWI's information as they are the owner of the CRI and ERI metrics. The DWI publishes CRI performance information in the Summary of the Chief Inspector's report.</p>
100	Programme Management	<p>Are you able to provide a more exact date than "March" for when we can expect the pilot version of the data capture system?</p>	<p>Unfortunately the rollout of the data capture system has been delayed. We are now expecting the data capture system to be available to companies from the end of May.</p>
122	Data tables	<p>Re table Wr7 - where there are no options in a WRZ, please could Ofwat clarify whether we should include the zone name but leave the remaining lines blank, or not include the zone in the table at all?</p>	<p>Do not include any details for zones that have no water resources options in table Wr7. Zone names will not be necessary.</p>

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135	Data tables	<p>Re table Wr5 - the proportion of new debt within the WACC calculation has been increased from 25% at PR14 to 30%.</p> <p>We note that the Europe Economics report arrived at the same number. However it appears that the percentage calculation in T9.1 of the EE report has used the total debt raised as a proportion of total debt as at 2025. We do not think this is appropriate given that the WACC is constant over AMP6 and therefore the ratio of embedded to new debt should reflect the average position. Taking the average value of new debt in AMP7 per EE's table as a proportion of the average total debt (60% of the opening and closing RCV for AMP7), the proportion of new debt would fall to under 20%.</p> <p>Our query is whether the PR19 assumption is fixed or whether Ofwat will review the calculation - particularly in light of company business plan information when this is available?</p>	As confirmed in the methodology, we will review the calculation of this figure taking account of totex forecasts once we have received business plans
162	Retail	<p>Many of the PR19 Business Plan tables refer to 'business customers'. There are many non-household customers such as charities that might not technically define themselves as businesses.</p> <p>Could Ofwat confirm that the interpretation of</p>	The term business covers businesses, charities and public sector organisations. It is, as suggested by NWG, premises that are eligible for the Water Retail Market.

Ref No.	Topic	Query	Response
		business customers throughout the tables should be “Premises that are eligible for the Water Retail Market (NHH).”	
198	Data tables	<p>Re table WS4:</p> <p>Line 11 (Compliance Risk Index) and line 12 (Event Risk Index) are presented in table WS4 as a percentage. The DWI are continuing to develop these measures, however, the latest definitions found on Ofwat's website (https://www.ofwat.gov.uk/outcomes-definitions-pr19/) for both CRI and ERI do not show the index score as a percentage. Please can Ofwat clarify whether they would like companies to report these lines as a number or a percentage (and if so, what this is a percentage of).</p>	<p>This was an oversight. The Compliance Risk Index and the Event Risk index lines should be reported as numbers, not percentages.</p> <p>We have included this change in the updated version of table WS4 issued in March 2018.</p>
201	Bio resources	<p>We have a query regarding the treatment of tankered organic waste (OW) at STWs and STCs. In essence, we believe that the RAGs (4.06 and 4.07) require us to report total sewage treated, and tankered organic waste, separately at STWs, but not at STCs. However, for financial reporting, we are required to net-off income (for OW sludge) from non-regulated businesses against our total cost of sludge treatment. We believe this has potential to lead to misleading</p>	<p>We will include a new line in business plan Table Bio1 where companies can enter the estimated quantity of sludge (ttds) that has been generated each year at in-area wastewater treatment works as a result of treating tankered organic waste in the wastewater treatment processes. This will allow us to take account of non-appointed tankered waste treatment activity on both costs and quantities for the bio resources control and cost assessment purposes. Companies will need to explain the basis of their estimate of sludge quantity produced from treating tankered waste.</p>

Ref No.	Topic	Query	Response
		unit costs of treating sludge and may be reported differently by different companies.	
212	Data tables	<p>Re table App7, lines A1-5:</p> <p>These lines do not adjust for non-price control or third party revenue adjustments. This just assumes that all revenue is to be collected through the separate price controls. Therefore, need to be adjusted using the information on tables WR3/WN3/WWN5 and BIO4.</p>	<p>We are amending the wholesale revenue projections e.g. Wr3 to adjust for both price control and non-price control income within the allowed revenue calculation. This will then be pulled through in App7. We will also ensure consistent naming between the data tables.</p>
224	Data tables	<p>Re table 19 / worksheet: FinSta Retail:</p> <p>Having an input value for ACTS in the 31 March 2020 year gives spurious opening income/cashflow errors in the subsequent opening year, which affects the modelled period 2020-25 and beyond.</p>	<p>We agree that ACTS in the 31 Mar 2020 year can give errors. We will amend the FinStatRetail sheet to replicate the approach in the FinStatResidential and use corkscrews to remove these errors.</p>
234	Financial Modelling	<p>Re 15 / Worksheet : InpOverride / Cell :#1086 - 1088: InpOverride #1086:</p> <p>The wrong heading is used here. It repeats the 'water network CPIH linked' instead of 'water network new additions'.</p>	<p>Please see response to query 183 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>

Ref No.	Topic	Query	Response
		<p>InpOverride #1086 also picks up the same runoff rate as the CPI linked assets from the F_Inputs sheet #276.</p> <p>There is no input for runoff rate for new Water Network assets. This should be added to the input sheet and linked in to InpOverride #1086.</p> <p>Water Resources correctly has separate inputs for all three categories.</p>	
235	Financial Modelling	<p>Re 16 / Worksheet : Water Network / Water Resources / Cell :#1020:</p> <p>No WDV depreciation for new additions occurs in the first year as the opening balance is zero.</p>	<p>Please see response to query 184 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
236	Financial Modelling	<p>Re 17 / Worksheet : Water Network / Water Resources / Ref :#1009 - #1013:</p> <p>To avoid the WDV zero balance in the first year SL depreciation could be used instead (when the SEW-15 item is corrected!). However the SL depreciation calculation for new additions is not</p>	<p>Please see response to query 185 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>

Ref No.	Topic	Query	Response
		the same calculation as used at PR14 (and most prior reviews) where 50% of additions are depreciated in the first year.	
240	Financial Modelling	<p>Re 4 / Worksheet : Water Resources / Water Network / Cell : K1387:</p> <p>WR/Network floating rate debt issued uses % WR/Network totex to allocate. 2019-20 has no totex input so no %WR/Network totex and no drawdown is recognized.</p>	<p>Please see response to query 91 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
241	Financial Modelling	<p>Re 5 / Worksheet : Water Resources / Water Network / Cell : K1307:</p> <p>As query 240 above but for IL debt drawdown.</p>	<p>Please see response to query 92 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
242	Financial Modelling	<p>Re: 6 / Worksheet : Water Resources / Water Network Cell : K1354:</p> <p>WR indexation of IL debt is limited by forecast period flag so 2019-20 indexation is not accounted for.</p>	<p>Please see response to query 93 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>

Ref No.	Topic	Query	Response
243	Financial Modelling	<p>Re 7 / Worksheet : F_Inputs / Model General:</p> <p>There is no facility for entering 'other income - revenue control' (which appears below the operating profit P&L line). This line only includes - non revenue control items. Any 'other income-revenue control items' will need to be included above the operating profit line in 'other operating income'. This is different to previous periodic review treatments and inconsistent with the regulatory accounts.</p>	<p>Please see response to query 94 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
244	Financial Modelling	<p>Re 8 / Worksheet : Retail Residential / Cell : #253 - Duplication of other debtors:</p> <p>R_R line 253 'Debtors other b/f nom' picks up the F_Inputs#1060 'Retail other trade receivables'. This same input also goes to wholesale trade debtors.</p>	<p>Please see response to query 95 published in batch 4 of answers on 15 March 2018:</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
245	Financial Modelling	<p>Re 9 / Worksheet : Retail Residential / Cell :#316 - #320 / : Retail: - Wholesale creditor b/f - opening balance:</p>	<p>Please see response to query 96 published in batch 4 of answers on 15 March 2018:</p>

Ref No.	Topic	Query	Response
		<p>The model currently calculates the opening wholesale creditor balance as exactly the same as the residential debtor balance. This is incorrect and generates significant cash flow errors with the movement to the 2020-21 year.</p> <p>The 2020-21 year is calculated correctly based on the wholesale charge (retail residential portion) x 1.5(input)/12 months creditor months. An input value for the opening balance is required for the wholesale creditor balance for residential and business.</p>	<p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p>
249	Data tables	<p>Re: App13 / App 14:</p> <ol style="list-style-type: none"> 1. We receive monthly direct debit payments from measured customers which generally build up a credit balance, which is then offset when the meter reading is taken and the bill raised. In our annual reporting we net these credits off the measured income accrual. Can you confirm whether we should adopt that approach for App 13 or whether we should include these credits on App 14 as “advance receipts”? 2. App 14 section B – we will be modelling our trade creditors and accruals for the company 	<p>We have reviewed these points and propose the following actions:</p> <ol style="list-style-type: none"> 1. App13/App14 - the credits should be included as “advance receipts” on App 14. 2. App 14 section B - the metrics are required for financial modelling and are calculated so do not represent an additional data burden for companies. 3. App 14 lines 21 & 22 - the metrics are required for financial modelling. Line 21 is for retail business customers rather than for inter-price control trading.

Ref No.	Topic	Query	Response
		<p>using a day count. This will be at company level and the same for all business units. The calculations on App 14 section B will however generate a range of different figures as they will include items (e.g. pay and rates) in totex for each business unit that do not form part of the trade creditor calculation. Taking this into consideration, does this section add any information of value? The previous version of the tables with one line for trade creditor days and one for capital creditors seemed more appropriate.</p> <p>3. App 14 – lines 21 and 22 – can you provide some guidance as to what these rows relate to and what they are intended to be used for? For example row 21; we do not have any trading between residential retail and wholesale.</p>	
257	Risk & Return	<p>Our question is about calculation of RCV (CPIH + RPI wedge):</p> <p>The calculation of the RPI-related element of the RCV in the financial model does not yet look to quite match the approach shown in section 6 of the rulebook, even after updating the model to reflect the improvements identified in the Query and Response Ref 6 (published 7 February 2018).</p>	<p>We agree that the financial model currently calculates indexation incorrectly due to the change from FYE/FYA. This will be amended in the next version of the financial model.</p>

Ref No.	Topic	Query	Response
		<p>Once incorporating the changes from Query Ref 6, the opening AMP7 RPI-related RCV is converted from 2017/18 (CPIH FYA basis) prices to 2019/20 year average prices using CPIH. (Thereafter, the calculation uses CPIH + RPI wedge, i.e. forecast RPI). However, this approach is not consistent with the approach shown in the "PR19-RCV-indexation-illustrated-model", where the closing AMP7 RCV (in FYE, i.e. March 2020 prices) is deflated to 2017-18 (CPIH FYA basis) using the CPIH March 2020 index, rather than the CPIH FYA 2019-20 index.</p>	
258	Risk & Return	<p>Re dashboard revenue building blocks summary - when the forecast period (InpActive cell F29) is set to 10 years (which is necessary if using the model to estimate the AMP8 position), the revenue building block 5 year aggregate summary on the Dashboard (T168 - X188) sums 10 years of the revenue building blocks, rather than 5.</p>	<p>We agree that this is incorrect, we propose amending the formula to a simple SUM formula for the AMP7 period. This change will not be made in the version of the model published in March 2018 but will be made in a later version of the model.</p>
259	Programme Management	<p>When are final versions of the annual return tables available?</p> <p>Are we expected to forecast shadow reporting metrics in table 3S to the end of the AMP, or do as per last year i.e. just actuals for current year?</p>	<p>APR tables</p> <p>We published final versions of the tables alongside IN18/07. But we are reviewing a number of queries that we have received from companies in relation to the APR excel template file, and will reissue an</p>

Ref No.	Topic	Query	Response
			<p>updated template shortly.</p> <p>APR table 3S (shadow reporting)</p> <p>We are not expecting companies to forecast the shadow reporting metrics in table 3S (shadow reporting of new definition data) to the end of the AMP. We expect companies to enter the performance level and red/amber/green assessments for the 2017-18 reporting year only.</p> <p>Note: if companies are re-stating any 2016-17 shadow reporting data, the re-stated performance level(s) and red/amber/green assessments should be entered in table 3S. The reason for the re-statement should be explained in the separate commentary.</p>
268	DPC	<p>IN18/02 requests that “As part of the early submission of cost adjustment claims, companies should identify and include projects which they expect to meet the £100m whole life totex threshold for DPC, regardless of whether they ultimately intend to put the project forward for DPC or use in-house delivery.”</p> <p>Could Ofwat clarify whether we should submit all projects that meet the £100m whole life totex threshold that are in the business plan, or only those projects that meet the £100m whole life</p>	<p>The information notice IN18/02 relates to the early submission of cost adjustment claims. We are asking companies to submit information about all cost adjustment claims which are over the materiality threshold for 2020-2025 totex in the relevant control. Some of these may also be candidate projects for DPC. However, we are not asking companies to submit information in May about DPC schemes that are not also cost adjustment claims.</p>

Ref No.	Topic	Query	Response
		totex threshold and are likely to be subject to a special cost factor claim (including those that are possible DPC projects).	
269	Totex	<p>IN18/02 states: “Our cost assessment approach will deliver cost allowances that cover an efficient level of totex for each company, including an efficient allowance for its new statutory and growth enhancement activities.”</p> <p>We had expected that an exception to this statement would be allowed for enhancement expenditure in the bio-resources price control. In the PR19 consultation document Ofwat stated: “[W]e propose to include only base costs in our [bio-resources] benchmarking models. Any enhancement investment will be assessed separately should the company raise a cost adjustment claim.”</p> <p>We did not notice an explicit change in this position in the final methodology document, although the statement was not repeated.</p> <p>Could Ofwat clarify whether all Bio resources enhancement expenditure will require a cost adjustment claim?</p>	<p>We confirm that bio resources enhancement will require cost adjustment claims. As we said in our draft methodology, we do not expect that there will be any new statutory requirements for improved levels of treatment of bio resources in 2020-25 to drive further investment. Investment in additional capacity to accommodate additional volumes of sludge tends to be lumpy and infrequent. We will consider allowing for a material and well justified investment through the cost adjustment claims route.</p>

Ref No.	Topic	Query	Response
271	Performance commitments	<p>Line 10 in table WS18 and line 12 in table WWS18 ask for the number of performance commitments for water and wastewater services. We assume this means to capture the number of performance commitments that are applicable each year.</p> <p>So for a company that had 14 performance commitments evenly split between water and wastewater services, the number each year would be 7 and this would be the same for 2020-25. However column Q sums these rows to give a number of 35 in this example. Have we interpreted the requirements of this line correctly?</p>	<p>We have decided to remove these lines from tables WS18 and WWS18. We have done this because the lines in these tables are not compatible with the reporting by price control captured in App1. For our external communications, we can calculate the total number of performance commitments (PCs) by aggregating the number of PCs by price control from App1.</p> <p>We have included these changes in the updated version of tables WS18 and WWS18 issued in March 2018.</p>
289	Financial Modelling	<p>Re table: Water Resources, Water Network, Sewerage Network and Bio Resources, Row 886:</p> <p>As the RCV is input in the model in 2017/18 CPIH adjusted prices, we think the CPIH inflator (worksheet 'Index' line 76 - 'CPI(H): Fin year average - inflate from base year 2017-18 average') should be used to inflate both the RPI linked and CPIH linked 2019/20 RCV's to nominal prices? We ask this question as the RPI linked RCV is currently being inflated using the RPI inflator (worksheet 'Index' line 108 "CPI(H) + RPI wedge 2017-18 active").</p>	<p>This has been raised by other companies and has been amended in the version of the model published in March 2018.</p>

Ref No.	Topic	Query	Response
292	Financial Modelling	<p>Re table: Water Resources, Water Network, Sewerage Network and Bio Resources / Row 38 and 48:</p> <p>At PR14 and previous price reviews, all third party income was deducted from the revenue requirement so that customer bills were lower as a result of the additional revenue. It is not clear whether there is a methodology change in the treatment of third party income as neither the data tables (Wr3, Wn3, WWn5 and Bio4) nor the financial model adjust for the income in the revenue requirement. Can you please confirm if this is a change or omission?</p>	Please see response to query 374 below in this batch of answers.
303	Financial Modelling	<p>Re table: Wholesale:</p> <p>For the calculation of adjusted taxable profit/loss, non-price control income (third party services) has been omitted.</p>	This is currently an error in the financial model. We will amend the model so that non-price control income will be added to the adjustable taxable profit/loss calculation.
311	Data tables	<p>Re table: Appointee / Row 288:</p> <p>The calculation of the change in net debt balance is incomplete as the 'additions' line in the calculation has been left blank. The change in net debt is being used in the calculation of the tax allowance by price control.</p>	The model has been using the FAST standard, the approach is a standard FAST corkscrew. In this instance there is no movement between the opening and closing balance, but in order to preserve the corkscrew the 'additions' line has been left in. We therefore do not propose to amend. Where we have left such lines in they will be shown highlighted in grey and surrounded in squared brackets.

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312	Data tables	<p>Re table: FinStat_Appointee:</p> <p>It is not clear from the data table guidance or methodology whether there is a requirement for the data tables containing financial statements and supporting information (App11 to App16) to be populated using the financial model. If this is the intention then either the tables or the financial model will need to be revised as the tables contain lines that do not currently exist in the model. For example, the model does not separately calculate amortisation which is required in tables App11 and App15.</p>	<p>The financial model can be used to populate some lines of the data tables. This can be done using the published mapping tool (see mapping tool sheet 'BPT Extracts'). However not all lines will be able to come straight from the financial model. We have published an appointee balance sheet model which users can use to adjust the balance sheet to take into account line items that aren't in the financial model e.g. Derivative financial instruments</p>
318	General	<p>In section 13.3.3 of the final methodology, reference is made to the data capture system, and that companies will submit their business plan tables and documentation using this system.</p> <p>We would be grateful if you could clarify what is meant by documentation. We can see that excel spread sheets are mentioned in this section and we understand that the data table information will be provided via this system. However, is there an expectation that narratives, IAP proforma, appendices and other supporting evidence will be submitted via the data capture system?</p>	<p>The data capture system will be used to collect all electronic files for the APR submission and business plan submission this year.</p> <p>For the business plan in particular there will be two upload links provided to each company. The first link will be for the completed business plan Excel templates and will allow us to upload the data to our database. The second link will be for uploading all other business plan files in any file format. This includes (but not limited to) narratives, IAP proformas, appendices and other supporting information.</p>

Ref No.	Topic	Query	Response
326	Data tables	Re App31 / Row 10 "Satisfactory sludge use / disposal" does not apply to WOCs. Therefore the "validation flags" will always show up as "No, check table" for a WOC.	We have built in validation flags that are appropriate for WaSCs and WoCs.
327	Data tables	Re table WS17 / Embedded table guidance states: "We expect companies to supply populated models and accompanying reports on compliance with trading and procurement codes with the regulatory accounts reporting in July 2018". This is inconsistent with the responses to the Q&A which states that water trading reconciliation spreadsheet is to be submitted in September. Can we assume that the Q&A response represents your latest thinking?	<p>The Q&A response to query #80 is correct (published in batch 4 of queries and answers: 15 March 2018).</p> <p>https://www.ofwat.gov.uk/publication/final-methodology-queries-answers-15-march-2018/</p> <p>We have updated the embedded table guidance accordingly.</p>
329	Data tables	Table R8 / Row 2: For companies that have exited the retail market row 2 will be left blank and therefore the "validation flags" will always show up as "No, check table".	We have built in validation flags that are appropriate for those companies that have exited the retail market.

Ref No.	Topic	Query	Response
336	Data tables	<p>Re: App 31 / Line 11 / Prosecutions for breach of relevant environmental requirements enforced by EA/NRW:</p> <p>Please can you confirm whether this line should include on-going prosecution investigations or only those that are completed?</p>	We confirm line 11 in App31 should include only completed prosecutions, not the ongoing cases.
338	Data tables	<p>App 18 (line 7) refers to dividend declared per share (£) and the guidance refers to dividend paid in the year. Line 8 refers to ordinary dividend (£m) and the line guidance refers to ordinary dividend declared in the year. Can Ofwat confirm whether both lines should refer to total dividend paid in the year (£m)?</p>	We will amend the data table guidance to be consistent with the tables above.

Ref No.	Topic	Query	Response
339	Data tables	<p>Re tables WS1, WWS1, R1:</p> <p>We intend to put our (actual and forecast) pension deficit recovery costs in data tables WS1 (line 22), WWS1 (line 22) and R1 (line 7). Whilst we are not seeking for these costs to be recovered from revenues (i.e. we expect revenue recovery consistent with IN13/17), we felt that the table requires us to input our actual and forecast pension deficit recovery costs. Can Ofwat confirm that this would not result in an implication that we were seeking recovery of pension deficit costs over and above IN13/17, or whether Ofwat expect us to input pension deficit costs consistent with IN13/17 into those table lines?</p>	<p>For the AMP7 forecast spend this should equal actual spend forecast, rather than the allowed cost as per Ofwat's Information Notice.</p>
341	Data tables	<p>Re App 16:</p> <p>As the average asset lives in App 16 (lines 41 to 48) are used in the Financial Model to calculate depreciation using total capex (which covers both tangible and intangible assets), the asset lives in these lines should be calculated using both tangible and intangible assets. Therefore, should lines 1 to 40 of App16 also be prepared on a total asset basis i.e. including both tangible and intangible assets?</p>	<p>We would not expect depreciation on intangible assets during the period; although if companies felt that certain assets should be treated that way they should be included in app16 with an explanation of why they have been included.</p>

Ref No.	Topic	Query	Response
343	Data tables	<p>Re App 14 - lines 23 & 24:</p> <p>Are these referring to a creditor from the retail perspective owed to wholesale or is it a receivable from the wholesale perspective from retail (in which case it shouldn't be on a payables table)?</p> <p>Also, the item references are the same as App13 lines 25 and 26. Should they be C00138 and C00139 as per the Financial Model Mapping Tool?</p>	<p>Lines 23 and 24 refer to payments to retailer to wholesaler, please see table guidance to assist in completing. We will update the item references in both the data tables and financial model.</p>
346	Data tables	<p>Re App 7:</p> <p>Line 18 calculation guidance is: "Wn3 line 17 multiplied by sum of Wr3 lines 13 and 15."</p> <p>This should read: "Wn3 line 17 multiplied by sum of Wn3 lines 13 and 15".</p> <p>A similar issue is evident in line 28 where the guidance refers to wastewater service instead of combined.</p>	<p>We agree and have corrected the references in the guidance.</p>

Ref No.	Topic	Query	Response
347	Data tables	<p>Re App 14:</p> <p>Line 10 is linked to preference shares on App18, but the sign convention is different on the two tables.</p> <p>On App18 we would expect to enter +ve values in block C preference shares.</p> <p>App18 line 15 is copied into table App14 line 10 which is a liability and we would expect to enter the value as -ve. App14 line 10 should equal App 18 line 15 multiplied by -1.</p>	<p>We agree and we will amend the formula in App14 line 10 to convert the signage.</p>
348	Financial Modelling	<p>Re App 29:</p> <p>We assume that any required adjustment in relation to IFRS15 would be input within lines F78-F82 of App 29 (“Other adjustments to taxable profits”)?</p> <p>If we consider an adjustment would be necessary, can Ofwat confirm that these lines would be appropriate to make such an adjustment?</p>	<p>We would expect any adjustments in relation to IFRS15 to be entered against "Other adjustments to taxable profits", however we do not expect any large adjustments and would anticipate companies to provide commentary on any adjustments made due to IFRS15.</p>
350	Cost Assessment	<p>Re App 24:</p> <p>Should rates and abstraction licences / EA fees be included in the “other” cost category, or should</p>	<p>We would expect companies to include these items within the 'other' category and companies should set out in their commentaries what has been included and how much each item in this category accounts for.</p>

Ref No.	Topic	Query	Response
		they be excluded from this table (e.g. if they are subject to a separate cost assessment)?	
352	Financial Modelling / DPC	<p>We have a query about IFRS 16 Leases:</p> <p>We note that the latest tables issued on 16 March include reference to IFRS16 in the “change control” tab to line definitions on the balance sheet table (App12):</p> <p>"Companies' financial projections should be based on the RAGs that exist for the base year 2017-18 annual performance report. We published these on the 16 November 2017. This means that we expect companies to follow UKGAAP (unless the RAGs specify otherwise) and adopt any changes that arise over future periods. In particular this means that IFRS companies will adopt the new IFRS 16 standard from 1 April 2019."</p> <p>It would be helpful if this guidance was more clearly intended to be applicable to all tables, and not just to App12, as no such note appears against other tables, e.g. App11 Income Statement, or the totex tables for the impact on projects proposed to be delivered via Direct Procurement for Customers (DPC), which IFRS 16 adoption will also impact on.</p>	<p>We would expect companies to report leases in line with IFRS16 standard when implemented in 2019/20. We are currently working through the approach to be taken for the change in accounting for leases and guidance will be published when completed.</p>

Ref No.	Topic	Query	Response
		<p>In particular it would be very helpful for Ofwat to clarify how / whether IFRS16 should be assumed to apply to potential DPC projects, which may (under IFRS 16) be classified as capex, even if those costs are being delivered by the Competitively Appointed Provide (CAP).</p>	
358	Cost Assessment	<p>Re PR19 Data Tables including WR8 and WN6 – Cost Adjustment Claims:</p> <p>Where actual values for the historic reporting of total expenditure are not readily identifiable, how does Ofwat expect companies to report this information?</p> <p>In this instance companies could use inflation to back-cast the latest available figures into nominal prices for each historic year, leave the reporting of historic expenditure blank or where similar cost adjustment claims were accepted at PR14 report these values as possible reporting options.</p> <p>Please could Ofwat confirm whether and how they intend for companies to report historic total expenditure when actual values are not readily identifiable?</p>	<p>For a special cost claim for a greenfield new build site, such as for a reservoir, or a desalination plant this line will be filled in with zeros. However, if it is a cost claim to upgrade a treatment works to meet increased throughput then we would expect the historical capital maintenance and the opex for that site in the historical expenditure lines, so that the claim is in the context of what has been spent on the site in the past. We need to know how much totex might be in our modelled allowance before we add on anything extra for a cost adjustment claim. If the claim is for a regional difference (such as regional wages) then we would expect to see how much has been historically spent on wages, so we get some understanding of the size of the issue.</p>

Ref No.	Topic	Query	Response
359	Cost Assessment	<p>I have a query about retail control:</p> <p>In the Final Methodology, Ofwat says they will not index the retail control. At PR14 Ofwat was accepting of a retail cost adjustment claim for retail input price pressures, in the instance it could be evidenced by companies that costs were already efficient and further efficiency savings could not absorb the effects of increasing input price pressures.</p> <p>Does Ofwat still consider the cost adjustment process to be the appropriate mechanism through which this effect is accounted for, in light of Ofwat's request for information on retail input price pressures and efficiency gains in the data table App24a?</p>	<p>We will review evidence on forecast input price pressure in retail for the duration of the price control. If appropriate, we will make a cost allowance for inflation as part of totex. See page 24 of appendix 11.</p> <p>We will consider evidence on input price pressure submitted by companies (companies will separately identify input price pressure assumptions included in their retail forecasts. More information can be found in the guidance on business plan data table submissions, appointee tables 24 and 24a.). We will also consider independent data sources and forecasts.</p> <p>Given that our PR19 approach involves setting an efficient cost allowance for all companies, we intend to apply a common method for determining an inflation allowance for all companies, if we consider that such an allowance is appropriate.</p>
360	Cost Assessment	<p>Our query relates to wholesale cost:</p> <p>In the draft Pro Forma APR tables issued November 2017, Ofwat have expressed the intention to collect data on a number of new lines. For these new lines do you expect companies to report these new lines for 2011/12-2017/18 for this year's wholesale cost submission to reflect the same time period of data collected by</p>	<p>At this stage we only expect companies to report on the year that is included in the pro formas.</p>

Ref No.	Topic	Query	Response
		companies last year? Please can Ofwat confirm their reporting requirements for these new lines?	
362	Data tables	<p>Re tables WS18 and WWS18:</p> <p>The revised lines 9 (WS18) and 11 (WWS18) require the change in the average residential customer water bill over the period, consistent with the calculation of the average bill as used in Discover Water. Please can you confirm which price base you require the 19/20 and 24/25 bills to be in before the percentage calculation for the tables is made.</p>	<p>We require the bills to have been calculated in 2017-18 prices before calculating the percentage change. We have amended the line definitions to make this clear.</p>
365	Past Delivery	<p>Re App31 (line 12) – enforcement undertakings for breach of relevant environmental requirements from EA/NWR:</p> <p>Should we only include only those EUs that have been accepted? Or should it also include any that have been submitted including ones that have been rejected or the outcome is awaited?</p>	<p>We confirm that line 12 in App31 should only include undertakings accepted by the EA/NWR and not those that have been submitted and are awaiting decision or those that have been rejected.</p>
366	Cost Assessment	<p>Re table Wn1 (lines 33 to 40) – size bands for WTWs:</p> <p>We note the size bands are based on Total DI (distribution input). Please could you confirm how</p>	<p>We agree with your interpretation and will amend the size bandings to reflect maximum production capacity (MI/d).</p>

Ref No.	Topic	Query	Response
		<p>water treatment works that have not been used in the year, because they were out of service for refurbishment or mothballed, should be accounted for?</p> <p>As an example we have a large works with a design production capacity of 18 MI/d and an abstraction licence that is restricted to 6 MI/d in summer. For the past two years the works has been out of service for planned maintenance in order to carry out major refurbishment, and therefore its distribution input has been zero. We consider that the most appropriate size band is 5, based on its production capacity, which has the additional benefit of being consistent with the new performance commitment for unplanned outage. Please could you confirm we have interpreted this correctly? The alternative is to put the works in size band 1 less than 2 MI/d, on the basis of a DI of zero.</p>	
370	Financial Modelling	<p>Re allowed returns on additions:</p> <p>The latest version of the financial model appears to be calculating these incorrectly - it is giving negative returns throughout the period. This seems to be driven by the calculation in row 1114 of the 'water resources' or equivalent tab. This should be the average of the opening and closing</p>	<p>We agree that this is an error in the financial model. This will be amended to be an average in the next version of the model to be published.</p>

Ref No.	Topic	Query	Response
		RCV; instead it takes the closing RCV off of the opening. Can you confirm if this is correct?	
371	Data tables	<p>Re table WS18 (line 6) volume of water traded:</p> <p>We are not clear what to include in WS18 line 6 volume of water traded. Specifically, should we report only new trade agreements that will be set up under the WR procurement code, or should we also include volumes of water we currently import/export from other companies under existing bulk supply arrangements?</p>	<p>We want to understand the actual and forecast total volume of water traded. This line should therefore include current import and exported water under existing bulk supply arrangements and forecast water traded under new trade agreements. We have amended the definition to make this clear.</p>
374	Data tables	<p>Is there an error in the calculation of revenue requirement in each of the Wholesale price controls?</p> <p>Line 132 in the Water Resources tab (and similar for WN, WWN, and BR) deducts third party price revenues – other price control income [Block B of tables WR3, WN3, WWN5 and Bio4] but does not deduct third party revenue (non-price control) [Block D of tables WR3, WN3, WWN5 and Bio4] (Bulk supplies and rechargeable works) from PAYG totex + Return on Capital + RCV run-off to arrive at allowed wholesale revenues in line 133.</p> <p>However, the costs relating to third party services are included in PAYG totex, as the input mapping</p>	<p>This is an error in the financial model. Both price control and non-price control third party services should be deducted from the revenue requirement calculation. This will be amended in the next version of the financial model.</p>

Ref No.	Topic	Query	Response
		<p>tool picks up Total Operating Expenses (including 3rd party services) [line 11 in WS1 and WWS1].</p> <p>This appears inconsistent and may result in overstated residential and business bills. It would seem that either the costs should be excluded from the Totex, and then added back in the Appointee Financial Statements (as this is where the 3rd party revenue non price control is currently included), or line 132 should deduct both 3rd party price revenues – other price control income and Third party revenue (non-price control).</p> <p>We note the response to query reference 159, in the responses to queries document published on 15 March 2018, to a similar question which stated that “the non-price control income is not included in the revenue requirement calculation for average bills; as such it is not required to be removed”. This response does not resolve our query as there is no deduction in the average bill calculation for third party (non-price control) revenue and the approach in the PR19 financial model also appears inconsistent with the PR14 final determination where ‘Income from other sources’, which included Bulk supplies and rechargeable works, was deducted from PAYG</p>	

Ref No.	Topic	Query	Response
		totex + Return on Capital + RCV run-off to arrive at allowed wholesale revenues.	
379	Cost Assessment	<p>Re table R3, Block C – Customer service metrics, lines 17-21:</p> <p>The definition of these lines states they should be calculated as “annual contact centre expenditure divided by total volume of inbound contacts for each channel in the reporting year”. We assume that the annual contact centre expenditure for each line is the expenditure relevant to that specific channel (rather than total expenditure for the contact centre). For example, line 17 would be the annual contact centre expenditure for inbound calls, divided by number of inbound calls in a year. Please could you confirm this is the correct interpretation, or clarify if this is not the case?</p>	Feedback from companies suggested that some would find it challenging to report costs at the disaggregated level (i.e. call, email, webchat). Therefore, we have asked that these metrics are based on total contact centre costs (as stated in the guidance).
380	Data tables	<p>Table WR2 does not contain a category titled ‘Other’ whereas the equivalent APR table (4V) does have this column.</p> <p>Also, the equivalent Bio Resource tables (BIO 3 and APR - 4W) include the ‘Other’ category. Is the omission in table WR2 deliberate or accidental?</p>	The 'other' category was omitted in both the BPDT and RAGs in error as it was included in the cost assessment information request. Both table Wr2 and table 4V will be updated to include it.

Ref No.	Topic	Query	Response
383	Cost Assessment	<p>Re WN2 - Please confirm the demand data (distribution input, water delivered etc. see below) for PR19 is 'normal year' rather than 'dry year'?</p> <p>The WRMP is forecasted as 'dry year', however the definition refers to JR11 and the June return process would have been 'normal year', and of course the BP for PR14 was forecasted as weighted average, which does not exist for PR19.</p>	<p>Yes – populate with normal year forecasts. We have removed the reference to JR11 and have included the information underneath the line definitions instead.</p>
385	Data tables	<p>Re table WWWS4 (lines 10 -12):</p> <p>Some of the information needed is the amount of storage provided by storm tanks at STW or in the sewer network to meet spill frequency objectives. For sewerage network schemes, the required spill frequency objectives can sometimes be met by removal of surface water from the network, or attenuation using SuDS solutions as an alternative to providing additional network capacity via a storage tank.</p> <p>Where this has been done, should the equivalent storage volume (the provision of which has been avoided by removing surface water from the network or using a SuDS-type solution) be counted?</p>	<p>For sewerage network or STW schemes where the aim to meet spill frequency objectives is delivered by a solution other than providing additional storage, e.g. by surface water separation or by flow attenuation, costs should not be entered in Table WWS Lines 10 or 11. Instead, they should be entered using the freeform lines at the bottom of Table WWS2 Block A (for capex) and Block B (for opex).</p> <p>No outputs will be recorded in Table WWS4 for this type of solution. Companies should instead describe and provide details of the alternative solutions including, if known, the equivalent volume of storage, the provision of which has been avoided by the alternative solution in their commentary to Table WWS2. This approach will ensure that the links between the costs entered in Table WWS2 Lines 10 and 11 and the associated output lines in Table WWS4 (Lines 10-13) will not be broken or become confused.</p>

Ref No.	Topic	Query	Response
386	Cost Assessment	<p>Re table WWWS4:</p> <p>Line 13 refers to the number of sites in the sewer network where storage has been provided to meet NEP spill frequency objectives. Can you please clarify what is meant by a 'site'?</p> <p>Some initial thoughts are, is it:</p> <p>An individual drainage area (which might have had several projects within it), or;</p> <p>A project (which might have delivered storage in several locations), or;</p> <p>A specific location within a project?</p>	<p>For the purposes of Table WWS4, line 13, a site is defined as a specific location at which storage has been provided. For example, if storage tanks have been constructed at two discrete locations within the network to meet NEP spill frequency objectives, either at a specific CSO or a group of CSOs, then this should be recorded as 2 sites.</p>
387	Data tables	<p>We have noticed a small error in the size banding requirement in the guidance notes:</p> <p>In bands 2 to 7 the \leq should be \geq.</p>	<p>We have now corrected this error in signage.</p>
391	Data tables	<p>Re Data mapping tool:</p> <p>We have noticed that the following lines may be duplicates of the links to the data tables and are not actually used within the financial model.</p>	<p>We agree that these are duplicates. These will be amended in the mapping tool and financial model.</p>

Ref No.	Topic	Query	Response
		<p>Line 255 - WN40010 - method used to apply run off rate (straight line or reducing balance) ~ water network plus CPI(H) linked.</p> <p>This is a duplicate of line 253 and does not feed through to the financial model.</p> <p>Line 188 - WWN60010 - method used to apply run off rate (straight line or reducing balance) ~ wastewater network plus CPI(H) linked.</p> <p>This is a duplicate of line 186 and does not feed through to the financial model.</p>	
392	Data tables	<p>Re Data mapping tool:</p> <p>We have noticed that the following lines may be incorrectly linked to the data tables:</p> <p>Line 393 - WR50008 - Cost of equity (used in WACC) ~ water resources</p> <p>Line 394 - WN50008 - Cost of equity (used in WACC) ~ water network plus</p> <p>Line 395 - WWN70008 - Cost of equity (used in WACC) ~ wastewater network plus</p>	<p>This is an error in the mapping tool. We will amend the mapping tool to link to the actual company structure lines.</p>

Ref No.	Topic	Query	Response
		<p>Line 396 - BIO60008 - Cost of equity (used in WACC) ~ bio resources</p> <p>Line 397 - WWN70008_DMMY - Cost of equity (used in WACC) ~ dummy</p> <p>This has been updated from linking to tables WR5, WN5, WWN7, BIO6 and dmmmy9 cells G13 & H13 in this iteration to G25 & H25. However, should these lines be collecting the data from cells G13 and H13 - that is the nominal structure not the actual?</p>	
394	Cost Assessment	<p>Re table App22:</p> <p>Could you please clarify whether you need us to include both employer's contributions to employee's pension and employer's pension deficit contributions, and if so which parts of the table should cover each?</p>	<p>Yes both ongoing contributions and deficit contributions should be included. Block B captures ongoing contributions for defined contribution schemes. Block C captures ongoing contributions for defined benefit schemes and block D deficit contributions.</p>
399	Outcomes	<p>Re early submission - please provide an estimate of when we might receive feedback on our PCs / ODIs / CACs following the early submission.</p>	<p>We provided information about feedback to companies from the 3 May submissions in IN18/02:</p> <p>"We will provide companies with feedback about their performance commitment definitions before they submit their business plans, where it is appropriate to do so. We expect to provide this feedback at the end</p>

Ref No.	Topic	Query	Response
			<p>of June or early July to give companies time to adjust their definitions ahead of submitting their business plans on 3 September.”</p> <p>“Unlike our approach to performance commitments, where we will provide companies with feedback about their definitions before they submit their business plans, where it is appropriate to do so, we will not provide specific feedback to companies on their early submission of cost adjustment claims.”</p>
401	Data tables	<p>Re data tables:</p> <p>Block A of tables WR3, WN3, WWN5 and Bio4 provide analysis of the wholesale revenue building blocks. In conjunction with the netting off of other price control income in Block B, this gives the wholesale allowed revenue (Block C, row 17), which flows through to average wholesale bill calculations in Block D of App7. Could you please confirm how we should reflect any revenue re-profiling?</p>	<p>We will amend the block A of the data tables adding another line to allow companies to reprofile their revenue between years.</p>
406	Financial Modelling	<p>Financial Model - while not essential, we would welcome an update of the 'reference' column (G) on the F_Input sheet, to aid matching of inputs with data tables without the need to refer to the BPT-FM mapping tool.</p>	<p>We will review and amend the labels to reflect the latest data tables in both the financial model and mapping tool.</p>

Ref No.	Topic	Query	Response
407	Financial Modelling	Financial Model - it would be helpful if the BPT-FM mapping tool included mapping for those items where the input is simply identified as 'from feeder model'. For some of the entries this is relatively easy to deduce, but not in all cases.	We will amend the descriptions in the mapping tool to give more clarity on which feeder model is to be used.
408	Financial Modelling	<p>Re financial model – water_resources F866 (and other wholesale controls):</p> <p>Could you please confirm the 'target level of RCV linked to CPI(H) _ RPI wedge at beginning of AMP 8 - WR' to be used for modelling?</p> <p>From review of the model mechanics, this percentage is applied to total RCV, and not pre-2020 RCV - is our understanding correct? In this case, we assume that the target will reduce from the 50% at beginning of AMP7, as otherwise this RCV pot would increase?</p>	The understanding of the model is correct, this split is applied to the total RCV in 2025 in the model, however this is the method used for modelling purposes rather than a definitive policy decision. We expect companies to provide a fully populated financial model when submitting their business plans.
411	Cost Assessment	<p>Re Cost adjustment claims – 3 May 2018:</p> <p>IN18/02 asks companies to provide “a maximum two-page summary of each claim and the evidence to support it”, to help Ofwat navigate the information submitted. Does Ofwat want only the two page summary at his stage or would they also like further supporting information, if it is available?</p>	<p>We would like any further supporting information that companies have available for their cost adjustment claims. The two page summary is to both summarise the claim and help us navigate the supporting information companies may submit.</p> <p>We set this out in IN18/02: “We are inviting companies to submit the information that they have to support each cost adjustment claim by 3 May 2018” and “To</p>

Ref No.	Topic	Query	Response
			help us navigate the information submitted, companies should provide a maximum two-page summary of each claim and the evidence to support it. These two-page summaries should also provide a signpost to any further evidence relevant to the claim (for example, to the evidence demonstrating the need for the investment, the robustness and efficiency of the cost, etc.)”
412	Past Delivery	<p>Re App31 (line 12):</p> <p>Should this include only those EUs that have been accepted? Or, this should include any that have been submitted, including ones that have been rejected or the outcome is awaited?</p>	As per query #365 (published above in this batch 6 of answers), this should only include undertakings accepted by EA/NWR.
414	Cost Assessment	<p>Re tables Dmmy 4 / Dmmy 3 - dummy price control:</p> <p>Please provide further information about what you are expecting to be included in this table. We believe the asset information is covered in the other wholesale waste table (WWS4) meaning these lines will all be zero.</p>	The information reported in the dmmy tables should relate only to the Thames Tideway Tunnel. Information relating to the Thames Tideway Tunnel should not be included in table WWS4.

Ref No.	Topic	Query	Response
415	Financial Modelling	It would be useful if the dashboard presented nominal average household bills in addition to real.	We will amend the dashboard to also include nominal average household bill. This will be updated in the next version of the financial model.
416	Data tables	<p>Re sheet: Water Resources/ Water Network / Source: WaterNetwork!L1114:</p> <p>We believe the formula for average RCV of new additions may still be incorrect.</p>	Please see response to query 370 (published above in this batch 6 of answers).
417	Data tables	<p>Re sheet: Water Resources/ Water Network / Source: WaterNetwork!K2047:</p> <p>The time flag currently restricts dividends to be paid in the first year of AMP7.</p>	The financial model was built restricting dividends to the forecast period. We therefore do not believe there is a need to update the model.
418	Data tables	<p>Re sheet: F_input / Source: F_input N115:</p> <p>This only picks up cash and cash equivalents from residential retail. Should this be for the total appointed business?</p>	We agree this is an error in the mapping tool. The figure that should be picked up is cash and cash equivalents for wholesale only. Retail cash is collected on rows 466 and 467.

Ref No.	Topic	Query	Response
419	Data tables	<p>Re Data tables (App15a):</p> <p>The formulas in line 2, “other income”, appear to link to an incorrect source. According to the label and description in cell M9, this line should be copied from App11a line 7, but currently it is a copy of line 5, “operating income”.</p>	<p>We agree that this is an error in the data tables. We will amend the formula to look at App11a line 7.</p>
420	Financial Modelling	<p>In the financial model - tax losses, the wholesale tab, row 531, calculates the tax loss utilisation, being the lower of taxable profits in the year, and cumulative losses b/f.</p> <p>Our understanding of the tax legislation that will apply during AMP7 is that usage of cumulative losses b/f should be restricted to 50% of the taxable profits in the year. Would it be appropriate to adjust this row to reflect this approach?</p>	<p>We agree that the cumulative losses will need to be restricted to 50%. This will be amended in the model.</p>
425	Data tables	<p>Re validation in business tables:</p> <p>We have submitted earlier queries about specific validation checks in the March draft of the PR19 data tables spreadsheet, where formulas appear to be referencing incorrect cells. We have noted two further validation check errors:</p> <ul style="list-style-type: none"> • On WS1 - line 9 which compares water service 	<p>WS1 - yes, should compare water resources total in wr2 to water resources column in ws1, not water service total. We will update the validation.</p> <p>WS2, yes, we would only expect the numbers to equal if there are no atypicals, therefore the check is only applied if it is 0. The validation does not need to be changed.</p>

Ref No.	Topic	Query	Response
		<p>totals to WR only table (WR2) – see for example cell DA9.</p> <ul style="list-style-type: none"> • On WS2 – the validation check on the total (excel row 47) references the atypical expenditure and only applies the check if this is zero? <p>We have not been able to check every formula before the 30th March query deadline, but we will of course be happy to provide any further points to you in due course.</p>	
426	Data tables	<p>Re data table - App 12, line 42, "Capex creditor ~ residential retail":</p> <p>This is treated as a negative in the financial model, while the line above is treated as a positive.</p> <p>App 14 Line 1 and 2 are converted from positive to negatives in the financial model, while line 6 and 7 are not changed.</p> <p>If App12 is completed on a consistent bases (all liabilities as negative), this will then result in large retained cash movements in the financial model due to the inconsistent treatment of wholesale and retail creditors in the financial model.</p>	<p>This is an inconsistency in the financial model. We will amend the model so that the financial model treats retail creditors in the same approach as wholesale.</p>

Ref No.	Topic	Query	Response
427	Data tables	<p>Re data table - creditor days (App14 Block C line 19-22):</p> <p>Currently these will be calculated as negative numbers (as the liabilities in Block A are entered as negative values). The financial model expects this to be a positive values.</p>	<p>We agree that this will be calculated as a negative in the data tables. We will amend the formula to calculate as a positive number.</p>
429	Data tables	<p>Re financial model _ return on RCV additions (Row 1122 water resources, water network, wastewater network and bio resources):</p> <p>Currently the model calculates negative returns on RCV additions as the calculation of average of RCV post 2020 additions (Row 1114 WR, WN, WWN, BR) appears to be incorrect.</p>	<p>Please see response to query 370 published above in this sixth batch of answers.</p>
431	Data tables	<p>Re financial model - opening cash balance:</p> <p>The financial mapping tool recommends that both F115 and F465 in the "F-Input" tab pick up the retail cash balance (App12 G71). Should F115 instead pick up (App12 G70)?</p> <p>Same for capex creditors, both F125 and F461 pick up the retail capex balance (App12 G67). Should F125 instead pick up (App12 G66)?</p>	<p>We agree this is an error in the mapping tool and will be amended with the inputs of F115 picking up App12 G70 and F125 picking up App12 G66.</p>

Ref No.	Topic	Query	Response
434	Financial Modelling	<p>Re financial model - retail other trader receivable ~net (App 13 line 5):</p> <p>Currently this is apportioned between the household and non-household price controls in the financial model. For companies that have exited the non-household market, these receivables should be fully allocated to the household price control.</p>	We agree the model will be amended so exited companies will be apportioned 100% to residential.
435	Financial Modelling	<p>Re financial model - RCV balance (row 1110 Water resources, water network, wastewater network and bio resource):</p> <p>Calculation only picks up the legacy RCV, it also needs to include additions RCV (otherwise dashboard summary will be incorrect)</p>	We agree that this does not currently include the RCV additions. This will be added in to the calculation in the next publication of the financial model.
436	Financial Modelling	<p>Re financial model - RoRE calculation:</p> <p>This appears to be incorrect as the interest charge (Analysis_Wholesale row 438) is added to the EBIT (Analysis_Wholesale row 437). Should it be deducted?</p>	We have amended the RoRE calculation sheet in the financial model. This will be in the next version of the financial model to be published.
444	Financial Modelling	Let me please ask you a question about the latest PR19 financial model published on 18th March - around the calculation for Return on RCV for post	Please see response to query 370 published above in this sixth batch of answers.

Ref No.	Topic	Query	Response
		<p>2020 additions.</p> <p>I believe you have changed calculation for 'Average of RCV post 2020 additions' (7f.2.1 in the chart below) since the last model.</p> <p>However, the latest calculation would give us negative RCV balances, since the formula is 'beginning balances of RCV additions (7e.13)' – 'Cumulative balances of RCV additions (7e.13.1)'.</p> <p>The negative RCV balances would give us negative Return on RCV additions as well.</p> <p>Could you kindly check the calculations around this?</p>	
445	Financial Modelling	<p>Re AMP8 WACC:</p> <p>The model only uses one WACC input. Would it be helpful to allow a different WACC to be entered for AMP8, in order to test AMP8 bill implications (i.e. the inputs in F_Inputs Z388 - Z402 are not used in the model)?</p>	<p>We agree that this should be included in the model. This will be amended to allow companies to adjust the WACC on a year by year basis. This will be made in the next version of the financial model.</p>

Ref No.	Topic	Query	Response
452	Financial Modelling	<p>Re RORE dashboard:</p> <p>The RORE analysis table in the Dashboard (Q195 - W225) is inconsistent in whether it is showing the delta compared to the base case (for example row 197), or showing the absolute RORE (for example row 203). Should this table be on a consistent basis?</p>	<p>We agree that this is an error. We will amend the RORE analysis tables to show the variance to base case for each scenario.</p>
453	Financial Modelling	<p>Retail tax calculation:</p> <p>Retail_Residential, row 600: The tax calculation for Retail is currently performed on a stand-alone basis. Where there is available tax loss headroom on the wholesale price control, this could overstate the amount of tax payable by the appointee, thus distorting the financial ratios.</p>	<p>We have taken the same approach as PR14. Due to the very small impact on the financial ratios we do not propose to amend the model.</p>
454	Data tables	<p>Retail SIM adjustment:</p> <p>Retail_Residential, row 75: Is there an error in the units (i.e. out by a factor 1,000)? Currently generates a peculiar impact in £/customer in row 79.</p>	<p>We agree that this is incorrect. We will update the model to take into effect the mismatch in units.</p>

Ref No.	Topic	Query	Response
457	Financial Modelling	<p>Retail working capital:</p> <p>Retail_Residential, row 255 / Retail_Business 569: The model currently allocates retail other debtors between residential and business retail controls on the basis of wholesale revenue. For companies that have exited the business retail market, would it be more appropriate for such other debtors to be solely allocated to the residential control?</p>	Please see response to query 434 published above in this sixth batch of answers.
460	Financial Modelling	<p>Retail Business, wholesale creditor:</p> <p>The model currently calculates a wholesale creditor for retail_business (rows 615 - 642). This may not be appropriate for companies that have exited the business retail market. For example, it appears to distort the cashflows and liabilities shown on the FinStat_Retail.</p>	Please see response to query 434 published above in this sixth batch of answers.

Ref No.	Topic	Query	Response
461	Financial Modelling	<p>Re third party revenue:</p> <p>(a) Third party revenue (such as bulk supplies, rechargeable works, for example Water Resources row 49) is not used to reduce the revenue requirement from customers (for example Water resources row 133). Is this intentional?</p> <p>(b) Such third party revenue is included in the Appointee stats (FinStat_Appointee row 15), however it does not look to be included in the wholesale stats (FinStat_Wholesale). Should it be?</p>	Please see response to query 374 published above in this sixth batch of answers.
463	Financial Modelling	<p>Retail inputs for unmeasured customers:</p> <p>The model only includes one cost to serve input for unmeasured customers (for example Retail_Residential row 19, from F_Inputs row 17).</p> <p>This does not appear to be consistent with the data tables (for example, R1 includes separate categories for water only, waste only and dual service costs for retail residential unmeasured customers). This also does not appear consistent with PR14, where the allowed cost to serve for dual service unmeasured customers was greater than for single service customers. Would it be</p>	We will amend the model to include split out the cost to serve input for unmeasured customers into a separate cost to serve for water, sewerage and dual customers.

Ref No.	Topic	Query	Response
		more appropriate to include 3 separate categories of cost to serve for unmeasured retail residential customers?	
464	Financial Modelling	<p>RORE calculation:</p> <p>There appears to be a sign error in how the interest is included in the RORE calculation.</p> <p>RORE_Calc row 1427 is the sum of rows 1425 (EBIT less tax) and 1426 (interest). This would imply that row 1426 should be negative, in order to subtract the interest expense, to get to the remaining return to regulatory equity. However, the model currently populates it as a positive number:</p> <p>RORE_Calc row 1426 is taken from Analysis_Wholesale row 433;</p> <p>Analysis_Wholesale row 433 is set to be the opposite sign to Analysis_Wholesale row 432;</p> <p>Analysis_Wholesale row 432 takes the interest on net debt balance for the wholesale price controls, e.g. from Analysis_Wholesale row 401;</p> <p>Analysis_Wholesale row 401 follows the same</p>	Please see response to query 465 published below in this sixth batch of answers.

Ref No.	Topic	Query	Response
		<p>sign as the average net debt balance in Analysis_Wholesale row 397;</p> <p>Analysis_Wholesale row 397 is taken from Analysis_Water Resources row 51;</p> <p>Analysis_Water Resources row 51 is defined to be the opposite sign to the RCV, in Analysis_Water Resources row 48.</p>	
465	Financial Modelling	<p>RoRE calculation:</p> <p>The model's calculation of RoRE does not appear to follow the RAG methodology for the calculation regarding interest. The RAG definition for RoRE requires that the nominal interest is deflated by inflation (currently year average RPI) before being used in the RORE calculation. The model currently uses the nominal interest rate, which distorts the RORE calculation.</p> <p>We note that in AMP7 there will be a blend of RPI-linked and CPIH-linked RCV. In order to generate a RoRE calculation that is in line with the allowed cost of equity, we would expect the interest to be deflated by RPI (for the debt associated with the RPI-linked RCV) and CPIH (for the debt associated with the CPIH-linked RCV).</p>	<p>We have amended the RoRE calculation sheet in the financial model that will take into account the cost of equity for both CPIH and RPI+CPIH wedge. This will be in the next version of the financial model to be published.</p>

Ref No.	Topic	Query	Response
		<p>We attach a presentation which explains how this would work, and how it would generate a neutral RoRE in line with the allowed cost of equity.</p>	
466	Financial Modelling	<p>Re RORE calculation / presentation:</p> <p>The RORE data on the dashboard (Q195 - W225) currently takes the average RORE for the full forecast period. If the model is being used to also consider AMP8 bill implications (i.e. using a forecast of 10 years) then the RORE calculation in the Dashboard will also reflect AMP8 data. Would it be therefore be helpful if the RORE calculation on the dashboard reflected the AMP duration (InpActive F27), rather than the forecast duration (InpActive F29)?</p>	<p>We will amend the model to show the RORE data for just the AMP7 period.</p>
467	Financial Modelling	<p>Re RORE calculation for sensitivities:</p> <p>The RORE calculations for the sensitivity analysis (RORE_Calc F76 - G79) looks to be calculated on a different basis to the base Appointee RORE calculation (RORE_Calc F73).</p> <p>The RORE calculations for the sensitivity analysis (for example RORE_Calc rows 1481 - 1495) doesn't look to include any Retail EBIT, or the 'Other Income (incl. 3rd party income)', both of</p>	<p>Please see response to query 465 published above in this sixth batch of answers.</p>

Ref No.	Topic	Query	Response
		which are included in the base appointee RORE calculation.	
468	Data tables	<p>Re graph data:</p> <p>Graph data cell W92 is currently a hard-coded value - is this an error?</p>	This is an error in the financial model and will be amended in the latest version.
469	Data tables	<p>Re graph data:</p> <p>The sensitivities that are included in the appointee graph data (graph data row 136) do not include: D-Mex; water trading; costs including uncertainty mechanism. Is this intentional?</p>	We will amend the model in respect of this to show all sensitivities at appointee level.
470	Financial Modelling	<p>Our query relates to dividend calculation:</p> <p>When the model is run in 'notionalised' mode, the calculation of the recommended dividend in wholesale row 37 includes an adjustment to the net debt balance, so the net debt balance no longer reflects the notional gearing level, when calculating the level of notional equity, which drives the implied dividend. Would it be more appropriate to calculate recommended notional dividends based on the notional level of equity?</p>	The financial model currently double counts the change in net debt (wholesale row 35). This is an error and will be amended in the next version of the financial model.

474	Financial Modelling	<p>Financial Model query (apologies if this has already been submitted):</p> <p>Is there a problem with lines 1112 to 1114 of the water resources tab (this actually applies for all 4 controls).</p> <p>Ofwat appear to have changed the formulas and we are getting a negative RCV value for additions:</p> <p>The new model has (lines 1112 to 1114).</p> <p>RCV additions balance BEG - WR – nominal.</p> <p>RCV additions balance - WR - nominal Average of RCV post 2020 additions - WR – nominal.</p> <p>The old one had (lines 1107-1109).</p> <p>Average of RCV - WR – nominal.</p> <p>Average of RCV bf - WR – nominal.</p> <p>Average of RCV post 2020 additions - WR – nominal.</p> <p>So, it moves from average to additions, yet the calculation for average of RCV post 2020 additions remains the same.</p>	<p>Please see response to query 370 published above in this sixth batch of answers.</p>
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Ref No.	Topic	Query	Response
478	Data tables	<p>Re App7 line 27/28 – duplicated reference:</p> <p>There are duplicate item references on App7, line 27: “Average retail residential component ~ wastewater” and line 28 “Average retail residential component ~ combined”. Both lines have the same item reference code A1010.</p>	<p>Thank you for bringing this to our attention. We have assigned a new item reference to line 28 to remove the duplicated reference and we have also assigned a new item reference for line 31 as the existing reference (A1013) related to another line.</p>
479	Cost Assessment	<p>Re treatment of cost adjustment mechanism for WINEP within totex incentive mechanism AMP7:</p> <p>This relates to query number 17 from Ofwat’s 15 March query responses, which covers the proposed cost adjustment mechanism for changes to the WINEP programme.</p> <p>Can Ofwat confirm how any adjustments would be taken into account when applying the totex incentive mechanism for AMP7?</p> <p>It would seem clear that cost sharing under the totex incentive mechanism would be inappropriate for such changes in requirements, so we assume that the totex baseline would be adjusted to reflect the adjustment mechanism (otherwise companies seeing reductions in WINEP requirements would appear to outperform</p>	<p>Yes - where appropriate, our baselines for the calculation of out/underperformance will be adjusted following confirmation of the environmental programmes in 2021.</p>

Ref No.	Topic	Query	Response
		totex and, conversely, companies with increased requirements would appear to underperform).	
480	Data tables	Re financial model (Dec '17 edition) / Graph data / 'Graph data'!\$W\$83: Hard typed value, in error. This cell should instead link to "=RoRE_Calc!\$F\$20"	Please see response to query 468 published above in this sixth batch of answers.
481	Data tables	Re RoRE_Calc /RoRE_Calc!\$F\$132: RORE is calculated on a weighted average of all AMP7 and AMP8 years. Should it not rather be that separate AMP 7 and AMP 8 RORE's are instead calculated?	Please see response to query 466 published above in this sixth batch of answers.
482	Data tables	Re financial model (Dec '17 edition) /F_Inputs / 'F_Inputs'!\$H\$133: From how this data is used in the model, it looks like it is requesting interest expense on floating rate debt. From the cell name, it looks like it is requesting interest cash flow. Can the cell name be clarified so as to ensure the correct value is entered?	The model assumes that interest expensed is the same as interest cashflows. The indexation of index linked debt is treated separately.
483	Data tables	Re financial model (Dec '17 edition) / Exec Summary / Exec Summary'!\$Q\$3:\$U\$3:	Please see response to query 258 published above in this sixth batch of answers.

Ref No.	Topic	Query	Response
		<p>The formula in column W is adding up AMP 7 and AMP 8 (10 years of data). This is then used on e.g. dashboard to show a five year view of AMP7 performance (e.g. in cell "Dashboard!U\$171"). The formula in cell W on Exec Summary should be changed to sum columns L:P only.</p>	
486	Data tables	<p>Re financial model (Dec '17 edition) / F_Inputs / F_Inputs!\$J\$257:</p> <p>It is clearly noted against some of the tax lines on F_Inputs that values should be entered as negative only. This notation is not consistent. For example, it is given for line 257 "P&L expenditure not allowable as a deduction from taxable trading profits ~ Water network plus" but not for line 158 "P&L expenditure not allowable as a deduction from taxable trading profits ~ Wastewater network plus".</p>	<p>We agree that this is not currently consistent. We will amend the model to correct this.</p>
487	Data tables	<p>Re financial model (Dec '17 edition) / Retail_Business / Retail_Business!\$K\$897:</p> <p>Fixed assets b/f balance is apportioned between residential and business retail based on "proportion of debtors to revenue". I would suggest that companies can provide their own</p>	<p>This has been amended in the March 2018 version of the financial model to be separate £m opening balances for residential and business retail (see business retail line 873 in March 2018 version).</p>

Ref No.	Topic	Query	Response
		discrete split of fixed assets belonging to each of residential and business retail. Companies can give this as an input.	
488	Data tables	<p>Re financial model (Dec '17 edition) / e.g. Water Network / Water Network!\$F\$749 Water Network!\$F\$888:</p> <p>The formula is incorrect. It did say: = SUM(J887:U887) and was therefore summing up the RCV for 12 years. I have changed it to pick up only the 31 March 2020 balance. Please note, should this include or exclude midnight adjustments?</p> <p>Obviously the 1 April 2020 balance should include them, but the 31 March 2020 balance should exclude them. The model asks for the 1 April 2020 balance but then uses the figure in the 31 March 2020 column. Does this imply that it should therefore be the 31 March 2020 balance, pre-midnight adjustments that is entered as an input to the model?</p>	The input is based for 'Water network plus RCV ~ 1 April 2020' therefore we would expect other years' values to be zero. This number should include the midnight adjustment.
489	Data tables	<p>Re financial model (Dec '17 edition) / Analysis_Appointee / 'Analysis_Appointee!F\$195:</p> <p>This should just be referring to AMP 7 not all 12 years. The formula did say = IF(SUM(J193:U193)</p>	We will amend the model to refer to AMP7 only. This change will be made in the next version of the financial model to be published.

Ref No.	Topic	Query	Response
		<p><> 0, SUM(J192:U192) / SUM(J193:U193))</p> <p>It should be changed to = IF(SUM(I193:p193) <> 0, SUM(I192:p192) / SUM(I193:p193))</p>	
491	Data tables	<p>Formatting should clearly mark where inputs are required. Currently some cells, e.g. M18, are not visibly marked up as requiring an input but the cell value is used on another sheet ("InpOverride"J758).</p> <p>I would suggest that the cell formatting on "F_Inputs" matches that in the "BPT-FM-Mapping-tool-v6.5" "F_Inputs Mapping" tab and that any cells in "F_Inputs" in the financial model which do not require an input are not picked up and used elsewhere within the model.</p>	The formatting of F_Inputs should reflect where companies are required to add inputs. Due to changes in the model some inputs are no longer required. The formatting will be amended in the model to reflect the latest structure.
493	Data tables	<p>Re financial model (Mar '18 edition) /Retail_Business / Retail_Business!L\$728:</p> <p>The formula in cell K730 is causing this cell to return a value of zero. The model therefore thinks there is an opening balance (advance receipts) of zero but this is because the model has been limited to consider "forecast" periods only. This limitation means that the model thinks there is a large cashflow in AMP 7 year one, when there is not. The model should not be limited to forecast</p>	The mode uses a corkscrew in the advanced receipts opening balance. Input should be used for start of the period (F_Inputs row 460).

Ref No.	Topic	Query	Response
		periods only when considering cashflows arising from balance sheet items.	
498	Data tables	(F_Input) in Row 255 of the financial model the line is unused and is a duplicate of row 253.	Please see response to query 391 published above in this sixth batch of answers.
499	Data tables	<p>Re (F_Input) / Multiple Row /Data tables:</p> <p>We have identified a number of item references in the 'F_Inputs' worksheet that are inconsistent with the item reference for the same line in the data tables. We think it would be helpful if the item references were aligned between the financial model and the data table so that companies could easily map lines between the data tables and the financial model. The item references identified as being inconsistent are as follows:</p> <p>Row 81 - financial model: C00138 data table: A13005</p> <p>Row 82 - financial model: C00139 data table: A13006</p> <p>Row 125 - financial model: This code is to be updated once the data tables have been revised data table: A11013A_CPY</p>	We will review and amend the labels to reflect the latest data tables in both the financial model and mapping tool.

Ref No.	Topic	Query	Response
		<p>Row 126 - financial model: C00107_F002 data table: A11017A</p> <p>Row 208 - financial model: C00558 data table: A5022WR</p> <p>Row 209 - financial model: C00559 data table: A5023WWNP</p> <p>Row 210 - financial model: C00562_A003 data table: A5017WR</p> <p>Row 258 - financial model: WN25 data table: A5017WNP</p> <p>Row 310 - financial model: BR18 data table: A19046BIO</p> <p>Row 381 - financial model: DMMY49 data table: BM850CAS_DMMY</p> <p>Row 388 - financial model: WR50004 data table: WR50019</p> <p>Row 389 - financial model: WN50004 data table: WN50019</p>	

Ref No.	Topic	Query	Response
		<p>Row 390 - financial model: WWN50004 data table: WWN70019</p> <p>Row 391 - financial model: BIO60004 data table: BIO60019</p> <p>Row 393 - financial model: WR50008 data table: WR50018</p> <p>Row 394 - financial model: WN50008 DATA TABLE: WN50018</p> <p>Row 395 - financial model: WWN70008 data table: WWN70018</p> <p>Row 396 - financial model: BIO60008 data table: BIO60018</p> <p>Row 398 - financial model: WR50009 data table: WR50011</p> <p>Row 399 - financial model: WN50009 data table: WN50011</p> <p>Row 400 - financial model: WWN70009 data table: WWN70011</p>	

Ref No.	Topic	Query	Response
		<p>Row 401 - financial model: BIO60009 data table: BIO60011</p> <p>Row 404 - financial model: G7 data table: A19046WWNP</p> <p>Row 438 - financial model: WR-23 data table: A1013</p> <p>Row 455 - financial model: RR2 data table: A15013</p> <p>Row 456 - financial model: RB2 data table: A15014</p> <p>Row 457 - financial model: RR3 data table: A13017</p> <p>Row 458 - financial model: RR4 data table: A13018</p> <p>Row 459 - financial model: RB3 data table: A13019</p> <p>Row 460 - financial model: RB4 data table: A13020</p>	

Ref No.	Topic	Query	Response
503	Financial Modelling	<p>Re Water Resources, Water Network, Sewerage Network and Bio Resources / Row 38 and 48:</p> <p>We note that the March release of the financial model has been amended to deduct third party revenue from the revenue requirement. However, we note that third party revenue (non-price control) is still not being deducted. As per RAG 4.05, this relates to revenue from rechargeable works, bulk supplies and reservoir operating agreements which at previous reviews were deducted from the revenue requirement Can you confirm if this is the intention?</p>	Please see response to query 374 published above in this sixth batch of answers.
504	Financial Modelling	<p>Re Water Resources, Water Network, Sewerage Network and Bio Resources / Row 369 / Financial Model:</p> <p>Third party revenue/other income and third party revenue (non-price control) appears to be omitted from the calculation of the cash movement not associated with tax or dividends calculation. We think that this should be included.</p>	We agree that this is an error in the model and should be in the cash movement. We will amend this in the next version of the financial model to be published.
505	Financial Modelling	Re Water Resources, Water Network, Sewerage Network and Bio Resources / Row 1114 / Financial Model:	We agree that this is an error in the financial model. The indexation on additions will be included in the average RCV calculation.

Ref No.	Topic	Query	Response
		<p>The calculation of the average RCV on the post 2020 RCV is inconsistent with the calculation of the average 2020 RPI linked and CPIH linked RCV's. The average 2020 RCV's are calculated as the average of the opening RCV plus indexation and the closing RCV for the year. Whereas the average RCV on the post 2020 RCV is being calculated as the average of the opening RCV and the closing RCV for the year. Can you confirm if this is correct?</p>	
506	Financial Modelling	<p>Re Residential Review / Row 79 / Financial Model:</p> <p>The SIM adjustment per customer (£/customer) is being overstated as the model is multiplying the calculated SIM per customer (£m/customer) by a factor of 1000000. This is incorrect as customer numbers are input in thousands and it would therefore be correct to multiply by 1000.</p>	Please see response to query 454 published above in this sixth batch of answers.
513	Bio resources	<p>I think we need some clarification from Ofwat on Final Business Plan data table Bio1 Line 18.</p> <p>Some water companies have taken %tDS of chemical sludge (i.e. the proportion of the total mass of sludge that is 'chemical' sludge).</p>	We will change the definition of Bio1 Line 18 to: "The total quantity of sludge produced at wastewater treatment works which use chemical dosing for phosphorous removal expressed as a percentage of total sludge produced at all in area wastewater treatment works (i.e. Bio1 line 3)."

Ref No.	Topic	Query	Response
		<p>Other water companies have taken the % of total sludge treated using chemicals (i.e. the proportion of total sludge from chemical dosed site).</p> <p>The Ofwat definition is: “The total quantity of sludge which is produced from a phosphorus removal process using a chemical coagulant, expressed as a percentage of total sewage sludge produced (by ttds).”</p> <p>This could be interpreted as either method above, therefore I’m not sure which is correct?</p>	
514	Bio resources	There is a slight change in definition for Bio 1, line 4. Do we need to revise the historic data to align with this new definition and resubmit?	The definition for Bio1, line 4, is the same in the March 2018 update as it was in the December 2017. Please refer to the answer to query 267 which is also about Bio1 Line 4, published in batch 5 answers on 9 April 2018 - https://www.ofwat.gov.uk/publication/pr19-final-methodology-queries-answers-9-april-2018/
515	Cost Assessment	<p>We understand that Ofwat intends to allow companies to recover pension deficit repair costs in line with the policy set out in IN 13/17.</p> <p>Table 3 of IN 13/17 includes the proportion of pension deficit recovery costs to be allocated to the four PR14 price controls. Is there any</p>	It is for companies to submit their views on the allocation of pension contributions of staff to each price control for App22. We will take a view on final allocations once we have received and analysed all companies' business plans.

Ref No.	Topic	Query	Response
		guidance for how companies should allocate the allowance to the additional PR19 price controls?	
516	Cost Assessment	Table 1 of IN 13/17 includes the pension deficit recovery costs in 2012/13 prices. What approach to inflation should companies take when including these in their business plans – given that RPI is the notified index up to March 2020, with CPIH thereafter?	The price base for App 22 is given in the table.
517	Cost Assessment	<p>IN 13/17 notes that where the deficit recovery period ends before the end of the 2015-20 price control period, Ofwat will smooth the remaining deficit recovery cost over the 5 years of the price control.</p> <p>Should companies take a similar approach at PR19, where the deficit recovery period ends before the end of the 2020-25 price control period?</p> <p>Table 3 of IN 13/17 notes that the data is stated before efficiency. Is there any guidance as to how the data should be adjusted for efficiency before including in business plans?</p>	<p>Companies should report deficit recovery payments in the years they are expected to fall. We will take a view on whether to smooth them or not for the 2020-25 price control period.</p> <p>Likewise, we do not expect companies to apply any efficiency assumptions to their pension costs in their business plans.</p>

Ref No.	Topic	Query	Response
522	Cost Assessment	<p>In November 2017 you sent out a document about what constitutes base and enhancement expenditure. We provided our comments:</p> <p>With regard to base vs. enhancement allocation, we have just one comment which is that we would like to see the change in red, below:</p> <p>Base expenditure is required to maintain the current (most recently established base) level of service to customers under current conditions. Base expenditure will include costs relating to the day-to-day running of the business and expenditure on maintaining the long-term capability of assets, as well as expenditure to improve efficiency.</p> <p>We have not seen an updated document. Please can you tell us when we will receive any further guidance and if you are happy with our suggested change?</p>	<p>We have considered the responses we received to the document we sent out in November 2017. Overall, companies agreed with our understanding without raising material issues. Some companies asked for additional clarification or highlighted that it did not cover every scenario. We did not intend it to cover every eventuality, only to provide general guidance that companies should apply within their specific circumstances. Therefore, we do not intend to reissue the document.</p>