PR19 final methodology queries and answers 25 June 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:

- 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. We published revised data tables on 18 May 2018 and our response to the eighth set of queries on 24 May 2018. We have continued to receive queries. This document therefore sets out our response to the ninth set of queries we have received. Alongside this document we are publishing an updated data table and financial model.

Ref No.	Topic	Query	Response
533	Cost Assessment	I am responsible for providing assurance over some of the PR19 data submission lines. Two of these lines are: WWn3 line 6 – total number of gravity sewer collapses, and; WWn3 line 7 – total number of sewer rising mains burst / collapses. The lines require actual data for 2017/18 and forecast data for the remainder of AMP6. They also require forecast data for AMP7. Following the recent work on the common performance commitments a consistent approach/definition for reporting on sewer blockages was developed and forms the basis of the AMP7 performance commitment. This differs dramatically from our AMP6 definition of a sewer collapse which we have used for past submissions. This has caused some confusion amongst our data providers, reviewers, etc. We all agree that we should report forecast data for AMP6 using our current methodology, however, should we report the forecast data for AMP7 based on the new definition (this would also tie in with the forecast PC numbers in the APP1 table)?	Yes - the current methodology should be used for the remainder of AMP6. The common approach/definition should be for forecast data from 2020-21.

Ref No.	Topic	Query	Response
		I appreciate that we are outside of the PR19 query window but any guidance would be greatly appreciated as we would like to ensure that we are reporting the right data.	
534	Data tables	We have a question on table WS18, section H. You ask for the number of residential retail customers engaged with on the business plan, but the data table has a cell for 2017/18 only. We have engaged with customers in 16/17, 17/18 and 18/19 on the business plan - can this box reflect all customer engagement in all years? H Customer engagement 13 Number of residential retail customers engaged with on the business plan WS18012.	Yes companies can use this single cell to report the total number of residential customers engaged with in developing their business plan up to submission i.e. for years 2015-16 to 2018-19. We have revised the line definition to reflect this.
535	Data tables	The PR19 business plan table App20 needs an RPI figure for the calculations (cell D823). Last year, this was given by Ofwat as 2.8%, and I was wondering if it is the same for 2017/18?	Use 3.0% - this is the long-term RPI inflation assumption we have assumed for our final methodology.

<table>
<tr><th>Ref No.</th><th>Topic</th><th>Query</th><th>Response</th></tr>
<tr><td>536</td><td>Data tables</td><td>We are currently reviewing the data tables and we have identified an error with the formula in App 17, section E, in lines 21-23 (Excel Rows 36-38).

We believe the formulas should be multiplying by line 24 (excel row 39) in tables Wr3, Wn3, WWn5, Bio4 and Dmmy7 instead of the following:

App17 Line 21 is multiplying by excel row 40 in tables Wr3, Wn3, WWn5, Bio4 and Dmmy7;

App17 Line 22 is multiplying by excel row 41 in tables Wr3, Wn3, WWn5, Bio4 and Dmmy7;

App17 Line 23 is multiplying by excel row 42 in tables Wr3, Wn3, WWn5, Bio4 and Dmmy7

Please can Ofwat confirm if this is correct?</td><td>Yes that is correct. We have amended these formulae to pick up the correct line in each of the tables Wr3, Wn3, WWn5, Bio4 and Dmmy7.</td></tr>
<tr><td>537</td><td>Data tables</td><td>We have a query on the calculation in rows 30-33 (lines 19-22) of App14 (March Data Tables).

These take revenue from App13, rows 26-29 (lines 15-18). Taking cell H26 on App13</td><td>App17 has been amended to calculate a £m figure rather than a % of total revenue. This is in the version of the data tables published in May 2018.</td></tr>
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Ref No.	Topic	Query	Response
		as an example, formula: = ('App17'!G$24 * ('App23'!P$42 / 'App23'!M42)) + 'R7'!G$25 The final component (from R7) is a £m input amount. However, the first component takes cell G24 from App17 (a % value) and applies indexation which doesn't seem to make sense. G24 is the sum of the individual % splits from each price control which does not appear to be a meaningful value.	
538	Data tables	We have found a query in table APP5. Should cell AB388 be formatted as a number not a percentage?	Where a company has inadvertently changed the formatting, as the worksheet is password protected we suggest you simply copy (CTRL+C) and paste (CTRL+V) the contents of an empty cell in column AB into cell AB388. This will clear the contents and revert the format back to 'General'. The correct value can then be entered as a number rather than a percentage.
539	Data tables	When filling out DMMY3 in the PR19 tables today I've noticed that the automatic sum in line 3 does not work when entering a "-" into the lines above. This is because this table has a formula of "=X1+X2" rather than "=SUM(X1:X2)" in the other tables which seem to allow dashes. We have determined	If the cell is genuinely not applicable, this can be left blank. If the company is deliberately reporting a zero value, then these should be zeros. For example, in table WS2 there might be no expenditure against Line 2 (Eels Regulations) – in which case the company would include zeros. But we do not expect a company to include zeros for each of the lines 24 to 38 (other categories) if they do not have all of these

Ref No.	Topic	Query	Response
		that line 2 is NA rather than zero, and ideally this line would be populated with a dash. There is also no commentary section that would allow an explanation if we were forced to use a 0.	categories. In all cases, text values such as 'NA' or '-' should not be used and will generally trigger validation warnings.
540	Data tables	Re APR 4F and 2C + PR19 retail tables: Please can you clarify for a company that has exited the non-household retail market where should the following non-household retail costs be allocated: Network customer enquiries and complaints Developer Services In the latest RAG2.07 (Section 2.5) there is guidance here.	The latest RAG (2.07) is clear on the allocation of costs between the separate price control units. We do not expect an appointee that has exited the non-household market to incur costs in relation to non-household customer enquiries and complaints directly. Such complaints should be dealt with by the customers' retailer in the non-household retail market and where appropriate the retailer can raise issues with the wholesale business. Similarly, we would not expect the appointee to incur retail costs for providing developer services for non-household customers. We are aware that some companies provide such services on behalf of retailers as a non-appointed activity.
541	Cost Assessment	Re table Wr1, line 2 (proportion of distribution input derived from pumped storage reservoirs): We do not have any reservoirs that were built specifically as pumped storage reservoirs. However, we do have a few impounding (gravity fed) reservoirs that have had pumped storage schemes added in order to boost reservoir refill. Gravity flow	Yes. In your example we would expect the majority of the DI to be allocated to Wr1, line 1, as they are impounding reservoirs, with the boosted reservoir refill element reported in table Wr1, line 2. Please note that these lines now capture the amount of water from these sources, the proportion of DI from each source is now reported in table Wn2.

Ref No.	Topic	Query	Response
		makes a material contribution (>20%) to the volume of these reservoirs, so we have allocated an appropriate proportion of the distribution input to table Wr1, line 2 (proportion of distribution input derived from pumped storage reservoirs). Please would Ofwat confirm that this is the correct approach to take for these impounding reservoirs with pumped storage schemes? Whilst calculating line 2 in table Wr1 (proportion of distribution input derived from pumped storage reservoirs) it became apparent that the Ofwat definition was not as clear as it had appeared initially. I discussed it with the Table Wr1 auditor and he suggested that we should ask Ofwat for clarification.	
542	Data tables	We note the final set of data tables were published on 23 May 2018, but there are no pre-populated cells. When are these being published? Four new tables were included in the data tables (App8, App33, WS1a, tab name WWS2a but actually heading in table is WWS1a) which have “draft” on the tab names; when are Ofwat going to be	On 23 May 2018 we issued company specific templates containing pre populated data to all companies for checking and invited companies to comment on the new draft tables. We asked companies to provide their responses by 1 June and will finalise these tables as soon as we have considered their feedback. The last draft table should have been WWS1a not WWS2a as you rightly pointed out.

Ref No.	Topic	Query	Response
		finalising these? Should the last one be WWS2a or WWS1a?	
543	General	I have a query about outstanding publications & models: As previously requested in my email dated 8 May, we are waiting for the release of the following: • Retail/ econometrics Retail / econometrics Feeder (C00092_R005) • Pension model (C00173_A003) We expect the 'Retail / Econometrics Feeder' should be pre-populated but we will have to populate the 'Pension' model; when are these going to be released? In section 15.3 of the Final Methodology (page 250) there are a number of PR19 true in and incentive models which were "planned for publication in early 2018". We have received the first one (bioresources forecasting incentive) but none of the others (2 Bioresources modified revenue calculator, 3 Bioresources in-period revenue correction, 4 Revenue forecasting incentive (Network plus and water resources), 5 PR19	• Retail / econometrics, Retail / econometrics Feeder (C00092_R005) – we are not planning to release this model before companies submit their business plans. • Pension model (C00173_A003) – we are not planning to release this model before companies submit their business plans. • Bioresources modified revenue calculator – published 23 March 2018. • Bioresources in-period revenue correction – we are aiming to publish this model in June 2018. • Bioresources forecasting incentive model – we published this model on 8 June 2018. • Revenue forecasting incentive (network plus and water resources) – we published this model on 8 June 2018. • PR19 Water trading incentive – we published this model on 8 June 2018. • Developer services incentive – we published this model on 8 June 2018.

Ref No.	Topic	Query	Response
		Water trading incentive, 6 Developer services incentive). When can we expect these?	
544	General	Our query is about the initial assessment business plan publication date: We are currently reviewing diaries for early 2019. Ofwat have previously said they will release the interim assessment of business plans in late January. Are Ofwat able to commit to a window (for example the week commencing 28 January) when it will be published?	The initial assessment of business plans will be published on the 31 January 2019. We have set this out in our PR19 engagement statement.
545	Retail	Our query follows on from query 475 regarding retail revenue sacrifice (published in batch 7 of queries and responses on 15 May 2018 here). We have some tariffs which voluntarily reduce revenue recovered (vs. that allowed in price limits). Our price control should reflect the gross value required, which includes our costs plus the value of revenue sacrificed, however table R1 and the financial model only allows for costs to be recovered, implicitly excluding revenue sacrifice.	The retail price caps are set to recover the efficient costs of providing retail services and has been set as a total revenue cap, subject to adjustments for changes in customer numbers. The framework allows that where companies offer social tariffs (subject to customer support) then they are able to rebalance other tariffs to enable revenues to be recovered. Where the revenue sacrificed in offering those and similar tariffs in not correctly offset by other tariffs, the revenue reconciliation will correct for the revenue windfall or shortfall at the end of the period. As a result we do not consider it appropriate to capture revenue sacrifice in table R1 separately nor should it need to

Ref No.	Topic	Query	Response
		Ofwat's response assumes these values can be included with operating costs in table R1 - but they cannot, in accordance with the RAGs. Therefore this doesn't allow us to adequately reflect our full cost recovery requirement (i.e. gross of revenue sacrifice). It would help is if R1 were modified to include revenue foregone/revenue sacrificed, or alternatively to amend the definition of the operating cost line so that it explicitly includes revenue sacrifice, and for companies to provide a reconciliation to its APR in the table commentary.	be captured in the financial model. Your query appears to suggest that we consider the expected revenue sacrifice as an expense to be funded in advance. We consider this is inappropriate as it sets baseline tariff levels above efficient costs and exposes customers to risks.
546	Data tables	Our query relates to IFRS 16 and the response published for query 4 (published in batch 7 of queries and responses on 15 May 2018 here). We are pleased that Ofwat is providing further guidance on IFRS16, and we support the amendment to the RCV table App8. Can we just remind Ofwat that there are two components which both require some guidance: 1. What to do with the adjustment to fixed assets for existing finance leases, which	Following clarification with company concerned, this is not an actual query. The comment is part of the overall query below (547) and the company is raising this as part of our proposals for existing leases.

Ref No.	Topic	Query	Response
		occurs 2019/20. We had suggested that these are added to the RCV midnight adjustment, and this appears to be the approach being proposed by Ofwat for App8 (which we fully support). Note: the second part of this query is logged as query 547 below.	
547	Data tables	Following on from query 546: 2. What to do for DPC payments, which could also be caught by IFRS16. Our understanding is that a DPC which is subject to IFRS16 would be treated as capex for the appointee. This would seem inconsistent with making payments to a CAP which are recovered directly from customers (indeed it would duplicate those payments). Therefore we assume that such costs would not be eligible as "menu Totex". We have a DPC proposal which may result (post IFRS16) in a c.£150m totex value being reported in 2024/25, associated with CAP payments which are also due to commence that year. We suggest that Ofwat provides a clear steer about the treatment of such "totex" in the regulatory accounts, and	The Final Methodology, Appendix 9, Direct Procurement for Customers (DPC), specified that CAP revenue and costs will not sit within an appointee's own cost allowances or in its RCV. It also specifies that appointees may recover the efficient costs they incur while developing and tendering projects as part of totex allowances for PR19. The appointees accounting treatment of DPC projects, for example under IFRS16, shall not allow migration of revenue and costs for the CAP into the appointee's own cost allowances or in its RCV. The APR requirements in the RAGs do NOT drive price setting policy. We set the data requirements of the APR to: - Inform future potential policy. - Assess actual performance against previous price review assumptions and forecasts. Our starting point for any new income/cost stream is to default to how UKGAAP dictates it should be accounted for. We only deviate from UK accounting rules (by making

Ref No.	Topic	Query	Response
		hence (we presume) that we should exclude it from the proposed totex in our PR19 plan.	specific provisions in the RAGs after extensive consultation) when there is a justifiable reason for doing so. If there is a good reason for excluding items from the APR reported results then of course we can include this in the APRs from 2020-21. This will need to be proposed in the consultation for that year.
548	Cost Assessment	Our query relates to bio-resources liquor treatment recharges; specifically Ofwat's previous answer to query 355 (published in batch 7 of queries and replies on 15 May 2018 here). We found Ofwat's response somewhat ambiguous. We understand that it is up to us to propose a recharge value for liquor treatment, but it is unclear (a) if we are to represent that change in cost/recharge in our forecast of bio-resources and wastewater network+ costs from 2021, or (b) if we are *not* to include those costs/recharges in the data tables, and only to discuss it in the commentary. Could you clarify this please?	We intend for companies to represent the change in their forecasts from 2021 and include details in their commentaries.
549	Cost Assessment	Our query relates to principal use allocation; specifically Ofwat's previous answer to query 250 (published in batch 7 of queries and replies on 15 May 2018 here).	We refer to query response number 12 (published in batch 1 of queries and responses on 15 January 2018 here). For clarity, recharges paid should be reported in other operating expenditure and recharges received should be

Ref No.	Topic	Query	Response
		Ofwat's response remains inconsistent with the RAGs, which states (in RAG 2.07) that recharges to the principal business unit are *not* part of menu totex (contrary to the guidance contained within the query response). Table 2A in RAG 2.07 sets out that "recharges form/to other segments" are captured in lines 2A.8 and 2A.9, which are not part of the main operating expenditure line 2A.3, whereas it is only line 2A.3 which is required to reconcile to menu totex (i.e. it is expected that principal use recharges are *not* part of totex). We propose that we will continue not to record the recharges as part of totex (consistent with the RAGs), but note that the values of these recharges are stated within the APR.	netted off other operating expenditure. This is also the case in the APR tables 2B, 4D and 4E. We appreciate that table 2A currently presents these recharges in a manner which could be misinterpreted. We will address this in 2020-21 when the new price control units are reported for the first time. Companies should include a breakdown of what recharges they have made to each price control unit in their commentaries.
550	Cost Assessment	Our query is about rates allocation between water resources and water network+ (Query 354): Ofwat's response is to maintain the RAGs definition of allocation by GMEAV, but also that if companies consider that this is no longer feasible or practical then they should	Our guidance remains the same and we expect companies to use GMEAV to allocate rates as set out in RAG2.

Ref No.	Topic	Query	Response
		put forward the case for an amendment to the RAGs which Ofwat will consider. We propose that we will use our proposed RCV split - given that water cumulo rates are related to profit, it would seem inappropriate to use any other split than our proposed RCV.	
551	Retail	Our query relates to treatment of business retail costs for companies that have exited the business retail market; specifically Ofwat's previous answer to query 356 (published in batch 7 of queries and replies on 15 May 2018 here). Ofwat's response suggests that these should remain being treated as business retail costs. That is not satisfactory for companies that have exited the business retail market, and therefore have no business retail licence. The costs noted in our query represent activities which could not be passed to the business retailer under the market code, and have continued to be undertaken by the appointee. It seems to us that the only feasible option is that these activities (and costs) are allocated to wholesale.	It is unclear what activities relating to business retail activities cannot be passed to a business retailer under the market code. As set out in the methodology, we will confirm our designation of activities as part of the determinations, although for the purpose of business plans should assume that the current designations continue. We are yet to see convincing and compelling evidence that there are non-household retail activities that cannot be transferred under the market code.

Ref No.	Topic	Query	Response
552	Data tables	App 31 - does Block C, line 10 need to be completed by Water Only Companies (WOCs)? We note that Ofwat's guidance does not state that only WASCS should answer this question, but paragraph 2.4 of the Environment Agency's Environmental Performance Assessment (EPA) Methodology for calculation of "Satisfactory Sludge Use / Disposal", note C on page 8 states, "Grit & screenings & water treatment sludge will also be excluded."	App 31 Block C concerns wastewater pollution incidents only. Water only companies are not required to complete block C of this table.
553	Data tables	App 31 - if Block C, line 10, does need to be completed by WOCs then what methodology should be used given the exclusion of water treatment sludge in the Environment Agency's methodology at paragraph 2.4?	App 31 Block C concerns wastewater pollution incidents only. Water only companies are not required to complete block C of this table.
554	Retail	Re table R1 – the updated table in the change control information mentions that line 7 local authority rates is removed, but on the May table it is still there, see below: R1 remove line 7 local authority rates, add a new line for "total depreciation on assets acquired after 1 April 2020" and change line	Line 7 was incorrectly deleted when the new depreciation lines were added. It was subsequently added back in, but the change log was not updated to reflect this. Line 7 local authority rates should still be included in this table.

Ref No.	Topic	Query	Response
		11 to "total depreciation on assets acquired after between 1 April 2015 and 31 March 2020" and adjust definitions accordingly 200 & 495.	
555	Cost Assessment	Table R1 - we have undertaken capital expenditure during the current AMP cycle in order to achieve an NRW undertaking under the L2 driver for completion during the next AMP period. This expenditure was not included in the FD14 totex allowance and we intend to include the related expenditure within "transition." However, the current definition anticipates only transition expenditure being incurred in 2019/20. We propose to follow these principles but also exclude the other years' expenditure from WWS1 and associated tables (i.e. 2016/17 to 2019/20 will be excluded) and include the total expenditure in 2020/21. Can you confirm that this is acceptable please? The capital expenditure profile of the transition expenditure on this driver in AMP6, in outturn prices, totals £76m (£4.3m 16/17, £18.2m 17/18, £31.7m 18/19, £21.9m 19/20).	Please also see our response to queries 381 and 382 (published on 16 May 2018 here). Only the projected 2019-20 spend should be recorded as transitional expenditure (in WWS10). We do not agree with your proposed approach of reporting all AMP6 spend in 2020-21, it would effectively be logging up past expenditure not allowed for at PR14. We do not have a process for logging up or logging down costs for changes in regulatory outputs, unless they are material enough to trigger an IDoK. If this additional investment results in a PR14 totex overspend, you will be able to share this with customers through the totex sharing mechanism. Costs should be reported as they are incurred, therefore expenditure in 2017-18 and 2018-19 should be reported in the freeform lines in Table WWS2 in those years.

Ref No.	Topic	Query	Response
556	Data tables	Re App 20 - the formatting in table APP20, row 816, column D (weighted average years) is incorrectly set as a percentage. The cell should be formatted as a whole number.	Thank you for bringing this to our attention. We have amended the format of this cell to a number.
557	Financial Modelling	<u>Financial Model</u> My illustration below starts with the RCV in the RCV feeder model and then how it is calculated in the financial model. The previous model as the other company has pointed out was incorrectly taking the RCV in 2017/18 financial year average prices from the feeder model and inflating by CPIH + the wedge for the RPI linked RCV. The correct approach is to inflate the RCV from the feeder model by CPIH (i.e. using the same CPIH inflator as for the CPI linked RCV). This would then calculate the same as RCV as the feeder model in nominal financial year average prices. Thereafter the 2021 RPI linked RCV should be inflated by CPIH + the wedge.	We designed the financial model to have a 50/50 split between CPIH and RPI linked RCV at Midnight 31 March 2020 as shown below in the RCV summary sheet. However to then ensure that the RPI linked RCV is at the value it would have been at 1 April 2020 we have adjusted the indexation rate for this. We believe that the approach in the financial model is working as expected and needs to be completed fully including use of the RCV feeder model which will return the correct RCV value.
558	Data tables	Re table R3: I have noticed when repopulating the new master spreadsheet that the formulas for	Thank you for bringing this to our attention. We have amended the formulae in this line to reference the correct columns from line 2 in table R1.

Ref No.	Topic	Query	Response
		cells Q8, R8 and S8 are incorrect. They are the same formulas for L8, M8 and N8 respectively and should be different i.e. Q8 should be reporting the total figure for 2022-23 and it is actually quoting through the figure for 2017-18.	
559	Data tables	We have queries about a number of columns: <u>Columns CU-DB</u> The App1 guide requests that the ODI rates are shown as £ million to 4 decimal places. For incentives that are small on an incremental basis, this creates a challenge. For example, an incentive of £7.41m would either need to be shown to 8 decimal places on a £m basis, otherwise it will appear as zero if restricted to 4 decimal places. Can we increase the number of decimal places as required to make sure a meaningful number is displayed in the tables? <u>Columns EP, ER-EU</u> The App1 guide states that both marginal cost and marginal benefit are requested on	<u>Columns CU-DB</u> We will change these columns to allow for 6 decimal places i.e. incentive rates to the nearest pound. If you would like to provide more detail on the incentive rates, e.g. to the nearest penny, you can do this in your table commentary. <u>Columns EP (marginal cost), ER-EU (marginal benefits valuation method 1) and columns EW-EZ (marginal benefits valuation method 2)</u> We will change these columns to allow for 6 decimal places. <u>Columns ER-EU and EW-EZ</u> Columns ER to EU and EW to EZ are designed to capture some consistent information about marginal benefits across companies. They are not meant to capture all of a companies' customer valuations evidence that can be used to inform ODI rates or other elements of their business plans. We expect companies to explain how they have derived their ODI rates in their business plans, for example

Ref No.	Topic	Query	Response
		the basis of £ per unit per household to 2 decimal places. 1) Should this be on the basis of per household, or per account? Given that many PCs related to service to both HH and NHH customers, this would suggest the information should on a per account basis, rather than per household. 2) In a number of cases, the marginal benefits and costs are already small on a per unit basis. So, when these are divided by the number of customer, they become exceptionally small. For example, £20 per unit across 4 million accounts would become 0.000005, which, if rounded to 2 decimal placed would equal zero. With this in mind, should we proceed to show the marginal costs and benefits on this basis with an increased number of decimal places, or should we show them on a £-per-unit basis? <u>Columns ER-EU</u> Marginal benefit information is requested on the basis of median value, mean value, upper-bound value and lower-bound value. For companies that have built-up a rich	in their commentaries on Table App1 or in their sections on outcomes.

Ref No.	Topic	Query	Response
		picture of customer valuations and then triangulated these into a final set of numbers, what is the most suitable way to show these results?	
560	Data tables	The App31 guidance and line definitions for these lines clearly aligns with EPA guidance and specifies what should / should not be included. WWS18 guidance and line definitions is less specific e.g. WWS18 line 2 says, “The actual and forecast number of serious pollution incidents as per the Environment Agency's classification and measure of category 1 and 2 pollution incidents reported on a calendar year basis.” So, this could be read as including all asset types as reported by the EA in the Old MD109 Can you please clarify whether the definitions for WWS18 lines 2, 3 and 10 are the same as APP31 lines 7.8 and 9 respectively?	For consistency, we think they should be the same. We have therefore replaced the definitions for lines 2 and 3 in table WWS18 with the fuller definitions contained in lines 7 and 8 of table App31. In table WWS18, we have also changed the cells for years 2015-16 to 2019-20 from input to copied cells referencing lines 7 and 8 in table APP31.
561	Financial modelling	Re updated financial model: F_Inputs 137, 141 interest references - should these rows now link to the newly	This is correct, these cells will link to the new rows in App19. This will be reflected in a new version of the mapping tool to be published.

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		added rows of App19 (15 and 16), per query response 446?	
562	Financial modelling	Re updated financial model: Retail Residential 95 DPC revenue - the retail margin calculation is based on the wholesale revenue excluding DPC revenue. Should the margin also reflect any DPC revenue, as this is also included in the customer revenue (consistent with the approach at PR14 for the TTT pass-through revenue)? Should DPC revenue also be included in the WC calculations, for example, the amounts that end customers owe to retail (trade debtors, measured income accrual, advance receipts), and of what retail owes to wholesale, given that such pass-through revenue will be collected from customers by the retailer?	The model has been amended to calculate a retail margin on DPC revenue. This margin is used in calculating residential retail price limits and in calculating average residential bills. We have excluded working capital implications of DPC revenue from the model and the retail margin on DPC revenue is excluded from financial ratios.
563	Financial modelling	Re updated financial model - wholesale global 183 revenue allocation: Check goes off for retail exited companies if the proportion of wholesale revenue collected from the residential customers is not equal to 100%. This will generally not be the case, as wholesale revenue will continue	We have amended the check in the model to cope with companies that have exited from the business retail market.

Ref No.	Topic	Query	Response
		to be collected from business customers (via the 3rd party retailer).	
564	Financial modelling	Re updated financial model - appointee 54 – 60; amounts owed by 3rd party retailer to appointee: For companies that have exited from retail NHH, the appointee balance sheet does not appear to include balances that are owed by a 3rd party NHH retailer to the wholesale business. Should this be included?	We have amended the model for debtor and creditor balances at appointee level. These now reflect wholesale debtors when companies have exited the business retail market.
565	Financial modelling	Re updated financial model - tax reconciliation 90 tax check due to allocation issue: A tax check is sometimes generated in circumstances when: - a tax charge is generated in Wholesale row 606; but - there is no corresponding tax revenue (e.g. in Water Network 195, and corresponding tabs). This appears to happen when the tax allocation condition 3 (e.g. in water network	We agree that an error could be triggered. We are amending the tax calculation in the financial model which will address this issue.

Ref No.	Topic	Query	Response
		1790, and corresponding tabs) is calculated as zero for all price controls. This can occur if the wholesale cumulative tax (e.g. water network 1784, and corresponding tabs) is calculated as zero. Could the model be updated to ensure that such tax checks cannot arise?	
566	Financial modelling	Re updated financial model: Headroom check 282 tariff check for companies that have exited from business retail:- Under notionalisation, there is interest on the cash balance in the NHH Retail business control, even for companies that have exited from Retail NHH. This generates tax, which creates a tariff check. It is not possible to get rid of the cash balances in retail_business, as these depend on the Retail business creditor months (Retail_Business 617). It doesn't appear that this can be set to zero, as it is also required to get the right wholesale balances (e.g. wholesale global 216).	We have amended the calculation of interest in the business retail element of the model. This has resolved the issue.

Ref No.	Topic	Query	Response
567	Cost Assessment	Re bio1 – line 4: We have one STC which receives sludge from a network+ site by a rising main 3.5km in length. As the work done is included in line 8 we have not previously included this site in line 4 – is this correct?	Yes, that approach is correct. We have updated the definition for bio1 line 8 (which is now line 9 in the latest version of the table) to include, “for the purposes of this line, ‘intersiting’ means the conveyance of sludge between physically separate sites that are connected by a sludge rising main.”
568	Cost Assessment	Re bio1 line 18 – further clarification concerning query 43 is requested (published in batch 3 of queries and replies on 22 February 2018 here). In the cost assessment tables we have reported only the additional sludge volume we assessed was derived from chemical dosing. We understand from the response to query 43 how we should complete line 18 i.e. if a STW has chemical dosing then the total sludge produced from that STW should be included (noting this is contrary to how we have previously reported). However this raises a further query. At one of our network+ STW (where chemical dosing is undertaken) sludge is transferred to another network+ site by sewer. At the second STW no chemical dosing is undertaken. To complicate matters further, at the first STW sludge imports are	The principle behind this line is to report how much sludge is generated at sewage treatment works with chemical dosing. In this instance it is less important how that sludge gets mixed or transported to other sites. Therefore, in the example provided, approach b would be most appropriate.

Ref No.	Topic	Query	Response
		also accepted (of which some but not all are from chemically dosed STWs and all are less than 10% DS) and transferred along with the indigenous sludge by sewer to the second STW. Guidance notes advise that we should be reporting sludge produced at the boundary between network+ and bio-resources which in this case is as sludge is discharged from the primary tanks at the second STW. To report chemically dosed sludge should we therefore: a) Include all the sludge produced at the second STW (i.e. report based on the network+/bio-resources boundary) noting that this site produces 50% of our total sludge production of which only around 12% is from chemically dosed sites; or, b) Report based on figures as the sludge leaves each network+ site (i.e. only include the total indigenous volume from the first STW and the total sludge imports from chemically dosed STWs).	
569	Data tables	Our query relates to table WWS18 block A line 1 – number of external sewer flooding incidents.	Table WWS18 relates to explaining the 2019 final determination for the wastewater service. As it is designed for communication purposes it might be better to use the

Ref No.	Topic	Query	Response
		We are required to provide forecast data (2018-19 to 2020-25) based on the new common measure (i.e. external sewer flooding incidents). For the historic years and current (2015-16 to 2017-18), we propose to report numbers based on number of properties. This would be in line with our current PR14 PC commitment. Does this approach comply with what Ofwat expect?	data you hold for 2015-16 to 2017-18 that is most consistent with the new common reporting guidance for 2018-19 onwards. We are not requiring you to calculate new data, but to use the existing data you have for 2015-16 to 2017-18 that most closely aligns with the new common reporting guidance. This might be different from the data you use for your PR14 performance commitments.
570	Data tables	We have noted the recent changes to tables wn2, Wn1 and Wr1. However, we cannot seem to find where line 10 in the previous version of Wn2 has ended up? <u>Line 10 Total length of non-potable and partially treated main for treatment</u> The length of all non-potable and partially treated water mains treatment delivering water to the water treatment works. Exclude raw water mains and other conveyors reported in table Wr1, line 20, and raw and partially treated water mains that are situated within the boundaries of the water	The 'line 10 total length of non-potable and partially treated main for treatment' was a recent addition and has now been deleted. Changes to reporting mains length are now aligned with appendix 2 RAG 4.07. Non-potable and partially treated mains length should be reported in Wn1, line 8, 'total length of raw and pre-treated (non-potable) water transport mains for supplying customers'. We do not expect partially treated water mains that are situated within the boundaries of the water treatment service to be reported.

Ref No.	Topic	Query	Response
		treatment upstream service. This line was going to be recording nearly all of our non-potable mains, which we fully expect we will need to account somewhere. Could you please advise the appropriate line to record this in now?	
571	Data tables	We have a query regarding table Wr7: The guidance states: “This table captures the costs of water resource options which will begin (i.e. costs will be incurred) during 2020-25 and will increase water resources capacity.” Please can Ofwat confirm if the increase in water resources capacity should be during 2020-25? I.e. we have an option that will require investment and construction in 2020-25, but the increase in capacity will not be available until the first year of AMP8. Should we include this option in table Wr7? With PR19 audits currently scheduled and underway we would appreciate quick feedback.	It should capture all options that incur costs in 2020-25 and will add capacity at some point after 2020 but not necessarily within AMP7. So a major water resource scheme that will have costs spanning 2 or more AMPs will need to be captured.

Ref No.	Topic	Query	Response
572	Data tables	Re Wr3, Wn3, WWn5 and Bio4, row 27: The calculation of line 27 'total revenue wholesale water resources control' in table Wr3 is incorrect as it does not adjust for income reported in lines 13 (third party revenue price control), 18 (third party revenue non price control) and 19 (principal services income) which would be netted off the revenue control. The same error also applies to data tables Wn3, WWn5 and Bio4.	You are correct there is an error in line 27. However, it is not correct that line 13 should be deducted, as line 27 aims to show the total 'price control' revenue. So the correct formula would be; Line 27 = Line 12 - Line 18 – Line 19 + Line 25 The tables will be amended to reflect this.
573	General	1. Can you confirm whether you require all of the submission to be in Office 356/SharePoint Office formats (Excel, PowerPoint, Word) so Ofwat can annotate it on the SharePoint site, as well as printable/viewable pdfs? 2. The information we've seen says Ofwat will publish pro-forma for companies to complete that pulls together key metrics from the business plan and which explains the drivers behind the plan, key benefits to customers and the impact on customer bills. The info will be provided to Ofwat Board members before the presentation meeting. Will you let me know when this is going to be available please?	1. As stated in the final methodology, we use standard Microsoft software and so all companies' documents and files should be submitted in file formats that can be opened in Excel, PowerPoint and Word. PDF documents should be in readable, searchable and printable formats. All documents and files must be capable of being used by multiple teams within Ofwat. We will not treat documents and files in other formats as part of companies' formal submissions. 2. We published the company business plan pro-forma on our website on the 6 June here.

Ref No.	Topic	Query	Response
574	Data tables	Re table Wr1 - wholesale water resources (explanatory variables) lines 1 – 8: Please can you clarify if you require the water abstracted from each of the sources named. The current line and definition just states water from each of the sources. It is not clear what we should be reporting.	No. The source locations do not need to be named for this table. Whilst we would expect companies to know what sources these figures are derived from we only want companies to report the total for each source type.
575	Financial modelling	We think we have identified an issue with the tax calculation in the financial model and hope it is helpful to share this with you before you publish the updated model. We think the model works like this… Ofwat model calculates the amount of taxable profits per price control. These are then summed to determine the level of tax due at a wholesale level. The Ofwat model determines the amount of tax due at the wholesale level. The tax charge is then allocated back to each price control, by taking the lower of these three figures:	We agree that there is an error in the tax calculation of the financial model. We are amending the financial model to address this.

Ref No.	Topic	Query	Response
		• Wholesale tax charge * share of opening RCV • Tax charge allocated as determine for the actual price control • (Cumulative wholesale profits * tax rate) / cumulative wholesale profits * price control cumulative profits. The example below sets this out: For example if we have a total tax charge at a wholesale level £20m = £8 supply, £8m waste, £2m bio resources, £2m water resources but the RCV is 50% waste, 30% supply and 10% bioresources and water resources then our 'allowed' tax revenue will be: Waste tax = Min (50% , 40%) * 20 = £8m Supply tax = Min (30% , 40%) * 20 = £6m WR tax = Min (10%, 10%) * 20 = £2m BR tax = Min (10%, 10%) * 20 = £2m Resulting in a total tax allowance = £18m, even though the total tax charge calculated is £20m.	

Ref No.	Topic	Query	Response
576	Cost Assessment	Thank you for your recent response to query 250 clarifying the position on principal use business unit (published in batch 7 of queries and replies on 15 May 2018 here). Following your response, we would be grateful for clarification on how Ofwat would expect to see the recharges in the relevant PR19 tables (primarily WS1, WWS1 and R1), so that we know we are completing the tables in line with your expectation: 1. In our case, our BU (price control) of principle use will be waste water network +, so on WWS1, we will allocate shared capital expenditure here. We assume that the allocation between sewage collection and sewage treatment will be on an appropriate basis to be decided by us? 2. A recharge for depreciation and financing will then be made to the services in WS1 and R1 and sludge within WWS1? 3. The credit for the recharge will appear in Network + on table WWS1 in other operating expenditure? 4. The charge will appear in other operating	1. As per RAG2.07, companies should report assets in the price control unit of principal use. Companies should determine the most appropriate means of allocation between the business units within the price control unit. 2. Yes, recharges should be made to other units that use the assets. 3. Yes, the recharge should appear in other operating expenditure. 4. Recharges for assets used by retail should be recorded in the recharges lines in table R1, rather than other operating expenditure. 5. We appreciate that there will be a difference in reporting between the APR and the BPDT.

Ref No.	Topic	Query	Response
		expenditure on WS1 and sludge within WWS1, but on R1, will the charge be in row 5 (other operating expenditure), row 26 (recharge from wholesale assets acquired after 1 April 2015) or both? 5. We assume that costs reported until 2017/18 will also need to reflect these recharges? If so, the numbers quoted will not match those reported in tables 2B, 4D, 4E and 4F of the ARA as recharges are only reported in table 2A.	
577	General	Is there a limitation to the size of any of the documents uploaded to the Ofwat portal?	There is no limit to the size of documents that can be uploaded to our portal.
578	General	In the methodology it states that companies can submit appendices in addition to their main narrative. It also states that we are expected to publish the whole of our business plans. Are we correct in thinking that all appendices and supporting evidence should also be published?	Yes that is correct unless a company considers some information should not be published e.g. because it is commercially sensitive information. In such cases, the company will need to provide its stakeholders and us with strong, robust reasons for not publishing this information, specific to the information concerned.
579	Data tables	We have a query with the validation on the latest APR spreadsheet, with regard to Tables 4V and 4W: The validation on row 4V.8 reconciles to 4J.9, the atypical table. This indicates you	The validation for table 4V is incorrect. Table 4V, line 8, should reconcile to table 4D, line 9. The validation will be corrected in the next release of the APR.

Ref No.	Topic	Query	Response
		expect atypicals to be removed in table 4V. However, the validation on row 4W.8 reconciles to 4E.9, which does not remove atypical items. The PR19 guidance for tables Wr2 and Bio3 dictates that atypicals should not be removed. Therefore should table 4V.8 reconcile to the water resources columns on 4D.9 and not 4J?	
580	Financial modelling	We would appreciate Ofwat's confirmation that our approach for bill smoothing in our plan is acceptable: We intend to apply Net Present Value bill smoothing in our plan. We intend to use the facility in the financial model: Inputoverride tab Section IV (line 1276 onwards) to do so. Our question is – do Ofwat expect the re-profiling impact in the financial model to be fed back into the business plan tables (Wr3, Wn3, WWn5, Bio4): wholesale revenue requirement aggregated by building blocks, line 10: re-profiling of allowed revenue? We believe that to be possible without creating contradictions or circularity, but we would appreciate Ofwat's confirmation that	The approach suggested is correct, we would expect the impact to go into 'Re-profiling of allowed revenue' (line 10 of the Wr3, Wm3, WWm5 and Bio4).

Ref No.	Topic	Query	Response
		this form of presentation would be acceptable.	
581	N/A	Please note: this query reference number has not been used.	Please note: this query reference number has not been used.
582	N/A	Please note: this query reference number has not been used.	Please note: this query reference number has not been used.
583	N/A	Please note: this query reference number has not been used.	Please note: this query reference number has not been used.
584	Data tables	Upon reviewing the latest data tables, we have identified a query as outlined below: Data table APP17, line 21, line 22 and line 23 - should these lines be multiplied by line 24 of WN3, WWN4, BIO4 to match the calculation for line 20? Data table WR3, WN3, WWN4, BIO4 line 2 - the PAYG values are currently being calculated using the gross totex, rather than the net totex. Should it be changed to net totex (with Grant and contribution removed), so that it matched the building block calculations in the financial model? Please can you confirm what is correct?	For the App17 query you are correct, (please see response to query 536). In response to the PAYG totex query, we believe the current calculation is correct as the for water resources and water network the current data tables use totex as per line 21 (row 33) of WS1, this line calculates totex as total operating expenditure (line 11) plus total gross capital expenditure (line 19) less grants and contributions (line 20). Wastewater network and Bio resources use the corresponding lines from WWS1.
585	Cost Assessment	At the RAWG meeting last month, the issue of allocating capital expenditure to the price	Please see responses to queries:

Ref No.	Topic	Query	Response
		control of principal use was discussed again. This had been raised in the query process in question 9 to which you issued a response on 5 Feb (see batch 2 of queries and responses here). I was expecting a follow up question to have been raised to the PR19 team on this matter, but can't see one in the items that have been published to date. I think the query to be raised was as follows: Problem statement – Under RAG guidance we are required to allocate capital expenditure which is used by more than one price control to the price control where principal use occurs, (e.g. corporate systems/IT projects). Each company will make its own decision regarding which price control is the control of principal use. Typically you might assume WaSC=wastewater network+, WoC = water network+. As a result, when comparing companies it will not be possible to determine whether a like for like comparison is being made due to the treatment of these costs. As you state in your response to query 9, you require the business plan tables to be	12 (published in batch 1 of queries and responses on 15 January 2018 here). 250 (published in batch 7 of queries and responses on 15 May 2018 here). 549 and 576 (published above in this batch 9 of queries and responses). We will not be issuing any further guidance on where assets should be reported.

Ref No.	Topic	Query	Response
		completed in alignment with the 2017-18 RAGs. Under RAG 2.07, paragraph 2.3.2 (extract below), it states that the allocation of recharges between price controls should be undertaken in the lines highlighted in table 2A. As a result of this there would be no recharges for use of an asset within opex as reported in any of the tables containing opex/totex. For example WS1 and WWS1 and the cost assessment data already collected. <u>2.3.2 Allocation of capital costs between price control units</u> "It is likely that most assets are used solely within a single price control unit and so costs are simply recorded under the relevant heading in part 2 of the APR. Where an asset is used by more than one of the price control units, it should be reported in the price control unit where the principal use occurs. This price control unit should then make a recharge to the other services reflecting the proportion of the asset used by those services. The cost of the recharge will be reported as an operating cost within the other services under 'recharges from other segments' in pro forma 2A. The	

Ref No.	Topic	Query	Response
		corresponding income will be reported as a negative operating cost under ‘recharges to other segments’ in pro forma 2A.” In order to address this I would propose one of the following: 1. Ofwat mandate which price control companies use as the control of principal use – this would at least ensure some comparability but would require this to be water networks I suspect for the whole industry. 2. Introduce extra rows on the tables under totex to capture the recharge that would be made through table 2A by price control. 3. Allocate the M&G capex across price controls for the purposes of PR19, a deviation from the RAGs but possibly an improvement to comparability and consistent with the guidance provided at PR14. Can you clarify how you want us to deal with this?	
586	Data tables	What does line 43 in table R9 refer to (materiality threshold)?	The materiality threshold is specified at 2% of revenue expected from actual customers. This is set out in the PR14

Ref No.	Topic	Query	Response
			reconciliation rulebook. If the under or over recovery of actual revenue is greater than the materiality threshold then a financing cost adjustment will be made, otherwise no financing cost adjustment will be made.
587	Data tables	1. Where we have tables that aren't applicable i.e. a nil return, do we just leave them blank? 2. Where there are portions of data lines or years within each table that aren't applicable, do we put a zero value in or just leave blank?	1. Yes they can be left blank. 2. If the cell is genuinely not applicable, this can be left blank. If the company is deliberately reporting a zero value, then these should be zeros. For example, in table WS2 there might be no expenditure against line 2 (Eels Regulations) – in which case the company would include zeros. But we do not expect a company to include zeros for each of the lines 24 to 38 (other categories) if they do not have all of these categories. In all cases, text values such as 'NA' or '-' should not be used and will generally trigger validation warnings.
588	Risk and Return	Re table App19 - Debt and interest costs - request for clarification on guidance and data definitions: The table guidance states that: "…. If companies have capitalised any interest in any year, then this should be reported as debt issued during the year" In note 12 of the 2016/17 year end audited accounts we disclose the following:	Where interest has been rolled into the balance of the loan principal that will have interest applied to it we request that companies record this as issued debt. All interest costs (whether rolled into principal or not) should be included in the cost of interest calculation. We do not require unpaid interest capitalised as an accountancy concept (i.e. which does not alter the loan principal) to be recorded in these loan balances. We have amended the current guidance to reflect this consideration.

Ref No.	Topic	Query	Response
		"During the year the Company capitalised borrowing costs amounting to £14.3m (2016/17: £11.7m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.42% (2016/17: 3.72%)." This amount relates to the associated borrowing costs for certain capital projects and the company allocates a portion of these capital costs to "finance costs", based on a weighted average interest rate. The amount gets charged against our P&L under "interest costs", and is capitalised under "fixed assets" in the balance sheet. Please can you clarify if these amounts should be included in table APP19 and if so what a reasonable assumption would be for calculating future amounts?	
589	Financial modelling	We have a query on the WRFIM model. Page 6 of the 'final business plan data tables - updated guidance' (here) directs you to the PR14 reconciliation rule book. The rule book page has a link to old versions of the WRFIM and retail models. This is not the WRFIM version published in	Thank you for bringing this to our attention. We have updated the guidance document with the correct hyperlink, which takes readers to the **Legacy issues and PR14 reconciliation** page on our website.

Ref No.	Topic	Query	Response
		December 2017 that included the amendments to process accelerated repayment of revenue over-recovery. The links to the new version of the model and rulebook are here: Model and Rulebook. Are Ofwat going to be updating this, and if so when?	
590	Data tables	Query regarding table Wr7: Currently, the table will not allow us to include all of our water resource options. The large number of options we are considering reflects the complexity of our risk based planning approach and the scale of challenges we face. These include the recent western area public inquiry, the outcome of which was not known until late March 2018, meaning we could not raise our query with you before the deadline of 31st March. We've reviewed Ofwat's responses to queries: 44 (published in batch 3 of queries and responses on 23 February 2018 here).	We have allowed for up to 15 WRZ tables to be populated. Where WRZs have more than 3 water resource schemes starting in the period 2020-25 and the first 3 WRZ tables have a maximum number of 12 schemes. The remaining tables allow for a maximum of 3 schemes. However, a second table could be used to identify the relevant schemes within a WRZ if necessary. The tables should be labelled accordingly to identify which schemes relate to each WRZ. The schemes from 2 different WRZs should not be presented in the same table. For example if the fourth WRZ has 5 water resource schemes, the first 3 should be entered into table D (D1, D2 and D3). The remaining 2 schemes should be entered into table E (E1, E2) with the same WRZ summary details. The schemes for the fifth WRZ should be entered into table F.

Ref No.	Topic	Query	Response
		60 (published in batch 5 of queries and responses on 9 April 2018 here). 121 (published in batch 5 of queries and responses on 9 April 2018 here). 122 (published in batch 6 of queries and responses on 24 April 2018 here). 134 (published in batch 4 of queries and responses on 15 March 2018 here). 148 (published in batch 4 of queries and responses on 15 March 2018 here). After reviewing the above we feel the areas we need to report are aligned to your guidance. However, we still have seven water resource zones that have more than three water resource options; four of these will not fit into the current template design. Even if we are conservative in our approach, and remove our proposed nitrate options, five zones remain with more than three water resource options to be reported. Could you please advise how we should approach reporting and whether we can	

Ref No.	Topic	Query	Response
		expect to receive an amended reporting template?	
591	Data tables	Re App17 section E: Lines 21, 22 and 23 are pointing to the wrong row, whereas they probably should all point to “Total Wholesale Allowed Revenue” for the price control. This has a knock on effect to Section C, D & E of App13.	We have corrected the formula for these lines (please see response to query 536).
592	Data tables	Re App14 section C: Residential and business advanced receipts creditor days for both measured and unmeasured points to blank cells in App13 for the year 2019-20.	As these cells are not required for the financial model, we have removed them from the table.
593	Data tables	Re App10 sections A and B: Protection is preventing the change in format of the yellow input cells which should be freeform. The proposed financial ratios can give either decimal or percentage results and for transparency it would be helpful to alter these number formats where appropriate.	We agree and have amended the table so that companies can assign the appropriate units for their proposed financial ratios in this table.

Ref No.	Topic	Query	Response
594	Data tables	On reviewing the totex reconciliation model we identified a potential issue with the formula used in row 162 of the Calcs tab. The formula for 2015/16 adds transition expenditure to actual totex, and deducts the allowed totex as shown in row 148. For 2016/17 the formula is the same except that it does not include the transition expenditure. However, for 2017/18 – 2019/20 the formula changes so that it is the allowed totex inclusive of menu cost exclusions, less PDRC, in row 152 that is deducted rather than row 148. We would expect to see the same totex allowance row deducted in each year, and think this should be the figure shown in row 148. Could you confirm this understanding is correct please?	The formula error you highlighted appears in an old version of the model. The latest version of the model has the change you proposed. Please use the version here to populate data for your July submission.
595	Data tables	I would be very grateful if you could please help to clarify the line definitions included in respect of table WS12? Specifically, I note that you are asking for disposals and reclassification adjustments through to 2018 in the PR19 data table. I think that block A is not actually reconciling	Disposals (line 2, block A, WS12) should be defined as ‘impact on net MEAV of disposal of assets between 1 April 2015 and 31 March 2017’. This is now amended Reclassifications (line 3, block A, WS12) should remain referencing 31st March 2018. This is because we are seeking companies to retrospectively apply the current

Ref No.	Topic	Query	Response
		to 31 March 2017, as two of the items are requested until March 2018. This means the final line 8 is mixed, with some 2017 and some 2018 components. May you please have a look? Any further information you need, or anything I can do to help, please let me know. <u>A. Water resources net MEAV</u> 1. Net MEAV per regulatory accounts as at 31 March 2015 2. Disposals 3. Reclassification 4. Inflation 5. Additions 6. Depreciation 7. Other adjustments 8. Net MEAV as at 31 March 2017 <u>Table WS12</u> Line definitions from PR19 data tables: 2. Impact on net MEAV of disposal of assets between 1 April 2015 and **31 March 2018.** 3. Impact on net MEAV of reclassification of assets between 1 April 2015 and **31 March 2018**. This line should include any changes	(2018) water resource boundaries to derive the reclassification.

Ref No.	Topic	Query	Response
		resulting from reclassification to or from water resources, with this explained in the narrative. Line definitions from initial Water RCV allocation submission: 2. Impact on net MEAV of disposal of assets between 1 April 2015 and **31 March 2017.** 3. Impact on net MEAV of reclassification of assets between 1 April 2015 and **31 March 2017**. This line should include any changes resulting from reclassification to or from water resources, with this explained in the narrative.	
596	Data tables	Re APP14 - retail lines have not been added as per response to query 342.	We have included two new lines in block A for 'retail trade payables' and 'retail other payables'.
597	Data tables	Re table R10 - guidance to line 5 should state [inserted text in red]: "Companies should use the formula below to calculate their score and then input this number in line 5. The qualitative score is calculated as follows:	We accept this addition to the definition which should add further clarity.

Ref No.	Topic	Query	Response
		[(S - LS) / (HS - LS)] * WS where: S = qualitative survey annual average score (unrounded) calculated using unrounded quarterly Wave scores. LS = minimum survey score possible (set at 1). HS = maximum survey score possible (set at 5). WS = survey weighting (set at 75)."	
598	Data tables	Re APP validation - the formula in cell H2 on sheet App validation has been removed. This causes the unique ID generated in App1, column C, to include a 0 instead of the company acronym i.e. acronym is PR190_A01-CF instead of PR19UU_A01-CF.	We have re-instated the formula in cell H2 on the AppValidation worksheet so that the PC unique ID generated in table App1 includes the company acronym.
599	Data tables	Re APP1 - column 62 (financial ODI may accrue or apply) – is a drop down field which is blank. We should be able to write 'yes' in this field but it comes up with an error.	We have corrected the data validation in table App1 column 62 (Financial ODI may accrue or apply).

Ref No.	Topic	Query	Response
		This is the same in the current set of tables we have – this might not be the correct route for this but can it be rectified please?	
600	Data tables	Re APP25 - we suggest the data table be expanded to include inputs for the TTT price control. This would be particularly relevant for sections A, D and E.	We included table App25 as a summary table to assist us with our cross company comparisons on the proposed adjustments arising from the PR14 incentive mechanisms. We acknowledge it does not cover the totex menu adjustments for the TTT control but have decided against expanding block D the table. There is no requirement to expand blocks A and E. Block A is aligned with the adjustments we have published for the updated 2010-2015 reconciliation. Block E is aligned with the guidance in the PR14 reconciliation rulebook which states "For Thames' wastewater service, WRFIM covers all of the revenue Thames collects for its wholesale wastewater control and the separate TTT control. It excludes the revenue that passes through to the infrastructure provider (IP), as confirmed in our July 2015 reconciliation policy document. Variations in wholesale revenue for the TTT control would be subject to the general WRFIM representation process."
601	Data tables	Re APP33 - Line 10 Capex value of leases reclassified under IFRS16 included in other operating expenditure. We presume that the intention of this data	We confirm that this is correct.

Ref No.	Topic	Query	Response
		input is to report the capitalisation value of all operating leases due to IFRS16. Please confirm if this presumption is correct.	
602	Data tables	Re tables WWS15: Additionally, this table should be duplicated (WWS15a) or amended to include information specific to the TTT price control and to agree with the inputs and outputs of the Totex menu reconciliation model. According to the PR14 reconciliation rulebook (p. 26): "For calculating the TTT control adjustments (which applies to Thames Water only), the model will need to be run separately with the TTT control inputs inserted in the sewerage input lines and the PAYG rate set to zero."	We agree Thames Water requires two copies of table WWS15, one in respect of the wholesale wastewater control and one for the TTT control. We have included a table for the TTT control as table Dmmy10. As explained in query 600 (above), we have decided not to expand block D of table App25 to link with table Dmmy10.
603	Past delivery	Would you clarify exactly what we need to submit in July in relation to the PR14 reconciliation? I've read the latest guidance for the data tables but it doesn't quite answer this question. Do we need to submit: 1. Three reconciliation models (retail, WFRIM, totex) only; or	We reaffirm all the tables and models that we expect in the July submission. Tables expected: App5 - PR14 reconciliation – performance commitments App6 - PR14 reconciliation – sub-measures App9 - Adjustments to RCV from disposals of interest in land

Ref No.	Topic	Query	Response
		2. Three reconciliation models plus related PR19 data tables (WS13, WS15 and R9); or 3. Three reconciliation models plus all PR14 reconciliation tables in the PR19 data tables (as listed in section 7.1 of the guidance published on 31 May)?	App27 - PR14 reconciliation – financial outcome delivery incentives summary App23 - Inflation measures App25 - PR14 reconciliation adjustments summary App31 - Past performance WS13 - PR14 wholesale revenue forecast incentive mechanism for the water service WWS13 - PR14 wholesale revenue forecast incentive mechanism for the wastewater service WS15 - PR14 wholesale total expenditure outperformance sharing for the water service WWS15 - PR14 wholesale total expenditure outperformance sharing for the wastewater service Dmmy10 - PR14 wholesale total expenditure outperformance sharing for the dummy price control R9 - PR14 reconciliation of household retail revenue R10 - PR14 service incentive mechanism Models expected:

Ref No.	Topic	Query	Response
			Totex menu PR14 reconciliation WRFIM PR14 reconciliation Residential (household) retail PR14 reconciliation RCV adjustments feeder model Revenue adjustments feeder model We explain in the business plan guidance that we have replaced the PR14 outcome delivery incentives reconciliation spreadsheet with the three tables App5, App6 and App27. We do not expect companies to use the PR14 outcome delivery incentives reconciliation spreadsheet.
604	Data tables	We are populating final tables. Upon reading your validation rules we want to confirm the following please: Where it says 'insert a positive number' where those cells aren't applicable are we entering zero as a positive number? Where it says 'enter text' and the cell is not applicable are we entering n/a or 'not applicable'? Thanks, would appreciate you coming back to us asap as we are in the middle of final audits.	Please refer to our response to queries 539 and 587 (published above in this batch 9 of queries and responses). If cells are genuinely not applicable, they can be left blank. In all cases, text values such as 'NA,' 'Not applicable' or '- 'should not be used and will generally trigger validation warnings.

Ref No.	Topic	Query	Response
605	Data tables	Re Line 1 of Table R3 – formulae error: During completion of the data tables we have noticed an error in a formulae in the above table. Line 1 of table R3 feeds from table R1 line 2, 2020-2021 to 20224-25, currently feeds from AMP6 numbers not AMP7 numbers in R1. The formulae is wrong in column O to column S row 8 (line 1 table R3). Please can this be corrected?	We have corrected this formulae error in response to query 558 above.
606	Outcomes	In the spreadsheet published on 8th June it is clear that Ofwat is asking water companies to predict their connection volumes over the next AMP period and that they are being incentivised to get their forecasts as accurate as possible. What I am not seeing in what I have downloaded, or at least identifying, is how the D-MeX incentive/penalty mechanism fits into such costs and what protection there is to ensure that companies do not inflate their	As we set out on page 95 of our methodology, we will continue to include developer services within the scope of the PR19 network plus revenue controls. A water company therefore has no financial incentive to collect more from developers than it should. If it collects more than the cap it has to return this income in future years. We further explain in appendix 7 to the methodology that there could be penalties for water companies that collect more from developers than allowed, in addition to returning excess money. We explain on page 25 of appendix 7 that our adjustment will be based on average revenues of providing new connections of different types and sizes as

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		charges/customer contributions to protect them against any customer satisfaction/D-MeX 'failures'. Especially if they make their contractors liable for the penalties who will counter this by increasing their unit rates! So please can you explain to me the way that company developer services customers are being protected so that it is companies themselves who carry any penalties and not their customers (with increased pricing that would not arise if D-MeX was not being applied).	determined at PR19. Using fixed average values will provide incentives on companies to provide developer services efficiently. Pages 26 to 29 of appendix 7 provide the detailed calculation for how we will determine the adjustment for revenue to return (or be paid) to customers and a worked example. The way that we implement penalties, such as those that will apply for D-Mex, is to reduce the revenue control. A water company cannot therefore pass penalties it has to pay onto customers including developers.
607	Financial Modelling	We notice that you have changed the calculation of the combined average bill from the previous version, but it now appears to be: All wholesale HH Water / All HH customers billed for water + All wholesale HH Waste Water / All HH customers billed for waste water + retail revenue from combined service / retail customers combined service. This means that there is still a mismatch between the denominator used for the wholesale and retail components of the bill… If this approach is adopted in the	The approach taken in the PR19 mirrors that taken in the PR14 model (these calculations can be seen on the executive summary of the PR14 model). We do not propose changing the approach in the PR19 model - the current approach enables comparisons across companies and gives us the option to consider economies of scope in retail costs. Companies should complete the business plan tables (for example table App7) in a way that is consistent with the financial model. Companies may submit additional average bill data in their business plan submissions. If they choose to do so they should provide commentary explaining the differences from the figures in the data tables and financial model.

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		financial model and we have to use these outputs, it will mean that there is a dis-connect between the way that historic average bills are calculated (in all Ofwat reports, Discover Water etc.) and those that are forecast from the Ofwat model. For reference I attach Ofwat's data capture which we complete after setting our charges each year. You will see that the calculation is a straightforward arithmetic average, with billed services as the denominator. Retail service revenue is not distinguished from wholesale. Given the timeline for us to complete business plans, we appreciate that there may not be sufficient time for a further release of the financial model; if this is the case we may not be able to use the Ofwat FM to calculate the bills we present in business plan tables and the summary pro-forma which Ofwat released recently.	
608	Financial Modelling	Just to follow up, the financial mapping tool still hasn't been updated (as chased in email of 22 May). In responses to queries 426 and 427 (see batch 6 queries and replies 24 April 2018 here) Ofwat stated that they would be updating the financial model. The	We will re-issue an updated mapping tool shortly after releasing the finalised and updated business plan data tables on 25 June. With regard to our response to query 426:

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		model hasn't been updated to reflect these – when do Ofwat expect to be releasing an updated version?	**App 12 line 42 Capex creditor ~ residential retail** - The financial model update in May 2018 amended this line to convert the negative entry for 'Capex creditor ~ residential retail' from a negative to a positive (this is shown on retail residential row 505 of the May 2018 version). **App 14 Line 1 and 2 are converted from positive to negatives in the financial model, while line 6 and 7 are not changed.** The financial model has been amended in respect of App14 lines 6 & 7 (now 8 and 9) so that the financial model treats retail payables in the same way as wholesale payables. With regard to our response to query 427: **Creditor days (App14 Block C line 19-22). 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.** The formulae in block C have been amended to multiply the numbers of days by minus 1. This converts the number of creditor days from negative to positive as per the financial model requirements. We have identified that this block was linking to line 6 'residential retail unmeasured advance receipts' for each of the respective creditor days, we have corrected the tables to look up to the appropriate lines.

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609	Cost Assessment	Re Table WN1 – wholesale network plus raw water transport and water treatment (band disclosure): In the revised guidance issued with the PR19 business plan tables on 28 May 2018, we note that the size band table heading is amended from distributed input to maximum production capacity Ml/d and size band signage amended (see change control tab and query 366 published in batch 6 of queries and replies here). Our interpretation of the maximum production capacity is that it is the same as the peak week production capacity that has been used for the unplanned outage assessment (i.e. the maximum production capacity we envisage being required at each WTW during a peak week demand period). It would be helpful if you could confirm whether our interpretation is appropriate to allow us to provide accurate information in the table lines. We look forward to your reply.	We agree with your interpretation that the maximum production capacity should be aligned to the peak week production capacity used for the unplanned outage performance commitment. The performance commitment states: “For each water production site or source works included in its water resources management plan (WRMP) a company should define its peak week production capacity (normally an input for modelling purposes). This is equivalent to the maximum volume of water which can be put into supply and sustained over a period of one week measured in Ml/d.” Therefore we would expect companies to use the capacity the works is capable of providing rather than the capacity it envisages being required.
610	Cost Assessment	We have a query regarding table bio1, line 4, total sewage sludge produced from non-	From Appendix 1 of RAG4.07, "non-appointed liquid waste" is tankered waste. So if the liquid waste discharged by the

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		appointed liquid waste treatment: Please can you clarify the term 'non-appointed liquid waste' in the following definition from bio1 line 4: "This is an estimate of all the untreated sewage sludge (primary, secondary, tertiary) produced by in-area wastewater treatment processes in the report year, and which is produced as a result of treating non-appointed liquid wastes through appointed wastewater treatment assets. Because this sludge is generated at in-area wastewater treatment sites we expect this quantity to be included in the total given in line 3 above. We expect companies to explain the basis of this estimate in their commentary." We believe 'non-appointed liquid waste' includes sludge that has been brought in from outside our routine operating remit, for example, under waste management regulations such as tankered trade effluent waste or sludge as a result of accepting other organic waste that cannot be discharged to our network such as food waste?	waste management company at the three locations is transported to those locations by tanker, then it is non-appointed. Otherwise, the reception, treatment and disposal of this waste is part of the appointed business and the sludge resulting from the treatment process should be excluded from line 4 in table Bio1.

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		We do not currently co-digest wastes or receive any tankered trade effluent waste, but do have a waste management company that discharges into our network at two locations and one further location where the discharge is direct into our works and we believe this is all we should be including in this line?	
610	Cost Assessment	On 3 May we submitted a claim in relation to water quality enhancement expenditure to address elevated Nitrate levels in water resources. We submitted the claim because the number of schemes we expect is atypically high for a water company of our size. We do not believe the unit cost of the schemes is atypical, just the number. Under the PR14 approach to funding Nitrate schemes – where Ofwat allowed a common % uplift to modelled costs - this would mean that we would be underfunded due to the unusually high number of schemes in our plan. Our reading of the latest guidance suggests that we may be able to withdraw this Cost Adjustment Claim, on the basis that, in contrast to PR14, Ofwat would take account of both the unit cost of the investment, and	You have understood our guidance in IN18/11 correctly. This type of enhancement expenditure does not need to be submitted as a cost adjustment claim with your business plan in September. But you should submit the same quality of evidence to allow us to assess the need/cost efficiency/customer protection etc. of the expenditure. IN 18/11 also sets out that you need to explain why this is enhancement and not base.

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		the number of units. Could you please confirm whether, based on the latest guidance, you believe the Nitrate Cost Adjustment Claim that we submitted in May is no longer necessary.	